

AU OPTRONICS CORP
Form 20-F/A
September 26, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F/A
(Amendment No. 1)

(Mark One)

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

OR

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

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Date of event requiring this shell company report

Commission file number: 001-31335

(Exact name of Registrant as specified in its charter)

AU OPTRONICS CORP.
(Translation of Registrant's name into English)

TAIWAN, REPUBLIC OF CHINA
(Jurisdiction of incorporation or organization)

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HSINCHU SCIENCE PARK

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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

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

Title of each class
Common Shares of par value NT\$10.00 each

Name of each exchange on which registered
The New York Stock Exchange, Inc.*

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

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 8,827,045,535 Common Shares

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued

Other

by the International Accounting Standards Board

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

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

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EXPLANATORY NOTE

This Amendment on Form 20-F/A (the Amendment) amends the Annual Report on Form 20-F of AU Optronics Corp. (AUO or the Company) for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on April 27, 2012 (the Original Form 20-F). This Amendment is being filed solely for the purpose of disclosing additional information in Item 5 regarding the Company s estimated losses related to its legal contingencies and in Note 24 and Note 26 of the Consolidated Financial Statements regarding accrual for loss contingencies and range for possible losses.

This Amendment does not reflect events occurring after the filing of the Original Form 20-F and does not modify or update the disclosure therein in any way other than as required to reflect the amendments described herein and reflected below. No other changes have been made to the Original Form 20-F. The filing of this Amendment should not be understood to mean that any statements contained herein are true or complete as of any date subsequent to the date of the original filing of the Original Annual Report. Accordingly, this Amendment should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the Original Form 20-F.

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PART I

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.A. Operating Results

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

General Market Conditions

The display panel industry in general has been characterized by cyclical market conditions. The industry has been subject to significant and rapid downturns as a result of imbalances between excess supply and slowdowns in demand, resulting in declines in average selling prices. For example, on a year-to-year basis, average selling prices of our large-size panels decreased by 24.4% in 2011 compared to 2010, decreased by 0.3% in 2010 compared to 2009, and decreased by 24.9% in 2009 compared to 2008. We expect average selling prices of panels will fluctuate from time to time due to the change of general market conditions.

Our revenues primarily depend on the average selling prices and shipment volume of our panels and are affected by fluctuations in those prices and volumes. The prices and shipment volume of our panels are affected by numerous factors, such as raw material costs, yield rates, supply and demand, competition, our pricing strategies and transportation costs. We had a negative gross margin of 7.4% in 2011 compared to a gross margin of 7.8% in 2010, primarily due to the decline in average selling prices and the lower capacity utilization rate caused by the global economic downturn. Our gross margin increased from 2.0% in 2009 to 7.8% in 2010 primarily due to the rise of average selling prices in the first half of 2010.

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

Operating Efficiency

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

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

We measure the capacity of a fab in terms of the number of substrates and the glass area of substrates that can be produced. For 2011, we had an annual capacity to produce approximately 25.4 million square meters of glass area of TFT-LCD panels. Our production capacity has been affected by the process of construction and the schedule of commencement of operation of our fabs. Once the design of a new fab is completed, it typically takes six to eight quarters before the fab commences commercial production, during which time we construct the building, install the machinery and equipment and conduct trial production at the fab. An additional two to four quarters are required for the fab to be in a position to produce at the installed capacity and with high production yield, where production yield is the number of good panels produced expressed as a percentage of the total number of panels produced. This process is commonly referred to as ramp-up. At the beginning of the ramp-up process, fixed costs, such as depreciation and amortization, other overhead expenses, labor, general and administrative and other expenses, are relatively high on a per panel basis, primarily as a result of the low output. Variable costs, particularly raw materials and component costs, are also relatively high on a per panel basis since production yield is typically low in the early stages of the ramp-up of a fab, resulting in greater waste of raw materials and components. In general, upon the completion of the ramp-up process, a fab is capable of producing at its installed capacity, leading to lower fixed costs per panel as a result of higher output, as well as lower raw material and component costs per panel as a result of higher production yield. We typically construct our new fabs in phases in order to allocate our aggregate capital expenditure across a greater period of time. As a result, the installed capacity in the early phases of production at a new fab is typically lower than the maximum capacity that

can be installed at a fab.

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Our product mix affects our sales and profitability, as the prices and costs of different size panels may vary significantly. The larger size panels command higher prices, but also have higher manufacturing costs. In 2011, an increase in demand for consumer electronics products using larger panels such as digital still camera, smart phone and automobile displays caused a shift in product mix to more medium-sized panels being produced. Net sales of panels for computer products & TV panels represented 84.0%, 82.5% and 76.7% of our net sales in 2009, 2010 and 2011, respectively. This declining trend primarily was due to the increase in sales of panels for consumer electronics products, which represented 13.1%, 12.1% and 16.5% of our net sales in 2009, 2010 and 2011, respectively. Moreover, a strong demand for smart phones contributed to increased net sales of panels for consumer electronics products. We periodically review and adjust our product mix based on the demand for, and profitability of, the different panel sizes that we manufacture.

Critical Accounting Policies

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

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. Our principal accounting policies are set forth in detail in Note 3 to our consolidated financial statements included elsewhere herein. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

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

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

	2009 NT\$	2010 NT\$ (in thousands)	2011 NT\$	US\$
Balance at beginning of year	1,145,135	118,329	782,007	25,834
Provision charged to revenue	623,728	2,015,341	2,474,726	81,755
Utilized	(1,650,534)	(1,351,663)	(2,805,707)	(92,689)
Balance at end of year	118,329	782,007	451,026	14,900

The provision made in 2011 decreased as compared with 2010 primarily due to the decreases in sales in 2011. The provision made in 2010 increased as compared with 2009 primarily due to the increases in sales in 2010.

Long-Lived Assets, Excluding Goodwill

Under ROC and US GAAP, we review our long-lived assets, including purchased intangible assets for impairment whenever events or changes in circumstances indicate that the assets may be impaired and the carrying amounts of these assets may not be recoverable. Our long-lived assets subject to this evaluation include property, plant and equipment and amortizable intangible assets.

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Under ROC GAAP, we measure recoverability of our long-lived assets by comparing the carrying amount of an asset to the future net discounted cash flows to be generated by the asset. If the sum of the discounted cash flows is less than the carrying value, an impairment charge is recognized for the amount that the carrying value of the assets exceeds its fair value. When circumstances subsequent to the loss recognition indicate that the earlier carrying amount of the asset is recoverable, the amount of loss may be reversed to the extent that the resulting carrying value should not exceed the carrying value had no impairment loss been recognized in prior years. Under US GAAP, we assess recoverability of our long-lived assets to be held and used by comparing the carrying amount of an asset to its future net undiscounted cash flows. If we consider our assets to be impaired, the impairment we would recognize is the excess of the carrying amount over its estimated fair value derived from discounted cash flow analysis. Such impairment cannot be reversed.

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The process of evaluating the potential impairment of long-lived assets requires significant judgment. Our cash flow assumptions are based on historical and forecasted revenue, operating costs, and other relevant factors. Due to the cyclical nature of our industry and changes in our business strategy, market requirements, or the needs of our customers, if our estimates of future operating results change, or if there are changes to other assumptions, the estimate of the fair value of long-lived assets could change significantly. Such change could result in impairment charges in future periods, which could have a significant impact on our consolidated financial statements. Under ROC GAAP, we recognized impairment losses on long-lived assets of nil in both 2009 and 2010 and NT\$16.0 million (US\$0.5 million) in 2011, classified under non-operating expenses and losses. Under US GAAP, the impairment losses on long-lived assets were not materially different from the amounts recognized under ROC GAAP. We classify impairment losses on long-lived assets and assets held for sale within operating expenses under US GAAP.

Business Combinations and Goodwill

When we acquire businesses, under ROC GAAP, we allocate the purchase price to tangible assets and liabilities and identifiable intangible assets acquired. Any residual purchase price is recorded as goodwill. Under US GAAP, pursuant to FASB ASC Topic 805, *Business Combinations* a replacement of Statement 141, the identifiable assets, liabilities, non-controlling interests, and goodwill acquired in a business combination are required to be recognized and measured at full fair value. The sum of the fair value of identifiable net assets acquired less the fair value of the non-controlling interests, if any, exceeding the sum of the fair value of the consideration transferred and the fair value of the equity interests held before the business combination is recorded as goodwill. The allocation of the purchase price requires management to make significant estimates in determining the fair values of assets acquired and liabilities assumed, especially with respect to intangible assets. These estimates are based on historical experience and information obtained from the management of the acquired companies. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates.

Goodwill is not amortized but is tested for impairment at least annually or more frequently if events or circumstances indicate it might be impaired. Prior to 2010, we determined that we have one cash-generating unit, taken the enterprise as a whole, for purposes of testing goodwill for impairment. As a result of the acquisition of M. Setek in late 2009, we have two cash-generating units, which are the display business unit and the solar business unit, for the purposes of testing goodwill for impairment in 2010 and 2011. The recoverable amount of the cash-generating unit calculated using a cash flow projection of eight years was compared to the carrying value of the cash-generating unit. If the recoverable amount of the cash-generating unit is lower than the carrying amount of the cash-generating unit, an impairment loss is recognized. We test goodwill for impairment annually on June 30 and when a triggering event occurs between annual impairment tests.

Under US GAAP, we also determined that we have two reporting units for purposes of testing goodwill for impairment in 2010 and 2011. We entered the solar business with the acquisition of M. Setek in October, 2009. The acquisition resulted in the recognition of a gain on bargain purchase under US GAAP and no additional goodwill was recognized. Therefore, there is no need to test the solar reporting unit for goodwill impairment because there is no goodwill allocated to it. Under US GAAP, the goodwill impairment test is a two-step test. We estimated the fair value of the display and solar business reporting units by using the discounted cash flow approach, which we believed we have made reasonable estimates and assumptions in determining the fair value. In addition, for the purpose of analyzing the reasonableness of the fair value determined by the discounted cash flow approach, we also compared the aggregate sum of the fair value measurements of our display and solar reporting units to our market capitalization at June 30, 2011 based on the quoted market price of our shares, adjusted it by an appropriate control premium. To determine an appropriate control premium, references were made to recent and comparable merger and acquisition transactions in the high-tech electronics industry. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit. An impairment loss will be recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with FASB ASC Topic 805.

Under ROC GAAP, based on management's assessment, the estimated fair values of the display and solar cash generating units significantly exceeded their respective carrying amounts at June 30, 2011. Also, under US GAAP, the estimated fair value of the display reporting unit significantly exceeded its carrying amount at June 30, 2011. Therefore, management concluded that goodwill was not impaired.

During the second half of 2011, the quoted market price of our capital shares had sustained a further decline resulting in our market capitalization becoming substantially lower at December 31, 2011. Consequently, management determined the need for an additional test for goodwill impairment at December 31, 2011. As a result of that additional assessment, under ROC GAAP, the estimated fair values of the display and solar cash generating units continued to significantly exceed their respective carrying amounts

at December 31, 2011. Also, on a US GAAP basis, the estimated fair value of the display reporting unit significantly exceeded its carrying amount at December 31, 2011. Therefore, management concluded that goodwill was not impaired and, accordingly, no impairment charge was

recorded at December 31, 2011.

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The Company performed an analysis at June 30, 2010 to evaluate the potential impairment of our goodwill on both ROC GAAP and US GAAP basis. The valuation methodology of performing the goodwill impairment test was the same with that utilizing at June 30, 2011. Based on management's assessments, the estimated fair values of the display and solar cash generating units significantly exceeded their respective carrying amounts at June 30, 2010 under ROC GAAP. Also, the estimated fair value of the display reporting unit exceeded its carrying amount at June 30, 2010 under US GAAP basis. Therefore, management concluded that goodwill was not impaired. In addition, no triggering events occurred between annual impairment test dates.

In 2009, we determined that we only have one cash-generating unit and one reporting unit under ROC GAAP and US GAAP, respectively, for purposes of testing goodwill for impairment, which is the enterprise as a whole. On June 30, 2009, we compared the carrying amount of total stockholders' equity consolidated on a US GAAP basis to market value based on the quoted market price of our shares on the date of assessment to determine if goodwill is potentially impaired. We did the test again for goodwill impairment on December 31, 2009. Based on the assessments mentioned above, we concluded that goodwill was not impaired under both ROC GAAP and US GAAP.

Allowance for Doubtful Accounts Receivable

We evaluate our outstanding accounts receivables on a monthly basis for collectability purposes. Our evaluation includes an analysis of the number of days outstanding for each outstanding accounts receivable account. When appropriate, we provide a provision that is based on the number of days for which the account has been outstanding. The provision provided on each aged account is based on our average historical collection experience and current trends in the credit quality of our customers. We also carry accounts receivable insurance for potential defaults. There have been no changes in this policy for the last three years.

The movements of the allowance for uncollectible accounts are as follows:

	2009 NT\$	2010 NT\$	2011	
			NT\$	US\$
	(in thousands)			
Balance at beginning of year	99,333	95,998	86,195	2,847
Provision charged to expense (reversed to income)	(3,335)	20,534	(4,270)	(141)
Write-off		(30,337)		
Balance at end of year	95,998	86,195	81,925	2,706

The allowance we established for uncollectible accounts in 2010 decreased by 10.2% as compared to 2009 primarily due to the write-off of uncollectible account according to our accounting policy. The allowance we established for uncollectible accounts in 2011 decreased as compared to 2010 primarily due to the collection of several payments of overdue accounts receivable that were previously assessed unlikely to be paid along with continuous improvement on management of accounts receivable.

Realization of Inventory

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

As of December 31, 2009, 2010 and 2011, the provision for inventory obsolescence and devaluation was NT\$4,359.3 million, NT\$6,046.6 million, and NT\$8,584.5 million (US\$283.6 million), respectively, which were classified in cost of goods sold in the consolidated statements of operations. The provision made in 2009 decreased significantly primarily due to an increase in the average selling price in the fourth quarter of 2009. The provision made in 2010 increased significantly due to substantial decrease in average selling prices in the fourth quarter of 2010. The provision made in 2011 increased significantly due to substantial decrease in average selling prices in 2011 compared to 2010. For the years ended December 31, 2009, 2010 and 2011, there have been no significant recoveries in excess of adjusted carrying amounts of inventory that were previously written-down.

Table of Contents***Equity-Method Investments***

When we have the ability to exercise significant influence over the operating and financial policies of investees (generally those in which we own between 20% and 50% of the investee's voting shares and/or have significant board and management representation) those investments are accounted for using the equity method. The difference between the acquisition cost and the carrying amount of net equity of the investee as of the acquisition date is allocated based upon the pro rata excess of fair value over the carrying value of non-current assets. Any unallocated difference is treated as investor-level goodwill. Prior to January 1, 2006, under ROC GAAP, the amount of unallocated difference is amortized over five years. Commencing January 1, 2006, as required by the amended ROC SFAS No. 5 Long-term Investments under Equity Method, it is no longer amortized and the carrying value of the total investment is assessed for impairment. Under US GAAP, such difference is not amortized, but the carrying value of the total investment is assessed for impairment. The allocation of excess basis in equity-method investments requires the use of judgments regarding, among other matters, the fair value and estimated useful lives of long lived assets. Changes in those judgments would affect the amount and timing of amounts charged to our statement of income.

In 2011, the Company's investment in Qisda experienced significant declines in market value. Considering primarily the length of time and the extent to which the market value (based on quoted share price) was less than the carrying amount of the investment, management concluded that this impairment was other-than-temporary at December 31, 2011, for US GAAP purposes. As a result, the Company recognized an impairment loss of NT\$1,801.9 million (US\$59.5 million) related to its investment in Qisda for the year ended December 31, 2011. No impairment loss was recognized for ROC GAAP purposes for the investment in Qisda because management believes that the recovery of the carrying amount is supported by the expected discounted cash flows from the investment.

Certain investments in which we hold less than a 20% voting interest, but are nonetheless able to exercise significant influence over the operating and financial policies of investees through board representation or other means are also accounted for using the equity method. Significant judgment is required to assess whether we have significant influence. Factors that we consider in making such judgment include, among other matters, participation in policymaking processes, material intercompany transactions, interchange of managerial personnel, or technological dependency.

Income Taxes Uncertainties and Realization of Deferred Tax Assets

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

As of December 31, 2011, our valuation allowances on deferred tax assets was NT\$25,480.7 million (US\$841.8 million) under ROC GAAP, which primarily due to investment tax credits that we believe are unlikely to be realized in the future. During 2010 and 2011, investment tax credits that expired unused amounted to NT\$6,889.4 million and NT\$2,305.8 million (US\$76.2 million), respectively. Such investment tax credits were previously fully provided in the valuation allowance. Therefore, the write-offs of these deferred tax assets and related valuation allowances had no impact on our income tax expense in 2010 and 2011. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and net operating loss and investment tax credits utilized. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Under ROC GAAP, based upon projections for future taxable income over the periods in which the deferred tax assets are deductible, we believe it is more likely than not that we will realize the benefits of these deductible differences, net operating loss and investment tax credits, net of the existing valuation allowance as of December 31, 2011. However, under US GAAP, cumulative losses in recent years is a significant piece of negative evidence which is difficult to overcome with projections of future operating profits for the purpose of determining the valuation allowance for deferred income tax assets. A valuation allowance is provided on deferred tax assets to the extent that it is not more likely than not that such deferred tax assets will be realized. As a result, under US GAAP, our valuation allowances on deferred tax assets was NT\$42,133.1 million (US\$1,391.9 million) as of December 31, 2011.

We used estimated future taxable income for the next five years to determine the realizability of our deferred tax assets and the resulting requirement for valuation allowance. We believe that, as of December 31, 2011, the estimated future taxable income beyond the five-year period cannot be objectively and reliably determined given the cyclical nature of the display panel industry. In addition, the five-year period is considered to be consistent with the statutory period that the tax credit and loss carryforwards can be utilized under ROC Tax Law. Effective January 21, 2009, the statutory period during which loss carryforwards can be utilized has been extended to 10 years.

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

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Legal Contingencies

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

When the likelihood of an unfavorable outcome from our legal proceedings is probable and our management can reasonably estimate the amount or range of such loss, we make appropriate provisions in our consolidated statement of operations. In making this assessment we consider factors such as the nature of the litigation or claims, the progress of the case and the opinions or views of legal counsel and other advisors. In determining the appropriate amount of the accrued liability to be recognized, we develop an estimated amount or range of such loss. When a range of estimated loss has been determined, if an amount within a range of possible losses appears at the time to be a better estimate than any other amount within the range, we will recognize that amount as an accrued liability. When no amount within the range is a better estimate than any other amount, then we will recognize the minimum amount in the range as an accrued liability. Such estimates are based on our assessment of the facts and circumstances at each balance sheet date and are subject to change based upon new information and intervening events. We have recognized liabilities for litigation and claims amounting to NT\$13,657 million and NT\$19,864 million (US\$656 million) in the consolidated balance sheets as of December 31, 2010 and 2011, respectively.

Convertible bonds

In October 2010, we issued US\$800.0 million unsecured zero coupon convertible bonds, which were recorded in their entirety as a liability at fair value at the date of issuance under US GAAP. The difference between fair value and redemption value at the date of issuance is recorded as a discount, and amortized over the redemption period using the effective interest rate method. In September 2011, we early redeemed US\$100 million of the bonds at a cost of US\$78.7 million.

Under US GAAP, we concluded that the conversion features for the new overseas convertible bonds qualified as embedded derivative instruments under FASB ASC Topic 815, as these bonds are denominated in a currency that is different from our functional currency, and therefore was required to be bifurcated from the debt hosts. We further concluded that the call options embedded in the convertible bonds did not meet the definition of embedded derivative instrument under FASB ASC Topic 815, as they were considered to be clearly and closely related to the debt hosts. As a result, under US GAAP, the new overseas convertible bonds were recorded at the fair value at the date of issuance without taking into account the embedded conversion options.

The reconciliation of net income determined in accordance with ROC GAAP and US GAAP for the year ended December 31, 2011 included the impact of changes in fair value of the embedded derivative instrument liability of NT\$780.6 million (US\$25.8 million), which is recognized only for US GAAP purposes.

Deconsolidation of a subsidiary

Under ROC GAAP, upon the sale of equity-method investment, the difference between the selling price and carrying amount of the investment at the date of sale is recognized as an investment gain or loss. Under US GAAP, pursuant to FASB ASC Subtopic 810-10, Consolidation Overall, changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary is accounted for as equity transactions in the consolidated financial statements. However, if a change in ownership of a consolidated subsidiary results in a loss of control, that subsidiary is then deconsolidated and any retained ownership interest is re-measured at fair value, and any gain or loss is included in the consolidated statement of operations.

On June 30, 2010, due to a change in the composition of the board of directors of Lextar Electronics Corp. (Lextar), we no longer had a controlling financial interest in Lextar. As a result, we deconsolidated Lextar on June 30, 2010 and accounted for this investment under the equity method of accounting. Consequently, pursuant to FASB ASC Subtopic 810-10, we recognized a non-cash gain of NT\$362.8 million, representing the difference between the fair value of the investment on June 30, 2010 and its carrying value in our US GAAP consolidated statements of operations for 2010. Under ROC GAAP, we also accounted for the investment in Lextar under the equity method of accounting upon loss of control, however no gain or loss is recognized upon deconsolidation and the carrying value of the investment in Lextar was based on our proportion interest of the net book value of Lextar on the date of deconsolidation.

Results of Operations

The following table sets forth certain of our results of operations information under ROC GAAP, in both real numbers and as a percentage of our net sales for the periods indicated:

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	2009		Year Ended December 31, 2010		2011	
	NT\$	%	NT\$	%	NT\$	%
	(in millions, except percentages)					
Net sales	359,331.3	100.0	467,158.0	100.0	379,711.9	100.0
Cost of goods sold	352,290.5	98.0	430,859.4	92.2	407,899.2	107.4
Gross profit (loss)	7,040.9	2.0	36,298.6	7.8	(28,187.3)	(7.4)
Operating expenses	22,279.9	6.2	25,801.9	5.6	29,471.2	7.8
Selling	8,000.0	2.2	8,641.5	1.9	9,636.6	2.5
General and administrative	8,094.4	2.3	10,736.9	2.3	11,208.8	3.0
Research and development	6,185.5	1.7	6,423.6	1.4	8,625.8	2.3
Operating income (loss)	(15,239.1)	(4.2)	10,496.7	2.2	(57,658.5)	(15.2)
Net non-operating expenses and losses	(12,028.4)	(3.4)	(1,900.7)	(0.4)	(7,993.6)	(2.1)
Earnings (loss) before income tax	(27,267.4)	(7.6)	8,596.0	1.8	(65,652.1)	(17.3)
Income tax (expense) benefit	22.6		(1,187.9)	(0.2)	4,205.1	1.1
Net income (loss)	(27,244.8)	(7.6)	7,408.1	1.6	(61,447.0)	(16.2)

In 2011, a weaker demand in the TFT-LCD industry resulting from the slowdown of the global economy contributed to a decrease in our unit sales. As a result, we were unable to achieve higher profitability in 2011. Our gross, operating and net margins have decreased from 2010 to 2011, primarily as a result of the global economic downturn which caused a significant decrease in end-demand and a continuing decline in average selling price of panels.

For the Years Ended December 31, 2011 and 2010**Net sales**

Net sales decreased 18.7% to NT\$379,711.9 million (US\$12,544.2 million) in 2011 from NT\$467,158.0 million in 2010 primarily due to a 23.7% decrease in net sales of large size panels, which was partially offset by a 14.6% increase in net sales of small- to medium-size panels.

Net sales of large-size panels decreased 23.7% to NT\$303,411.3 million (US\$10,023.5 million) in 2011 from NT\$397,798.2 million in 2010. This decrease was primarily due to a decrease in average selling price. The average selling price per panel of our large-size panels decreased by 24.4%, which were at NT\$2,649.7 (US\$87.5) in 2011 and NT\$3,503.4 in 2010, respectively. Large-size panels sold slightly increased 0.8% to 114.5 million panels in 2011 from 113.5 million panels in 2010.

Net sales of small- to medium-size panels increased 14.6% to NT\$50,633.1 million (US\$1,672.7 million) in 2011 from NT\$44,198.7 million in 2010. The increase in net sales of small- to medium-size panels was primarily due to an increase in average selling price, which was partially offset by a decrease in unit sales. The average selling price per panel of our small- to medium-size panels increased 35.0% to NT\$270.1 (US\$8.9) in 2011 from NT\$200.1 in 2010, and unit sales of our small- to medium-size panels decreased 15.1% to 187.5 million panels in 2011 from 220.9 million panels in 2010, both primarily as a result of the change in our product mix.

Cost of Goods Sold

Cost of goods sold decreased 5.3% to NT\$407,899.2 million (US\$13,475.4 million) in 2011 from NT\$430,859.4 million in 2010. This decrease was primarily due to a decrease in cost of raw material and component costs, as well as a reduction in units of products sold.

Raw material and component costs decreased 10.9% in 2011 as compared to 2010, primarily as a result of a decrease in average purchasing price especially in large-size panels. Overhead expenses, including depreciation and amortization expenses, increased 6.4% in 2011 as compared to 2010, primarily due to an increase in electricity expenses and repair and maintenance expense, which were partially offset by less depreciation expenses and employee profit sharing expenses and bonuses. Direct labor costs decreased 6.9% in 2011 as compared to 2010, primarily as a result of a decrease in employee profit sharing expenses and bonuses.

Table of Contents***Gross Profit (Loss)***

Gross loss was NT\$28,187.3 million (US\$931.2 million) in 2011 compared to gross profit of NT\$36,298.6 million in 2010. Gross margin, which is gross profit (loss) divided by net sales, mainly fluctuates, among other factors, with our capacity utilization rate, market price change of our products and our product mix. We had a negative gross margin of 7.4% in 2011 compared to a gross margin of 7.8% in 2010, primarily due to the decline in average selling price and the lower capacity utilization rate caused by the global economic downturn; moreover, the scale of decrease in average selling prices was greater than the scale of decrease in cost of goods sold. As a result of a downward trend in average selling prices, net inventory devaluation write-down included in cost of goods sold increased to NT\$2,735.7 million (US\$90.4 million) in 2011 from NT\$1,886.5 million in 2010.

Operating Expenses

Operating expenses increased 14.2% to NT\$29,471.2 million (US\$973.6 million) in 2011 from NT\$25,801.9 million in 2010. As a percentage of net sales, operating expenses increased to 7.8% in 2011 from 5.6% in 2010 which was primarily due to our decreased sales. The increase in operating expenses was primarily due to an increase in research and development expenses. Research and development expenses increased 34.3% to NT\$8,625.8 million (US\$285.0 million) in 2011 from NT\$6,423.6 million in 2010 primarily due to devoting to research and development on future advanced technologies and high value-added products to remain competitive in the markets we serve. Research and development expenses as a percentage of net sales increased to 2.3% in 2011 from 1.4% in 2010. Selling expenses increased 11.5% to NT\$9,636.6 million (US\$318.4 million) in 2011 from NT\$8,641.5 million in 2010, primarily due to an increase in product promotion fees, which were partially offset by a decrease in freight expense and warranty expense. Selling expenses as a percentage of net sales increased to 2.5% in 2011 from 1.9% in 2010. General and administrative expenses increased 4.4% to NT\$11,208.8 million (US\$370.3 million) in 2011 from NT\$10,736.9 million in 2010, primarily due to an increase in professional service expenses which were partially offset by a decrease in employee profit sharing expenses and bonuses. General and administrative expenses as a percentage of net sales increased to 3.0% in 2011 from 2.3% in 2010.

Operating Income (Loss) and Operating Margin

As a result of the foregoing, we had operating loss of NT\$57,658.5 million (US\$1,904.8 million) in 2011 compared to an operating income of NT\$10,496.7 million in 2010. We had a negative operating margin of 15.2% in 2011 compared to an operating margin of 2.2% in 2010.

Under US GAAP, we had operating loss of NT\$67,768.3 million (US\$2,238.8 million) in 2011 compared to operating income of NT\$5,399.2 million in 2010. We had a negative operating margin of 17.8% in 2011 compared to an operating margin of 1.2% in 2010.

Under ROC GAAP, the provision for the potential litigation losses and others is usually recognized in the consolidated statement of operations as a non-operating expense. However, under US GAAP, the provision for the potential litigation losses and others is recognized in the condensed consolidated statement of operations as an operating expense.

Net Non-Operating Expenses and Losses

We had net non-operating expenses and losses of NT\$7,993.6 million (US\$264.1 million) in 2011 compared to non-operating expenses and losses of NT\$1,900.7 million in 2010. We had higher net non-operating expenses and losses in 2011 compared to 2010 primarily due to (i) a decrease in net gains on valuation of financial instruments to NT\$744.1 million (US\$24.6 million) in 2011 from NT\$3,986.1 million in 2010, resulting from our decreased financial instruments to hedge our position corresponding to our decreased sales in 2011; (ii) a net investment loss recognized by the equity method of NT\$63.9 million (US\$2.1 million) in 2011 compared to a net investment gain of NT\$681.3 million in 2010, resulting from loss position of some of our investees; (iii) an increase in net interest expenses to NT\$4,472.7 million (US\$147.8 million) in 2011 from NT\$3,946.3 million in 2010, primarily resulting from a full year of amortization expenses of convertible bonds being included in 2011 whereas 2010 only included amortization expenses from the date of issuance; (iv) a net foreign currency exchange loss of NT\$94.7 million (US\$3.1 million) in 2011 compared to a foreign exchange currency loss of NT\$3,581.1 million in 2010, primarily due to a decrease in net assets position corresponding to our decreased sales in 2011; (v) an increase in net gains on sale of investment securities to NT\$3,080.7 million (US\$101.8 million) in 2011 from NT\$1,527.2 million in 2010; and (vi) an increase in provisions made for potential litigation losses and others to NT\$8,966.3 million (US\$296.2 million) in 2011 from NT\$2,011.4 million in 2010.

Under US GAAP, we had net non-operating expenses and losses of NT\$1,855.5 million (US\$61.3 million) in 2011 compared to net non-operating net income and gains of NT\$69.2 million in 2010. We had net non-operating expenses and losses in 2011 compared to net non-operating income and gains in 2010, primarily as a result of an increase in asset impairment loss, a decrease in net gains on valuation of financial instruments, an increase in net interest expense and an increase in net investment loss, partially offset by a decrease in net foreign

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currency exchange loss and an increase in net gains on sale of investment securities. We had a loss on asset impairment of NT\$2,263.0 million (US\$74.8 million) in 2011 compared to nil in 2010. We had net gains on valuation of financial instruments of NT\$1,667.5 million (US\$55.1 million) in 2011 compared to NT\$3,164.4 million in 2010. In 2011, we had a net interest expense of NT\$4,609.9 million (US\$152.3 million) compared to NT\$3,801.7 million in 2010. We had a net investment loss of NT\$26.0 million (US\$0.9 million) in 2011 compared to net investment income of NT\$668.5 million in 2010. In 2011, we had net foreign currency exchange loss of NT\$100.0 million (US\$3.3 million) in 2011 compared to NT\$3,582.8 million in 2010. In 2011, we had net gains on sale of investment securities of NT\$3,030.2 million (US\$100.1 million) compared to NT\$1,478.4 million in 2010.

Table of Contents***Income Tax Benefit (Expense)***

Under ROC GAAP, we recognized an income tax benefit of NT\$4,205.1 million (US\$138.9 million) in 2011 compared to an income tax expense of NT\$1,187.9 million in 2010. The effective tax rate decreased to 6.4% in 2011 from 13.8% in 2010 under ROC GAAP. This change was primarily due to an increase in valuation allowance for deferred income tax assets.

Under US GAAP, we recognized an income tax expense of NT\$11,492.4 million (US\$379.7 million) in 2011 compared to income tax expense of NT\$745.0 million in 2010. Under US GAAP, and in accordance with FASB ASC Topic 740, Income Taxes, if a valuation allowance is recognized at the acquisition date for deferred tax assets for an acquired entity's deductible temporary differences or operating loss or tax credits, the tax benefit for those items that are first recognized subsequent to the acquisition (by elimination of the valuation allowance) are to be applied (a) first reduce to zero any goodwill related to the acquisition, (b) second to reduce to zero other noncurrent intangible assets related to the acquisition, and (c) third to reduce income tax expense. Additionally, cumulative losses in recent years is a significant piece of negative evidence which is difficult to overcome with projections of future operating profits for the purpose of determining the valuation allowance for deferred income tax assets. A valuation allowance is provided on deferred tax assets to the extent that it is not more likely than not that such deferred tax assets will be realized. Accordingly, a valuation allowance of NT\$42,133.1 million (US\$1,391.9 million) has been recognized for these deferred tax assets, and the effective tax rate increased to 16.5% from 13.6% in 2010 under US GAAP.

Net Income (Loss)

As a result of the foregoing, we incurred net loss of NT\$61,447.0 million (US\$2,030.0 million) or net loss per basic and diluted share of NT\$6.94 (US\$0.23) in 2011 as compared to net income of NT\$7,408.1 million or NT\$ 0.76 per basic share and NT\$0.70 per diluted share in 2010.

Under US GAAP, we incurred net loss attributable to stockholders of AU Optronics Corp. of NT\$80,948.2 million (US\$2,674.2 million) or net loss per basic and diluted share of NT\$9.17 (US\$0.30) in 2011 as compared to net income attributable to stockholders of AU Optronics Corp. of NT\$4,244.3 million or NT\$0.48 per basic and diluted share in 2010. The per share effect from tax holidays for the years ended December 31, 2010 and 2011 were NT\$0.05 and NT\$0.02 (US\$0.0007), respectively.

For the Years Ended December 31, 2010 and 2009***Net sales***

Net sales increased 30.0% to NT\$467,158.0 million in 2010 from NT\$359,331.3 million in 2009 primarily due to a 26.3% increase in net sales of large-size panels and a 29.4% increase in net sales of small-size panels.

Net sales of large-size panels increased 26.3% to NT\$397,798.2 million in 2010 from NT\$314,840.5 million in 2009. This increase was primarily due to an increase in the sales volume. Large-size panels sold increased 26.7% to 113.5 million panels in 2010 from 89.7 million panels in 2009. The increase in unit sales of large-size panels was primarily due to an increase in market demand. The average selling price per panel of our large-size panels remained stable, which were at NT\$3,503.4 in 2010 and at NT\$3,512.3 in 2009, respectively.

Net sales of small- to medium-size panels increased 29.4% to NT\$44,198.7 million in 2010 from NT\$34,168.5 million in 2009. The increase in net sales of small- to medium-size panels was primarily due to an increase in average selling price, which was partly offset by a slight decrease in unit sales. The average selling price per panel of our small- to medium-size panels increased 33.9% to NT\$200.1 in 2010 from NT\$149.4 in 2009, primarily as a result of the change in our product mix. Unit sales of our small- to medium-size panels decreased 3.4% to 220.9 million panels in 2010 from 228.6 million panels in 2009. The decrease in unit sales of small- to medium-size panels was also primarily due to the change in our product mix.

Cost of Goods Sold

Cost of goods sold increased 22.3% to NT\$430,859.4 million in 2010 from NT\$352,290.5 million in 2009. This increase was primarily due to an increase in the raw material and component costs and an increase in overhead expenses resulting from our increased sales.

Raw material and component costs increased 28.2% in 2010 as compared to 2009, primarily as a result of our increased unit sales. Overhead expenses, including depreciation and amortization expenses, increased 11.7% in 2010 as compared to 2009, primarily due to an increase in indirect materials and electricity expenses. Direct labor costs increased 18.4% in 2010 as compared to 2009, primarily as a result of an increase in employee bonus expenses.

Table of Contents***Gross Profit***

Gross profit increased to NT\$36,298.6 million in 2010 from NT\$7,040.9 million in 2009. Gross profit margin, which is gross profit divided by net sales, mainly fluctuates, among other factors, with our capacity utilization rate, market price change of our products, our product mix. Our gross profit margin increased to 7.8% in 2010 from 2.0% in 2009, primarily due to the rise of average selling prices in the first half of 2010 and our improved cost control and product mix, which was partially offset by appreciation of NT dollars against US dollars and the decline of average selling prices in the fourth quarter of 2010.

Operating Expenses

Operating expenses increased 15.8% to NT\$25,801.9 million in 2010 from NT\$22,279.9 million in 2009. As a percentage of net sales, operating expenses decreased to 5.6% in 2010 from 6.2% in 2009 which was primarily due to our increased sales. The increase in operating expenses was primarily due to an increase in general and administrative expenses. General and administrative expenses increased 32.6% to NT\$10,736.9 million in 2010 from NT\$8,094.4 million in 2009 primarily due to pre-operating expenses arising from our new plants in Japan, an increase in employee bonus and salaries, and management fees paid to the Science Based Industrial Park of the ROC, which were partially offset by less depreciation expenses and banking fees. General and administrative expenses as a percentage of net sales remained at 2.3% in 2010 and 2009. Selling expenses increased 8.0% to NT\$8,641.5 million in 2010 from NT\$8,000.0 million in 2009, primarily due to an increase in shipping expenses and warranty expenses, both resulting from an increase in sales and an increase in employee bonus expenses, which were partially offset by a decrease in royalty expenses. Selling expenses as a percentage of net sales decreased to 1.9% in 2010 from 2.2% in 2009. Research and development expenses increased 3.8% to NT\$6,423.6 million in 2010 from NT\$6,185.5 million in 2009, resulting from our increased research and development activities and an increase in employee bonus and indirect materials. Research and development expenses as a percentage of net sales decreased to 1.4% in 2010 from 1.7% in 2009.

Operating Income (Loss) and Operating Margin

As a result of the foregoing, we had operating income of NT\$10,496.7 million in 2010 compared to operating loss of NT\$15,239.1 million in 2009. We had an operating margin of 2.2% in 2010 compared to a negative operating margin of 4.2% in 2009.

Under US GAAP, we had operating income of NT\$5,399.2 million in 2010 compared to operating loss of NT\$28,309.7 million in 2009. We had an operating margin of 1.2% in 2010 compared to a negative operating margin of 7.9% in 2009.

Under ROC GAAP, the provision for the potential litigation losses and others is usually recognized in the consolidated statement of operations as a non-operating expense. However, under US GAAP, the provision for the potential litigation losses and others is recognized in the condensed consolidated statement of operations as an operating expense.

Net Non-Operating Expenses and Losses

We had net non-operating expenses and losses of NT\$1,900.7 million in 2010 compared to net non-operating expenses and losses of NT\$12,028.4 million in 2009. We had lower net non-operating expenses and losses in 2010 compared to 2009 primarily due to (i) an increase in net gains on valuation of financial instruments to NT\$3,986.1 million in 2010 from NT\$813.2 million in 2009, resulting from our increased financial instruments to hedge our position corresponding to our increased sales in 2010; (ii) a net foreign currency exchange loss of NT\$3,581.1 million in 2010 compared to a foreign currency exchange income of NT\$236.9 million in 2009, primarily due to (1) the depreciation of US dollars against NT dollars in the second half of 2010, and (2) the appreciation of JPY against NT dollars in the second and third quarters of 2010; (iii) an increase in net gains on sale of investment securities to NT\$1,527.2 million in 2010 from NT\$384.2 million in 2009; (iv) an increase in net investment gains recognized by the equity method to NT\$681.3 million in 2010 from NT\$139.6 million in 2009, resulting from a gain on an investee company; (v) an increase in net interest expenses to NT\$3,946.3 million in 2010 from NT\$3,180.6 million in 2009, resulting from amortization expenses relating to the issuance of convertible bonds and a decrease in interest capitalization in 2010 compared to 2009 because more construction was completed in 2010; and (vi) a decrease in provisions made for potential litigation losses and others to NT\$2,011.4 million in 2010 from NT\$9,696.1 million in 2009, resulting from a decrease in the amount of provisions made in connection to antitrust matters in 2010 compared to 2009.

Under US GAAP, we had net non-operating income and gains of NT\$69.2 million in 2010 compared to net non-operating expenses and losses of NT\$1,352.7 million in 2009. We had net non-operating income and gains in 2010 compared to net non-operating expenses and losses in 2009, primarily as a result of an increase in net gains on valuation of financial instruments, an increase in net gains on sale of investment securities, an increase in net investment income and an increase in net other income, partially offset by an increase in net interest expense and an increase in net foreign currency exchange loss. We had net gains on valuation of financial instruments of NT\$3,164.4 million in 2010 compared to net gains

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on valuation of financial instruments of NT\$806.3 million in 2009. In 2010, we had net gains on sale of investment securities of NT\$1,478.4 million compared to net gains on sale of investment securities of NT\$549.2 million in 2009. We had a net investment income of NT\$668.5 million in 2010 compared to a net investment income of NT\$48.6 million in 2009. In 2010, we had a net other income of NT\$2,071.3 million compared to a net other income of NT\$1,637.0 million in 2009. In 2010, we had a net interest expense of NT\$3,801.7 million compared to a net interest expense of NT\$3,187.8 million in 2009. In 2010, we had net foreign currency exchange loss of NT\$3,582.8 million compared to a net foreign currency exchange gain of NT\$218.9 million in 2009.

Table of Contents**Income Tax Benefit (Expense)**

Under ROC GAAP, we recognized an income tax expense of NT\$1,187.9 million in 2010 compared to an income tax benefit of NT\$22.6 million in 2009. An increase in income tax expenses primarily resulted from a substantial increase of taxable income of subsidiaries, taxes paid for dividends received from our subsidiaries located in China according to PRC's tax regulations, a decrease of investment tax credit obtained and the effect of deferred assets caused from the change of the statutory tax rate in 2010. Therefore, the effective tax rate increased to 13.8% in 2010 from 0.1% in 2009 under ROC GAAP.

Effective from January 1, 2010, the statutory tax rate was reduced to 20% in accordance with the ROC Income Tax Act. In June 2010, the statutory rate was reduced from 20% to 17%, effective retroactively on January 1, 2010. The effective tax rate was lower than 17% primarily due to investment tax credits and tax exemptions. While we used a portion of available tax credits to offset our income tax payable, the amount of tax credits available to be applied in any year, except for the final year in which such tax credit expires, is limited to 50% of the income tax payable for that year. There is no limitation on the amount of tax credits available to be applied in the final year.

Under US GAAP, we recognized an income tax expense of NT\$745.0 million in 2010 compared to an income tax benefit of NT\$1,359.5 million in 2009. Under US GAAP, and in accordance with FASB ASC Topic 740, Income Taxes, if a valuation allowance is recognized at the acquisition date for deferred tax assets for an acquired entity's deductible temporary differences or operating loss or tax credits, the tax benefit for those items that are first recognized subsequent to the acquisition (by elimination of the valuation allowance) are to be applied (a) first reduce to zero any goodwill related to the acquisition, (b) second to reduce to zero other noncurrent intangible assets related to the acquisition, and (c) third to reduce income tax expense. The effective tax rate increased to 13.6% in 2010 from 4.6% in 2009 under US GAAP, primarily due to the effect of the change of the statutory tax rate in 2010.

Net Income (Loss)

As a result of the foregoing, we incurred net income of NT\$7,408.1 million or NT\$ 0.76 per basic share and NT\$0.70 per diluted share in 2010 as compared to net loss of NT\$27,244.8 million or net loss per basic and diluted share of NT\$3.04 in 2009.

Under US GAAP, we incurred net income attributable to stockholders of AU Optronics Corp. of NT\$4,244.3 million or NT\$0.48 per basic and diluted share in 2010 as compared to net loss attributable to stockholders of AU Optronics Corp. of NT\$28,670.3 million or net loss per basic and diluted share of NT\$3.26 in 2009. The per share effect from tax holidays for the years ended December 31, 2009 and 2010 were NT\$0.09 and NT\$0.05, respectively.

Segment Information**General**

Our business reports in two operating segments: display business and solar business. Our management monitors and evaluates the performance of both operating segments based on the information of their sales and operating income (loss) measured under ROC GAAP. The following table sets forth our segments information for the years indicated under ROC GAAP.

	2009 NT\$	For the year ended December 31,		US\$
		2010 NT\$	2011 NT\$	
		(in millions)		
Net sales				
Display business	357,033.5	456,725.6	366,482.6	12,107.1
Solar business	2,297.8	10,432.4	13,229.3	437.1
Total	359,331.3	467,158.0	379,711.9	12,544.2
Operating income (loss)				
Display business	(13,949.3)	13,102.7	(54,433.2)	(1,798.3)
Solar business	(1,289.8)	(2,606.0)	(3,225.3)	(106.5)

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Total	(15,239.1)	10,496.7	(57,658.5)	(1,904.8)
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Net sales from our display business segment decrease 19.8% to NT\$366,482.6 million (US \$12,107.1 million) in 2011 from NT\$456,725.6 million in 2010, primarily due to a 23.7% decrease in net sales of large-size panels, which was partially offset by a 14.6% increase in net sales of small- to medium-size panels. Operating expenses in our display business segment increased 18.2% to NT\$28,657.5 million (US\$946.7 million) in 2011 from NT\$24,251.6 million in 2010, primarily due to an increase in research and development expenses. The increase in research and development expenses was primarily due to higher spending in developing future advanced technologies and high value-added products to remain competitive in the markets we serve. We had operating loss from our display business segment of NT\$54,433.2 million (US\$1,798.3 million) in 2011 compared to operating income of NT\$13,102.7 million in 2010, primarily due to the decline in average selling prices and lower capacity utilization rate caused by the global economic downturn; moreover, the scale of the decrease in average selling prices was greater than the scale of the decrease in cost of goods sold. For information of the changes in sales by product category for our display business segment, see 4.B. Business Overview Display Business.

Net sales from our display business segment increased 27.9% to NT\$456,725.6 million in 2010 from NT\$357,033.5 million in 2009, primarily due to a 26.3% increase in net sales of large-size panels and a 29.4% increase in net sales of small-size panels. Operating expenses in our display business segment increased 10.6% to NT\$24,251.6 million in 2010 from NT\$21,933.1 million in 2009, primarily due to an increase in general and administrative expenses. The increase in general and administrative expenses was primarily due to an increase in employee bonus and salaries and the management fees paid to the Science Based Industrial Park of the ROC, which were partially offset by less depreciation expenses and banking fees. We had an operating income from our display business segment of NT\$13,102.7 million in 2010 compared to a loss of NT\$13,949.3 million in 2009.

Under US GAAP, operating loss from our display business segment was NT\$64,543.0 million (US\$2,132.2 million) in 2011 as compared to an operating income of NT\$8,005.2 million in 2010 and an operating loss of NT\$27,019.9 million in 2009. The primary differences in segment operating results under ROC GAAP versus US GAAP are depreciation of buildings, compensated absences expense, etc. and reclassification of provisions for potential litigation losses and others from non-operating expense to operating expense. See Note 27 to our consolidated financial statements for further discussion of these GAAP differences.

Solar business

Net sales from our solar business increased to NT\$13,229.3 million (US\$437.1 million) in 2011 from NT\$10,432.4 million in 2010. Segment operating loss increased to NT\$3,225.3 million (US\$106.5 million) in 2011 from NT\$2,606.0 million in 2010. The primary reason for the increase in solar segment sales was because AUO Crystal (Malaysia) Sdn. Bhd. and AUO Crystal Corp. have begun mass production since the second quarter and the third quarter in 2011, respectively. The main reason for the operating loss of solar business segment in 2011 was primarily due to a decline in average selling price of wafers and ingots; meanwhile, the operation of M. Setek was impacted by the major earthquake in Japan that caused a decrease in net sales during the suspension period of production. The operating results from our solar business segment under US GAAP was not materially different from the operating results under ROC GAAP.

Net sales from our solar business increased to NT\$10,432.4 million in 2010 from NT\$2,297.8 million in 2009. Segment operating loss increased to NT\$2,606.0 million in 2010 from NT\$1,289.8 million in 2009. The primary reason of the increase in the reported segment sales and losses is because a full year of segment results was included for 2010 whereas 2009 only included the result of M. Setek from the date of consolidation. The main reason for the operating loss of solar business segment in 2010 was because the phase II of M. Setek Soma factory was under the start-up phase in 2010. See Note 27(a)(3) to our consolidated financial statements for information relating to the nature and effect of significant differences between ROC GAAP and US GAAP as they relate to us.

Inflation

Our most significant markets are Taiwan and the PRC. We do not believe that inflation in Taiwan or the PRC has had a material impact on our results of operations in 2011. However, we cannot provide assurance that in the event of significant variations in the nature, extent or scope of inflation within any of our key markets in the future would not have a material impact on our results of operations.

Taxation

In the past, we had been granted exemptions from income taxes in Taiwan for construction and capacity expansions of production facilities according to the Science Park Administration and the ROC Statute for Upgrading Industries. The exemption period may begin at any time within four to five years following the completion of a construction or expansion. The aggregate tax saving of such exemption were approximately nil, NT\$303.7 million and nil in 2009, 2010 and 2011, respectively.

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In addition, we have enjoyed other tax incentives generally available to technology companies in the ROC, including tax credits ranging from 30% to 50% for the research and development expenses and employee training expenses, and tax credits at 7% for the investment in automation equipment and technology and certain qualifying investments.

The ROC Statute for Upgrading Industries expired at the end of 2009 and we are no longer entitled to enjoy the tax benefits of investment tax credits and the five-year tax exemptions starting from January 1, 2010 in connection with our purchases of qualifying machinery and equipment and capital raising. However, we are still eligible for those unexpired tax credits and exemptions which were approved by the related authority before the expiration of the ROC Statute for Upgrading Industries.

The corporate income tax rate in Taiwan applicable to us was 25% for 2009, 17% for both 2010 and 2011. Effective from January 1, 2010, the statutory income tax rate has been reduced to 20% in accordance with the ROC Income Tax Act. In June 2010, the ROC government promulgated another amendment of the Income Tax Law to reduce the income tax rate from 20% to 17%, effective retroactively on January 1, 2010. Therefore, the statutory income tax rates applicable to AUO and its subsidiaries located in the ROC are both 17% in 2011 and 2010.

Pursuant to the Statute of Income Basic Tax Amount (the IBTA Statute) announced in late 2005, an alternative minimum tax system became effective on January 1, 2006 in the ROC. When a taxpayer's income tax amount is less than the basic tax amount (BTA), a taxpayer is required to pay the regular income tax and the difference between the BTA and the regular income tax amount. For enterprises, BTA is determined using regular taxable income plus specific add-back items applied with a basic tax rate ranging from 10% to 12%. The add-back items include exempt capital gain from non-publicly traded security transactions and exempt income under tax holidays. Currently, the basic tax rate set by the tax authority is 10%. There are grandfathered treatments from the tax holidays approved by the tax authorities before IBTA Statute took effect. The IBTA Statute does not have a significant impact on our financial statements.

In 1997, the ROC Income Tax Law was amended to integrate the corporate income tax and shareholder dividend tax. Under such amendment, after-tax earnings generated from January 1, 1998 and not distributed to shareholders as dividends in the following year will be subject to a 10% retained earnings tax. According to the amendment to the ROC Income Tax Law, which came into effect on June 1, 2006, commencing from 2005, the undistributed retained earnings should be calculated in accordance with our earnings as determined under ROC GAAP and as reported in our audited consolidated financial statements rather than our tax returns submitted to the ROC taxation authority. See Item 10.E.

Taxation ROC Tax Considerations Retained Earnings Tax.

5.B. Liquidity and Capital Resources

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

As of December 31, 2011, we had current assets of NT\$202,673.9 million (US\$6,695.5 million) and current liabilities of NT\$204,179.9 million (US\$6,745.3 million). We expect to meet our working capital requirements as they become due and comply with current ratio covenants in our long-term loans and facilities through cash flow from operations, supplemented as necessary by financing activities. In addition, we can drawdown on our existing long-term credit facilities.

As of December 31, 2011, we had cash and cash equivalents of NT\$90,836.7 million (US\$3,000.9 million). As of December 31, 2011, we had total short-term credit lines of NT\$31,752.7 million (US\$1,049.0 million), of which we had borrowed NT\$7,850.8 million (US\$259.4 million). All of our short-term facilities are revolving with a term of one year, which may be extended for terms of one year each with lender consent. Our repayment obligations under our short-term loans are unsecured. We believe that our existing credit lines under our short-term loans, together with cash generated from our operations, are sufficient to finance our current working capital needs.

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As of December 31, 2011, we had outstanding long-term borrowings of NT\$198,957.1 million (US\$6,572.7 million). The interest rates in respect of most of these long-term borrowings are variable, and as of December 31, 2011 ranged between 0.645% and 7.935% per year.

Below is a summary of our major outstanding borrowings and loans as of December 31, 2011. Please also see note 16 to our consolidated financial statements for further information.

In July 2005, we entered into a NT\$42.0 billion seven-year syndicated credit facility, for which the Bank of Taiwan acted as the agent bank, for the purpose of funding the construction and purchase of machinery and equipment at our first 7.5-generation fab. The syndication agreement for this facility contains covenants that require us to maintain certain financial ratios. Our obligations under this credit facility are secured by certain of our equipment and machinery. As of December 31, 2011, NT\$8.2 billion (US\$0.3 billion) was outstanding under this credit facility. We issued NT\$5.0 billion secured corporate bonds under this credit facility in March 2006. These bonds matured in March, 2011.

In August 2006, we entered into a RMB2.8 billion and US\$75.0 million seven-year unsecured syndicated credit facility, for which ABN AMRO Bank acted as the agent bank, for the purpose of funding the construction and purchase of machinery and equipment at our Suzhou and Xiamen module-assembly facilities. The syndication agreement for this facility contains covenants that require us to maintain certain financial ratios. As of December 31, 2011, NT\$4.8 billion (US\$0.2 billion) was outstanding under this credit facility.

In September 2006, we entered into a NT\$55.0 billion seven-year syndicated credit facility, for which Bank of Taiwan acted as the agent bank, for the purpose of funding the construction and purchase of machinery and equipment at our second 7.5-generation fab. The syndication agreement for this facility contains covenants that require us to maintain certain financial ratios. Our obligations under this credit facility are secured by certain of our equipment and machinery. As of December 31, 2011, NT\$32.0 billion (US\$1.1 billion) was outstanding under this credit facility. We issued NT\$7.0 billion secured corporate bonds under this credit facility in August 2008. As of December 31, 2011, the balance of the outstanding secured corporate bonds was NT\$3.5 billion (US\$0.1 billion).

In October 2008, we entered into a NT\$58.0 billion seven-year syndicated credit facility, for which the Bank of Taiwan acted as the agent bank, for the purpose of funding the construction and purchase of machinery and equipment at our first 8.5-generation fab. The syndication agreement for this facility contains covenants that require us to maintain certain financial ratios. Our obligations under this credit facility are secured by certain of our equipment and machinery. As of December 31, 2011, NT\$58.0 billion (US\$1.9 billion) was outstanding under this credit facility.

In July 2009, we entered into a NT\$27.0 billion five-year syndicated credit facility, for which Mega International Commercial Bank acted as the agent bank, for the purpose of funding medium- and long- term working capital. The syndication agreement for this facility contains covenants that require us to maintain certain financial ratios. Our obligations under this credit facility are secured by certain of our equipment and machinery. As of December 31, 2011, NT\$27.0 billion (US\$0.9 billion) was outstanding under this credit facility.

In September 2010, our subsidiary, AFPD Pte., Ltd. (AFPD) entered into a US\$0.36 billion five-year syndicated credit facility, for which the Credit Agricole Corporate and Investment Bank, Singapore Branch acted as the agent bank, for the purpose of repaying AFPD's loan from Toshiba and funding working capital needs or capital expenditures. The syndication agreement for this facility is guaranteed by us. As of December 31, 2011, US\$0.36 billion was outstanding under this credit facility.

In October 2010, we issued US\$0.8 billion aggregate principal amount of zero coupon convertible bonds due 2015. We used the net proceeds to fund overseas equipment purchases. In September 2011, we early redeemed US\$0.1 billion of the outstanding bonds at a cost of US\$78.7 million. Please refer to note 15 to our consolidated financial statements for more detailed information. As of

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December 31, 2011, the balance of the outstanding convertible bonds was US\$0.7 billion.

In January 2011, we entered into a NT\$45.0 billion five-year syndicated credit facility, for which the Bank of Taiwan acted as the agent bank, for the purpose of funding medium-term working capital and repaying outstanding debts. The agreement for this syndicated facility contains covenants that require us to maintain certain financial ratios. Our obligations under this facility are secured by certain of our equipment and machinery. As of December 31, 2011, NT\$12.0 billion (US\$0.4 billion) was outstanding under this credit facility.

In January 2011, our subsidiary, AUSK entered into a EUR80.0 million five-year credit facility with Unicredit Bank Slovakia A.S. for the purpose of funding the construction and the procurement of machinery and equipment. The agreement for this credit facility has been guaranteed by us and requires us to maintain certain financial ratios. As of December 31, 2011, EUR35.0 million (US\$45.4 million) was outstanding under this credit facility.

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We assumed the following outstanding bonds, credit facilities and arrangements as a result of our merger with QDI:

In July 2005, QDI issued an aggregate principal amount of NT\$6.0 billion of zero-coupon convertible bonds due July 2010. The initial conversion price was NT\$17.12 per share, subject to adjustment. The conversion price was adjusted to NT\$44.10 per share in 2006 as a result of our merger. These bonds matured in July 2010.

In June 2006, QDI entered into a NT\$27.0 billion seven-year syndicated credit facility, for which Mega International Commercial Bank acted as the agent bank for the purpose of funding the expansion of one of our sixth generation fabs. The syndication agreement for this facility contains covenants that require us to maintain certain financial ratios. Our obligations under this credit facility are secured by certain of our equipment and machinery. As of December 31, 2011, NT\$10.8 billion (US\$0.4 billion) was outstanding under this credit facility.

In July 2006, QDI entered into a NT\$1.0 billion four-year credit facility with the Industrial Bank of Taiwan for working capital purposes. Our obligations under this credit facility are secured by certain of our equipment and machinery. We fully repaid this credit facility in August 2010.

With respect to all the syndicated credit facilities assumed by us as a result of our merger with QDI, we amended the terms of the credit facilities such that covenants made therein are the same as those made in our syndicated credit facilities, including covenants that we maintain certain financial ratios. We completed the amendments in early 2007.

In addition, M. Setek entered into the following outstanding credit facilities after our acquisition:

In December 2009, M. Setek entered into a JPY21.0 billion five-year syndicated credit facility, for which Mizuho Corporate Bank acted as the agent bank. We fully repaid this credit facility in April 2011.

In October 2010, M. Setek entered into a JPY6.0 billion five-year credit facility with the Bank of China Limited, Tokyo Branch for the purpose of financing the second phase expansion of the Soma factory. The agreement for this credit facility has been guaranteed by us and it requires us to maintain certain financial covenants. As of December 31, 2011, JPY6.0 billion (US\$0.08 billion) was outstanding under this credit facility.

In October 2010, M. Setek entered into a JPY4.0 billion five-year credit facility with the Bank of China (Hong Kong) Limited for the purpose of financing the second phase expansion of Soma plant and general working capital needs. The agreement for this credit facility has been guaranteed by us and requires us to maintain certain financial ratios. As of December 31, 2011, JPY4.0 billion (US\$0.05 billion) was outstanding under this credit facility.

In November 2010, M. Setek entered into a JPY10.0 billion five-year credit facility with the ING Bank N.V., Tokyo Branch for the purpose of refinancing bank loan and financing capital expenditure needs. The agreement for this facility is guaranteed by us and requires us to maintain certain financial ratios. As of December 31, 2011, JPY 10.0 billion (US\$0.13 billion) was outstanding under this credit facility.

In April 2011, M. Setek entered into a JPY55.0 billion five-year credit facility with Mizuho Corporate Bank, Ltd., for the purpose of refinancing its syndicated loan with Mizuho Corporate Bank dated December 2009 and for funding general working capital. We have guaranteed payment and performance by M. Setek under this credit facility. Under our guaranty we are required to maintain certain financial ratios. As of December 31, 2011, JPY 37.5 billions (US\$0.48 billion) was outstanding under this credit facility.

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We also assumed three other credit facilities that M. Setek entered into in December 2005 (a JPY2.0 billion five-year credit facility), March 2006 (a JPY8.0 billion seven-year syndicated credit facility) and March 2006 (a JPY7.0 billion seven-year credit facility), respectively, under which M. Setek had breached certain financial covenants. On June 25, 2010, we repaid all outstanding amounts of JPY8,625.0 million under the three credit facilities and we have not had any material impact on our financial position as a result of such financial covenant breach after our full repayment.

The carrying amount of our assets pledged as collateral to secure our obligations under our long-term borrowings and bonds, including building, machinery and equipment, land and available-for-sale financial assets-noncurrent amounted to NT\$255,282.4 million (US\$8,433.5 million) as of December 31, 2011.

Our long-term loans and facilities contain various financial and other covenants that could trigger a requirement for early payment. Among other things, these covenants require the maintenance of certain financial ratios, such as current ratio, indebtedness ratio, interest coverage ratio, minimum equity requirements and other technical requirements. In general, covenants in the agreements governing our existing debt, and debt we may incur in the future, may materially restrict our operations, including our ability to incur debt, pay dividends, make certain investments and payments and encumber or dispose of assets. A default under one debt instrument may also trigger cross-defaults under our other debt instruments. An event of default under any debt instrument, if not cured or waived, could have a material adverse effect on our liquidity, as well as our financial condition and operations. As of December 31, 2011, we were in compliance with all financial and other covenants under our long-term loans and credit facilities.

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We also enter into reverse repurchase agreements with securities firms or banks in Taiwan covering government and quasi-government bonds for short-term liquidity-management purposes. These bonds yielded interest at rates ranging from, 0.11% to 1.88%, 0.25% to 0.32% and 0.46% to 0.70% in 2009, 2010 and 2011, respectively. The terms of these reverse repurchase agreements are typically less than one month. As of December 31, 2009, 2010 and 2011, we held government bonds with reverse repurchase agreements in amounts of NT\$11,882.9 million, NT\$18,811.6 million, and NT\$16,243.7 million (US\$536.6 million), respectively.

Cash Flows

Net cash provided by operating activities amounted to NT\$57,041.0 million in 2009, NT\$90,735.6 million in 2010 and NT\$14,515.1 million (US\$479.5 million) in 2011. The decrease in net cash provided by operating activities in 2011 compared to 2010 was primarily due to decreased cash collections from our ordinary operations as a result of decreased average selling prices and weaker market demand. Cash outflows in 2011 increased primarily for higher expenditures on developing future advanced technologies and high value-added products as well as for product promotion fees and professional service fees. The increase in net cash provided by operating activities in 2010 compared to 2009 was primarily due to increased cash collections from the ordinary business as a result of a stronger demand in the TFT-LCD industry in 2010 compared to 2009 and an increased margin due to higher selling prices of our product mix sold in 2010. Cash outflows in 2010 increased primarily for additional purchases of raw materials, production overheads, employee costs, and selling, general and administrative expenses mainly due to increased production levels to meet 2010 sales demands.

Net cash used for investing activities was NT\$66,616.7 million in 2009, NT\$87,218.3 million in 2010 and NT\$57,829.0 million (US\$1,910.4 million) in 2011. Net cash used for investing activities primarily reflected capital expenditures for property, plant and equipment of NT\$61,046.9 million in 2009, NT\$84,621.0 million in 2010 and NT\$56,919.6 million (US\$1,880.4 million) in 2011. These capital expenditures were primarily funded with net cash provided by operating activities and financing activities, primarily from long-term bank borrowings.

Net cash provided by financing activities was NT\$11,925.3 million in 2009, reflecting primarily an increase in proceeds from long-term borrowings and bonds payable of NT\$66,844.4 million, which was partially offset by repayment of long-term borrowings and bonds payable for NT\$49,291.8 million and a decrease in short-term borrowings for NT\$4,901.7 million. Net cash provided by financing activities was NT\$878.2 million in 2010, reflecting primarily an increase in proceeds from long-term borrowings, bonds payable and the proceeds from the issuance of convertible bonds for NT\$62,609.9 million, which was partially offset by the repayment of long-term borrowings and repayment of bonds payable for NT\$60,610.9 million. Net cash provided by financing activities was NT\$45,835.9 million (US\$1,514.2 million) in 2011, reflecting primarily an increase in the proceeds from long-term debts for NT\$89,647.5 million (US\$2,961.6 million), and a decrease in repayment of long-term debts for NT\$47,654.6 million (US\$1,574.3 million).

Capital Expenditures

We have made, and expect to continue to make, capital expenditures in connection with technology advancement and the expansion of our production capacity. Substantially all of capital expenditures are invested in facilities located in Taiwan and the PRC. The table below sets forth our principal capital expenditures, paid or committed, for the periods indicated.

	2009	2010	2011	
	NT\$	NT\$	NT\$	US\$
	(in millions)			
Equipment purchases	49,018.0	57,240.8	45,934.4	1,517.5
Land and building purchases	13,412.3	21,903.0	8,949.5	295.7

We are sometimes required to prepay our purchases of land and equipment. Prepayments for purchases of land are the result of a standard processing procedure by the ROC government related to the transfer of legal title. Prepayments for purchases of equipment result from contractual agreements involving down payments to suppliers when the equipment is ordered by us. As of December 31, 2009, 2010, and 2011, prepayments for purchases of equipment amounted to NT\$26,583.7 million, NT\$54,266.1 million and NT\$19,670.1 million (US\$649.8 million), respectively.

Our capital expenditures paid for in 2011 were around NT\$56.9 billion (US\$1.9 billion), primarily for the installation of our second 8.5-generation fab, the enhancement of value of capacity, and the development of our solar business.

We estimate our capital expenditures to be around NT\$40.0 billion for 2012, primarily for technological upgrade and the enhancement of capacity value. We may increase or decrease our capital expenditures depending on cash flow from operations, the progress of our planned

growth, and market conditions.

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We believe that our existing cash, cash equivalents, short-term investments, expected cash flow from operations and borrowings under our existing and future credit facilities should be sufficient to meet our present capital expenditure, working capital, cash obligations under our existing debt and lease arrangements and other requirements. We frequently need to invest in new capacity and new technologies to improve our economies of scale, reduce our production costs and enrich our product portfolio, which may require us to raise additional capital. However, we cannot assure you that we will be able to raise additional capital should it become necessary on terms acceptable to us or at all. See 3.D. Risk Factors Risks Relating to Our Financial Condition, Business and Industry If capital resources required for our planned growth or development are not available, we may be unable to successfully implement our business strategy.

5.C. Research and Development

We incurred research and development costs of NT\$6,185.5 million, NT\$6,423.6 million and NT\$8,625.8 million (US\$285.0 million) in 2009, 2010, and 2011 respectively, which represented 1.7%, 1.4%, and 2.3%, respectively, of our net sales.

Our research and development activities are principally directed toward advancing our technologies in key components, manufacturing processes and product development, with the objective of improving the features of our products and services to bring added value to our customers in addition to design products that meet their specific requirements. We have a product development team dedicated to each of our primary product categories. Each of these teams focuses on the development of our existing and potential new products. To support our fabs, we maintain a centralized research and development team that works to improve our manufacturing processes and production yield, which includes focuses on computer integrated manufacturing and key component vendors. In addition, we have several research and development teams to explore new design platforms for next-generation displays, such as OLED, 3D and touch technologies. Monetary incentives are provided to our employees if research projects result in successful patents. As of December 31, 2011, we employed approximately 3,017 research and development engineers.

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

In 2009, we developed certain innovative technologies. We developed a 65-inch QFHD 2D/3D mixed mode ultra high resolution display which can display four programs at the same time. We also developed a 65-inch QFHD Ultra Thin 7.9 mm panel with LED backlight which features 3,840 x 2,160 resolution. It can offer a dynamic contrast ratio up to 2,000,000:1 and power saving of 50%. We launched a 58-inch 21:9 aspect ratio ultra-wide home theater display for home use. It has 2,560x1,080 ultra-wide resolution and can display 21:9 films without black bars. The display also features a 120Hz double frame rate, that will provide a viewing experience just like in the theater. Based on our past experience in AMVA development, we developed AMVA5 technology with a contrast ratio of 16,000:1 and 20% higher transmittance, compared to AMVA3 technology. We also developed a series of Eco-products with LED backlight and light-weight module designs to promote environmental protection and green technology. In 2009, we also released a series of electronic paper display such as 6-inch e-book panel with embedded touch panel and demonstrated a 20-inch electronic paper display module. In addition, we also showcased a 14-inch OLED panel with Full HD resolution with contrast ratio of 100,000:1 and 16 million colors.

In 2010, we exhibited a series of critical innovative technologies in order to prove that we are dedicated to the research and development of products characterized by a focus on green energy and the application of new technologies. For example, we developed many products featuring new advanced 3D display technologies, including the world's largest 71-inch 21:9 3D home theater LCD TV panel for maximum visual enjoyment, the 65-inch naked eye QFHD 4K2K lenticular lens high resolution 3D panel, the 65-inch 3D polarized LCD TV panel with video game applications, the 15.6-inch and 10.1-inch naked eye 3D panel suitable for use with flat panels and notebooks, the 4-inch 3D interactive touch panel used in smartphones. In addition, within the context of the growing trend toward eco-friendly products, we exhibited the world's first 14-inch solar-powered touch keyboard notebook panel as well as the industry's first ultra-slim 21.5-inch displayport monitor with wide viewing angles. In addition, we presented a new design the 3.2-inch dual-side, ultra-low-power Memory in Pixel (MIP) display. The design lowers power consumption from 420mW to 1mW, which represents a 99.8% decrease in consumption. We also extended our touch panel technology to E-board applications by introducing the industry's first 32-inch in-cell touch panel with an optical color pen function. In terms of panels with ten touch points, we are presenting the 32-inch, 24-inch and 10-inch touch panels. Utilizing a one-glass solution, the 7-inch and 5-inch touch panels are 60% slimmer and lighter than conventional touch panels, consume 10% less power, and boast better penetration and brightness. We have developed 6-inch flexible oxide TFT e-paper. We have also developed 2-inch to 4-inch portable e-tags that have special specifications on low power consumption and reuse to lower large scale chain-like circuit business costs. In the OLED advanced technology, we showcased a new 14-inch 3D AMOLED TV panel with a Full HD resolution 1920x1080 pixel.

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In 2011, following some innovative technologies developed in 2010, we extended these technologies to a wide variety of applications in different fields. We demonstrated a 65-inch see-through LCD panel, which characterized by a FHD resolution and as high as 15% panel transmittances, is used for the front side of vending machines. We also exhibited a prototyped 32-inch TV equipped with IGZO (In-Ga-Zn-O) TFT-driven OLED panel, which performs a high response speed of 0.01ms and a thickness of only 3 mm. In addition, we apply our unique technology in flexible substrate to OLED and E-paper applications. A 4-inch flexible OLED, featuring by low-temperature process of amorphous IGZO TFT as driving elements, was realized through a thickness of only 0.3 mm plastic substrate. We also showcased a device, called un-plugged flexible E-paper, which is made by attaching a flexible thin-film photovoltaic (PV) to the back of flexible electronic paper (e-paper). The flexible e-paper, whose power consumption is small, can be driven when it is exposed to direct sunlight and does not need a rechargeable battery. In touch applications, we developed a 27-inch product by using OGS (One glass solution) technology, which allows ten-touch points at the same time. In addition, a 65-inch product with optical-pen touch function was also developed by using technology of photo sensor in TFT array. For notebook (NB) application, we developed products with personalized privacy protection display and OGS touch function, which reduce panel weight up to 33%. For application on public information display (PID), we demonstrated a 138-inch TV wall by using a 46-inch TV panel with ultra-slim bezel, which shortening the display gap to as low as 5 mm. Besides slim TV, we also developed an ultra high resolution (330 dpi) of mobile display (4.46 inch) with only 1 mm bezel by using amorphous TFT driving.

5.D. Trend Information

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

5.E. Off-Balance Sheet Arrangements

We have, from time to time, entered into non-derivative financial instruments, including letters of credit, to finance or secure our purchase payment obligations. As of December 31, 2011, we had off-balance sheet outstanding letters of credit of US\$6.3 million, JPY2,819.4 million, EUR 6.2 million, RMB 0.9 million and NT\$10.8 million.

5.F. Tabular Disclosure of Contractual Obligations

The following tables set forth our contractual obligations and commitments with definitive payment terms which will require significant cash outlays in the future as of December 31, 2011.

	Total NT\$	Payments due by Period			More than 5 years NT\$
		Less than 1 year NT\$	1-3 years NT\$	3-5 years NT\$	
Contractual Obligations					
Long-term debt obligations ⁽¹⁾	224,308.6	46,432.7	98,603.3	79,272.6	
Operating lease obligations ⁽²⁾	6,973.3	1,009.2	1,379.7	506.0	4,078.4
Purchase obligations ⁽³⁾	36,301.5	36,301.5			
Total	267,583.4	83,743.4	99,983.0	79,778.6	4,078.4

(1) Includes bonds payable, convertibles bonds payable and long-term borrowings and estimated relevant interest payments in any given period in the future. The interest rates are based on implied forward rates in the yield curve at the reporting date and management's expectations for future interest rates. See notes 14, 15 and 16 to our consolidated financial statements for further information regarding interest rates and future repayment of long-term debts.

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

(3) Includes purchase orders for the machinery and equipment at our fabs. We have placed orders primarily related to the technological upgrade and the enhancement of value of capacity.

In addition to the contractual obligations set forth above, we also have continuing obligations to make cash royalty payments under our technology license agreements, the amounts of which are determined based on our use of such technology and patents. Pursuant to relevant

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regulatory requirements, we estimate that we will contribute approximately NT\$106.5 million to our pension fund maintained with the Bank of Taiwan in 2012.

We have not entered into any financial guarantees or similar commitments to guarantee the payment obligations of non-affiliated third parties. Our long-term loan and lease agreements include provisions that require early payment under certain conditions. The terms of our credit facilities for long-term borrowings also contain financial covenants, including current ratio, indebtedness ratio, interest coverage ratio, minimum equity requirements and other technical requirements. Our debt under these facilities may be accelerated if there is a default, including defaults triggered by failure to comply with these financial covenants and other technical requirements. As of December 31, 2011, we were in compliance with all financial covenants and other technical requirements under our credit facilities, except our subsidiary M. Setek breached certain financial covenants under three of its loan agreements in 2009. On June 25, 2010, we repaid all outstanding amounts of JPY8,625.0 million under the three credit facilities and we have not experienced any material impact on our financial position as a result of such financial covenant breach after our full repayment. Please refer to Item 5. Operating and Financial Review and Prospect 5.B. Liquidity and Capital Resources.

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The following table sets forth a comparison of our net income (loss) attributable to stockholders of AU Optronics Corp. and equity attributable to stockholders of AU Optronics Corp. in accordance with ROC GAAP and US GAAP for the periods indicated.

	Year Ended and as of December 31,			
	2009 NT\$	2010 NT\$	2011 NT\$	US\$
Net income (loss) attributable to stockholders of AU Optronics Corp. in accordance with				
ROC GAAP	(26,769.3)	6,692.7	(61,263.8)	(2,023.9)
US GAAP	(28,670.3)	4,244.3	(80,948.2)	(2,674.2)
Equity attributable to stockholders of AU Optronics Corp. in accordance with				
ROC GAAP	262,087.1	268,160.9	205,388.7	6,785.2
US GAAP	266,269.0	270,390.1	187,658.7	6,199.5

See note 27 to our consolidated financial statements for a complete discussion of significant differences between ROC GAAP and US GAAP.

Recent ROC GAAP Accounting Pronouncements

Pursuant to the regulation no. 0990004943 issued by the Financial Supervisory Commission (FSC), starting in 2013, companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with International Financial Reporting Standards, International Accounting Standards, and the Interpretations as well as related guidances (collectively, IFRSs) translated by the Accounting Research and Development Foundation and issued by the FSC. We are currently evaluating the impact of adopting of IFRSs on our consolidated financial position and results of operations. The change of accounting policies, resulting from the adoption of IFRSs, which may significantly impact on our results of operations commencing 2013 includes income tax, employee benefits, convertible bonds, equity-method investment and business-combination related issues.

Recent US GAAP Accounting Pronouncements

In May 2011, the FASB issued Accounting Standard Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments that change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements include (i) measuring the fair value of financial instruments that are managed within a portfolio, (ii) application of premium and discounts in a fair value measurement; and (iii) additional disclosures about fair value measurements including quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy. The new guidance is effective prospectively during interim and annual periods beginning after December 15, 2011. Management currently does not anticipate that the new guidance will have a material effect on the Company's results of operations and financial position or cash flows.

In June and December 2011, the FASB issued Accounting Standard Update No. 2011-05 and No. 2011-12, Comprehensive Income (Topic 220). An entity is required to present components of net income, components of other comprehensive income, and a total amount of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The new guidance should be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Management intends to present components of net income and other comprehensive income in a single continuous condensed consolidated statement of comprehensive income for US GAAP purposes starting 2012.

In September 2011, the FASB issued Accounting Standard Update No. 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment. Under the amendments in this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In that event, the quantitative impairment test is required. Otherwise, no further testing is required. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this ASU will have no impact on our financial position and results of operations but will affect our assessment procedures of goodwill for impairment commencing 2012.

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PART III

ITEM 18. FINANCIAL STATEMENTS

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

- (a) Report of Independent Registered Public Accounting Firm.
- (b) Consolidated Balance Sheets of AU Optronics Corp. and subsidiaries as of December 31, 2010 and 2011.
- (c) Consolidated Statements of Operations of AU Optronics Corp. and subsidiaries for the years ended December 31, 2009, 2010 and 2011.
- (d) Consolidated Statements of Stockholders' Equity of AU Optronics Corp. and subsidiaries for the years ended December 31, 2009, 2010 and 2011.
- (e) Consolidated Statements of Cash Flows of AU Optronics Corp. and subsidiaries for the years ended December 31, 2009, 2010 and 2011.
- (f) Notes to Consolidated Financial Statements of AU Optronics Corp. and subsidiaries.

ITEM 19. EXHIBITS

- 12.1 Certification of Shuang-Lang (Paul) Peng, President of AU Optronics Corp., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of Andy Yang, Chief Financial Officer of AU Optronics Corp., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification of Shuang-Lang (Paul) Peng, President of AU Optronics Corp., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification of Andy Yang, Chief Financial Officer of AU Optronics Corp., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

AU OPTRONICS CORP.

By: /s/ SHUANG-LANG (PAUL) PENG
Name: **Shuang-Lang (Paul) Peng**
Title: **President**

Date: September 26, 2012

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AU OPTRONICS CORP.

AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2009, 2010 and 2011

(With Report of Independent Registered Public Accounting Firm)

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

AU Optronics Corp.:

We have audited the accompanying consolidated balance sheets of AU Optronics Corp. and subsidiaries (the Company) as of December 31, 2010 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AU Optronics Corp. and subsidiaries as of December 31, 2010 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with accounting principles generally accepted in the Republic of China.

The consolidated financial statements as of and for the year ended December 31, 2011, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation, and in our opinion, the consolidated financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 3(z) to the consolidated financial statements.

Accounting principles generally accepted in the Republic of China vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in note 27 to the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AU Optronics Corp.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 27, 2012, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG
Hsinchu, Taiwan (Republic of China)
April 27, 2012

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Consolidated Balance Sheets****December 31, 2010 and 2011****(Expressed in thousands of New Taiwan dollars and US dollars)**

	2010 NT\$	2011 NT\$	2011 US\$
Assets			
Current assets:			
Cash and cash equivalents (note 4)	89,498,491	90,836,668	3,000,881
Notes and accounts receivable, net (note 8)	50,595,501	44,747,926	1,478,293
Receivables from related parties, net (note 22)	9,320,432	6,783,605	224,103
Other receivables from related parties (note 22)	72,696	191,499	6,326
Other current financial assets (note 8)	587,850	1,280,078	42,289
Inventories, net (note 9)	44,568,106	47,881,948	1,581,829
Prepayments and other current assets (notes 8, 22, 23 and 24)	4,539,631	8,562,426	282,868
Deferred tax assets - current (note 19)	5,375,623	2,304,158	76,120
Financial assets measured at fair value - current (note 7)	427,265	85,621	2,829
Total current assets	204,985,595	202,673,929	6,695,538
Long-term investments:			
Equity-method investments (note 10)	15,540,959	15,917,335	525,845
Available-for-sale financial assets - noncurrent (notes 5 and 23)	1,373,687	436,774	14,429
Financial assets measured at fair value - noncurrent (note 7)		175	6
Financial assets carried at cost - noncurrent (notes 6 and 10)	896,294	1,487,795	49,151
Total long-term investments	17,810,940	17,842,079	589,431
Property, plant and equipment (notes 11, 22 and 23):			
Land	8,052,370	9,365,481	309,398
Buildings	113,542,262	123,995,592	4,096,320
Machinery and equipment	661,815,861	730,389,859	24,129,166
Other equipment	37,144,773	39,394,042	1,301,422
	820,555,266	903,144,974	29,836,306
Less: accumulated depreciation	(493,695,739)	(572,623,757)	(18,917,204)
Construction in progress	2,714,407	8,259,938	272,875
Prepayments for purchases of land and equipment	54,293,812	19,697,808	650,737
Net property, plant and equipment	383,867,746	358,478,963	11,842,714
Intangible assets:			
Goodwill (note 12)	11,454,512	11,456,176	378,466
Technology-related fees (notes 12 and 24)	2,607,455	3,971,926	131,217
Total intangible assets	14,061,967	15,428,102	509,683
Other assets:			
Idle assets, net (note 11)	1,760,638	1,697,615	56,082

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Refundable deposit	176,141	404,751	13,371
Deferred charges	2,593,372	3,321,469	109,728
Deferred tax assets noncurrent (note 19)	3,379,370	11,064,101	365,514
Restricted cash in bank (note 23)	162,221	158,509	5,237
Others (notes 17, 22 and 24)	517,779	1,708,626	56,446
Total other assets	8,589,521	18,355,071	606,378
Total Assets	629,315,769	612,778,144	20,243,744

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Consolidated Balance Sheets (continued)****December 31, 2010 and 2011****(Expressed in thousands of New Taiwan dollars and US dollars, except for par value)**

	2010 NT\$	2011 NT\$	US\$
Liabilities and Stockholders Equity			
Current liabilities:			
Short-term borrowings (note 13)	1,183,248	7,850,793	259,359
Notes payable and accounts payable	73,657,842	65,244,893	2,155,431
Payables to related parties (note 22)	20,124,665	17,454,179	576,616
Accrued expenses and other current liabilities (note 10)	38,233,627	48,250,072	1,593,990
Financial liabilities measured at fair value - current (note 7)	268,827	17,523	579
Other payables to related parties (note 22)	98,601	168,004	5,550
Equipment and construction in progress payable (note 22)	19,881,973	18,761,731	619,813
Current installments of long-term borrowings (notes 16 and 23)	29,824,179	42,868,289	1,416,197
Current installments of bonds payable (notes 14 and 23)	6,105,621	3,564,383	117,753
Total current liabilities	189,378,583	204,179,867	6,745,288
Long-term liabilities:			
Financial liabilities measured at fair value - noncurrent (notes 7 and 15)	230,699	914,854	30,223
Bonds payable, excluding current installments (notes 14 and 23)	3,561,149		
Convertible bonds payable (note 15)	23,951,212	21,048,500	695,358
Long-term borrowings, excluding current installments (notes 16 and 23)	117,123,895	156,088,780	5,156,551
Hedging derivative financial liabilities - noncurrent (note 7)	287,706	198,360	6,553
Long-term payables - excluding current installments	1,766,626	1,290,740	42,641
Unearned revenue and others (notes 10 and 24)	10,365,760	6,617,500	218,616
Total long-term liabilities	157,287,047	186,158,734	6,149,942
Other liabilities (note 17)	325,582	1,162,605	38,407
Total liabilities	346,991,212	391,501,206	12,933,637
Stockholders equity (notes 7, 10, 15 and 18):			
Capital stock:			
Common stock, NT\$10 par value	88,270,455	88,270,455	2,916,104
Capital surplus	115,947,805	117,709,063	3,888,638
Retained earnings (Accumulative deficits):			
Legal reserve	15,206,106	15,875,372	524,459
Unappropriated retained earnings (Accumulative deficits)	47,116,043	(18,347,855)	(606,140)
	62,322,149	(2,472,483)	(81,681)
Others:			
Cumulative translation adjustments	1,053,896	2,021,571	66,785

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Minimum pension liability		(1,316)	(44)
Unrealized gains (losses) on financial instruments	566,628	(138,574)	(4,578)
	1,620,524	1,881,681	62,163
	268,160,933	205,388,716	6,785,224
Minority interests	14,163,624	15,888,222	524,883
Total stockholders equity	282,324,557	221,276,938	7,310,107
Commitments and contingent liabilities (note 24)			
Total Liabilities and Stockholders Equity	629,315,769	612,778,144	20,243,744

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Consolidated Statements of Operations**

Years ended December 31, 2009, 2010 and 2011

(Expressed in thousands of New Taiwan dollars and US dollars, except for per share data)

	2009 NT\$	2010 NT\$	2011	
			NT\$	US\$
Net sales (note 22)	359,331,345	467,157,964	379,711,878	12,544,165
Cost of goods sold (notes 9 and 22)	352,290,469	430,859,371	407,899,195	13,475,361
Gross profit (loss)	7,040,876	36,298,593	(28,187,317)	(931,196)
Operating expenses (note 22):				
Selling	8,000,028	8,641,453	9,636,557	318,354
General and administrative	8,094,414	10,736,924	11,208,846	370,296
Research and development	6,185,485	6,423,552	8,625,812	284,962
	22,279,927	25,801,929	29,471,215	973,612
Operating income (loss)	(15,239,051)	10,496,664	(57,658,532)	(1,904,808)
Non-operating income and gains:				
Interest income	265,975	286,798	403,538	13,331
Investment gains recognized by equity method, net (note 10)	139,635	681,331		
Gains on sale of investment securities, net (note 10)	384,186	1,527,229	3,080,716	101,775
Foreign currency exchange gains, net	236,909			
Gains on valuation of financial instruments, net (note 7)	813,152	3,986,083	744,072	24,581
Gain on purchase of convertible bonds payable (note 15)			686,972	22,695
Other income (note 22)	1,569,449	2,302,755	2,575,060	85,070
	3,409,306	8,784,196	7,490,358	247,452
Non-operating expenses and losses:				
Interest expenses	3,446,588	4,233,127	4,876,254	161,092
Foreign currency exchange losses, net		3,581,120	94,732	3,130
Depreciation of idle assets	1,102,132	859,193	1,002,771	33,128
Investment losses recognized by equity method, net (note 10)			63,943	2,112
Asset impairment losses (note 11)	1,192,807		479,966	15,856
Provisions for potential litigation losses and others (notes 22 and 24)	9,696,129	2,011,439	8,966,289	296,210
	15,437,656	10,684,879	15,483,955	511,528
Earnings (loss) before income taxes	(27,267,401)	8,595,981	(65,652,129)	(2,168,884)
Income tax (expense) benefit (note 19)	22,587	(1,187,894)	4,205,079	138,919
Net income (loss)	(27,244,814)	7,408,087	(61,447,050)	(2,029,965)
Attributable to:				
Equity holders of the parent company	(26,769,335)	6,692,657	(61,263,814)	(2,023,912)
Minority interest	(475,479)	715,430	(183,236)	(6,053)

Net income (loss)	(27,244,814)	7,408,087	(61,447,050)	(2,029,965)
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AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Operations (continued)

Years ended December 31, 2009, 2010 and 2011

(Expressed in thousands of New Taiwan dollars and US dollars, except for per share data)

	2009	2010	2011	
	NT\$	NT\$	NT\$	US\$
Earnings (loss) per share Basic (note 20):				
Basic (L) EPS net income (loss)	(3.04)	0.76	(6.94)	(0.23)
Earnings (loss) per share Diluted (note 20):				
Diluted (L) EPS net income (loss)	(3.04)	0.70	(6.94)	(0.23)

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Consolidated Statements of Stockholders' Equity**

Years ended December 31, 2009, 2010 and 2011

(Expressed in thousands of New Taiwan dollars, US dollars and shares)

	Capital stock		Retained earnings			Others		Unrealized gains (losses) on financial instruments	Minority interests	Total
	Number of shares	Amount	Capital surplus	Legal reserve	Unappropriated retained earnings	Cumulative translation adjustments	Minimum pension liability			
Balance at January 1, 2009	8,505,720	85,057,196	113,651,334	13,079,368	76,912,630	2,330,858	(40,252)	(932,163)	9,199,765	299,258,736
Appropriation for legal reserve				2,126,738	(2,126,738)					
Cash dividends					(2,551,716)					(2,551,716)
Stock dividends to shareholders	255,172	2,551,716			(2,551,716)					
Capitalization of employee stock bonus	66,154	661,543	1,348,225							2,009,768
Unrealized gains on available-for-sale financial assets, net								1,637,350	135	1,637,485
Unrealized losses on cash flow hedges, net								194,145	123	194,268
Foreign currency translation adjustments						(645,125)			658,348	13,223
Adjustments to capital surplus, retained earnings and unrealized gains (losses) on financial instruments for changes in investees' equity			(27,411)		(2,050,074)			190,312	(2,383,727)	(4,270,900)
Net loss					(26,769,335)				(475,479)	(27,244,814)
Reversal of minimum pension liability							40,252			40,252
Adjustments for changes in minority interests									5,832,690	5,832,690
Balance at December 31, 2009	8,827,046	88,270,455	114,972,148	15,206,106	40,863,051	1,685,733		1,089,644	12,831,855	274,918,992

Note: Remuneration to directors of NT\$57,422 thousand and employee bonuses of NT\$2,871,097 thousand were deducted from the consolidated statement of operations of 2008.

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Consolidated Statements of Stockholders' Equity (continued)**

Years ended December 31, 2009, 2010 and 2011

(Expressed in thousands of New Taiwan dollars, US dollars and shares)

	Capital stock		Retained earnings			Others		Minority interests	Total
	Number of shares	Amount	Capital surplus	Legal reserve	Unappropriated retained earnings	Cumulative translation adjustments	Unrealized gains (losses) on financial instruments		
Balance at January 1, 2010	8,827,046	88,270,455	114,972,148	15,206,106	40,863,051	1,685,733	1,089,644	12,831,855	274,918,992
Embedded conversion options derived from convertible bonds			101,787						101,787
Unrealized gains (losses) on available-for-sale financial assets, net							(747,324)	592	(746,732)
Unrealized gains on cash flow hedges, net							181,415	34	181,449
Foreign currency translation adjustments						(631,837)		12,458	(619,379)
Adjustments to capital surplus, retained earnings and unrealized gains (losses) on financial instruments for changes in investees' equity			873,870		(439,665)		42,893	701,735	1,178,833
Net income					6,692,657			715,430	7,408,087
Adjustments for changes in minority interests								(98,480)	(98,480)
Balance at December 31, 2010	8,827,046	88,270,455	115,947,805	15,206,106	47,116,043	1,053,896	566,628	14,163,624	282,324,557

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Consolidated Statements of Stockholders' Equity (continued)**

Years ended December 31, 2009, 2010 and 2011

(Expressed in thousands of New Taiwan dollars, US dollars and shares)

	Capital stock		Capital surplus	Retained earnings (Accumulative deficits)		Cumulative translation adjustments	Others		Minority interests	Total
	Number of shares	Amount		Legal reserve	Unappropriated retained earnings (Accumulative deficit)		Minimum pension liability	Unrealized gains (losses) on financial instruments		
Balance at January 1, 2011	8,827,046	88,270,455	115,947,805	15,206,106	47,116,043	1,053,896		566,628	14,163,624	282,324,557
Appropriation for legal reserve				669,266	(669,266)					
Cash dividends					(3,530,818)					(3,530,818)
Unrealized losses on available-for-sales financial assets, net								(750,395)	(431)	(750,826)
Unrealized gains on cash flow hedges, net								76,863	376	77,239
Foreign currency translation adjustments						967,675			332,925	1,300,600
Adjustments to capital surplus, minimum pension liability and unrealized losses on financial instruments for changes in investees' equity			1,761,258					(1,316)	(31,670)	(1,270,657)
Net loss					(61,263,814)				(183,236)	(61,447,050)
Adjustments for changes in minority interests									2,845,621	2,845,621
Balance at December 31, 2011	8,827,046	88,270,455	117,709,063	15,875,372	(18,347,855)	2,021,571	(1,316)	(138,574)	15,888,222	221,276,938
Balance at December 31, 2011 (in US\$)		2,916,104	3,888,638	524,459	(606,140)	66,785	(44)	(4,578)	524,883	7,310,107

Note: Remuneration to directors of NT\$30,117 thousand and employee bonuses of NT\$891,462 thousand were deducted from the consolidated statement of operations of 2010.

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****Years ended December 31, 2009, 2010 and 2011****(Expressed in thousands of New Taiwan dollars and US dollars)**

	2009 NT\$	2010 NT\$	2011 NT\$	US\$
Cash flows from operating activities:				
Net income (loss)	(27,244,814)	7,408,087	(61,447,050)	(2,029,965)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation	87,512,945	87,748,809	87,361,532	2,886,076
Amortization of intangible assets and deferred charges	2,594,666	1,386,893	1,390,901	45,950
Unrealized foreign currency exchange losses (gains), net	(2,192,835)	(940,903)	929,297	30,700
Asset impairment losses	1,192,807		479,966	15,856
Losses (gains) on valuation of financial instruments, net	1,336,469	(781,930)	178,560	5,899
Investment losses (gains) recognized by equity method, net	(139,635)	(681,331)	63,943	2,112
Proceeds from cash dividends	142,096	437,801	651,486	21,522
Gains on disposal of investment securities	(384,186)	(1,527,229)	(3,080,716)	(101,775)
Losses from disposal and write-off of property, plant and equipment, idle assets and others	23,248	77,323	697,413	23,040
Gain on purchase of convertible bonds payable			(686,972)	(22,695)
Change in operating assets and liabilities:				
Decrease (increase) in accounts and notes receivable (including related parties)	(38,532,393)	2,061,603	8,596,428	283,992
Increase in inventories, net	(12,708,862)	(6,197,038)	(3,301,713)	(109,075)
Increase in deferred tax assets, net	(716,548)	(535,267)	(4,492,695)	(148,421)
Decrease (increase) in prepayments and other current assets	4,535,738	(2,017,877)	(5,814,751)	(192,096)
Increase (decrease) in accounts and notes payable (including related parties)	32,455,076	2,732,480	(11,393,855)	(376,407)
Increase in accrued expenses and other current liabilities	10,297,563	958,950	5,198,466	171,737
Increase (decrease) in unearned revenue	(1,032,123)	671,170	(704,701)	(23,280)
Increase in prepaid pension assets	(98,193)	(65,954)	(110,419)	(3,648)
Net cash provided by operating activities	57,041,019	90,735,587	14,515,120	479,522
Cash flows from investing activities:				
Acquisition of property, plant and equipment, including interest capitalized	(61,046,891)	(84,620,951)	(56,919,591)	(1,880,396)
Proceeds from disposal of property, plant and equipment, and idle assets	235,562	73,958	51,268	1,694
Purchase of convertible bonds	(500,002)			
Proceeds from disposal of available-for-sale financial assets	854,849	716,751	135,433	4,474
Purchase of long-term investments	(5,763,950)	(1,258,811)	(2,467,442)	(81,515)
Purchase of financial assets carried at cost	(40,345)	(658,959)	(30,000)	(991)
Proceeds from disposal of long-term investments	299,203	1,379,548	3,955,470	130,673
Decrease (increase) in restricted cash in bank	(425,799)	429,733	3,712	123
Increase in intangible assets and deferred charges	(1,121,028)	(1,414,472)	(2,419,657)	(79,936)
Decrease (increase) in refundable deposits	52,404	18,346	(224,489)	(7,417)
Cash increase (decrease) resulting from change in consolidated entity	839,336	(1,883,482)	86,262	2,850
Net cash used in investing activities	(66,616,661)	(87,218,339)	(57,829,034)	(1,910,441)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Consolidated Statements of Cash Flows (continued)**

Years ended December 31, 2009, 2010 and 2011

(Expressed in thousands of New Taiwan dollars and US dollars)

	2009 NT\$	2010 NT\$	2011 NT\$	US\$
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	(4,901,690)	(4,938,767)	3,104,515	102,561
Increase (decrease) in guarantee deposits	(5,758)	164,757	915,055	30,230
Repayment of long-term borrowings, bonds payable and convertible bonds payable	(49,291,812)	(60,610,911)	(47,654,567)	(1,574,317)
Proceeds from long-term borrowings, bonds payable and convertible bonds payable	66,844,430	62,609,918	89,647,542	2,961,597
Cash dividends	(2,551,716)		(3,530,818)	(116,644)
Proceeds from issuance of subsidiary shares to minority interests	2,445,262	4,338,348	3,252,346	107,445
Cash dividends to minority interests and others	(613,376)	(685,129)	101,867	3,365
Net cash provided by financing activities	11,925,340	878,216	45,835,940	1,514,237
Effect of exchange rate change on cash	(341,084)	(340,284)	(1,183,849)	(39,110)
Net increase in cash and cash equivalents	2,008,614	4,055,180	1,338,177	44,208
Cash and cash equivalents at beginning of year	83,434,697	85,443,311	89,498,491	2,956,673
Cash and cash equivalents at end of year	85,443,311	89,498,491	90,836,668	3,000,881
Supplemental disclosures of cash flow information:				
Cash paid for interest expense (excluding interest capitalized)	3,459,032	4,260,269	4,892,384	161,625
Cash paid for income taxes	2,127,321	803,775	1,172,641	38,739
Supplementary disclosure of non-cash investing and financing activities:				
Current installments of long-term liabilities	46,844,334	35,929,800	46,432,672	1,533,950
Conversion of convertible bonds into equity method investments	618,065			
Reclassification of equity method investments from equity investments held-for-sale		707,175		
Additions to property, plant and equipment:				
Increase in property, plant and equipment	62,430,334	79,143,746	54,883,840	1,813,143
Decrease (increase) in equipment and construction-in-progress payables	(1,383,443)	5,477,205	2,035,751	67,253
	61,046,891	84,620,951	56,919,591	1,880,396

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Impact of change in consolidated entities:				
Cash	839,336	(1,883,482)	86,262	2,850
Non-cash assets	34,416,206	(3,914,044)	5,810,609	191,959
Liabilities	(30,541,846)	(1,599,359)	(5,845,935)	(193,126)
Minority interests	(482,658)	3,982,504	(50,936)	(1,683)
	4,231,038	(3,414,381)		

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****As of and for the years ended****December 31, 2009, 2010 and 2011****1. Organization**

AU Optronics Corp. (AUO) was founded in the Hsinchu Science Park of the Republic of China on August 12, 1996. 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, including notebooks, desktop monitors, televisions, personal digital assistants, car televisions, digital cameras and camcorders, car navigation systems and mobile phones. In 2009, through equity acquisition of M. Setek Co., Ltd. (M. Setek), AUO entered into the solar business. The main activities in solar business are the design, development and production of solar photovoltaic (PV) modules as well as provision of various value-added services for solar PV systems projects. AUO's common shares have been publicly listed on the Taiwan Stock Exchange since September 2000 and its American Depository Shares (ADSs) have been listed on the New York Stock Exchange since May 2002.

On September 1, 2001, Unipac Optoelectronics Corp. (Unipac) was merged with and into AUO in a transaction accounted for in accordance with the pooling-of-interests method of accounting. Unipac was principally engaged in the research, development, manufacture and sale of TFT-LCD and LCD modules.

On October 1, 2006, Quanta Display Inc. (QDI) was merged with and into AUO in a transaction accounted for in accordance with the purchase method of accounting. QDI was principally engaged in the research, development, manufacture and sale of TFT-LCD and LCD modules.

The consolidated entities were as follows:

Name of Investor	Subsidiary	Main Activities	Percentage of Ownership(%)	
			December 31, 2010	December 31, 2011
AUO	AU Optronics (L) Corp. (AULB)	Holding and trading company	100.00	100.00
AUO	Konly Venture Corp. (Konly)	Venture capital investment	100.00	100.00
AUO	Ronly Venture Corp. (Ronly)	Venture capital investment	100.00	100.00
AUO	Toppan CFI (Taiwan) Co., Ltd. (Toppan CFI)	Manufacturing and sale of color filters	49.00	49.00
AUO, Konly and Ronly	BriView Corp. (BVTW) (Formerly Darwin Precisions Corp.)	Manufacturing and sale of backlight modules.	61.35	68.86
AUO	BriView Electronics Corp. (Formerly BVTW)	Manufacturing and sale of liquid crystal products and related parts	98.52	
AUO and Konly	AUO Crystal Corp. (ACTW)	Design and installation of solar modules	87.09	86.40
Konly	Darshin Microelectronics Inc. (DSTW)	IC design and sales	66.67	66.67
ACTW	AUO Crystal (Malaysia) Sdn. Bhd. (ACMK)	Manufacturing and sale of single crystal silicon wafers	100.00	100.00
ACTW and AULB	M. Setek Co., Ltd. (M. Setek)	Manufacturing of single crystal silicon wafers and ingots and sales of solar modules	95.01	93.49
AULB		Sales support in the United States	100.00	100.00

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	AU Optronics Corporation America (AUUS)			
AULB	AU Optronics Corporation Japan (AUJP)	Sales and sales support in Japan	100.00	100.00
AULB	AU Optronics Europe B.V. (AUNL)	Sales support in Europe	100.00	100.00
AULB	AU Optronics Korea Ltd. (AUKR)	Sales support in South Korea	100.00	100.00
AULB	AU Optronics Singapore Pte. Ltd. (AUSG)	Holding and sales support in South Asia	100.00	100.00

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Name of Investor	Subsidiary	Main Activities	Percentage of Ownership(%)	
			December 31, 2010	December 31, 2011
AULB	AU Optronics (Czech) s.r.o. (AUCZ)	Manufacturing and repair center in Czech Republic and assembly of TFT-LCD modules and solar PV modules	100.00	100.00
AULB	AU Optronics (Shanghai) Co., Ltd. (AUSH)	Sales support in the PRC	100.00	100.00
AULB	AU Optronics (Xiamen) Corp. (AUXM)	Assembly of TFT-LCD modules in the PRC	100.00	100.00
AULB	AU Optronics (Suzhou) Corp., Ltd. (AUSZ)	Assembly of TFT-LCD modules in the PRC	100.00	100.00
AULB	AU Optronics Manufacturing (Shanghai) Corp. (AUSJ)	Assembly of TFT-LCD modules in the PRC	100.00	100.00
AULB	AU Optronics (Slovakia) s.r.o. (AUSK)	Assembly of Optoelectronics LCD products in Slovakia and manufacturing and sale of related parts	100.00	100.00
AULB	AFPD Pte., Ltd. (AUST)	Manufacturing LCD panels based on low temperature polysilicon technology	100.00	100.00
BVTW	Darwin Precisions (L) Corp. (DPLB)	Holding and trading company	100.00	100.00
AULB and BVTW	BriView (L) Corp. (BVLB)	Holding and trading company	100.00	100.00
AULB	BVCH Optronics (Sichuan) Corp. (BVCH)	Assembly and sale of TFT-LCD modules in the PRC	51.00	51.00
AULB	Huizhou Bri-King Optronics Co., Ltd. (BKHZ)	Assembly and sale of TFT-LCD modules in the PRC	51.00	51.00
AULB	AU Optronics (Kunshan) Co., Ltd. (AUKS)	Manufacturing, assembly and sale of TFT-LCD panels in the PRC		49.00
DPLB	Darwin Precisions (Hong Kong) Limited (DPHK)	Holding company	100.00	100.00
DPHK	Darwin Precisions (Suzhou) Corp. (DPSZ)	Manufacturing, assembly and sale of backlight modules and related components in the PRC	100.00	100.00
DPHK	Darwin Precisions (Xiamen) Corp. (DPXM)	Manufacturing, assembly and sale of backlight modules and related components in the PRC	100.00	100.00
DPHK	Darwin Precisions (Chengdu) Corp. (DPCD)	Manufacturing, assembly and sale of backlight modules and related components in the PRC	100.00	100.00
DPHK	Darwin Precisions (Qingdao) Corp. (DPQD)	Manufacturing, assembly and sale of backlight modules and related components in the PRC	100.00	100.00

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Name of Investor	Subsidiary	Main Activities	Percentage of Ownership(%)	
			December 31, 2010	December 31, 2011
DPHK	Darwin Precisions (Dongguan) Corp. (DPDG)	Manufacturing, assembly and sale of backlight modules and related components in the PRC	100.00	100.00
BVLB	BriView (Kunshan) Co., Ltd. (BVKS)	Manufacturing and sale of liquid crystal products and related parts	100.00	100.00
BVLB	BriView (Hefei) Co., Ltd. (BVHF)	Manufacturing and sale of liquid crystal products and related parts	100.00	100.00
BVLB	BriView (Xiamen) Corp. (BVXM)	Manufacturing and sale of liquid crystal products and related parts	100.00	100.00
AUSG	AUO Energy (Suzhou) Corp. (AESZ)	Design and installation of solar modules	100.00	100.00
AUSG	AUO Energy (Tianjin) Corp. (AETJ)	Design and installation of solar modules	100.00	100.00
AUSG	AUO Green Energy America Corp. (AEUS)	Holding and sales support in America	100.00	100.00
AUSG	AUO Green Energy Europe B.V. (AENL)	Holding and sales support in Europe	100.00	100.00
AENL	AUO Green Energy Germany GmbH (AEDE)	Sales support in Europe		100.00

AULB is a holding company investing in foreign subsidiaries, AUUS, AUSZ, AUNL, AUKR, AUJP, AUSH, AUXM, AUSG, AUCZ, AUSK, AUSJ, AUST, BVLB, BVCH, BKHZ, and AUKS. AUSZ, AUXM and AUSJ are engaged in the assembly of TFT-LCD module products in Mainland China. AUUS, AUJP, AUNL, AUKR and AUSG are mainly engaged in the after-sale service of TFT-LCDs in the United States, Japan, Europe, Korea and Singapore, respectively. AUSH is engaged in the sale of TFT-LCD module products in Mainland China. AUKS is mainly engaged in manufacture and assembly of next generation TFT-LCDs in Mainland China. AUCZ is engaged in the repair of TFT-LCD related products, the assembly of TFT-LCD module products and the assembly of solar photovoltaic (PV) modules in Czech Republic. AUSK is mainly engaged in the assembly of optoelectronics LCD products and the manufacture and sale of related parts in Slovak Republic. AUST is mainly engaged in the manufacture of LCD panels based on low temperature polysilicon (LTPS) technology.

On September 1, 2011, BriView Electronics Corporation (Formerly BVTW) was merged with and into Darwin Precisions Corp. (DPTW), with DPTW as the surviving entity. DPTW then renamed to BriView Corporation (BVTW). BVTW is mainly engaged in the manufacture and sale of backlight modules and sale of optoelectronics LCD products in the Republic of China. DPLB is a holding company investing in the wholly owned foreign subsidiary, DPHK. DPSZ, DPXM, DPCD, DPDG and DPQD are wholly owned subsidiaries of DPHK and are engaged in the manufacture and assembly of backlight modules in Mainland China.

BVLB is a holding and trading company. BVXM, BVCH, BKHZ, BVKS and BVHF are mainly engaged in the manufacture and sale of optoelectronics LCD products and related parts in Mainland China.

DSTW is mainly engaged in the manufacture and sale of Driver IC. ACTW, AESZ and AETJ are mainly engaged in the design and installation of the solar related systems and modules.

M. Setek is mainly engaged in the production of polysilicon, manufacture of single crystal silicon wafers and ingots and sale of solar modules in Japan.

Konly and Ronly are investment holding companies for investments in other technology companies.

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AENL and AEUS are holding companies for investments in solar business and providing after-sale service in Europe and the United States. AEDE is mainly engaged in the sales support of solar photovoltaic (PV) modules in Germany. ACMK is mainly engaged in the manufacture and sale of solar wafers.

Toppan CFI is a 49%-owned company of AUO, which is mainly engaged in the manufacture and sale of color filters. AUO is able to exercise control over the operating, financial and personnel policies of Toppan CFI. As a result, Toppan CFI is included in the AUO's consolidated financial statements.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In October 2011, AULB joint ventured with Kunshan Economic and Technical Development Zone Assets Operation Co., Ltd. to invest AUKS, with AULB owning 49% of the shareholding. AUO is able to exercise control over the operating, financial and personnel policies of AUKS. As a result, AUKS is included in the AUO's consolidated financial statements.

In October 2011, AULB transferred all of its ownership interests in common and preferred shares of M. Setek to ACTW due to group restructuring. After the group restructuring, ACTW's ownership interests in M. Setek increased to 93.49%.

In October 2011, due to business structure reorganization, AESZ decided to commence liquidation pursuant to the resolution of board of directors. The liquidation procedure is still in progress as of December 31, 2011.

In November 2010, BVTW's ownership interests in DPLB increased from 75.88% to 100% when AULB transferred 24.12% ownership interests in common shares of DPLB to BVTW due to group restructuring.

In July 2010, AULB joint ventured with TCL King Electrical Appliance (Huizhou) Co., Ltd. (TCL Huizhou) to establish BKHZ, in which AULB held 51% ownership interests. In March, June and August 2010, DPHK established wholly owned subsidiaries, DPCD, DPQD and DPDG, respectively.

In March, May, September and October 2010, AUSG established wholly owned subsidiaries, AESZ, AETJ, AENL and AEUS, respectively. In October 2011, AENL established a wholly owned subsidiary, AEDE. In April 2010, BVLB established wholly owned subsidiaries, BVHF and BVKS. In November 2010, ACTW established a wholly owned subsidiary, ACMK.

In July 2010, due to business structure reorganization, the holding companies of BVXM and BVCH changed from AULB and BVLB to BVLB and AULB, respectively.

On July 1, 2010, AULB acquired 100% ownership interests of AUST that was formerly a subsidiary of Toshiba Mobile Display Co., Ltd. in Singapore. Effective from July 1, 2010, the operating result of AUST is included in AUO's consolidated financial statements.

On March 31, 2010, M. Setek re-elected its board of directors and Ichijo's chairman was not elected. M. Setek, therefore, lost the power to control Ichijo's financial, operating and personnel policies. Consequently, Ichijo was not included into the consolidated financial statements of AUO and the investment was accounted for under the equity method as of that date.

As a result of disproportionate participation in Lextar Electronics Corp.'s (Lextar) capital increase and partial disposal of investment in April 2010, the ownership interest of AUO together with the ownership interest of its investment holding companies in Lextar decreased to 46.29%. On June 30, 2010, Lextar re-elected its board of directors so that AUO lost the power to control Lextar's financial, operating and personnel policies. Therefore, Lextar was not included into the consolidated financial statements of AUO and the investment was accounted for under the equity method as of that date.

As of December 31, 2010 and 2011, AUO and its consolidated subsidiaries had 57,396 and 60,011 employees, respectively.

2. Pro Forma Information

In June 2009, AUO made an equity investment in M. Setek through AULB and included M. Setek into AUO's consolidated financial statements from September 1, 2009. The operating result of M. Setek was included in AUO's consolidated financial statements from that date. Additionally, on July 1, 2010, AUO acquired AUST through AULB. The operating result of AUST was included in AUO's consolidated financial statements from July 1, 2010. The following unaudited pro forma financial information summarizes the combined results of operations as if the business combination with M. Setek and AUST had taken place on January 1, 2009 and January 1, 2010, respectively. This unaudited pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations had the acquisition been effected on January 1, 2009 or January 1, 2010.

	For the year ended	
	December 31,	
	2009	2010
	NT\$	NT\$
	(in thousands, except for per share data)	
Net sales	366,661,919	471,612,696
Consolidated net income (loss) attributable to equity holders of the parent company	(29,068,924)	6,064,144
Earnings (loss) per share basic	(3.31)	0.69
Earnings (loss) per share diluted	(3.31)	0.67

On October 14, 2011, AUO acquired AUKS through AULB. AUKS was still in the development period, therefore, there is no significant impact on results of operations as if the acquisition of AUKS had taken place on January 1, 2011.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Summary of Significant Accounting Policies

(a) Basis of preparation, basis of presentation and consolidation policy

The consolidated financial statements include the accounts of AUO and the aforementioned subsidiaries, hereinafter referred to individually or collectively as the Company. The consolidated financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC GAAP). These consolidated financial statements are not intended to present the financial position and the related results of operations and cash flows of the Company based on accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of China. ROC GAAP vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in note 27 to the consolidated financial statements.

The Company includes in its consolidated financial statements the results of operations of all entities in which it has control over the financial and operating policies, irrespective of whether or not it has a majority shareholding in such entities. All significant inter-company balances and transactions are eliminated in the consolidated financial statements.

(b) Use of estimates

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for sales returns and discounts; realization of deferred tax assets; recovery of the carrying amounts of goodwill, fixed assets, inventory, valuation of investments, and accruals for income tax and litigation uncertainties and other contingencies.

(c) Foreign currency transactions and translation

The Company's reporting currency is New Taiwan dollar. AUO and its subsidiaries record transactions in their respective functional currency. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into functional currencies using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of operations. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into reporting currency at the foreign exchange rates at the date the fair value was determined. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains or losses from such translation are reflected in the accompanying statements of operations. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange gains or losses from such translation are recorded as a separate component of stockholders' equity.

For long-term equity investments in foreign investees which are accounted for by the equity method, their foreign currency financial statements are translated into the Company's reporting currency. Assets and liabilities of foreign operations are translated using the exchange rates on the balance sheet date. Except that the beginning balance of retained earnings is carried from the prior period, other accounts under the stockholders' equity are translated at historical exchange rates. Dividends are translated at exchange rates on the declaration date. Revenue and expense accounts are translated using average rates during the period. Translation adjustments resulting from the translation of foreign currency financial statements into the Company's reporting currency are accounted for as cumulative translation adjustment, a separate component of stockholders' equity.

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(d) Classification of current and noncurrent assets and liabilities

Cash or cash equivalents, trading securities, and assets that are expected to be realized into cash within twelve months are classified as current assets; assets that are not current are classified as non-current assets. For liabilities arising from trading or being expected to be liquidated within twelve months are classified as current liabilities; liabilities that are not current are classified as non-current liabilities.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(e) Asset impairment

Management reviews the Company's assets (an individual asset or cash-generating unit (CGU) associated with the asset, other than goodwill) for impairment at each balance sheet date. If there is any indication of impairment, management estimates the recoverable amount of the asset. Any excess of the carrying amount of the asset over its recoverable amount is recognized as an impairment loss. If there is evidence that the accumulated impairment losses of an asset other than goodwill in prior years no longer exist or have decreased, the amount previously recognized as impairment loss is reversed and the carrying amount of the asset is increased to the recoverable amount. The increase in the carrying amount shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years.

The CGU to which goodwill is allocated for purposes of impairment testing is reviewed for impairment annually. If the recoverable amount of the CGU is lower than the carrying amount of the CGU, an impairment loss is recognized.

The estimate of the recoverable amount of long-lived assets and intangible assets is measured as the higher of (a) net selling price (if determinable) and (b) value in use. Net selling price refers to the amount obtainable from the sale of an asset in an arm's-length transaction after deducting any direct incremental disposal costs. The value in use refers to the present value of estimated future cash flows expected to result from the asset's remaining useful life.

In performing an impairment test, the recoverable amount of goodwill is evaluated in terms of the recorded amount of the cash-generating unit under ROC GAAP to which the goodwill has been allocated to. Under ROC GAAP, recoverable amount is defined as the higher of (a) a cash-generating unit's fair value less costs to sell (if determinable), or (b) its value in use, which is defined as the present value of the expected future cash flows generated by the assets.

(f) Cash equivalents and restricted cash in bank

The Company considers all highly liquid investments, such as reverse repurchase agreements (RRP) with reputable securities firms or banks in Taiwan covering government and quasi-government bonds for short-term liquidity-management purposes, to be cash equivalents.

The assets which the Company obtains control of under the RRP agreement represent securities that serve as collateral for the Company's cash purchase until the Company resells the securities for a specified price. The sell-back dates of these securities are typically within a period of less than one month from the purchase date. The difference between the cost and the resale price of these RRP arrangements is recorded as interest income between the purchase date and the resale date, and no capital gains or losses are recognized.

Time deposits which are provided as collateral are classified as restricted cash in bank presented under current assets or noncurrent assets depending on the term of the obligation secured by such collateral.

(g) Financial instruments

The Company uses transaction-date accounting for financial instrument transactions. At initial recognition, financial instruments are evaluated at fair value. Except for financial assets and liabilities measured at fair value through profit or loss, acquisition cost or issuance cost is added to the originally recognized amount.

Financial instruments are classified into the following categories in accordance with the purpose of holding or issuing of such financial instruments:

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- (1) Financial assets and liabilities measured at fair value through profit or loss: Financial instruments are classified into this category if the purpose of acquisition is principally for selling or repurchasing in the near term. Except for effective hedging derivative financial instruments, all financial derivatives are included in this category. Changes in fair values are charged to current operations.

- (2) Available-for-sale financial assets: These are measured at fair value, and any changes, excluding impairment loss and unrealized foreign currency exchange gain or loss, are reported as a separate component of stockholders' equity until realized. Realized gain or loss on financial instruments is charged to current operations. If there is objective evidence of impairment, an impairment loss is recognized in profit or loss. If, in a subsequent period, events or changes in circumstances indicate that the amount of impairment loss decreases, the previously recognized impairment loss for equity securities is reversed to the extent of the decrease and recorded as an adjustment to equity, while for debt securities, the reversal is allowed through profit or loss provided that the decrease is clearly attributable to an event which occurs after the impairment loss is recognized. Cash dividends are recognized as investment income upon resolution of shareholders of an investee but are accounted for as a reduction to the original cost of investment if such dividends are declared prior to the purchase of the investment. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (3) Financial assets carried at cost: Financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at their original cost, which is determined by using an analysis of various factors. These factors include the private company's current operating and future expected performance (based on evaluation of the latest available financial statements), as well as changes in the industry and market prospects (based on publicly available information). If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is prohibited. The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same that for cash and stock dividends arising from available-for-sale financial assets.
- (4) Hedging-purpose derivative financial instruments: These are derivative instruments entered into to hedge exposure to interest rate risks and effective as hedges.

(h) Derivative financial instruments and hedging activities

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with the Company's treasury policy, the Company holds or issues derivative financial instruments for hedging purposes. When a derivative financial instrument is no longer effective as a hedge, the Company discontinues hedge accounting prospectively and accounts for it as a financial asset (liability) measured at fair value through profit or loss.

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair value of the hedging instrument and the hedged item. If the hedging relationship of a cash flow hedge meets the criteria for hedge accounting, it is accounted for as follows:

Changes in the fair value of the hedging instrument designated as a cash flow hedge are recognized directly in equity. If a hedge of a forecasted transaction subsequently results in the recognition of an asset or a liability, then the amount recognized in equity is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For hedges other than those covered by the preceding statements, the associated cumulative gain or loss is removed from equity and recognized in profit or loss in the same period or periods during which the hedged forecasted transaction affects profit or loss.

(i) Accounts receivable and allowance for doubtful accounts

The allowance for doubtful accounts is based on the age, credit quality, and results of management's evaluation of collectability of the outstanding balance of accounts receivable.

As further described in Note 3(zb), commencing January 1, 2011, management reviews accounts receivable for impairment in accordance with the third revision of ROC SFAS No. 34 Financial Instruments: Recognition and Measurement .

Impairment loss is charged to current operations and the allowance for doubtful accounts. If, in a subsequent period, the amount of the impairment loss decreases (e.g. repayment of debts), the previously recognized impairment loss is reversed to current operations.

(j) Inventories

The cost of inventories includes all necessary expenditure and charges for bringing the inventory to the stable and useable condition and location. Inventories are recorded at cost, and cost is determined using the weighted-average method. The fixed production overhead is allocated based on the capacity of the production facilities. The variable production overhead is allocated based on the actual production. At each period-end, inventories are measured at the lower of cost or net realizable value. Net realizable value for raw materials and spare parts is based on replacement cost. Net realizable value for finished goods and work in process is calculated based on the estimated selling price less all

estimated costs of completion and necessary selling costs.

(k) Equity-method investments

When the Company holds 20% or more of the investee's voting shares, unless it is evident that the Company does not have significant influence over the investee; or the Company holds less than 20% of the investee's voting shares but has significant influence over the investee, the Company's equity investment therein is accounted for using the equity method. In addition, instead of proportionate consolidation method, the equity method is used to account for the Company's interest in the jointly controlled entities.

When the investee company's financial statements are needed for the equity method and its financial statement date is different from that of an investor company, the effects of significant transactions or events that had occurred between different financial statement dates of the investee and the investor companies should be adjusted accordingly. Under the case of different financial statement dates of the investee and investor companies, the difference should not exceed three months.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Effective January 1, 2006, under the amended ROC SFAS No. 5, Long-term Investments under Equity Method, and ROC SFAS No. 25, Business Combinations, the difference between acquisition cost and carrying amount of net equity of the investee as of the acquisition date is allocated based upon the pro rata excess of fair value over the carrying value of noncurrent assets on the investee's books. Allocated amounts are amortized based on the method used for the related assets. Any unallocated difference is treated as investor-level goodwill. If the allocation reduces noncurrent assets to zero value, the remaining excess over acquisition cost is recognized as an extraordinary gain.

Investor-level goodwill is not amortized but tested for impairment.

Stock dividends received from investees as a result of appropriation of net earnings and additional paid-in capital are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the weighted-average method. Cash dividends are accounted for as a reduction to the original cost of investment.

Upon the sale of equity-method investment, the difference between the selling price and carrying amount of the investment at the date of sale is recognized as an investment gain or loss. In proportion to the percentage disposed of, capital surplus and other equity adjustment items from the long-term investment resulting from the Company's proportionate share in the net equity of the investee are recognized in profit or loss.

If an investee company issues new shares and the Company does not acquire new shares in proportion to its original ownership percentage, the Company's equity in the investee's net assets will be changed. The capital surplus and long-term investment accounts are adjusted for the change in equity interest. If the Company's capital surplus is insufficient to offset the adjustment to long-term investment, the difference is charged as a reduction to retained earnings.

If the Company and its investees accounted for under the equity method have mutual holdings, investment gain or loss is calculated by the treasury stock method.

Unrealized inter-company profits or losses resulting from transactions between the Company and an investee accounted for under the equity method are deferred to the extent of the Company's ownership. Profits or losses resulting from depreciable or amortizable assets are recognized over the estimated economic lives of such assets. Profits or losses from other assets are recognized when realized.

The Company accounts for investments by the equity method and consolidates accounts of investees quarterly when the Company has a controlling interest in investees.

For long-term investment in a limited partnership, the distribution of profits is based on the percentage of capital contributed by each partner. The Company adjusts the carrying amount of its investment at each fiscal year-end to recognize its share of the profit or loss. Distributed earnings and any return of capital in a limited partnership are recorded as a reduction of the carrying amount of the long-term investment.

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 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 Company's share of the difference resulting from translation of the financial statements of a foreign investee accounted for under the equity method into New Taiwan dollars, net of the related tax effect, are recorded as cumulative translation adjustments in stockholders' equity.

(l) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost. Significant renewals and improvements are treated as capital expenditures and are depreciated accordingly. Interest costs related to the construction of property, plant and equipment are capitalized and included in the cost of the related asset. Maintenance and repairs are charged to expense as incurred.

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Excluding land, depreciation of property, plant and equipment is provided over the estimated useful lives of the respective assets using the straight-line method less any salvage value. The range of prescribed or estimated useful lives is as follows: buildings-20 to 50 years, machinery and equipment-3 to 10 years, leasehold improvement-the shorter of 5 years or the lease term, and other equipment-3 to 5 years. Depreciation assets still used in operation after they have reached their original estimated useful lives are further depreciated over their newly estimated useful lives. Disposal gain or loss is recorded as non-operating gain or loss in the current period.

Property, plant and equipment not used in operations are classified as idle assets and are stated at the lower of carrying amount or net realizable value.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(m) Leased assets

Leased assets are recorded at the lower of fair value of the asset at the reception of the lease, or present value of all required payment (excluding executive costs paid by the lesser) and bargain purchase option or guaranteed residual value. Leased assets are depreciated over estimated useful life by using straight-line method.

(n) Deferred charges

Deferred charges consist of the costs of software systems, electrical facility installation charges, expense associated with syndicated loans, bond issuance costs, and land use rights. The costs of software systems, electrical facility installation charges, and expense associated with syndicated loans are amortized over the estimated useful lives of three to seven years on a straight-line basis. Bond issuance costs are amortized using the straight-line method over the period from the issuance date to the maturity date (five years). The amortization of issuance costs associated with loans and bonds under the straight-line method is not materially different from the amount determined using the effective interest method. In the case of early redemption of bonds, the unamortized bond issuance cost is charged to current operations. The cost of land use rights is amortized using the straight-line method over the lease term of 50 years.

(o) Goodwill and other intangible assets

In accordance with ROC SFAS No. 37, other than intangible assets acquired by way of government grant, which are measured at the fair value, intangible assets are initially measured at cost. Subsequent to initial recognition, intangible assets are measured at cost less any subsequent accumulated amortization and accumulated impairment losses. The depreciable amount of an intangible asset is the cost less its residual value. An intangible asset with a finite useful life is amortized over the estimated useful life using the straight-line method from the date that the asset is made available for use. The residual value, the amortization period, and the amortization method are reviewed at least annually at each fiscal year-end, and any changes thereof are accounted for as changes in accounting estimates.

Expenditure on research, other than goodwill and intangible assets acquired in a business combination, is charged to expense as incurred. Expenditure arising from development is capitalized as an intangible asset when the Company demonstrates all of the following: (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (2) its intention to complete the intangible asset and use or sell it; (3) its ability to use or sell the intangible asset; (4) the probability that the intangible asset will generate future economic benefits; (5) the availability of adequate technical, financial and other resources to complete the development project; and (6) its ability to measure reliably the expenditure attributable to the intangible asset during its development. Other development expenditure is charged to expense as incurred.

Goodwill is recognized when the purchase price exceeds the fair value of identifiable net assets acquired in a business combination. Goodwill is not amortized but is tested for impairment in accordance with ROC SFAS No. 35, Impairment of Assets, at least annually or more frequently if events or circumstances indicate it might be impaired.

Technology-related fees, including purchased patents and licenses pursuant to patent licensing agreements, and core technologies acquired in connection with the merger, are amortized using the straight-line method over their estimated useful lives ranging from three to twenty years.

(p) Convertible bonds

Convertible bonds assumed from business combination with QDI on October 1, 2006 which were issued before December 31, 2005 were recorded at fair value at the date of acquisition. The difference between the recorded amount and the par value of convertible bonds is amortized and charged to current operations as interest expense using the interest method over the respective remaining redemption periods. Where a premium is payable on a puttable convertible bonds, the excess of the redemption price over the par value is expensed as interest payable over the redemption period.

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When bondholders exercise the right to convert bonds into common stock, the number of shares to be issued is calculated based on the principal amount of the bond and conversion price applicable at the date of conversion. The par value of the shares is credited to common stock. The difference between the carrying value of the bonds and the par value of common stock, unamortized premium or discount upon the conversion of the bonds, and related issuance cost are recorded as capital surplus.

Convertible bonds issued on or after January 1, 2006, comprise convertible notes that can be converted into share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a convertible bond is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the convertible bond as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a convertible bond is measured at amortized cost using the effective interest method, unless it is designated at fair value through profit or loss. The equity component of a convertible bond is not remeasured subsequent to initial recognition. When bonds are converted into common stock, shares to be issued are recorded based on the book value of liability and equity components of convertible bonds.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(q) Retirement plans

Pursuant to government regulations and the ROC Labor Standards Law (the old system), AUO and its subsidiaries located in the Republic of China establish employee noncontributory and defined benefit retirement plans covering full-time employees in the Republic of China. Under the defined benefit plans, employees are eligible for retirement, or are required to retire, after fulfilling certain age or service requirements. Payments of retirement benefits are based on years of service and the average salary for the six-month period before the employee's retirement. Each employee earns two months of salary for the first fifteen years of service, and one month of salary for each year of service thereafter. The maximum retirement benefit is 45 months of salary. The defined benefit plans are funded by contributions made by the Company, plus earnings thereon. On a monthly basis, AUO and Toppan CFI contribute two percent of wages and salaries to a pension fund maintained with Bank of Taiwan. Retirement benefits are paid to eligible participants on a lump-sum basis upon retirement. For the defined benefit plans, the Company adopted ROC SFAS No. 18, Accounting for Pensions, which requires the Company to perform an actuarial calculation on its pension obligation as of each fiscal year-end. Based on the actuarial calculation, the Company recognizes a minimum pension liability and net periodic pension costs covering the service lives of participants. A deferred pension cost is recognized and classified under intangible assets when the additional minimum liability does not exceed the sum of unrecognized net transition obligation. The excess, which represents a net loss not yet recognized as net periodic pension cost, is reported as a reduction of equity. The unrecognized net transition obligation, and unrecognized pension gain or loss, are amortized on a straight-line basis.

Commencing July 1, 2005, pursuant to the ROC Labor Pension Act (hereinafter referred to as the new system), employees who elected to participate in the new system or joined the Company after July 1, 2005, are subject to a defined contribution plan under the new system. Under the defined contribution plan, the Company contributes monthly at a rate of no less than six percent of an employee's monthly salary or wages to the employee's individual pension fund account at the ROC Bureau of Labor Insurance. Cash contributions are charged to current operations as pension cost.

M. Setek established its retirement plans covering all full-time employees in 2005. In accordance with the plans, the pension benefits paid out to the employees are based on years of service, the current rate of pay and compensation. The relative rate of pay has been regulated in the retirement plans. For these defined benefit plans, M. Setek performs actuarial calculation on its accumulated benefit obligation at each fiscal year-end. The excess of accumulated benefit obligation over the fair value of the plan assets is recognized as minimum pension liability on the balance sheet. A net pension cost comprising service cost, transition assets, and amortization of prior service cost is also recognized. The pension fund is maintained with Asahi Mutual Life Insurance.

The Company's overseas subsidiaries have set up their retirement plans, if necessary, based on their respective local government regulations.

(r) Employee bonuses and remuneration to directors

Employee bonuses and remuneration to directors are estimated and charged to expense in accordance with Accounting Research and Development Foundation (ARDF) Interpretation No. 2007-052, and included in the cost of goods sold and operating expense, as appropriate. The difference, if any, between the amount approved by stockholders in the subsequent year and the amount estimated in the current-year financial statements is accounted for as a change in accounting estimate, and charged to profit or loss in the period during which stockholders approval is obtained.

(s) Share-based payment transactions

The Company adopted ROC SFAS No. 39, Share-based Payment, for share-based payment arrangements with grant date on or after January 1, 2008.

An equity-settled share-based payment transaction is measured based on the fair value of the award at the grant date, and recognized as expenses over the vesting period with a corresponding increase in equity. The vesting period is estimated based on the vesting conditions under the share-based payment arrangement. Vesting conditions include service conditions and performance conditions (including market conditions). In estimating the fair value of an equity-settled share-based award, only the effect of market conditions is taken into consideration. A cash-settled

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share-based payment transaction is measured at the balance sheet date and settlement date based on the fair value of the award as of those dates and is recorded as a liability incurred for the goods and services received. Changes in fair values are charged to current operations. The fair value of share-based award is estimated using the Black-Scholes option-pricing model, taking into account the exercise price, current market price of the underlying shares and management's best estimate of the expected term, expected volatility, expected dividends, and risk-free interest rate.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(t) Revenue recognition and allowance for sales return and discounts

Revenue is recognized when the Company has transferred to customers the significant risks and rewards of ownership of the products. Allowance and related provisions for sales returns and discounts are estimated based on historical experience. Such provisions are deducted from sales in the year when the products are sold.

The Company provides a limited product quality warranty to its products against certain defects. Such product warranties range from 1 to 3 years. Estimated future warranty costs are accrued at the time that the related revenue is recognized. These estimates are derived from historical data, trends of product reliability and costs of repairing and replacing defective products.

(u) Government grants

Income from government grants for research and development is recognized as non-operating income when qualifying expenditures are made and income is realizable.

(v) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are determined based on differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

When a change in the tax laws is enacted, the deferred tax assets or liabilities (including items that are directly debited or credited to stockholders' equity) are recalculated accordingly in the period of change. The effect of changes in the deferred tax assets or liability is reported as an adjustment to current income tax benefit or expense.

If a valuation allowance is recognized at the acquisition date for deferred tax assets acquired through business combination accounted for using the purchase method of accounting, the income tax benefit recognized as a result of the elimination of valuation allowance subsequent to the acquisition is to be applied first to reduce goodwill related to the acquisition. The remaining tax benefit, if any, is applied to reduce income tax expense attributable to continuing operations.

Classification of the deferred income tax assets or liabilities as current or noncurrent is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.

According to the ROC Income Tax Act, undistributed income, if any, earned after December 31, 1997, is subject to an additional 10 percent retained earnings tax. The surtax is charged to income tax expense after the appropriation of earnings is approved by the stockholders in the following year.

Income taxes of the Company are calculated based on tax laws of the various countries and jurisdictions where the respective subsidiary companies were incorporated. Income tax returns are filed by each entity separately and not on a combined basis. Income tax expense of the Company is the sum of income tax expenses of AUO and consolidated subsidiary companies.

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(w) Investment tax credits

Investment tax credits arising from the purchase of equipment and machinery, research and development expenditures, and employee training expenditures are recognized using the flow-through method.

(x) Earnings (loss) per common share ((L) EPS)

Basic (L) EPS are computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the year. The Company's convertible bonds, employee stock options, and employee stock bonuses to be issued after January 1, 2009 are potential common share. In computing diluted EPS, net income and the weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common stock, assuming dilutive shares 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, and employee stock bonuses issued prior to January 1, 2009. Effective January 1, 2009, EPS are not retroactively adjusted for employee stock bonuses.

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(y) Operating segments**

Effective January 1, 2011, the Company adopted ROC SFAS No. 41 Operating Segments which superseded ROC SFAS No. 20 Segment Reporting. An operating segment under ROC SFAS No. 41 is a component of an entity that: 1) engages in business activities from which it may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), 2) the segment's operating results are reviewed regularly by the entity's chief operating decision maker (CODM) to make decisions pertaining to the allocation of the resources to the segment and to assess its performance, and 3) for which discrete financial information is available. The initial adoption of ROC SFAS No. 41 had no impact on how management determined the Company's operating segments. Segment profit and loss is determined on a basis that is consistent with how the Company reports operating income (loss) on an ROC GAAP basis in its consolidated statements of operations. Operating income (loss) excludes income taxes, interest income and expense, foreign currency transactions gains and losses, equity in the earnings (losses) of affiliates, depreciation of idle assets, asset impairment losses, provisions for potential litigation losses, gains and losses on valuations of financial instruments and sales of investment securities, gains from bond redemption, and other income and expenses. The accounting policies for the operating segments are the same as those described in Note 3. The CODM reviews the consolidated total assets information but does not receive asset information by operating segment. Consequently, no operating segment asset information is disclosed. Geographic net sales information is based upon the location of customers placing orders. The additional disclosures required by ROC SFAS No. 41 for all years presented are included in Note 25.

(z) Convenience translation into U.S. dollars

The consolidated financial statements are stated in New Taiwan dollars. Translation of the 2011 New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the reader using the noon buying rate of the Federal Reserve Bank in New York on December 30, 2011, of NT\$30.27 to US\$1. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

(za) Reclassifications

Certain reclassifications have been made to prior years' financial statements to conform to the current year's presentation.

(zb) Accounting change

Effective January 1, 2011, the Company adopted the third revision of ROC SFAS No. 34 Financial Instruments: Recognition and Measurement to evaluate impairment of accounts receivable. Impairment loss is charged to current operations and the allowance for doubtful accounts. The impact on net loss and basic (L) EPS for the year ended December 31, 2011, resulting from the adoption of ROC SFAS No. 34 was immaterial.

4. Cash and Cash Equivalents

	2010 NT\$	December 31, 2011 NT\$ (in thousands)	US\$
Cash and bank deposits	70,686,923	74,592,942	2,464,253
Government bonds with reverse purchase agreements	18,811,568	16,243,726	536,628
	89,498,491	90,836,668	3,000,881

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The Company entered into reverse repurchase agreements (RRP) with reputable securities firms or banks in Taiwan covering government and quasi-government bonds with sell-back dates typically within a period of less than three months from the purchase date. These bonds yielded interest at rates ranging from 0.25% to 0.32% and 0.46% to 0.70% in 2010 and 2011, respectively.

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****5. Available-for-sale Financial Assets noncurrent**

	2010 NT\$	December 31, 2011 NT\$ (in thousands)	US\$
Publicly listed equity shares	1,373,687	436,774	14,429

Gains (losses) on valuation of available-for-sale financial assets resulting from the change in fair value, based on publicly quoted market prices, were NT\$1,637,485 thousand, NT\$(746,732) thousand and NT\$(750,826) (US\$24,804) thousand for the years ended December 31, 2009, 2010 and 2011, respectively, and were accounted for as a separate component of stockholders' equity.

Certain available-for-sale financial assets-noncurrent were pledged as collateral; see note 23.

6. Financial Assets Carried at Cost noncurrent

	2010 NT\$	December 31, 2011 NT\$ (in thousands)	US\$
Non-publicly listed stocks	896,294	1,487,795	49,151

7. Derivative Financial Instruments and Hedging Policy

(a) Derivative financial instruments

	2010 NT\$	December 31, 2011 NT\$ (in thousands)	US\$
Financial assets measured at fair value current:			
Foreign currency forward contracts	425,443	85,621	2,829
Options contracts	1,822		
	427,265	85,621	2,829

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Financial assets measured at fair value noncurrent:			
Interest rate swap contracts		3	
Options contracts		172	6
		175	6
Financial liabilities measured at fair value current:			
Options contracts	180,020		
Foreign currency forward contracts	88,779	17,523	579
Interest rate swap contracts	28		
	268,827	17,523	579
Financial liabilities measured at fair value noncurrent:			
Interest rate swap contracts	74,155	41	1
Options contracts		176,185	5,821
Foreign currency forward contracts	13,676		
	87,831	176,226	5,822
Hedging derivative financial liabilities noncurrent:			
Interest rate swap contracts	287,706	198,360	5,822

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As of December 31, 2010 and 2011, outstanding options contracts were as follows:

Contract item	December 31, 2010		Exercise rate/ Price range	Exercise period	
	Notional amount (in thousands)				
Interest rate options	JPY 1,800,000		1.00%	Jan. 2011	Sep. 2011
Foreign currency call options	USD 9,050		JPY 95.53 / 109.75	May 2011	Nov. 2013
Foreign currency put options	USD 18,100		JPY 95.53 / 109.75	Jan. 2011	Nov. 2013

Contract item	December 31, 2011		Exercise rate/ Price range	Exercise period	
	Notional amount (in thousands)				
Foreign currency call options	USD 6,900		JPY 109.75	Jan. 2012	Nov. 2013
Foreign currency put options	USD 13,800		JPY 109.75	Jan. 2012	Nov. 2013

As of December 31, 2010 and 2011, outstanding foreign currency forward contracts were as follows:

Contract item	December 31, 2010		Contract amount (in thousands)
	Maturity date		
Sell USD / Buy NTD	Jan. 2011	Feb. 2011	USD203,000 / NTD6,092,923
Sell USD / Buy JPY	Jan. 2011	Feb. 2011	USD379,000 / JPY31,601,485
Sell NTD / Buy JPY	Jan. 2011	Feb. 2011	NTD203,922 / JPY546,442
Sell NTD / Buy USD	Jan. 2011	Mar. 2011	NTD12,117,800 / USD400,000
Sell USD / Buy CNY	Jan. 2011		USD11,000 / CNY73,023
Sell CNY / Buy USD	Jan. 2011		CNY19,886 / USD3,000
Sell JPY / Buy USD	Jan. 2011	Dec. 2011	JPY594,265 / USD5,500
Sell EUR / Buy JPY	Jan. 2011	Mar. 2011	EUR173,000 / JPY19,249,930
Sell CZK / Buy JPY	Feb. 2011		CZK12,405 / JPY53,960
Sell CZK / Buy EUR	Jan. 2011		CZK162,240 / EUR6,500

Contract item	December 31, 2011		Contract amount (in thousands)
	Maturity date		
Sell USD / Buy NTD	Jan. 2012		USD39,500/NTD1,195,430
Sell USD / Buy JPY	Jan. 2012	Mar. 2012	USD310,846/ JPY24,166,935
Sell NTD / Buy JPY	Jan. 2012	Mar. 2012	NTD392,175/ JPY1,010,306
Sell NTD / Buy USD	Jan. 2012		NTD181,677/USD6,000
Sell USD / Buy CNY	Jan. 2012	Mar. 2012	USD71,500/ CNY454,268
Sell JPY / Buy USD	Jan. 2012		JPY32,925/ USD600
Sell EUR / Buy JPY	Jan. 2012	Mar. 2012	EUR72,000/ JPY7,344,025
Sell CZK / Buy EUR	Jan. 2012		CZK47,747/ EUR1,900
Sell USD / Buy SGD	Feb. 2012		USD6,000 / SGD7,803

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The Company entered into foreign exchange forward contracts and options contracts with several banks to manage foreign currency exchange risk resulting from business operations and investment activities. Net gain arising from foreign exchange forward contract for the years ended December 31, 2009, 2010 and 2011 were NT\$640,250 thousand (including valuation loss of NT\$(1,395,121) thousand and realized settlement gain of NT\$2,035,371 thousand), NT\$4,049,932 thousand (including valuation gain of NT\$845,779 thousand and realized settlement gain of NT\$3,204,153 thousand) and NT\$669,917 (US\$22,131) thousand (including valuation loss of NT\$(252,715) (US\$(8,349)) thousand and realized settlement gain of NT\$922,632 (US\$30,480) thousand), respectively.

The Company entered into interest rate swap contracts with several banks to manage interest risk exposure arising from the Company's financing activities. As of December 31, 2010 and 2011, AUO's total notional amount of outstanding interest rate swap contracts amounted to NT\$43,111,111 thousand and NT\$24,777,778 (US\$818,559) thousand, respectively, of which, NT\$35,333,333 thousand and NT\$24,777,778 (US\$818,559) thousand, respectively, were related to effective hedges. Additionally, as of December 31, 2010 and 2011, AUSJ's total notional amount of outstanding interest rate swap contracts amounted to US\$33,600 thousand and US\$16,800 thousand, respectively, and all of which were related to effective hedges. As of December 31, 2010 and 2011, M. Setek's total notional amount of outstanding interest rate swap contracts amounted to JPY575,000 thousand and JPY190,000 thousand, respectively, of which, JPY125,000 thousand and JPY0, respectively, were related to effective hedges.

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For the years ended December 31, 2009, 2010 and 2011, the Company's unrealized gains (losses) resulting from change in fair value of derivative contracts recognized in earnings amounted to NT\$58,652 thousand, NT\$(63,849) thousand and NT\$74,155 (US\$2,450) thousand, respectively.

Please refer to (b) for the financial results related to effective hedges.

During the period from April to July 2009, BVTW held convertible bond which was a hybrid instrument consisting of a host contract and an embedded derivative instrument, therefore, BVTW recognized financial assets measured at fair value conversion rights of the embedded derivative instrument. For the year ended December 31, 2009, the valuation gains recognized in earnings resulting from changes in fair value of conversion rights of convertible bond amounted to NT\$114,250 thousand.

For the years ended December 31, 2009, 2010 and 2011, gains (losses) on valuation of financial instruments were reconciled to the line item of the consolidated statement of operations as follows:

	For the year ended December 31,			
	2009 NT\$	2010 NT\$	2011 NT\$	US\$
	(in thousands)			
Net gain arising from foreign exchange forward contract and options contract	640,250	4,049,932	669,917	22,131
Net gain (loss) arising from interest rate swap contracts	58,652	(63,849)	74,155	2,450
Gain arising from embedded derivative instrument	114,250			
	813,152	3,986,083	744,072	24,581

(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 receives market floating-rate from the counterparty. The aforementioned hedging contracts are intended to protect the Company from the risk of future cash flow fluctuation of debt bearing floating interest rate. These contracts are designated as cash flow hedge and met the criteria for hedge accounting.

As of December 31, 2010 and 2011, details of hedged items designated as cash flow hedges and their respective hedging derivative financial instruments were as follows:

Hedged item	Hedging instrument	December 31, 2010		
		Fair value of hedging instrument NT\$ (in thousands)	Expected period of cash flows	Expected period of recognition in earnings
Long-term borrowings with floating interest rate	Interest rate swap contracts	(287,706)	Jan. 2011 Sep. 2014	Jan. 2011 Sep. 2014

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December 31, 2011				
Hedged item	Hedging instrument	Fair value of hedging instrument NT\$ (in thousands)	Expected period of cash flows	Expected period of recognition in earnings
Long-term borrowings with floating interest rate	Interest rate swap contracts	(198,360)	Jan. 2012 Sep. 2014	Jan. 2012 Sep. 2014

Unrealized gains on derivative financial instruments effective as cash flow hedges were NT\$194,268 thousand, NT\$181,449 thousand and NT\$77,239 (US\$2,552) thousand for the years ended December 31, 2009, 2010 and 2011, respectively, which were recognized as a separate component of stockholders' equity.

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****8. Notes and accounts receivable, net**

	2010 NT\$	December 31, 2011 NT\$ (in thousands)	US\$
Notes receivable	262	122,361	4,042
Accounts receivable	51,368,871	44,917,212	1,483,885
Less: allowance for doubtful accounts	(84,644)	(81,925)	(2,706)
allowance for sales returns and discounts	(688,988)	(209,722)	(6,928)
	50,595,501	44,747,926	1,478,293

In 2010 and 2011, the Company entered into financing facilities with banks to sell certain of its accounts receivable, details of which were as follows:

For the year ended December 31, 2010					
Underwriting bank	Factoring limit	Amount advanced (in thousands)	Amount sold and derecognized	Principle terms	Promissory note as collateral
Taipei Fubon Bank	USD 25,000		USD 4,193	See below	None
China Trust Commercial Bank	USD 35,000		USD 6,929	See below	None
First Commercial Bank	USD 170,000	USD 139,787	USD 139,787	See below	None
Standard Chartered Bank	USD 190,000			See below	None
China Construction Bank	CNY140,000			See below	None

For the year ended December 31, 2011					
Underwriting bank	Factoring limit	Amount advanced (in thousands)	Amount sold and derecognized	Principle terms	Promissory note as collateral
Taipei Fubon Bank	USD 48,000		USD 14,604	See below	None
China Trust Commercial Bank	USD 65,000		USD 17,740	See below	None
Mizuho Corporate Bank	USD 500,000	USD 65,002	USD 65,002	See below	None
The Export-Import Bank	USD 11,000	USD 5,296	USD 5,951	See below	None
First Commercial Bank	USD 250,000	USD 189,019	USD 189,019	See below	None
China Construction Bank	CNY100,000			See below	None

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

Note (b): To the extent of the amount sold to the underwriting banks, risks of non-collection or default by customers in the event of financial difficulties 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 recovering these receivables.

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

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- Note (d): The aforementioned terms are applicable to the respective underwriting banks, except that the First Commercial Bank underwrites the accounts receivable without recourse, and the Company takes all risks other than credit risk.
- Note (e): As of December 31, 2010 and 2011, total outstanding receivables resulting from the above transactions, net of fees charged by underwriting banks, of NT\$336,072 thousand and NT\$999,517 (US\$33,020) thousand, respectively, were classified under other current financial assets.

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****9. Inventories**

	2010 NT\$	December 31,	
		2011 NT\$ (in thousands)	US\$
Finished goods	20,355,490	23,462,981	775,123
Work-in-progress	21,631,505	23,962,075	791,612
Raw materials and spare parts	8,627,715	9,041,363	298,691
Less: allowance for devaluation	(6,046,604)	(8,584,471)	(283,597)
	44,568,106	47,881,948	1,581,829

For the year ended December 31, 2009, there was net reversal of inventory write-downs of NT\$5,521,522 thousand. For the years ended December 31, 2010 and 2011, net inventory devaluation write-downs included in cost of goods sold were NT\$1,886,525 thousand and NT\$2,735,721 (US\$90,377) thousand, respectively.

10. Equity-Method Investments

	2010		December 31,		
	Ownership interest %	Amount NT\$	Ownership interest % (in thousands)	Amount NT\$	US\$
AUO SunPower Sdn. Bhd. (A USP)	50	1,619,293	50	3,894,560	128,661
Lextar	46	3,638,618	43	3,409,067	112,622
Qisda Corporation (Qisda)	10	3,015,606	10	3,326,423	109,892
Forhouse Corporation (FH)	23	2,738,620	26	2,808,039	92,766
Sipix Technology Inc. (STI)	28	825,144	28	621,808	20,542
Raydium Semiconductor Corp. (Raydium)	15	498,524	15	515,827	17,041
Wellypower Optronics Corporation Ltd. (Wellypower)	9	485,415	9	413,470	13,659
Daxin Materials Corp. (Daxin)	31	332,419	28	360,358	11,905
Cando Corporation Ltd. (Cando)	18	910,745			
Others		1,439,575		567,783	18,757
		15,503,959		15,917,335	525,845
Prepaid investment		37,000			
		15,540,959		15,917,335	525,845

For the Company's investment in Qisda, the Company determined that it is able to exercise significant influence over the operating and financial policies of Qisda, and therefore, the Company accounts for its investment in Qisda under the equity method of accounting.

Light House Technology Co., Ltd. (LHTC) was merged with and into Lextar on March 15, 2010, with Lextar as the surviving entity. Therefore, the Company's equity shareholdings in LHTC were converted to shares of Lextar.

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Taiwan Nano Electro-Optical Technology Co., Ltd. (Nano) was merged with and into FH on September 15, 2010, with FH as the surviving entity. Therefore, the Company's equity shareholdings in Nano were converted to shares of FH.

For the years ended December 31, 2010 and 2011, the Company recognized unrealized valuation gains (losses) of NT\$42,893 thousand and NT\$(31,670) (US\$(1,046)) thousand under stockholders' equity, respectively, on investments accounted for under the equity method. For the years ended December 31, 2009, 2010 and 2011, the Company recognized investment gains (losses) of NT\$139,635 thousand, NT\$681,331 thousand and NT\$(63,943) (US\$(2,112)) thousand, respectively, under the equity method.

On June 30, 2011, the Company sold most of its equity shareholdings in Cando to TPK Universal Solutions Limited for cash consideration. The selling price and related gain on the sale amounted to NT\$3,791,672 (US\$125,262) thousand and NT\$2,989,335 (US\$98,756) thousand, respectively. As of December 31, 2011, the Company's remaining equity investment in Cando was accounted as financial assets carried at cost noncurrent.

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On March 12, 2010, the Company entered into a joint venture agreement with TPV Technology Limited and through its subsidiary AULB to invest BTLB in Malaysia in September 2010. BriVictory Display Technology (Poland) Co., Ltd. (BTPL) is invested by BTLB and is mainly engaged in original equipment manufacture of TFT-LCD modules and TV sets. In accordance with the joint venture agreement, AUO indirectly holds a 51% equity interest with a 50% voting interest in BTLB through AULB. As of December 31, 2011, the Company's investment in BTLB amounted to US\$8,160 thousand.

On May 27, 2010, the Company, through its subsidiary AUSG, entered into a joint venture agreement with SunPower Technology, Ltd. (SPTL), which at that time was wholly-owned by SunPower Corporation whereby the Company and SPTL will each own 50% of the joint venture AUSP (formerly named SunPower Malaysia Manufacturing Sdn. Bhd.), which is mainly engaged in the manufacture and sale of solar modules. In accordance with the joint venture agreement, the Company acquired its 50% ownership interests of AUSP on July 5, 2010 (co-investment date) by contributing technology with an estimated fair value of US\$30,000 thousand (which classified under equity-method investments and deferred credit) and a cash payment of US\$108,069 thousand, and will continue to contribute additional cash over time so that the total cash contributions made by each shareholder equals US\$350 million in the aggregate, or such lesser amounts as the parties may mutually agree. In addition, AUSP shall retain the financing loan of RM1,000,000 thousand that was provided by the government of Malaysia. The Company shall make best efforts to ensure that, subject to (a) the necessary cooperation of the AUSP, (b) the lenders' necessary legal due diligence of the AUSP, (c) the written consent or approval of SPTL, and (d) the written consent or approval of the Malaysia Ministry of Finance, additional debt financing from a third-party lender is available to be drawn upon. If such additional debt financing is not made available to the AUSP, the Company is obliged to secure for AUSP or provide AUSP with reasonable and necessary transitional financing until AUSP obtains debt financing from a third party. As of April 27, 2012, with the assistance of the Company, AUSP has entered into a US\$300 million syndicated credit facility with banks. The Company initially recognized deferred revenue in the amount of NT\$966,600 (equivalent to US\$30,000) thousand for its contribution of technology to AUSP, of which NT\$34,521 thousand has been amortized into income in 2010 and NT\$138,086 (US\$4,562) thousand has been amortized into income in 2011. The remaining NT\$793,993 (US\$26,230) thousand will be recognized into earnings on a straight-line basis of the expected estimate remaining useful life of the technology.

On September 1, 2010, the Company entered into a joint venture agreement with Wistron Corporation and, through its subsidiary AULB, invested BriVision Optronics (L) Corp. (BWLB) in Malaysia in March 2011, with AUO indirectly owning 51% of the shareholding. BriVision Optronics (Zhongshan) Corp. (BWCS) is invested by BWLB and is mainly engaged in the manufacture of TFT-LCD TV panel modules in Mainland China.

In accordance with ROC SFAS No. 31 Interest in Joint Ventures, the Company's share in the accounts of AUSP, BTLB and BWLB were as follows:

	2010 NT\$	December 31,	
		2011 NT\$	US\$
		(in thousands)	
Current assets	2,558,611	4,412,015	145,755
Non-current assets	5,359,086	10,999,893	363,393
Current liabilities	2,074,404	2,254,953	74,495
Non-current liabilities	5,056,766	9,588,185	316,755
Revenues	335,417	4,522,873	149,418
Expenses	639,480	4,808,604	158,857

The Company accounted for its share of AUSP's net income or loss on the basis of a quarterly lag.

As of December 31, 2010 and 2011, market values of the Company's equity-method investments in publicly listed companies, determined based on quoted market price at year-end, were as follows:

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	2010 NT\$	December 31, 2011 NT\$ (in thousands)	US\$
Lextar		3,664,269	121,053
FH	3,682,768	2,043,905	67,522
Qisda	3,658,256	1,170,054	38,654
Wellypower	485,085	224,237	7,408
	7,826,109	7,102,465	234,637

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In 2010 and 2011, components of the difference between acquisition cost and fair value of net assets acquired were as follows:

	Beginning balance NT\$	For the year ended December 31, 2010			Ending balance NT\$
		Additions or deductions NT\$	Adjustments NT\$ (in thousands)	Amortization or realization NT\$	
Amortizable assets	(279,100)	823,532	39,689	(9,329)	574,792
Goodwill	1,127,659	556,661		(76,784)	1,607,536
Other assets	154,329		3,836		158,165
	1,002,888	1,380,193	43,525	(86,113)	2,340,493

	Beginning balance NT\$	For the year ended December 31, 2011			Ending balance	
		Additions or deductions NT\$	Adjustments NT\$ (in thousands)	Amortization or realization NT\$	NT\$	US\$
Amortizable assets	574,792		10,533	(116,035)	469,290	15,504
Goodwill	1,607,536	2,638	(17,298)		1,592,876	52,622
Other assets	158,165		19,670		177,835	5,875
	2,340,493	2,638	12,905	(116,035)	2,240,001	74,001

11. Property, Plant and Equipment, and Idle Assets

Interest capitalized and included in property, plant and equipment for the years ended December 31, 2009, 2010 and 2011, consisted of the following:

	For the years ended December 31,			
	2009 NT\$	2010 NT\$	2011 NT\$	US\$
Buildings	185,281	288,879	30,232	999
Machinery and equipment	1,021,530	604,173	474,529	15,676
	1,206,811	893,052	504,761	16,675

The interest rates applied for the capitalization ranged from 0.49% to 7.24%, 0.69% to 5.76%, and 0.66% to 8.28% in 2009, 2010 and 2011, respectively.

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Certain property, plant and equipment were pledged as collateral; see note 23.

Idle assets as of December 31, 2010 and 2011, consisted of the following:

	2010 NT\$	December 31, 2011 NT\$ (in thousands)	US\$
Cost:			
Land	478,214	478,214	15,798
Buildings	545,231	545,231	18,012
Machinery	12,673,146	17,251,275	569,914
Other equipment	359,712	1,432,618	47,328
	14,056,303	19,707,338	651,052
Less: accumulated depreciation	(11,628,231)	(17,253,478)	(569,986)
	2,428,072	2,453,860	81,066
Less: allowance for devaluation of idle assets	(667,434)	(756,245)	(24,984)
	1,760,638	1,697,615	56,082

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****12. Intangible Assets**

Intangible assets as of December 31, 2010 and 2011 consisted of the following:

	Beginning balance NT\$	For the year ended December 31, 2010			Ending balance NT\$
		Additions NT\$	Adjustments NT\$ (in thousands)	Amortization NT\$	
Goodwill	11,464,947	12,072	(22,507)		11,454,512
Core technologies		17,083	(15,120)	(1,963)	
Technology-related fees	2,828,307	516,892	(57,881)	(679,863)	2,607,455
	14,293,254	546,047	(95,508)	(681,826)	14,061,967

	Beginning balance NT\$	For the year ended December 31, 2011				Ending balance	
		Additions NT\$	Adjustments NT\$ (in thousands)	Amortization NT\$	NT\$	US\$	
Goodwill	11,454,512		1,664		11,456,176	378,466	
Technology-related fees	2,607,455	1,944,361	(3,211)	(576,679)	3,971,926	131,217	
	14,061,967	1,944,361	(1,547)	(576,679)	15,428,102	509,683	

Goodwill and other intangible assets arising from Lextar's merger of LHTC were derecognized owing to the Company lost control of Lextar as Lextar re-elected its board directors on June 30, 2010.

13. Short-term Borrowings

Short-term borrowings as of December 31, 2010 and 2011 consisted of the following:

	2010 NT\$	December 31, 2011	
		NT\$ (in thousands)	US\$
Short-term borrowings	1,183,248	7,850,793	259,359
Unused facility	28,742,102	23,901,952	789,625

Interest rates on short-term borrowings outstanding as of December 31, 2010 and 2011, ranged from 1.14% to 4.78% and 1.2% to 7.93%, respectively.

14. Bonds Payable

Bonds payable as of December 31, 2010 and 2011, consisted of the following:

	2010	December 31,	
	NT\$	2011	US\$
		NT\$	
		(in thousands)	
Unsecured bonds payable	166,770	64,383	2,127
Secured bonds payable	9,500,000	3,500,000	115,626
Less: current portion	(6,105,621)	(3,564,383)	(117,753)
	3,561,149		
Interest payable	684,557	36,695	1,212

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The significant terms of secured bonds payable were as follows:

	Secured Bond 3	Secured Bond 4
Issuer	AUO	AUO
Par value	NT\$5,000,000 thousand	NT\$7,000,000 thousand
Issue date	Mar. 21, 2006	Aug. 22, 2008
Issue price	At par value	At par value
Coupon rate	Fixed rate 1.948%	Fixed rate 2.90%
Duration	Mar. 21, 2006 Mar. 21, 2011	Aug. 22, 2008 Aug. 22, 2012
Bank that provided guarantee	Mizuho Corporate Bank and six other banks	Mizuho Corporate Bank and three other banks
Redemption	As stated below	As stated below

Secured Bond 3 is calculated based on simple interest. AUO is obliged to pay annual interest for the bond. The bond is payable in two equal installments at the end of years 4 and 5 from its issuance date.

Secured Bond 4 is calculated based on simple interest. AUO is obliged to pay annual interest for the bond. The bond is payable in two equal installments at the end of years 3 and 4 from its issuance date.

The significant terms of unsecured bonds payable were as follows:

	Unsecured Bond 2	Unsecured Bond 3
Issuer	M. Setek	M. Setek
Par value	JPY900,000 thousand	JPY900,000 thousand
Issue date	Apr. 28, 2005	Sep. 30, 2005
Issue price	At par value	At par value
Coupon rate	Floating interest	Fixed rate 1.01%
Duration	Apr. 28, 2005 Apr. 25, 2012	Sep. 30, 2005 Sep. 28, 2012
Bank that provided guarantee	Mizuho Corporate Bank	Mizuho Corporate Bank
Redemption	As stated below	As stated below

Unsecured Bond 2 is calculated based on floating interest and M. Setek is obliged to pay interest semi-annually from the date of issuance. The bond is payable in twelve installments which started from October 2005.

Unsecured Bond 3 is calculated based on simple interest and M. Setek is obliged to pay interest payment semi-annually from the date of issuance. The bond is payable in fourteen installments starting from March 2006. Each installment is payable at JPY67,500 thousand and the remaining balance is payable at final installment.

All of the aforementioned bonds are secured by bank guarantees through a syndicated bank guarantee facility. Based on financial covenants under the syndicate agreement for the bond guarantee, AUO is obliged to maintain certain defined level of current ratio (defined as current assets divided by current liabilities excluding current portion of long-term debts), debt ratio, interest coverage ratio, and tangible net worth. AUO complied with the aforementioned financial covenants in 2010 and 2011.

Certain of the Company's assets are pledged to secure the bonds payable; see note 23.

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****15. Convertible Bonds Payable**

AUO issued unsecured overseas convertible corporate bond (hereinafter referred to as ECB 4) on October 13, 2010 with par value of US\$800,000 thousand and coupon rate at 0%. The duration period is five years commencing from the issuance date. On September 23, 2011, AUO early redeemed the outstanding ECB 4 at the redemption amount of US\$100,000 thousand. ECB 4 was purchased at the cost of US\$78,667 thousand, which was allocated to its equity and liability component in accordance with ROC SFAS No. 36. Therefore, AUO recognized a redemption gain from ECB 4 of NT\$686,972 (US\$22,695) thousand and additional paid-in capital of NT\$12,723 (US\$420) thousand. The balance of outstanding convertible bonds was US\$700,000 thousand as of December 31, 2011.

As of December 31, 2010 and 2011, outstanding convertible bonds payable consisted of the following:

	2010 ECB 4 NT\$	December 31,	
		2011 ECB 4 NT\$	US\$
		(in thousands)	
Convertible bonds payable	23,951,212	21,048,500	695,358

Significant terms of the aforementioned convertible bonds payable were as follows:

Par value	US\$800,000 thousand
Original issue date	October 13, 2010
Original issue price	US\$792,322 thousand
Coupon rate	0%
Maturity date	October 13, 2015
Collateral	None
Conversion method	Bondholders may, at any time from 41 days after issuance to the 10 days before maturity, convert bonds into AUO's common shares or certificates exchangeable for common stock.
Conversion price	Original price at NT\$40.74. The conversion price was adjusted to NT\$39.90 as a result of earnings distributions, as approved by shareholders on June 10, 2011. For purposes of determining the number of converted shares, a fixed exchange rate of US\$1=NT\$30.778 is used.
Put right	Bondholders bear the right to request AUO to repurchase the bonds on October 13, 2013, at par value.
Redemption terms	(a) Unless previously redeemed, purchased and cancelled, or converted, bonds are redeemable on maturity at a redemption price equal to 115.34% of the unpaid principal amount thereof.

(b) Effective from the third anniversary of issuance, AUO may, redeem the outstanding bonds at the early redemption amount, in whole or in part, if the closing price (translated into U.S. dollars at the prevailing rate) of its common shares on the Taiwan Stock Exchange is at least 130% of the conversion price for a period of 20 out of 30 consecutive trading days.

(c) AUO may redeem the total amount of outstanding bonds in whole at the early redemption amount in the event that 90% of the bonds have been previously redeemed, converted, or purchased and cancelled.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) AUO may redeem the total amount of outstanding bonds in whole at the early redemption amount if as a result of certain changes relating to the tax laws in the ROC or such other jurisdiction in which AUO is then organized, AUO is required to pay additional amounts.

(e) Bondholders bear the right to request AUO to repurchase bonds, in whole or in part, at the early redemption amount in the event that AUO's common shares cease to be listed or admitted to trading on the Taiwan Stock Exchange (for the avoidance of doubt, temporary suspension of trading of AUO's common shares on the Taiwan Stock Exchange in accordance with the regulations of the Taiwan Stock Exchange is excluded.)

(f) Bondholders bear the right to request AUO to repurchase bonds, in whole or in part, at the early redemption amount when there is a change of control with respect to AUO change of control occurs when one or more persons, acting in concert, acquire legal or beneficial ownership of over 50% of AUO's capital stock. A person aforementioned does not include AUO's directors and AUO's majority-owned direct or indirect subsidiaries.

AUO bifurcated the conversion right from the host debt of ECB 4 in accordance with ROC SFAS No. 36 and recognized it as an equity (additional paid-in-capital conversion right). As of December 31, 2010 and 2011, the host debt of ECB 4 was recorded under equity amounting to NT\$101,787 thousand and NT\$89,064 (US\$2,942) thousand, respectively, and the noncurrent portion of financial liabilities measured at fair value, amounting to NT\$142,868 thousand and NT\$738,628 (US\$24,401) thousand, respectively. The amortization expense of discount on bonds and the interest expense recognized in 2010 and 2011 were NT\$154,485 thousand and NT\$702,964 (US\$23,223) thousand, respectively; both of which were recorded under interest expenses.

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Bank or agent bank	Durations	2010 NT\$	December 31,	
			2011 NT\$	US\$
			(in thousands)	
Bank of Taiwan and twenty-two other banks	From Dec. 29, 2009 to Dec. 29, 2016	15,000,000	58,000,000	1,916,089
Bank of Taiwan and thirty-five other banks	From Sep. 13, 2006 to Sep. 13, 2014	42,662,400	31,996,800	1,057,047
Mega International Commercial Bank and fifteen other banks	From Jan. 19, 2010 to Jan. 19, 2015	17,000,000	27,000,000	891,972
Bank of Taiwan and twenty-eight other banks	From Sep. 30, 2011 to Sep. 30, 2016		12,000,000	396,432
Credit Agricole Corporate and Investment Bank (Formerly Calyon) and ten other banks	From Nov. 2010 to Nov. 2015	5,136,890	10,904,400	360,238
Mega International Commercial Bank and twenty-one other banks	From Jul. 14, 2006 to Jul. 14, 2013	16,200,000	10,800,000	356,789
Bank of Taiwan and twenty-seven other banks	From Dec. 29, 2005 to Dec. 29, 2012	16,442,800	8,221,400	271,602
Mizuho Corporate Bank and eight other banks	From Jun. 27, 2011 to Jun. 27, 2016		7,804,000	257,813
Mizuho Corporate Bank and seven other banks	From Jun. 27, 2011 to Jun. 27, 2016		6,828,500	225,586
ABN-AMRO Bank and twenty-one other banks	From Aug. 2, 2006 to Aug. 2, 2013	6,567,163	4,779,194	157,886
Mizuho Corporate Bank and twelve other banks	From Dec. 25, 2009 to Dec. 25, 2014	7,782,600		
Unsecured loans	From Mar. 2007 to Nov. 23, 2016	14,344,253	14,214,885	469,603
Mortgage loans	From Feb. 28, 2006 to Jan. 2016	5,811,968	6,407,890	211,691
		146,948,074	198,957,069	6,572,748
Less: current portion		(29,824,179)	(42,868,289)	(1,416,197)
		117,123,895	156,088,780	5,156,551

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Unused credit facility	64,226,937	45,881,909	1,515,755
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Interest rate range	0.03%~	0.645%~
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	5.53%	7.935%
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As of December 31, 2011, future principal repayments were as follows:

	NT\$	US\$
	(in thousands)	
2012	42,868,289	1,416,197
2013	47,495,661	1,569,067
2014	51,107,608	1,688,392
2015	33,622,286	1,110,746
Thereafter	23,863,225	788,346
Total	198,957,069	6,572,748

The Company entered into the aforementioned long-term loan arrangements with banks and financial institutions to finance capital expenditures on construction projects and the purchase of machinery and equipment. A commitment fee is charged per annum and payable quarterly based on the committed-to-withdraw but unused balance, if any. No commitment fees were paid for the years ended December 31, 2009, 2010 and 2011. These credit facilities contain covenants that require the Company to maintain certain financial ratios such as current ratio (defined as current assets divided by current liabilities excluding (a) current portion of long-term debt or (b) current portion of long-term debt and accounts payable which are related to the equipment payment), debt-equity ratio, interest coverage ratio, tangible net worth and others as specified in the loan agreements. The Company complied with the aforementioned financial covenants in 2009, 2010 and 2011, except for the matter described below.

In 2009, M. Setek had breached one financial covenant under its loan agreements, which may require an early repayment of a borrowing of JPY6,750,000 thousand. Such borrowing for which a financial covenant was breached matured over one year and had been reclassified into current liabilities in 2009 and was fully paid in 2010.

Refer to note 23 for assets pledged as collateral to secure the aforementioned long-term borrowings.

17. Retirement Plans

The following table sets forth the defined benefit obligation and the amounts recognized related to AUO and Toppan CFI's retirement plans.

	2010 NT\$	December 31, 2011 NT\$	US\$
	(in thousands)		
Benefit obligation:			
Vested benefit obligation	(11,387)	(15,137)	(500)
Non-vested benefit obligation	(778,122)	(862,317)	(28,488)
Accumulated benefit obligation	(789,509)	(877,454)	(28,988)
Additional benefits based on future salary increase	(904,769)	(968,612)	(31,999)
Projected benefit obligation	(1,694,278)	(1,846,066)	(60,987)
Fair value of plan assets	1,386,818	1,500,839	49,582

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Funded status	(307,460)	(345,227)	(11,405)
Unrecognized net transition obligation	6,589	5,630	186
Unrecognized pension loss	776,922	872,502	28,824
Prepaid pension assets	476,051	532,905	17,605

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The following table sets forth the defined benefit obligation and the amounts recognized related to M. Setek's retirement plans.

	2010 NT\$	December 31, 2011	
		NT\$ (in thousands)	US\$
Benefit obligation:			
Vested benefit obligation	(135,093)	(92,690)	(3,062)
Non-vested benefit obligation	(50,150)	(17,433)	(576)
Accumulated benefit obligation	(185,243)	(110,123)	(3,638)
Additional benefits based on future salary increase			
Projected benefit obligation	(185,243)	(110,123)	(3,638)
Fair value of plan assets	36,965		
Funded status	(148,278)	(110,123)	(3,638)
Pension liabilities	(148,278)	(110,123)	(3,638)

The components of AUO, Toppan CFI and M. Setek's net periodic pension costs consisted of the following:

	For the year ended December 31,			
	2009 NT\$	2010 NT\$	2011 NT\$	US\$
Defined benefit pension plan:				
Service cost	(958)	33,148	32,126	1,061
Interest cost	23,793	31,996	37,475	1,238
Expected return on plan assets	(27,669)	(28,435)	(28,459)	(940)
Amortization	9,406	18,594	34,526	1,141
Net periodic pension cost	4,572	55,303	75,668	2,500

Significant weighted-average actuarial assumptions used for the pension plans of AUO, Toppan CFI and M. Setek were as follows:

	December 31,					
	2009		2010		2011	
Discount rate	2.00%	2.25%	2.00%	2.25%	1.75%	2.00%
Rate of increase in future compensation levels	1.20%	3.00%	1.20%	5.55%	1.20%	5.55%
Expected long-term rate of return on plan assets	0.75%	2.25%	0.75%	2.00%	0.75%	2.00%

AUO, Toppan CFI, Konly, Lextar, BVTW and DSTW have set up defined contribution plans in accordance with the ROC Labor Pension Act. For the years ended December 31, 2009, 2010 and 2011, the Company recognized total benefit costs thereon of NT\$641,120 thousand,

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NT\$774,540 thousand and NT\$721,909 (US\$23,849) thousand, respectively. In addition to the aforementioned companies, total benefit costs recognized by other subsidiary companies related to defined contribution plans in accordance with local regulations amounted to NT\$359,358 thousand, NT\$549,656 thousand and NT\$632,726 (US\$20,903) thousand for the years ended December 31, 2009, 2010 and 2011, respectively.

18. Stockholders Equity

(a) Common stock

Based on resolution of the stockholders meeting on June 19, 2009, AUO increased its common stock by NT\$4,561,484 thousand, with 321,326 thousand shares through the capitalization of retained earnings and employee bonuses of NT\$2,551,716 thousand and NT\$2,009,768 thousand, respectively. The issuance of the aforementioned shares of common stock was authorized by and registered with the government authorities. The employee bonuses of NT\$2,009,768 thousand was securitized into 66,154 thousand common shares based on the closing price of NT\$30.38 on the day before the resolution of the stockholders meeting.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

AUO's authorized common stock, with par value of NT\$10 per share, both amounted to NT\$100,000,000 thousand as of December 31, 2010 and 2011. AUO's issued and outstanding common stock, with par value of NT\$10 per share, both amounted to NT\$88,270,455 thousand as of December 31, 2010 and 2011.

AUO's ADSs were listed on the New York Stock Exchange. Each ADS represents the right to receive 10 shares of common stock. As of December 31, 2011, AUO had issued 96,485 thousand ADSs, which represented 964,852 thousand shares of its common stock.

(b) Capital surplus

According to the Republic of China 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 increase common stock or distribution cash dividends. Pursuant to 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 Republic of China 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 issued common stock. When a company incurs no loss, it may, pursuant to a resolution to be adopted by a shareholders' meeting, distribute its legal reserve by issuing new shares or by cash, only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

(d) Distribution of earnings and dividend policy

According to AUO's articles of incorporation, 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. In addition, a special reserve in accordance with applicable laws and regulations shall also be set aside. The remaining earnings may be distributed as follows:

- (1) at least 5 percent as employee bonuses;
- (2) at most 1 percent as remuneration to directors; and
- (3) the remaining portion, in whole or in part, as dividends to common stockholders.

Pursuant to regulations promulgated by the Financial Supervisory Commission, and effective from the distribution of earnings for fiscal year 1999 onwards, a special reserve equivalent to the total amount of items that are accounted for as deductions to the stockholders' equity shall be set aside from current earnings, and not distributed. The special reserve shall be made available for appropriation to the extent of reversal of deductions to stockholders' equity in subsequent periods.

The appropriation of AUO's net earnings may be distributed by way of cash dividend, stock dividend, or a combination of cash and stock dividends. The policy for dividend distribution considers factors such as the current and future investment environment, fund requirements, domestic and international competition, capital budgets, the benefits to stockholders, equalization of dividends, and long-term financial planning. Earnings distribution is proposed by the board of directors and approved at the stockholders' meeting. Pursuant to the articles of

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incorporation, the cash dividend shall not be less than 10 percent of the total dividends.

The distributions of earnings as dividends per share, employee bonuses and remuneration to directors for 2010, as approved by stockholders on June 10, 2011 were as follows:

	2010 NT\$ (in thousands, except for per share data)
Dividends per share	
Cash	0.40
Employee bonuses cash	891,462
Remuneration to directors	30,117
	921,579

The aforementioned distribution of earnings for 2010 was consistent with the resolutions in the board of directors meetings.

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According to the resolution of AUO's annual shareholders' meeting on June 18, 2010, AUO offsetted its net loss arising from 2009 with its prior year unappropriated retained earnings. In addition, on February 22, 2012, AUO's board of directors proposed not to distribute any dividend for 2011 due to net loss for the year ended December 31, 2011. The appropriation of net loss of 2011, however, will finally be subject to the resolution of AUO's annual shareholders' meeting, which is scheduled for June 13, 2012. AUO did not award a bonus to directors and profit sharing to employees due to net loss for the year ended December 31, 2011.

(e) Employee stock option plans

AUO assumed the Employee Stock Option (ESO) Plans from the merger with QDI. The ESO Plans entitle option holders to subscribe for one share of common stock per unit thereof. Options are granted to eligible employees of QDI and its subsidiaries, both domestic and overseas, in which QDI held directly and indirectly more than 50% ownership interest and had a controlling interest. Options granted expire six years after the date of grant, and holders may exercise options vested, effective from two years after date of grant, in accordance with the vesting schedule. Options were granted at an exercise price equal to the closing price of the common stock of QDI on the Taiwan Stock Exchange on the grant date. On the date of acquisition, the exercise price and units issued were adjusted in accordance with the share conversion ratio between QDI and AUO share.

Details of the ESO Plans were as follows:

Plan	Issuing date	Units issued	Term of grant	Option exercising term
2003 ESO Plan	Dec. 31, 2003	5,631	Dec. 31, 2003 - Dec. 30, 2009	Dec. 31, 2005 - Dec. 30, 2009

The details of ESO Plans, and changes during the year ended December 31, 2009 were as follows:

	Unit (in thousands)	Weighted-average exercise price NT\$
Balance at January 1, 2009	2,797	46.00
Units exercised		
Units increased due to issuance of stock dividends	102	44.30
Units cancelled	(2,899)	45.90
Balance at December 31, 2009		

Assumptions used to estimate the fair value of the aforementioned ESO Plans were as follows:

	2003 ESO Plan
Dividend yield	2.4%
Expected volatility	43.7%
Risk-free interest rate	1.7%
Expected continuing period	1.9 years

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As of December 31, 2009, the above mentioned options all expired. As of December 31, 2010 and 2011, there were no outstanding employee stock options.

19. Income Taxes

The Company cannot file a consolidated tax return under local regulations. Therefore, AUO and its subsidiaries calculate their income tax liabilities individually in accordance with their respective statutory tax rates.

- (a) Pursuant to the Statute for Upgrading Industries, AUO (including the extinguished QDI) is entitled to elect appropriate tax incentives, such as tax exemption, based on initial investments and subsequent capital increases for the purpose of purchasing qualified TFT-LCD production equipment and machinery.

AUO was entitled to the following tax exemptions:

Year of investment	Tax incentive chosen	Tax exemption period
2002	Exemption from corporate income taxes for five years	Jan. 1, 2007 Dec. 31, 2011
2003	Exemption from corporate income taxes for five years	Jan. 1, 2008 Dec. 31, 2012
2004	Exemption from corporate income taxes for five years	Jun. 25, 2007 Jun. 24, 2012
2004	Exemption from corporate income taxes for five years	Sep. 29, 2007 Sep. 28, 2012
2004	Exemption from corporate income taxes for five years	Nov. 3, 2007 Nov. 2, 2012
2005, 2006	Exemption from corporate income taxes for five years	Jan. 1, 2010 Dec. 31, 2014
2007, 2008	Exemption from corporate income taxes for five years	Pending designation

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(b) The components of income tax expense (benefit) were as follows:

	For the year ended December 31,			
	2009 NT\$	2010 NT\$	2011 NT\$	US\$
	(in thousands)			
Current income tax expense	684,697	1,732,649	680,686	22,487
Deferred income tax benefit	(707,284)	(544,755)	(4,885,765)	(161,406)
	(22,587)	1,187,894	(4,205,079)	(138,919)

For AUO and its subsidiaries located in the Republic of China, an alternative minimum tax (AMT) in accordance with the Income Basic Tax Act (IBTA) is calculated. Other foreign subsidiary companies calculated income tax in accordance with local tax law and regulations. In May 2009, the Republic of China government promulgated an amendment of the Income Tax Law. According to the amendment, the income tax rate of Taiwan profit-seeking enterprises will be reduced from 25% to 20%, effective in 2010. In June 2010, the Republic of China government promulgated another amendment of the Income Tax Law to reduce the income tax rate from 20% to 17%, effective retroactively on January 1, 2010. Therefore, the statutory income tax rate applicable to AUO and its subsidiaries located in the Republic of China are both 17% in 2010 and 2011. AUO and its domestic subsidiaries had recalculated their deferred tax assets and liabilities in accordance with the amended Law and adjusted the resulting difference as income tax benefit or expense.

The expected income tax expense (benefit) calculated based on the Republic of China statutory income tax rate was reconciled with the income tax expense (benefit) as reported in the consolidated statements of operations for the years ended December 31, 2009, 2010 and 2011, as follows:

	For the year ended December 31,			
	2009 NT\$	2010 NT\$	2011 NT\$	US\$
	(in thousands)			
Expected income tax expense (benefit)	(6,816,850)	1,461,317	(11,160,862)	(368,710)
Tax exemption		(303,655)		
Decrease in investment tax credits, including impact of amounts that expired unused (see Note 19(d))	3,387,963	4,250,789	752,041	24,844
Effect of different tax rate of subsidiary	(387,926)	82,732	(2,040,199)	(67,400)
Tax on undistributed retained earnings	1,404,104	63,852	65,656	2,169
Increase (decrease) in valuation allowance	1,007,152	(5,063,222)	7,867,649	259,916
Effect of changes in statutory income tax rate	1,872,338	1,176,427	544,351	17,983
Permanent differences	(380,862)	(761,324)	(319,475)	(10,554)
Others	(108,506)	280,978	85,760	2,833
Income tax expense (benefit)	(22,587)	1,187,894	(4,205,079)	(138,919)

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(c) The components of deferred income tax assets (liabilities) were as follows:

	2010 NT\$	December 31, 2011 NT\$ (in thousands)	US\$
Current:			
Investment tax credits	2,308,078	6,705,473	221,522
Net operating loss carryforwards	172,656	51,174	1,691
Unrealized losses and expenses	2,801,995	3,895,491	128,691
Timing differences of revenue recognition between accounting and tax reporting	214,941	364,694	12,048
Inventories devaluation	1,042,378	1,196,603	39,531
Unrealized gains on financial assets	(38,862)	(8,811)	(291)
Others	258,697	426,175	14,079
	6,759,883	12,630,799	417,271
Valuation allowance	(1,384,260)	(10,326,641)	(341,151)
Net deferred tax assets - current	5,375,623	2,304,158	76,120
Noncurrent:			
Investment tax credits	12,023,328	6,863,058	226,728
Net operating loss carryforwards	6,536,379	17,917,187	591,912
Foreign investment gains under the equity method	(1,687,155)	(265,375)	(8,767)
Goodwill	(865,881)	(1,042,495)	(34,440)
Others	3,328,363	2,745,749	90,709
	19,335,034	26,218,124	866,142
Valuation allowance	(15,955,664)	(15,154,023)	(500,628)
Net deferred tax assets - noncurrent	3,379,370	11,064,101	365,514
Total gross deferred tax assets	29,098,786	40,708,712	1,344,853
Total gross deferred tax liabilities	(3,003,869)	(1,859,789)	(61,440)
Total valuation allowance	(17,339,924)	(25,480,664)	(841,779)
	8,754,993	13,368,259	441,634

(d) Investment tax credits

Pursuant to the Statute for Upgrading Industries, investment tax credits may be applied over a period of five years to offset income tax payable. The amount of investment tax credits available to be applied in any year is limited to 50% of the income tax payable for that year, except for the final year when such investment tax credit expires.

Pursuant to the Business Mergers and Acquisition Act, AUO is entitled to investment tax credits accumulated by QDI prior to the date of acquisition. As of December 31, 2011, there are no unused investment tax credits available to AUO. For the years ended December 31, 2009,

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2010 and 2011, investment tax credits that expired unused amount to NT\$6,680,020 thousand, NT\$6,889,389 thousand and NT\$2,305,758 (US\$76,173) thousand, respectively. Valuation allowances had previously been recognized for these deferred tax assets. Consequently, the subsequent write-off of these investment tax credits and the related reversals of the deferred tax asset valuation allowances had no impact on income tax expense in the period these investments tax credits expired unused.

As of December 31, 2011, unused investment tax credits of AUO, Toppan CFI, and Ronly, and their respective years of expiration were as follows:

Year of assessment	Unused investment tax credits		Expiration year
	NT\$	US\$	
	(in thousands)		
2008	6,705,473	221,522	2012
2009	2,697,883	89,127	2013
2010	2,710,925	89,558	2014
2011 (estimated)	73,517	2,429	2015
	12,187,798	402,636	

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As of December 31, 2011, unused tax credits of AUO's subsidiary located in Singapore amounted to NT\$1,380,733 (US\$45,614) thousand can be applied to any year in the future in accordance with local statutory rules. A valuation allowance has been provided for substantially all of the investment tax credits at December 31, 2011 because management does not expect AUO to realize these tax benefits before they expire.

(e) Net operating loss carryforwards

Pursuant to the Taiwan Income Tax Act, as amended on January 21, 2009, the period within which unused net operating loss (NOL) assessed by the tax authorities can be carried forward to offset future taxable income has been extended from five years to ten years. Certain foreign subsidiaries are also entitled to enjoy NOL in accordance with respective local tax law and regulations.

As of December 31, 2011, unused NOL sustained by AUO, Toppan CFI, ACTW, DSTW and foreign subsidiaries were as follows:

Year of assessment	Unused NOL		Expiration year
	NT\$	US\$	
	(in thousands)		
2006	527,828	17,437	2016
2007	193,745	6,401	2017
2008	64,151	2,119	2018
2009	30,778,510	1,016,799	2014~2019
2010	2,751,611	90,903	2017~2020
2011 (estimated)	58,762,008	1,941,262	2018~2021
	93,077,853	3,074,921	

As of December 31, 2011, unused loss carryforwards of AUO's subsidiary located in Singapore amounted to NT\$1,968,762 (US\$65,040) thousand can be applied to any year in the future in accordance with local statutory rules. A valuation allowance has been provided at December 31, 2011 for certain of these deferred tax assets because management does not believe the tax benefits of certain NOL's will be realized before they expire.

(f) Assessments by the tax authorities

As of December 31, 2011, the tax authorities had completed the examination of income tax returns of AUO and Toppan CFI through 2008, and of Konly, Ronly, ACTW and BVTW through 2009.

(g) The integrated income tax system

Information related to the imputation credit account (ICA) of AUO was summarized below:

	December 31,
2010	2011

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	NT\$	NT\$ (in thousands)	US\$
Unappropriated earnings (accumulated deficits):			
Earned in 1998 and thereafter	47,116,043	(18,347,855)	(606,140)
ICA balance	5,160,950	5,148,354	170,081

	For the year ended December 31,	
	2010	2011
	(actual)	(estimated)
Creditable ratio for earnings distribution to Republic of China resident stockholders	11.80%	

The imputation credit to be allocated to stockholders is computed based on the ICA balance at the date of earnings distribution. The estimated creditable ratio may differ from the actual distribution.

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****20. Earnings (loss) per Share ((L) EPS)**

Basic (L) EPS for the years ended December 31, 2009, 2010 and 2011 were computed as follows:

	2009		For the year ended December 31, 2010		2011	
	Pre-tax NT\$	After tax NT\$	Pre-tax NT\$	After tax NT\$	Pre-tax NT\$	After tax NT\$
	(in thousands, except for per share data)					
Net income (loss) attributable to equity holders of the parent company:						
Net income (loss)	(26,668,094)	(26,769,335)	7,447,409	6,692,657	(65,585,890)	(61,263,814)
Weighted-average number of shares outstanding during the year	8,796,725	8,796,725	8,827,046	8,827,046	8,827,046	8,827,046
Basic (L)EPS (NT\$):						
Basic (L)EPS net income (loss)	(3.03)	(3.04)	0.84	0.76	(7.43)	(6.94)

Diluted EPS for years ended December 31, 2009, 2010 and 2011 were computed as follows:

	2009		For the year ended December 31, 2010		2011	
	Pre-tax NT\$	After tax NT\$	Pre-tax NT\$	After tax NT\$	Pre-tax NT\$	After tax NT\$
	(in thousands, except for per share data)					
Net income attributable to equity holders of the parent company (including the effect of dilutive potential common stock)						
Net income (loss) attributable to equity holders of the parent company	(26,668,094)	(26,769,335)	7,447,409	6,692,657	(65,585,890)	(61,263,814)
Effects of potential common stock:						
Convertible bonds payable			(507,514)	(421,237)		
	(26,668,094)	(26,769,335)	6,939,895	6,271,420	(65,585,890)	(61,263,814)
Weighted-average number of shares outstanding during the year (including the effect of dilutive potential common stock):						
Weighted-average number of shares outstanding during the year	8,796,725	8,796,725	8,827,046	8,827,046	8,827,046	8,827,046
Effects of potential common stock:						
Convertible bonds payable			132,467	132,467		
Employee bonuses			31,027	31,027		

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	8,796,725	8,796,725	8,990,540	8,990,540	8,827,046	8,827,046
Diluted EPS (NT\$)	(3.03)	(3.04)	0.77	0.70	(7.43)	(6.94)

Note: Diluted earnings per share in 2009 and 2011 were not calculated due to the anti-dilutive effect.

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(a) Fair value information

The carrying amount of cash and cash equivalents, receivables/payables (including related parties), other current financial assets, restricted assets, short-term borrowings, and equipment and construction-in-progress payables approximates 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, 2010 and 2011 were as follows:

	December 31, 2010	
	Carrying amount	Fair value
	NT\$	NT\$
	(in thousands)	
Financial assets:		
Foreign currency forward contracts	425,443	425,443
Options contracts	1,822	1,822
Available-for-sale financial assets noncurrent	1,373,687	1,373,687
Refundable deposits	176,141	176,141
Financial liabilities:		
Long-term borrowings (including current portion)	146,948,074	146,948,074
Convertible bonds payable (*)	24,094,080	24,094,080
Bonds payable (including current portion)	9,666,770	9,935,142
Foreign currency forward contracts	102,455	102,455
Interest rate swap contracts	361,889	361,889
Options contracts	180,020	180,020

	December 31, 2011			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
	(in thousands)			
Financial assets:				
Foreign currency forward contracts	85,621	2,829	85,621	2,829
Options contracts	172	6	172	6
Available-for-sale financial assets noncurrent	436,774	14,429	436,774	14,429
Interest rate swap contracts	3		3	
Refundable deposits	404,751	13,371	404,751	13,371
Financial liabilities:				
Long-term borrowings (including current portion)	198,957,069	6,572,748	198,957,069	6,572,748
Convertible bonds payable (*)	21,787,128	719,760	21,787,128	719,760
Bonds payable (including current portion)	3,564,383	117,753	3,638,651	120,207
Foreign currency forward contracts	17,523	579	17,523	579
Interest rate swap contracts	198,401	6,554	198,401	6,554
Options contracts	176,185	5,820	176,185	5,820

* Include financial liabilities measured at fair value convertible bonds payable

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(b) The following methods and assumptions are used to estimate the fair values of the Company's financial instruments:

- (1) The fair value of financial instruments other than financial assets carried at cost is based on quoted market prices, if available, in active markets. The fair value of derivative financial instruments is based on the amount the Company expects to receive (positive) or to pay (negative) assuming that the contracts are settled in advance at the balance sheet date.

The fair value of foreign currency forward contracts is computed based on the spot rate and swap points provided by Reuters quotes system. The fair value of interest rate swap is estimated based on market price provided by financial institutions. Financial institutions use the evaluation models and assumptions to estimate the market price of the individual contract.

- (2) The fair value of refundable deposits with no fixed maturity is based on carrying amount.

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- (3) The carrying value of the floating-rate long-term borrowings approximates fair value since the interest rates paid are based on short-term maturities and recent quoted rates from financial institutions. Thus the fair value of these instruments approximates to their carrying value.
- (4) The fair value of fixed-rate long-term borrowings is estimated based on the present value of future discounted cash flows based on prevailing market interest rates for similar debt instruments of comparable maturities and credit standing of the borrower.

The discount rate adopted by the Company is the rate of return of a similar financial instrument in the market; the factors include the debtors credit rating and the remaining period for principal repayment, etc. The Company uses a discount rate of 0.6% to 1.9% and 1.1808% as of December 31, 2010 and 2011, respectively. The fair value of convertible bonds payable is estimated based on Monte Carlo Simulation.

- (5) If the fair value of aforementioned financial instruments is denominated in foreign currency, the Company estimates the fair value based on the spot exchange rate provided by Reuters quotes system. The spot exchange rate is based on the buying rate and adopted consistently, except for the US dollar, which is based on the closing price.
- (c) The fair values of the Company's financial assets and liabilities determined by publicly quoted market price, if available, or determined using a valuation technique were as follows:

	December 31, 2010	
	Publicly quoted market prices NT\$	Fair value based on valuation technique NT\$
	(in thousands)	
Financial assets:		
Foreign currency forward contracts		425,443
Option contracts		1,822
Available-for-sale financial assets - noncurrent	1,373,687	
Refundable deposits		176,141
Financial liabilities:		
Long-term borrowings (including current portion)		146,948,074
Convertible bonds payable (*)		24,094,080
Bonds payable (including current portion)		9,935,142
Foreign currency forward contracts		102,455
Interest rate swap contracts		361,889
Option contracts		180,020

	December 31, 2011			
	Publicly quoted market prices		Fair value based on valuation technique	
	NT\$	US\$	NT\$	US\$
	(in thousands)			
Financial assets:				
Foreign currency forward contracts			85,621	2,829

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Option contracts			172	6
Available-for-sale financial assets	noncurrent	436,774	14,429	
Interest rate swap contracts			3	
Refundable deposits			404,751	13,371
Financial liabilities:				
Long-term borrowings (including current portion)			198,957,069	6,572,748
Convertible bonds payable (*)			21,787,128	719,760
Bonds payable (including current portion)			3,638,651	120,207
Foreign currency forward contracts			17,523	579
Interest rate swap contracts			198,401	6,554
Option contracts			176,185	5,820

* Include financial liabilities measured at fair value convertible bonds payable

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (d) The Company pledged certain of its financial assets to secure long-term borrowings and bonds payable, see note 23.
- (e) Gains on valuation of financial instruments resulting from the change in fair value, determined using valuation techniques, were NT\$813,152 thousand, NT\$3,986,083 thousand and NT\$744,072 (US\$24,581) thousand for the years ended December 31, 2009, 2010 and 2011, respectively.
- (f) Financial liabilities exposed to cash flow risk resulting from change in interest rates were NT\$108,005,572 thousand and NT\$181,521,211 (US\$5,996,736) thousand as of December 31, 2010 and 2011, respectively.
- (g) Financial risks relating to financial instruments

(1) Market risk

The Company holds equity securities which are classified as available-for-sale financial assets. Equity securities are valued at fair value and are exposed to the risk of price changes in the securities market.

The foreign currency forward contracts and interest rate swap contracts entered into by the Company are, in economic substance, for hedging purposes. Gains or losses from these financial instruments are expected to substantially offset gain or loss from hedged items. Therefore, management believes that there is no significant market risk from the fluctuations of foreign currency or interest rates.

(2) Credit risk

The Company's potential credit risk is derived primarily from cash in bank, cash equivalents and accounts receivable. The Company maintains its cash and cash equivalent investments with various reputable financial institutions of high credit quality. The majority of these financial institutions are located in the ROC. 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 the computer, consumer electronics and LCD TV industries. Management continuously evaluates the credit quality and financial strength of its customers. If necessary, the Company will request collateral from its customers. In 2009, 2010 and 2011, the Company's five largest customers accounted for 37.3%, 39.02% and 36.03%, respectively, of the consolidated net sales.

(3) Liquidity risk

At December 31, 2011, the Company's current assets exceed its current liabilities. Management believes the Company's existing credit lines under its long-term loan agreements, together with net cash expected to be generated from its operations, will be sufficient to fulfill its payment obligations over the next twelve months. Therefore, management believes that the Company does not have significant liquidity risk.

As of December 31, 2011, the Company's future cash flows for the outstanding forward exchange contracts were as follows:

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Forward Exchange Contract Term	Outflow (in thousands)	Inflow (in thousands)
From Jan. 2012 to Mar. 2012		JPY 32,488,341
	USD 421,246	NTD 621,578
	EUR 70,100	SGD 7,803
	CZK 47,747	CNY 454,268

In addition, the exchange rates for settling these forward exchange contracts are fixed. Therefore, there is no material cash flow risk.

(4) Cash flow risk resulting from change in interest rates

The Company's long-term borrowings are primarily borrowings bearing floating-interest-rate. As a result, the Company is exposed to fluctuation in interest rates that affect cash flows for interest payments on these borrowings. At December 31, 2011, if the market interest rates on the Company's floating-interest-rate borrowings had been 25 basis points higher with all other variables held constant, the future annual interest expense would have been NT\$453,803 (US\$14,992) thousand higher.

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(Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****22. Related-party Transactions**

Except as disclosed in the consolidated financial statements and other footnotes, the significant related party transactions were as follows:

(a) Names and relationships of related parties

Name of related party	Relationship with the Company
Cando	Investee of AUO and Konly; see note (i) below
Raydium	Investee of Konly
Wellypower	Investee of Konly
Qisda	Shareholder represented on AUO's board of directors; investee of AUO and Konly
BenQ Corporation (BenQ)	Subsidiary of Qisda
Qisda Optronics (Suzhou) Co., Ltd. (QCOS)	Subsidiary of Qisda
Qisda Co., Ltd. Suzhou (QCSZ)	Subsidiary of Qisda
BenQ Material Corp. (BMC)	Subsidiary of Qisda
Nano	Investee of Konly and Ronly; see note (ii) below
FH	Investee of Konly, Ronly and BVTW
Forhouse International Holding Ltd. (FHBVI)	Subsidiary of FH
Fortech International Corp. (Fortech)	Subsidiary of FH
Fortress Optronics International Corporation (Fortress)	Subsidiary of FH
Fortech Optronics (Xiamen) Co., Ltd. (FHSSXM)	Subsidiary of FH
Fortech Optronics (Kunshan) Co., Ltd. (FHSSKS) (Formerly Nano-Kunshan)	Subsidiary of FH; see note (ii)
Changhong Electrics (Sichuan) Co., Ltd. (Changhong Electrics)	Joint investor of BVCH
Changhong (Hongkong) Trading Ltd. (Changhong Trading)	Substantive related party of BVCH
TCL Huizhou	Joint investor of BKHZ
TCL Corporation (TCL)	Related party of BKHZ; see note (iii) below
TCL Electrics (Hongkong) Co., Ltd. (TCL (HK))	Related party of BKHZ; see note (iii) below
BTPL	Subsidiary of BTLB
AUSP	Investee of AUSG
Abakus Solar AG (Abakus)	Investee of AULB
Sichuan Changhong LCM CO., Ltd. (Changhong LCM)	Substantive related party of BVCH
Others	Directors, supervisors, president, vice-presidents of the Company, and entities that the Company has significant influence but with which the Company had no material transactions.

Note (i): On June 30, 2011, the Company disposed most of its equity shareholdings in Cando, and resigned from the director position. Accordingly, transactions with Cando have been disclosed as related-party transactions through June 30, 2011.

Note (ii): On September 15, 2010, Nano was merged into FH, with FH as the surviving entity. Accordingly, transactions with Nano have been disclosed as related-party transactions through September 15, 2010.

Note (iii): On July 27, 2010, the Company jointly invested in BKHZ with TCL Huizhou through AULB. Accordingly, TCL Huizhou and its related parties are considered as a related party of the Company, and related-party transactions were disclosed starting from July 27, 2010.

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(b) Significant transactions with related parties

(1) Sales

Net sales to related parties were as follows:

	For the year ended December 31,			US\$
	2009 NT\$	2010 NT\$	2011 NT\$	
		(in thousands)		
TCL Huizhou		6,284,825	10,292,276	340,016
Changhong Electrics	6,827,504	15,676,929	7,377,695	243,730
BenQ	8,945,171	9,750,242	6,400,096	211,434
Changhong Trading		245,940	4,761,272	157,293
QCSZ	1,887,418	3,260,601	2,628,576	86,838
AUSP		76,623	2,568,666	84,858
TCL (HK)		2,572,268	2,152,528	71,111
TCL		2,998,896	486,003	16,055
Others	3,225,511	5,583,365	5,309,187	175,394
	20,885,604	46,449,689	41,976,299	1,386,729

The collection terms for sales to related parties were month-end 30 to 45 days, and average collection days for the years ended December 31, 2009, 2010 and 2011, were 60 days, 50 days and 70 days, respectively. The collection terms for sales to unrelated customers were month-end 30 to 60 days, and average collection days for the years ended December 31, 2009, 2010 and 2011, were 48 days, 48 days and 52 days, respectively. The pricing and other terms for sales to related parties were not materially different from those with unrelated customers.

As of December 31, 2010 and 2011, receivables resulting from the above transactions were as follows:

	2010	December 31,	
	NT\$	NT\$	US\$
		(in thousands)	
Changhong LCM		1,467,690	48,487
BenQ	1,211,755	1,052,761	34,779
QCSZ	717,827	828,581	27,373
AUSP	76,869	770,705	25,461
TCL Huizhou	2,228,630	725,488	23,967
Changhong Trading		558,702	18,457
Changhong Electrics	3,004,963	544,697	17,995
TCL	895,806	68,929	2,277
Others	1,279,152	1,007,356	33,279
Less: allowance for doubtful accounts	(1,551)		
Less: allowance for sales returns and discounts	(93,019)	(241,304)	(7,972)
	9,320,432	6,783,605	224,103

(2) Disposal of property, plant and equipment, operating leases, and others

The Company leased portion of its facilities to related parties. Total rental income for the years ended December 31, 2009, 2010 and 2011, amounted to NT\$83,862 thousand, NT\$118,169 thousand and NT\$141,615 (US\$4,678) thousand, respectively. The collection term was quarter-end 15 days, and the pricing was not materially different from that with unrelated parties.

In 2009, 2010 and 2011, the Company sold property, plant and equipment to related parties for NT\$128,252 thousand, NT\$15,471 thousand and NT\$16,128 (US\$533) thousand, respectively. Gains (losses) on disposals for the years ended December 31, 2009, 2010 and 2011, amounted to NT\$(4,469) thousand, NT\$9,568 thousand and NT\$523 (US\$17) thousand, respectively. The collection term was month-end 30 to 45 days and the pricing for sales to related parties was not materially different from that with unrelated parties.

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In 2010 and 2011, the Company received administration income of NT\$ 4,408 thousand and NT\$8,786 (US\$290) thousand from related parties.

In 2009, 2010 and 2011, the Company received compensation income of NT\$17,886 thousand, NT\$1,974 thousand and NT\$6,662 (US\$220) thousand, respectively, from related parties due to product quality issues.

In 2009, 2010 and 2011, the Company received other income of NT\$1,543 thousand, NT\$12,473 thousand and NT\$133,134 (US\$4,398) thousand, respectively, from related parties.

In 2009, 2010 and 2011, the Company received total cash dividends of NT\$142,096 thousand, NT\$437,801 thousand and NT\$651,486 (US\$21,522) thousand, respectively, from its investees.

As of December 31, 2010 and 2011, receivables from above-mentioned transactions amounted to NT\$72,696 thousand and NT\$191,499 (US\$6,326) thousand, respectively.

(3) Purchases

Net purchases from related parties were as follows:

	For the year ended December 31,			
	2009 NT\$	2010 NT\$	2011 NT\$	US\$
	(in thousands)			
FH	7,911,643	23,277,026	19,294,675	637,419
BMC	11,136,574	13,995,913	14,453,146	477,474
Raydium	7,534,212	8,488,130	8,350,319	275,861
Cando	3,179,766	2,513,395	2,347,424	77,550
Wellypower	2,861,898	1,793,100	1,608,649	53,144
FHSSKS	2,865,743	2,175,339	1,001	33
Fortech	6,057,071	467,437		
Fortress	4,360,141	446,513		
Others	10,414,681	19,296,062	22,436,129	741,200
	56,321,729	72,452,915	68,491,343	2,262,681

The pricing and payment terms with related parties were not materially different from those with unrelated vendors. The payment terms were 30 to 120 days for the years ended 2009, 2010 and 2011.

As of December 31, 2010 and 2011, payables resulting from the above purchases were as follows:

	December 31,		
	2010 NT\$	2011 NT\$	US\$
	(in thousands)		
FH	5,639,312	6,207,655	205,076

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BMC	4,046,153	3,385,151	111,832
Raydium	2,954,675	3,048,366	100,706
QCSZ	976,586	1,253,681	41,416
TCL	1,013,679	84,686	2,798
FHBVI	1,245,426		
Others	4,248,834	3,474,640	114,788
	20,124,665	17,454,179	576,616

Transactions with FH and other related parties are reversed in order not to double count the sales and purchase, if unrealized gain or losses is not realized though transactions with third parties. However, related accounts receivable and inventory are not reversed. The Company recognizes revenue upon the completion of transactions with third parties.

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(4) Acquisition of property, plant and equipment and others

In 2009, 2010 and 2011, the Company acquired property, plant, and equipment from related parties for a total consideration of NT\$59,326 thousand, NT\$36,212 thousand and NT\$33,818 (US\$1,117) thousand, respectively.

In 2009, 2010 and 2011, the Company paid other expenses, which consists mainly of rental and other expenses, of NT\$386,237 thousand, NT\$468,205 thousand and NT\$528,710 (US\$17,466) thousand, respectively, to related parties.

As of December 31, 2010 and 2011, amounts due to related parties as a result of the aforementioned transactions amounted to NT\$98,601 thousand and NT\$168,004 (US\$5,550) thousand, respectively.

(5) Compensation to executive officers

In 2010 and 2011, compensation paid to the Company's executive officers including directors, supervisors, president and vice-presidents was as follows:

	For the year ended December 31,		
	2010	2011	
	NT\$	NT\$	US\$
	(in thousands)		
Salaries	155,504	143,208	4,731
Compensation	68,216	85,143	2,813
Service charges	23,270	14,735	487
Employee bonuses	41,878	15,900	525

For the 2010 compensation included in the accruals for remuneration to directors and employee bonuses; refer to section stockholders' equity for further details.

23. Pledged Assets

Pledged assets	Pledged to secure	2010	December 31,	
		NT\$	NT\$	US\$
		(in thousands)		
Restricted cash in banks	R&D project, oil purchases, customs duties and guarantees for foreign workers	162,221	158,509	5,237
Secured deposit	Guarantees for lawsuit		4,778,288	157,856
Land and building	Long-term borrowings	62,802,899	92,496,496	3,055,715
Machinery and equipment	Long-term borrowings and bonds payable	162,851,942	162,782,620	5,377,688
Available-for-sale financial assets	Long-term borrowings	5,142	3,309	109
		225,822,204	260,219,222	8,596,605

24. Commitments and Contingencies

The significant commitments and contingencies of the Company as of December 31, 2011, in addition to those disclosed in the aforementioned notes to the financial statements, were as follows:

(a) Outstanding letters of credit

As of December 31, 2010 and 2011, the Company had the following outstanding letters of credit for the purpose of purchasing machinery and equipment and materials from foreign suppliers:

Currency	December 31,	
	2010	2011
	(in thousands)	
USD	2,337	6,273
JPY	3,570,203	2,819,360
EUR		6,173
CNY	18,725	900
NTD		10,800

The letters of credit are irrevocable and will expire upon the Company's payment of the related obligations.

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(b) Technology licensing agreements**

Starting 1998, AUO has entered into technical collaboration, patent licensing, and/or patent cross licensing agreements with Fujitsu Display Technologies Corp. (subsequently assumed by Fujitsu Limited), Toppan Printing Co., Ltd. (Toppan Printing), Semiconductor Energy Laboratory Co., Ltd. (SEL), Hitachi Displays Ltd., IPS Alpha Technology, Ltd., Guardian Industries Corp., Honeywell International Inc., Honeywell Intellectual Properties Inc., Fergason Patent Properties LLC, Toshiba Mobile Display Co., Ltd., Sharp Corporation, LG Display Co., Ltd. and others. The Company believes that it is in compliance with the terms and conditions of the aforementioned agreements.

(c) Purchase commitments

On March 31, 2011, AUO signed a long-term materials supply agreement with Corning Display Technologies Taiwan Co. Ltd. (Corning Taiwan), under which, AUO and Corning Taiwan agreed on the supply of certain TFT-LCD and color filters glass substrates at negotiated quantity. The contract is effective from March 30, 2011 to December 31, 2013.

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. AUO paid proportionate prepayments in three installments to OCI in 2011. The contract is effective from April 15, 2011 to December 31, 2018.

On January 25, 2011, AUO signed a long-term materials supply agreement with Sunrise Global Solar Energy (Sunrise), under which, AUO and Sunrise agreed on the supply of certain single crystalline silicon solar cells. The contract is effective from January 25, 2011 to January 15, 2013.

As of December 31, 2010 and 2011, significant outstanding purchase commitments for construction in progress, property, plant and equipment totaled NT\$31,891,984 thousand and NT\$36,301,499 (US\$1,199,257) thousand, respectively.

On April 11, 2008, Toppan CFI and Allied Material Technology Corporation entered into an agreement for purchase and sale of real property located in the Kaohsiung Lujhu Science Park for a total consideration of NT\$1,500,000 thousand. On August 31, 2011, the registration of ownership transfer was completely processed. As of September 5, 2011, all payments were fully paid.

(d) Operating lease agreements

AUO entered into various operating lease agreements for operating facilities and land with the Science Park Administration Bureaus for periods from March 1, 1994, to December 31, 2027. In addition, the Company's subsidiary companies, including Toppan CFI, AUCZ, ACTW and M. Setek, also entered into operating lease agreements for operating facilities and land for periods from April 13, 2009, to December 31, 2030. Future minimum lease commitments as of December 31, 2011, under existing non-cancelable agreements were as follows:

Year	Minimum lease commitments	
	NT\$	US\$
	(in thousands)	
2012	1,009,189	33,340
2013	806,461	26,642
2014	573,220	18,937
2015	505,986	16,716
Thereafter	4,078,436	134,735

Rental expense for operating leases amounted to NT\$526,232 thousand, NT\$972,931 thousand, and NT\$1,325,238 (US\$43,781) thousand in 2009, 2010 and 2011, respectively.

(e) Litigation

(1) Alleged patent infringements

In December 2006, LG Display Co., Ltd. (LGD) filed a lawsuit in the United States District Court for the District of Delaware against AUO and other TFT-LCD manufacturers claiming patent infringement. AUO retained legal counsel to handle this matter. LGD sought, among other things, monetary damages for willful infringement and an injunction against future infringement. In March 2007, AUO filed a suit in the United States District Court for the Western District of Wisconsin against LGD and LGD America, claiming infringement of certain of our patents in the United States relating to the manufacturing of TFT-LCD products. AUO sought, among other things, monetary damages and enhanced damage for willful infringement and an injunction against future infringement. The claims against the Company and the counterclaims filed by AUO were consolidated in June 2007 in the United States District Court for the District of Delaware (the Delaware Court). Trial for this case was held in June 2009. In February 2010, the Delaware Court found that LGD and LGD America have infringed AUO's four patents asserted at trial and in April 2010, the Delaware Court further found that AUO did not infringe any of LGD's patents as asserted at trial. In August 2011, AUO and LGD have entered into a Settlement and Patent Cross License Agreement and both parties agreed to dismiss all pending legal actions that have been filed against each other .

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In February 2007, Anvik Corporation (Anvik) filed a lawsuit in the United States District Court for the Southern District of New York against AUO and other TFT-LCD manufacturers, claiming infringement of certain of Anvik s patents in the United States relating to the use of photo-masking equipment manufactured by Nikon Corporation in the manufacturing of TFT-LCD panels. AUO has retained legal counsel to handle the related matters. Anvik is seeking, among other things, unspecified monetary damages for past infringement and an injunction against future infringement. In April 2012, the court invalidated Anvik s patents. AUO expects Anvik to appeal. Management is reviewing the merits of this suit on an on-going basis.

In September 2008, Apeldyn Corporation (Apeldyn) filed a lawsuit in the Delaware Court against AUO and other TFT-LCD manufacturers, claiming infringement of certain of Apeldyn s patents in the United States relating to the manufacturing of TFT-LCD panels. In the complaint, Apeldyn is seeking, among other things, unspecified monetary damages for past infringement and an injunction against future infringement. The court granted summary judgment of non-infringement of AUO in December 2011. Apeldyn has sought an extension of time to file the appeal. While management intends to defend the suit vigorously, the ultimate outcome of the matter is uncertain, and the amount of possible loss, if any, is currently not estimable. Management is reviewing the merits of this lawsuit on an on-going basis.

On October 13, 2010, Thomson Licensing SAS and Thomson Licensing LLC (together, Thomson) filed a lawsuit in the Delaware Court against AUO, AU Optronics America (AUUS), AUO s customers and other corporations, claiming infringement of certain of Thomson s patents in the United States relating to the manufacturing of TFT-LCD panels. This case is stayed. On October 25, 2010, Thomson filed a complaint seeking an investigation by the United States International Trade Commission (ITC) of our alleged patent infringement. The ITC Judge s preliminary determination made in January 2012 found that none of the patents asserted by Thomson against AUO were infringed by AUO. The full commission is now reviewing the decision. While management intends to defend the suit vigorously, the ultimate outcome of the matter is uncertain, and the amount of possible loss, if any, is currently not estimable. Management is reviewing the merits of this lawsuit on an on-going basis.

In January 2011, Sharp Corporation (Sharp) filed a complaint against AUO AUUS and AUO s customers, seeking an investigation by the ITC of alleged patent infringement. On the same day, Sharp also filed a lawsuit in the Delaware Court against AUO and AUUS claiming infringement of Sharp s patents asserted in the ITC relating to the manufacturing of TFT-LCD panels. Sharp sought, among other things, monetary damages for willful infringement and injunction against future infringement. In March 2011, AUO and AUUS filed two complaints against Japan s Sharp and Sharp Electronics Corporation (together Sharp) for patent infringement in the United States District Court in Delaware and in the United States Central District Court of California. AUO sought, among other things, monetary damages for willful infringement and injunction against future infringement. In April 2011, AUO and Sharp entered into a Settlement Agreement and Patent Cross License Agreement, and both parties agreed to dismiss all pending legal actions that have been filed against each other.

In January 2011, Advanced Display Technologies of Texas, LLC (ADTT) filed a lawsuit in the United States District Court for the Eastern District of Texas Tyler Division (the Eastern Texas Court) against AUO, AUUS and other electronic devices companies, claiming infringement of certain of ADTT s patents in the United States. ADTT is seeking, among other things, unspecified monetary damages for past infringement and an injunction against future infringement. While management intends to defend the suit vigorously, the ultimate outcome of the matter is uncertain, and the amount of possible loss, if any, is currently not estimable. Management is reviewing the merits of this lawsuit on an on-going basis.

On April 25, 2011, Eidos Display, LLC and Eidos III, LLC. (together Eidos) filed a lawsuit in the Eastern Texas Court against AUO, AUUS and other Taiwanese TFT-LCD manufacturers, claiming infringement of certain of Eidos patents in the United States. Eidos is seeking, among other things, unspecified monetary damages for past infringement and an injunction against future infringement. While management intends to defend the suit vigorously, the ultimate outcome of the matter is uncertain, and the amount of possible loss, if any, is currently not estimable. Management is reviewing the merits of this lawsuit on an on-going basis.

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On June 1, 2011, Samsung Electronics Co., Ltd. (Samsung) filed a complaint against AUO, AUUS and certain of AUO's customers, seeking an investigation by the United States International Trade Commission (ITC) of alleged patent infringement. On the same day, Samsung also filed a lawsuit in the Delaware Court and the United States District Court for the Northern District of California (the Northern California Court) against AUO, AUUS and certain of AUO's customers claiming infringement of certain of Samsung's patents relating to the manufacturing of TFT-LCD panels. Samsung sought, among other things, monetary damages for willful infringement and injunction against future infringement. On June 24, 2011, AUO and AUUS filed a complaint against Samsung, Samsung Electronics America, Inc., and certain of Samsung's customers in the ITC of alleged patent infringement and on the same day also filed a complaint against Samsung, Samsung Electronics America, Inc., and certain of Samsung's customers for patent infringement in the United States District Court in Delaware and in the United States District Court for the Northern District of California. AUO sought, among other things, monetary damages for willful infringement and injunction against future infringement. In January 2012, AUO and Samsung entered into a Settlement and Patent Cross License Agreement and both parties agreed to dismiss all pending legal actions that have been filed against each other.

(2) Investigation for alleged violation of antitrust and competition laws

AUO and certain of its subsidiaries, along with various competitors in the TFT-LCD industry, are under investigation for alleged violation of antitrust and competition laws of certain jurisdictions including but not limited to the following: Since December 2006, AUO and certain of its overseas subsidiaries have become involved in antitrust investigations by the United States Department of Justice (the U.S. DOJ), the European Commission Directorate-General for Competition (the DG COMP), the Canada Competition Bureau, the Taiwan Fair Trade Commission, the Korea Fair Trade Commission and the Japan Fair Trade Commission, concerning the allegations of price fixing by manufacturers of TFT-LCD panels. In January 2009, the Taiwan Fair Trade Commission visited AUO's office in Taiwan and requested certain information from AUO as part of its investigations into the TFT-LCD industry. In November 2009, the Taiwan Fair Trade Commission notified AUO of the termination of its investigation. In February 2012, the Canada Competition Bureau notified AUO of the discontinuance of its investigation. The Japan Fair Trade Commission and the Korea Fair Trade Commission also requested certain information from AUO as part of their respective investigations in 2007 and 2009, respectively. In December 2011, AUO was in receipt of a written decision made by the Korea Fair Trade Commission (KFTC) alleging the violation of competition rules in Korea conducted by a number of LCD manufacturers, including AUO and imposed fines on a number of LCD manufacturers, including AUO. The fine imposed by KFTC against the Company is 28,442,000,000 Korean won. AUO paid the full amount of fine and filed a complaint for objection in the KFTC and also filed an appeal in the Seoul High Court. In February, AUO was notified by the KFTC of a 30% reduction of the fine. In March, KFTC refunded the reduced fine to AUO. In 2009, the DG COMP issued a Statement of Objections to a number of LCD manufacturers, including AUO, alleging anti-competitive activities. AUO received DG COMP's Statement of Objections in May 2009 and submitted AUO's reply in July 2009. AUO and certain LCD manufacturers attended the hearing held by the DG COMP regarding its investigation in September 2009. In December 2010, DG COMP announced the imposition of fines on five LCD manufacturers, including EUR116.8 million on AUO. AUO paid the full amount of the fine in March 2011 in compliance with the applicable rules and regulations for filing an appeal to the General Court to vigorously defend itself. The ultimate outcome of this case is still pending and it is anticipated to take at least two years. In November 2011, the DG COMP advised AUO that they had begun an investigation of competitor contact regarding small size panels during 1998 to 2006. No determination has been made and AUO does not know when the investigation may be concluded. As with the prior EU investigation, AUO is cooperating with DG COMP and AUO intends to continue to cooperate as warranted as part of AUO's ongoing defense of this matter. Management is reviewing the merits of this lawsuit on an on-going basis.

In June 2010, AUO, AUUS and six of its current and former officers and employees were indicted in the United States District Court for the Northern District of California (the Northern California Court) for an alleged one count violation of Section 1 of the Sherman Act, which carries a maximum penalty of ten years in prison and a \$1 million fine for individuals and a \$100 million fine for corporations. The maximum fines may be increased to twice the gain derived from the crime or twice the loss suffered by the victims if either of those amounts is greater than the Sherman Act maximum fines. The superseding indictment alleges that AUO, AUUS and their alleged coconspirators derived gross gains of at least US\$500 million, and persons other than the defendants and their alleged coconspirators suffered gross losses of at least US\$500 million. Arraignment hearings in relation to bail for five of the six indicted individuals were held in July and August 2010. On August 13, 2010, the Northern California Court ruled that Mr. HB Chen, our Vice Chairman and Dr. LJ Chen, our then President, must surrender their passports and are barred from leaving the Northern District of California without the Northern California Court's permission. Mr. Chen and Dr. Chen retained counsel to deal with this issue. AUO initiated its deputy system and its business has not been materially affected due to Mr. Chen and Dr. Chen remain in Northern California; however, if AUO and its subsidiary are found to have violated antitrust and/or competition laws in the applicable jurisdictions, AUO and its subsidiaries will likely have to pay a fine or penalty. Trial for the criminal case started from January 9, 2012 and the

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jury began deliberations from March 1, 2012. It is also possible that certain of AUO's executive officers, senior management and/or other employees, current and/or former, may be held criminally liable and subject to imprisonment and/or fines. AUO and its subsidiaries may also agree to pay a fine or penalty as part of any plea bargain and/or settlement. To AUO management's knowledge, other competitors that pled guilty and entered into plea bargain agreements with the U.S. DOJ have agreed to pay fines from US\$35 million to US\$400 million. While AUO management does not know all the facts and circumstances that led each of the competitors to enter into these pleas, AUO is aware of the outcome of those plea bargain agreements, which may or may not be the amounts which the court may decide to consider in relation to AUO's case.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

AUO has made certain provisions for certain antitrust matters in certain jurisdictions as the management deems appropriate. Management will re-assess the appropriateness of the recorded provisions each reporting period and will make any necessary adjustments as deemed appropriate. The ultimate outcome of the pending antitrust investigations cannot be predicted with certainty. Any penalties, fines or settlements made in connection with these investigations and/or lawsuits may have a material adverse effect on the Company's business, results of operation and future prospects.

(3) Antitrust civil actions lawsuits in the United States and Canada

There are also over 100 civil lawsuits filed against AUO and/or its subsidiaries in the United States and several civil lawsuits in Canada alleging, among other things, antitrust violations. The putative antitrust class actions filed in the United States have been consolidated for discovery in the United States District Court for the Northern District of California. In the amended consolidated complaints, the plaintiffs are seeking, among other things, unspecified monetary damages and an injunction from the alleged antitrust conspiracy. The Court has issued an order certifying two types of classes that may proceed against AUO and other TFT-LCD companies: direct purchasers and indirect purchasers. The civil class actions are expected to be tried in and after May 2012 unless a settlement is reached. Also, the first track of plaintiffs that have opted out of the class cases are set for trial in November 2012. While the management intends to defend certain suits vigorously, the ultimate outcome of the matter is uncertain, and the amount of possible loss, if any, of certain suits is currently not estimable. Management is reviewing the merits of this lawsuit on an on-going basis.

Since the fourth quarter of 2009, AT&T Corp and its affiliates (collectively, AT&T), Motorola Inc. (Motorola), Tracfone, Best Buy, Nokia Corporation (Nokia), Target Corp., Kmart Corp, Costco Wholesale Corp, HP, Dell Sony, CompuCom Systems, Inc., TechData Corporation and other various business entities, filed civil lawsuits against a number of LCD manufacturers including AUO in the United States and, in the case of Nokia, in both the United States and the United Kingdom, claiming among other things, unspecified monetary damages and an injunction from the alleged antitrust conspiracy. The US Court has stayed Nokia's claim against AUO and AUUS and ordered Nokia to arbitrate those claims. Nokia has not yet commenced arbitration proceedings. The Court has stayed some of Dell's claims against AUO and AUUS and ordered Dell to arbitrate those claims. Dell has not yet commenced arbitration proceedings. Certain of Dell's claims against AUO and AUUS remains pending in the federal court lawsuit. AUO intends to defend these lawsuits vigorously, and at this stage, the final outcome of these matters is uncertain, and the amount of possible loss, if any, is currently not estimable.

Since August 2010, a number of states in the U.S, such as New York State, Illinois State, Florida State, Oregon State, Wisconsin State, Missouri State, Arkansas State, Michigan State, Washington State, West Virginia State, California State, South Carolina State, Mississippi State, Oklahoma State and several retailers and distributors also filed lawsuits against a number of LCD manufacturers including AUO. AUO has retained counsel to handle the related matters. AUO intends to defend these lawsuits vigorously, and at this stage, the final outcome of these matters is uncertain, and the amount of possible loss, if any, of certain of these lawsuits is currently not estimable. Management is reviewing the merits of these civil lawsuits on an on-going basis.

In addition to the matters described above, the Company is also a party to other litigations or proceedings that arise during the ordinary course of business. Except as mentioned above, the Company is not involved 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.

The Company has made provisions (net of reversals, if any) of NT\$9,673,060 thousand, NT\$511,251 thousand and NT\$6,115,540 (US\$202,033) thousand in 2009, 2010 and 2011, respectively, with respect to litigation and claims in which management has concluded that the likelihood of an unfavorable outcome is probable and the amount of loss is reasonably estimable. The accrued liabilities for those contingencies as of December 31, 2010 and 2011 were NT\$13,657,361 thousand and NT\$19,863,888 (US\$656,224) thousand, respectively. An estimate for the total exposure, which by its nature is uncertain and may be materially higher or lower than estimated, to loss in excess of amount accrued for these matters was US\$323 million as of December 31, 2011. For the matters described above, management will continue to evaluate the appropriateness of the amounts recorded and will make adjustments to such recorded amounts as deemed 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 operation and future prospects.

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(f) Sales agreements**

Since 2006, M. Setek entered into long-term sales agreements with five customers. The agreements provide that, from 2006 to 2015, M. Setek will sell certain silicon materials or wafers to these customers at certain quantities and prices, with the proportionate installment prepayments made to M. Setek. These customers may request M. Setek to terminate the agreements and to reimburse the remaining prepayments, if delivery schedule is not met. As of December 31, 2011, the remaining unearned revenue amounted to US\$217,932 thousand.

(g) Others

On January 21, 2010, the Taiwan Supreme Administrative Court dismissed an appeal by the Environmental Protection Administration of the Executive Yuan of Taiwan relating to the development of Central Taiwan Science Park located in Seven Star Farm. The Seven Star Farm is the location where the Company is building its new 8.5 generation manufacturing plants. As a result of the dismissal, the Central Taiwan Science Park Development Office (CTSP) was required to make supplemental submission of its environmental assessment for the construction of Seven Star Farm of the Central Taiwan Science Park. In response, on August 31, an updated environmental impact assessment was further reviewed and approved by the Environmental Protection Agency of the ROC Executive Yuan (EPA). The EPA issued its official announcement of the approval of such updated environmental impact assessment in favor of the continued development of the third phase expansion. On September 6, 2010, the Central Taiwan Science Park Development Office has received the new development approval from the National Science Council of the Executive Yuan to allow the third phase to continue. Certain individuals filed several lawsuits against the National Science Council of the ROC Executive Yuan (NSC), CTSP and the EPA for preliminary injunction, ceasing enforcing development approval, revoking development approval and revoking the updated environmental impact assessment in the Administrative Court. Among the administrative lawsuits, certain administrative lawsuits are in favor of NSC, CTSP and the EPA and the others remain pending in the Administrative Court. At present, the Company does not believe this event to have a material adverse effect on the Company's operations under the preliminary presumption of administrative trust-protection principle between the government and people since the Company has obtained the development approval issued by the governmental authorities in due course.

On March 11, 2011, a major earthquake, measuring over 9.0 on the Richter magnitude scale, occurred off the coast of Miyagi, Japan. The earthquake also created a large tsunami which caused extensive damage along Japan's Pacific coast (including coast along Tokyo), where, in addition to the Sendai fab, M. Setek operates fabs in Soma. Production at these facilities was suspended, but resumed later in 2011 as the local infrastructure has recovered. As of December 31, 2011, expenses resulting from property damage losses and asset impairments have been recognized, and the amount did not have a material impact on the Company's results of operations for the year ended December 31, 2011.

25. Segment and Geographic Information**(a) Operating segment information**

The Company has two operating segments: Display and Solar. The display segment generally is engaged in the design, development, production, assembly and marketing flat panel displays. The solar segment primarily is engaged in the design, manufacturing and sale of single crystal silicon wafers, ingots and solar modules, as well as providing technical engineering services in clean energy business.

The CODM assesses the performance of the operating segments based on segment sales and segment profit and loss. The accounting policies for the operating segments are the same as those described in Note 3. Intersegment sales are accounted for in a manner similar to sales to third parties and at current market prices. Segment profit and loss is determined on a basis that is consistent with how the Company reports operating income (loss) on an ROC GAAP basis in its consolidated statements of operations. Operating income (loss) excludes income taxes, interest income and expenses, foreign currency transaction gains and losses, equity in the income (losses) of affiliates, depreciation of idle assets, asset impairment losses, provisions for potential litigation losses, gains and losses on valuations of financial instruments and sales of investment securities, gains from bond redemption, and other income and expenses.

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	For the year ended December 31, 2009			Consolidated Total NT\$
	Display NT\$	Solar NT\$	Adjustment and eliminations NT\$	
	(in thousands)			
Net sales from external customers	357,033,516	2,297,829		359,331,345
Intersegment sales		33,799	(33,799)	
Total segment sales	357,033,516	2,331,628	(33,799)	359,331,345
Operating loss (Note)	(13,949,232)	(1,296,278)	6,459	(15,239,051)
Non-operating expenses and losses, net				(12,028,350)
Loss before income tax				(27,267,401)
Depreciation and amortization	88,590,459	1,517,152		90,107,611

	For the year ended December 31, 2010			Consolidated Total NT\$
	Display NT\$	Solar NT\$	Adjustment and eliminations NT\$	
	(in thousands)			
Net sales from external customers	456,725,565	10,432,399		467,157,964
Intersegment sales		233,402	(233,402)	
Total segment sales	456,725,565	10,665,801	(233,402)	467,157,964
Operating profit (loss) (Note)	13,102,670	(2,612,622)	6,616	10,496,664
Non-operating expenses and losses, net				(1,900,683)
Income before income tax				8,595,981
Depreciation and amortization	86,656,429	2,479,273		89,135,702

	For the year ended December 31, 2011			Consolidated Total NT\$
	Display NT\$	Solar NT\$	Adjustment and eliminations NT\$	
	(in thousands)			
Net sales from external customers	366,482,597	13,229,281		379,711,878
Intersegment sales		38,887	(38,887)	

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Total segment sales	366,482,597	13,268,168	(38,887)	379,711,878
Operating loss (Note)	(54,433,233)	(3,220,521)	(4,778)	(57,658,532)
Non-operating expenses and losses, net				(7,993,597)
Loss before income tax				(65,652,129)
Depreciation and amortization	84,999,490	3,752,943		88,752,433

Note: The adjustment and eliminations of operating profit (loss) resulted from the intersegment transactions of solar reporting unit.

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(b) Geographic information

A geographical breakdown as of and for the years ended December 31, 2009, 2010 and 2011, is as follows:

(1) Consolidated net sales (Note 1)

	2009 NT\$	For the year ended December 31,		
		2010 NT\$ (in thousands)	2011 NT\$	2011 US\$
Taiwan	153,643,468	178,396,594	145,497,812	4,806,667
PRC	98,430,471	147,491,931	107,117,722	3,538,742
Korea	26,032,848	45,300,140	30,797,262	1,017,419
Other foreign countries	81,224,558	95,969,299	96,299,082	3,181,337
Consolidated net sales	359,331,345	467,157,964	379,711,878	12,544,165

(2) Consolidated non-current assets (Note 2)

	2009 NT\$	December 31,		
		2010 NT\$ (in thousands)	2011 NT\$	2011 US\$
Taiwan	347,266,765	327,784,022	290,196,184	9,586,924
PRC	33,703,986	34,608,643	40,874,169	1,350,319
Other foreign countries	29,531,381	40,271,148	49,594,776	1,638,414
Total consolidated non-current assets	410,502,132	402,663,813	380,665,129	12,575,657

(3) Consolidated tangible long-lived assets

	2009 NT\$	December 31,		
		2010 NT\$ (in thousands)	2011 NT\$	2011 US\$
Taiwan	332,233,758	313,306,181	273,047,594	9,020,403
PRC	31,328,059	31,883,762	37,612,226	1,242,558
Other foreign countries	28,985,411	40,438,441	49,516,758	1,635,836
Total consolidated tangible long-lived assets	392,547,228	385,628,384	360,176,578	11,898,797

Note 1: Sales are attributed to countries based upon the location of customers placing orders.

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Note 2: Non-current assets are not inclusive of financial instruments, deferred tax assets, and pension-related assets.

(c) Major customer information

For the years ended December 31, 2009, 2010 and 2011, sales to individual customers representing greater than 10% of consolidated net sales were as follows:

	2009		For the year ended December 31,				
	Amount NT\$	%	2010		2011		
			Amount NT\$	%	Amount NT\$	Amount US\$	%
Customer A	60,553,035	17	71,227,688	15	50,400,074	1,665,017	13

(in thousands)

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- (d) The sales for principal products comprised the follows:

	For the year ended December 31,			
	2009 NT\$	2010 NT\$	2011 NT\$	US\$
	(in millions)			
Panels for computer products:				
Panels for notebook computers	60,432	70,390	67,530	2,231
Panels for desktop monitors	68,431	77,942	58,407	1,929
Total panels for computer products	128,863	148,332	125,937	4,160
Panels for LCD televisions	173,145	237,263	165,275	5,460
Panels for consumer electronics products	46,940	56,402	62,832	2,076
Others⁽¹⁾	10,383	25,161	25,668	848
Total	359,331	467,158	379,712	12,544

- (1) Includes sales generated from panels for solar modules, from sales of raw materials, components, single crystal silicon wafers and ingots, and from service charges.

26. Subsequent Events

On March 14, 2012 (Taiwan time), a jury reached its verdicts for charges made by the US DOJ against AUO, AUUS and certain of its executive, as previously described in Note 24(e)(2) to these consolidated financial statements. The jury acquitted Dr. LJ Chen and Mr. Hubert Lee and could not reach a decision with respect to Mr. Steven Leung and, therefore, a mistrial was declared in his case. However, a guilty verdict was returned against AUO and AUUS, and individuals Mr. HB Chen and Dr. Hui Hsiung. The Northern California District Court is expected to issue a fine against the AUO and AUUS within the next few months. The court has the discretion to impose a fine in any amount up to US\$1 billion, which statute allows a maximum penalty equal to twice the amount of the calculated gains derived from the alleged conspiracy. AUO and AUUS intend to appeal the verdict and any fine. The ultimate outcome of the appeal is uncertain. While there are a number of alternative ways the amount of the fine can be determined, as a result of this subsequent event management has made its assessment of the amount of the estimated fine after consulting with counsel, and re-evaluated the appropriateness of the previously recorded provision. Based on such consultation and the various unknown factors and uncertainties, management has determined that the estimated range of loss likely to be incurred as a result of this jury verdict was US\$253 million to US\$600 million. Management concluded that no amount within this range of possible loss was the best estimate of the actual loss. Therefore, management concluded that the accrued liability should be based on the low end of this range of possible loss. Because this amount was not significantly different from the US\$277 million previously accrued, management concluded that it was not necessary to adjust the accrued liability for the March 14, 2012 jury verdict. Management will continue to re-assess the appropriateness of the recorded accrued liability for this matter each reporting period and will make any adjustments to the Company's financial statements as deemed necessary. However, the actual amount of the fine as determined by the court could be materially different from the accrued liability recognized as of December 31, 2011.

27.

Summary of Significant Differences between Accounting Principles Generally Accepted in the Republic of China and Accounting Principles Generally Accepted in the United States of America

The accompanying consolidated financial statements have been prepared in conformity with ROC GAAP, which differ in certain significant respects from accounting principles generally accepted in the United States of America (US GAAP). A discussion of the significant differences between US GAAP and ROC GAAP as they apply to the Company is as follows:

(a) Business combinations

(1) Merger with Unipac

AUO completed the merger with Unipac on September 1, 2001. Under the applicable ROC GAAP, the merger was accounted for using the pooling-of-interests method, and accordingly, the assets and liabilities of Unipac were recorded based on the carrying value at the date of the merger. Under US GAAP, the merger was accounted for as the acquisition of Unipac by AUO using the purchase method of accounting. Under purchase accounting, the purchase price was calculated based on the market value of the shares issued, and such amount was allocated to the assets acquired and liabilities assumed based on their respective fair values. The difference between the purchase price and the fair value of the assets acquired, including identifiable intangible assets, and liabilities assumed of Unipac was recorded as goodwill.

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In 2009, the Company disposed of all of its investments in available-for-sale securities that were originally acquired in connection with the merger with Unipac. The adjustment of NT\$136,731 thousand to net income determined in accordance with US GAAP represented the difference between Unipac's original cost basis and the fair value of such available-for-sale securities at the date of acquisition.

(2) Merger with QDI

AUO completed the merger with QDI on October 1, 2006. Under ROC GAAP, the merger was accounted for in accordance with ROC SFAS No. 25 using the purchase method of accounting. Under US GAAP, the merger was accounted for in accordance with FASB Accounting Standards Codification (ASC) Topic 805, Business combinations using the purchase method of accounting. Under purchase accounting, the aggregate purchase price was determined based on the market value of shares issued, direct transaction costs incurred, and the fair value of outstanding vested QDI employee stock options assumed as of the acquisition date. The aggregate purchase price was allocated to QDI's net tangible and intangible assets and liabilities based upon their estimated fair value as of October 1, 2006. The excess purchase price over the value of the net identifiable tangible and intangible assets was recorded as goodwill. There were no material differences identified in the accounting for the merger with QDI.

(3) Acquisition of M. Setek

In June 2009, the Company made an initial equity investment in M. Setek, which was established in February 1978 and is a major polysilicon and solar wafer manufacturer in Japan. M. Setek is principally engaged in the research, development, manufacture and sale of solar wafer. This will mark a major step forward for AUO's endeavor in energy business. By taking an equity investment in M. Setek, AUO expects to be able to secure key materials in the solar industry and strengthen its strategic position in energy business.

Initially, the Company purchased 31,241 shares of (representing a 15.07% interest) common stock of M. Setek for US\$16,000 (equivalent to NT\$526,072) thousand and 64,435 shares of M. Setek convertible preferred stock series B for US\$33,000 (equivalent to NT\$1,085,031) thousand. From July to September 2009, the Company additionally purchased 60,530 shares of M. Setek convertible preferred stock series B for US\$31,000 (equivalent to NT\$1,020,515) thousand, 87,866 shares of M. Setek convertible preferred stock series C for US\$45,000 (equivalent to NT\$1,477,790) thousand and 201,138 shares of M. Setek convertible preferred stock series D for US\$65,000 (equivalent to NT\$2,128,617) thousand. On October 1, 2009, the Company converted all convertible preferred stock series B and C into 212,831 shares of common stock, and combined with its previously held common shares in M. Setek, had attained a 58.10% ownership interest in M. Setek. Consequently, effective from October 1, 2009, management determined that the Company had a controlling financial interest in M. Setek, and therefore M. Setek is included in the Company's consolidated financial statements from October 1, 2009 for US GAAP purposes. The acquisition of the controlling financial interest in M. Setek was accounted for in accordance with FASB ASC Topic 805 using the acquisition method of accounting. Prior to October 1, 2009, the Company accounted for its 15.07% ownership interest in the common stock of M. Setek using the equity method of accounting for US GAAP purposes and its investment in the series B and series C convertible preferred shares as financial assets measured at cost under US GAAP and ROC GAAP.

Under ROC GAAP, and in accordance with ROC SFAS No. 7, Consolidated Financial Statements, paragraph 17, the effect of potential voting rights is considered in assessing whether a company can control an investee. On August 31, 2009, taking into account the potential voting rights related to the convertible preferred stock B and C, management determined that combined M. Setek's actual and potential voting rights (including the shares held by others), the Company would result in a majority voting interest (51.00%) in M. Setek. Consequently, the Company was required to consolidate M. Setek in the Company's consolidated financial statements from August 31, 2009 for ROC GAAP purposes. The difference in the date of consolidation of M. Setek had no effect on the consolidated net loss attributable to the equity holders of AUO in 2009 under both ROC GAAP and US GAAP. However, the primary difference resulted in one more month of operating results and cash flow activity for M. Setek in the Company's ROC GAAP financial statements. The most significant impact was revenue reported under ROC GAAP which was higher by NT\$598,542 thousand compared to revenue reported under US GAAP.

Pursuant to FASB ASC Topic 805, the identifiable assets acquired, the liabilities assumed, and noncontrolling interests in M. Setek, were recognized and measured at acquisition-date fair values.

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The following table summarizes the consideration paid for M. Setek and the amounts of estimated fair value of the assets acquired and liabilities assumed recognized at the acquisition date (October 1, 2009), as well as the fair value at the acquisition date of the noncontrolling interests in M. Setek:

	NT\$ (in millions)
Consideration	
Fair value of the Series B and Series C preferred stock converted by the Company into common shares of M. Setek	2,424
Fair value of the Company's equity interest in Series D convertible preferred stock held before the business combination	1,944
Fair value of the Company's equity interest in the common shares of M. Setek held before the business combination	218
	4,586
Acquisition-related costs (including in operating expenses in the condensed consolidated statement of operations for the year ended December 31, 2009)	5
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Current assets	4,769
Property and equipment	30,905
Other non-current assets	1,037
Current liabilities	(11,870)
Long-term debt	(18,320)
Total identifiable net assets	6,521
Noncontrolling interests in M. Setek	(1,763)
Effect of foreign exchange	(9)
Gain on bargain purchase of 58.1% interest	(163)
	4,586

The sum of the fair value of identifiable net assets acquired less the fair value of the noncontrolling interests exceeded the sum of the fair value of the consideration transferred and the fair value of the Company's equity interests held in M. Setek before the business combination. Consequently, management reassessed whether it had correctly identified all of the assets acquired and all of the liabilities assumed. Further, management reviewed the procedures used to measure the fair values of the identifiable assets acquired and liabilities assumed, the noncontrolling interests in M. Setek, the Company's previously held equity interests in M. Setek and the consideration transferred. Management concluded that all acquired assets and all liabilities assumed were properly identified and that the valuation procedures and resulting fair value measures were appropriate. As a result, the Company recognized a bargain purchase gain of NT\$163 million at the acquisition date for US GAAP purposes. Under ROC GAAP, the Company's acquisition of M. Setek through acquiring newly issued shares was recognized as equity transactions. Further, ROC GAAP does not permit the re-measurement of previously held interests or fair value measurement either on August 31, 2009 or October 1, 2009.

The estimated fair values of common shares and the Series B and C preferred shares of M. Setek at October 1, 2009 were determined using an income approach and validated internally by a market approach. As M. Setek is a private company, a discount for lack of marketability (DLOM) was taken into consideration when estimating the fair values of M. Setek's common and preferred shares. The fair value measurement is based on

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significant inputs that are not observable in the market and thus represents a Level 3 measurement as defined in the FASB ASC Topic 820, Fair value measurements and disclosures. The fair value estimates are based on (a) a discount rate 16%, (b) long-term sustainable growth rate 1%, (c) financial multiples of companies in the same industry as M. Setek, (d) DLOM of 30%, and (e) a control premium of 24%. The control premium was only applied to the fair value determination of the Series B and C preferred shares, as it was the conversion of these preferred shares into common shares that resulted in the Company obtaining a controlling financial interest in M. Setek.

The AICPA Enterprise Value Allocation Model (the EVA Model), a compensation option model for privately-held-company equity securities, was adopted to value preferred stock A, which is considered as part of the total non-controlling interests, and preferred stock D. The fair value is based on risk free rate of 0.73% and volatility rate of 72.11%.

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The fair value of the current assets acquired includes trade receivables with a fair value of NT\$449 million. The gross amount due is NT\$453 million, of which NT\$4 million is expected to be uncollected.

The other assets acquired included certain investments accounted for using the equity method, the fair value of which was less than the carrying amount at October 1, 2009. Pursuant to FASB ASC Topic 805, the investments were measured at its acquisition-date fair value. Due to the Company's ownership interest in M. Setek at the different fair-value-measurement date under ROC GAAP and US GAAP is 15.07% and 58.10%, respectively, the difference under US GAAP between the carrying amount and the fair value of the above-mentioned equity-method investments, which is attributable to the parent company, is NT\$653,609 thousand greater than that under ROC GAAP. As a result, while the difference was realized in December 2009, the Company reversed the amount of NT\$653,609 thousand under US GAAP.

There were no intangible assets identified by management in the purchase price allocation process.

Under the acquisition method of accounting, as the acquisition was achieved in stages, the Company re-measured the fair value of its equity interests in M. Setek held before the business combination. This included the Series B and Series C convertible preferred stocks (whose fair values were determined as previously described above), as well as the Series D convertible preferred stock and the 15.07% equity interest in the common stock of M. Setek. As a result of this re-measurement, the Company recognized a net re-measurement loss of NT\$ 1,445,660 thousand in non-operating expenses in the condensed consolidated statement of operations under US GAAP in 2009. The re-measurement is not permitted under ROC GAAP, and therefore no such re-measurement loss has been recognized in the Company's ROC GAAP consolidated financial statements.

The amounts of net sales and losses of M. Setek included in the Company's condensed consolidated statements of operations of 2009 for US GAAP purposes from the acquisition date to the period ended December 31, 2009 were as follows:

	NT\$ (in thousands)
Net sales	1,510,710
Loss attributable to equity holders of AU Optronics Corp.	(708,571)

The following unaudited pro forma financial information summarizes the combined results of operations as though the business combination with M. Setek had taken place on January 1, 2009. This unaudited pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations had the acquisition been effected on January 1, 2009.

	For the year ended December 31, 2009 NT\$ (in thousands)
Net sales	366,661,919
Income (loss) attributable to equity holders of AU Optronics Corp.	(31,380,060)

(4) Acquisition of AUST

On July 1, 2010, the Company acquired 100% of the outstanding common shares of AFPD Pte., Ltd. (AUST), a Singapore company originally held by Toshiba Mobile Display Co., Ltd., for total cash consideration of an equivalent amount of NT\$1,289 million. The results of AUST's operations have been included in the Company's consolidated financial statements since that date. AUST specializes in the production of low-temperature polysilicon (LTPS) TFT-LCD. The acquisition of AUST is expected to strengthen the Company's competitiveness in the LTPS TFT-LCD market and the Company's diversity into new applications such as high-end notebooks, smart phones, and tablet PC panels. The acquisition is also expected to help the Company in its development of the next generation of OLED display technology as LTPS production lines are more suitable for conversion into OLED production lines. The purchase agreement includes no contingent consideration arrangements.

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The Company accounted for this purchase using the acquisition method. The Company allocated purchase price to the acquired assets and liabilities based on the estimated fair value at the acquisition date as summarized in the following table.

	NT\$ (in millions)
Identifiable net assets acquired	1,300
Gain on bargain purchase	(11)
Total purchase consideration	1,289

The sum of the fair value of identifiable net assets acquired exceeded the purchase price. Consequently, management reassessed whether it had correctly identified all of the assets acquired and all of the liabilities assumed. Further, management reviewed the procedures used to measure the fair values of the identifiable assets acquired and liabilities assumed. Management concluded that all acquired assets and all liabilities assumed were properly identified and that the valuation procedures and resulting fair value measures were appropriate.

Consequently, the Company recognized a bargain purchase gain of NT\$10,515 thousand at the acquisition date for US GAAP purposes. Under ROC GAAP, the bargain purchase gain is further deducted from the carrying amount of non-current assets.

The acquisition of AUST was not material to the Company's consolidated balance sheet or consolidated statements of operations. As such, the pro forma financial information has not been disclosed.

(5) Acquisition of AUKS

On October 14, 2011, the Company joint ventured with Kunshan Economic and Technical Development Zone Assets Operation Co., Ltd., to invest AU Optronics (Kunshan) Co., Ltd. (AUKS) through AULB, in which AULB held 49% ownership interests. Because the Company has a majority voting interest, AUKS has been included in the Company's consolidated financial statements since that date. AUKS is mainly engaged in manufacture and assembly of next generation TFT-LCDs in Mainland China. The acquisition of AUKS is expected to strengthen the Company's competitiveness in the LCD TV market and to fulfill the wide demand of TV market in Mainland China.

The Company accounted for this purchase using the acquisition method. Total cash consideration was an equivalent amount of NT\$2,435 (US\$80) million. The Company allocated purchase price to the acquired assets and liabilities based on the estimated fair value at the acquisition date as summarized in the following table.

	NT\$ (in millions)
Identifiable net assets acquired	5,008
Noncontrolling interests in AUKS	(2,534)
Gain on bargain purchase of 49% interest	(38)
Effect of foreign exchange	(1)
Total purchase consideration	2,435

The sum of the fair value of identifiable net assets acquired exceeded the purchase price. As a result, management reassessed whether it had correctly identified all of the assets acquired and all of the liabilities assumed. Further, management reviewed the procedures used to measure the fair values of the identifiable assets acquired, the liabilities assumed and the noncontrolling interests in AUKS. Management concluded that all acquired assets and all liabilities assumed were properly identified and that the valuation procedures and resulting fair value measures were appropriate.

Consequently, the Company recognized a bargain purchase gain of NT\$37,875 (US\$1,251) thousand at the acquisition date for US GAAP purposes. Under ROC GAAP, the bargain purchase gain is further deducted from the carrying amount of non-current assets.

AUKS was still in the development period, therefore, there is no significant impact on results of operations as if the acquisition of AUKS had taken place on January 1, 2011. As such, the pro forma financial information has not been disclosed.

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(b) Noncontrolling interests

On January 1, 2009, the Company adopted FASB ASC Subtopic 810-10 which requires certain changes to the presentation of the financial statements. This amendment requires noncontrolling interests (previously referred to as minority interest) to be classified in the consolidated statements of operations as part of consolidated net earnings and to include the accumulated amount of noncontrolling interests in the consolidated balance sheets as part of shareholders' equity. Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary will be accounted for as equity transactions in the consolidated financial statements. However, if a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interests are re-measured with the gain or loss reported in net earnings.

Under ROC GAAP, upon the sale of equity-method investment, the difference between the selling price and carrying amount of the investment at the date of sale is recognized as an investment gain or loss.

In November 2009, the Company disposed of 6.79% of its investments in BVTW and recognized a disposal loss of NT\$28,323 thousand under ROC GAAP. The decrease in equity interests did not result in a loss of control or deconsolidation as of December 31, 2009. As a result, and pursuant to FASB ASC Subtopic 810-10, the disposal was accounted for as an equity transaction and the loss was reversed under US GAAP.

In March 2010, the Company disposed partial holdings of its investments in BVTW and Lextar, respectively, and recognized a disposal gain of NT\$124,845 thousand under ROC GAAP. The decrease in equity interests did not result in a loss of control or deconsolidation as of that time. As a result, and pursuant to FASB ASC Subtopic 810-10, the disposal was accounted for as an equity transaction and the gain was reversed under US GAAP. On June 30, 2010, Lextar re-elected its board of directors so that the Company lost the power to control Lextar's financial, operating and personnel policies. Consequently, Lextar was deconsolidated as of that date. See further discussion at note 27(d).

Changes from net income (loss) attributable to AU Optronics Corp. and transfers (to) from noncontrolling interest:

	For the year ended December 31,			
	2009 NT\$	2010 NT\$	2011 NT\$	US\$
	(in thousands)			
Net income (loss) attributable to AU Optronics Corp., US GAAP	(28,670,321)	4,244,323	(80,948,225)	(2,674,206)
Transfer (to) from noncontrolling interest				
Decrease in AUO's paid-in capital due to purchase of common shares of BVTW and Lextar	(8,445)			
Decrease in AUO's paid-in capital due to purchase of common shares of former BVTW		(17,961)		
Decrease in AUO's paid-in capital due to purchase of common shares of ACTW			(480,250)	(15,865)
Increase (decrease) in AUO's paid-in capital for sale of BVTW's common shares	(28,323)	17,497		
Increase in AUO's paid-in capital for sale of Lextar's common shares		107,348		
Increase in AUO's paid-in capital for disproportionate participation in Lextar's capital increase	76,039	1,234,361		
Increase (decrease) in AUO's paid-in capital for disproportionate participation in BVTW's capital increase	(8,039)	562,689	214,119	7,074

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Decrease in AUO's paid-in capital for disproportionate participation in former BVTW's capital increase	(66,424)			
Increase in AUO's paid-in capital for disproportionate participation in ACTW's capital increase	9,111	402,394	13,293	
Decrease in AUO's paid-in capital for disproportionate participation in M. Setek's capital increase	(703,387)	943,314	31,163	
Net transfer (to) from noncontrolling interest	31,232	1,143,234	1,079,577	35,665
Change from net income (loss) attributable to AU Optronics Corp. and transfers (to) from noncontrolling interest	(28,639,089)	5,387,557	(79,868,648)	(2,638,541)

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(c) Compensation Employee bonuses**

Under ROC GAAP, prior to January 1, 2008, employee bonuses were appropriated from retained earnings in the period stockholders' approval was obtained. If such employee bonuses were settled through the issuance of stock, the amount charged against retained earnings was based on the par value of the common shares issued. Under US GAAP, employee bonuses are charged to expense in the year when the related services are provided. The total amount of these bonuses is initially accrued based on the minimum cash value to be paid, with an adjustment in the subsequent year after stockholders' approval. Any difference between the amount initially accrued and fair value of bonuses settled by the issuance of stock is recognized at the grant date.

Under ROC GAAP, effective January 1, 2008, employee bonuses are estimated and charged to expense in the year when the related services are provided; see note 3(r). Accordingly, the difference related to retained earnings appropriation and expensing through profit or loss has been eliminated prospectively. However, a difference continues to exist related to the true-up adjustment in the subsequent year upon stockholders' approval.

(d) Equity-method investments and other-than-temporary impairment

If an investee company issues new shares and an investor company does not acquire new shares in proportion to its original ownership percentage, the investor company's equity in the investee company's net assets will be changed. Under ROC GAAP, the change in the equity interest is adjusted to capital surplus and long-term investment. If the investor company's capital surplus is insufficient to offset the adjustment to long-term investment, the difference is charged to retained earnings. Under US GAAP, subsequent investment is treated as a step acquisition, and additional consideration is allocated to the incremental pro rata share of the fair value of assets and liabilities acquired. When the investor company does not acquire new shares in proportion to its original ownership percentage, any gain or loss resulting from the change in the investee company's equity is recognized directly in equity as an equity transaction in accordance with the Securities and Exchange Commission Staff Accounting Bulletin (SAB) No. 51, Accounting for Sales of Stock by a Subsidiary. This policy has been consistently applied before December 31, 2008 and continued to be applied for the equity investment in non-subsidiary afterward. Starting 2009, as FASB ASC Subtopic 810-10 to be in effect, changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary are accounted for as equity transactions. Therefore, no gain or loss is recognized in consolidated net income or comprehensive income. The carrying amount of the noncontrolling interest is adjusted to reflect the change in its ownership interest in the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is recognized in equity attributable to the parent.

Under ROC GAAP, in accordance with ROC SFAS No. 35, an equity-method investment is considered to be impaired if there is objective evidence of impairment as a result of one or more events that had occurred as of the balance sheet date indicating that the recoverable amount is below the carrying amount of the investment. Impairment is assessed at the individual security level. The recoverable amount is determined based on one of the two following approaches: (1) the discounted expected future net cash flows from the investee company; or (2) the combination of expected cash dividends from the investee company and the discounted cash flows from the ultimate disposal of the investment. The impairment loss is recorded in profit or loss. If the recoverable amount increases in the future period, the amount previously recognized as impairment loss could be reversed and recognized as a gain in profit or loss.

Under US GAAP, impairment of an equity-method investment is recognized if such impairment is other-than-temporary. The amount of the impairment loss is calculated by reference to the excess of the carrying value of the equity-method investment over its fair value. For equity-method investments in publicly traded equity securities, fair value is determined by reference to the quoted market price at the measurement date. In addition, an impairment loss that is recognized cannot be reversed subsequently.

In 2011, the Company's investment in Qisda experienced significant declines in market value. Considering primarily the length of time and the extent to which the market value (based on quoted share price) was less than the carrying amount of the investment, management concluded that this impairment was other-than-temporary at December 31, 2011, for US GAAP purposes. As a result, the Company recognized an impairment loss of NT\$1,801,856 (US\$59,526) thousand related to its investment in Qisda for the year ended December 31, 2011. No impairment loss was recognized for ROC GAAP purposes for the investment in Qisda because management believes that the recovery of the carrying amount is supported by the expected discounted cash flows from the investment.

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The Company held 68.43% ownership interest of Lextar as of December 31 2009. As a result of disproportionate participation in Lextar's capital increase and partial disposal investment in April 2010, the ownership interest of the Company in Lextar decreased to 46.29%. On June 30, 2010, due to a change in the composition of Lextar's board of directors, the Company no longer had a controlling financial interest in Lextar. As a result, the Company deconsolidated Lextar on June 30, 2010 and now accounts for its investment under the equity method of accounting. Consequently, the Company recognized a non-cash gain of NT\$ 362,842 thousand, representing the difference between the initial fair value of the investment and its carrying value, in its US GAAP consolidated income statement for 2010 owing to deconsolidating Lextar on June 30, 2010 pursuant to FASB Topic 810-10. Under the deconsolidation accounting guidelines, an investor's opening investment is recorded at fair value on the date of deconsolidation. Under ROC GAAP, the Company also accounts for its investment in Lextar under the equity method of accounting upon loss of control, however no gain or loss is recognized upon deconsolidation and the carrying value of the investment in Lextar is based on the Company's proportion interest of the net book value of Lextar on the date of deconsolidation.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company initially recognized deferred revenue in the amount of NT\$966,600 (equivalent to US\$30,000) thousand for its contribution of technology to A USP; see note 10. Under US GAAP, the remaining NT\$793,993 (US\$26,230) thousand as of December 31, 2011 was reclassified as a reduction to the carrying amount of the equity-method investment in A USP. This remaining amount will continue to be amortized into income.

(e) Convertible bonds

The Company issued unsecured overseas convertible bonds in October 2010, namely ECB 4, which was recorded in its entirety as a liability at fair value at the date of issuance under US GAAP. The difference between fair value and redemption value at the date of issuance is recorded as a discount, and amortized over the redemption period using the effective interest rate method.

Under US GAAP, management concluded that the conversion features for the overseas convertible bonds qualified as embedded derivative instruments under FASB ASC Topic 815, as these bonds are denominated in a currency that is different from AUO's functional currency, and therefore was required to be bifurcated from the debt hosts. Management further concluded that the call options embedded in the convertible bonds did not meet the definition of embedded derivative instrument under FASB ASC Topic 815, as they were considered to be clearly and closely related to the debt hosts. As a result, under US GAAP, ECB 4 was recorded at the fair value at the date of issuance without taking into account the embedded conversion options. The relative issuance terms of ECB 4 was described at note 15.

The reconciliation of net income determined in accordance with ROC GAAP and US GAAP for the year ended December 31, 2010 and 2011, included the impact of changes in the fair value of the embedded derivative instrument liability of NT\$(678,777) thousand, and NT\$780,564 (US\$25,787) thousand, respectively, which is recognized only for US GAAP purposes.

(f) Shareholders' stock dividends

Under ROC GAAP, shareholders' stock dividends paid are recorded at par value, with a charge to retained earnings. Under US GAAP, generally, if the ratio of distribution is less than 25% of the same class of shares outstanding, the fair value of the shares issued should be charged to retained earnings. The stock dividends issued in 2009 decreased retained earnings and increased capital surplus by NT\$5,486,189 thousand.

(g) Defined pension benefits

Effective January 1, 1998, the Company adopted ROC SFAS No. 18, which is not materially different from FASB ASC Topic 715,

Compensation - Retirement Benefits, with the exception of the accounting upon adoption. Pension expense under ROC GAAP differs with US GAAP primarily as a result of unrecognized prior service cost.

In 2006, the Company adopted FASB ASC Topic 715, which requires the recognition of the funded status of a defined benefit plan on the balance sheet and the recognition of changes in funded status in the year in which the changes occur through comprehensive income. The adoption of FASB ASC Topic 715 had no effect on the statements of operations for the periods presented. Previously unrecognized items such as gains or losses, prior service costs and the transition asset or liability are required to be recognized in other comprehensive income and subsequently recognized through net periodic benefit cost. Under ROC GAAP, it is not required to recognize such previously unrecognized items.

(h) Depreciation of buildings

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Under ROC GAAP, the Company depreciates buildings over 20 to 50 years in accordance with the relevant provisions of the ROC Internal Revenue Code. Under US GAAP, buildings are depreciated over their estimated useful lives.

(i) Hedging derivative financial instruments

Upon the adoption of ROC SFAS No. 34 on January 1, 2006, there was no material difference between the accounting under ROC GAAP and US GAAP for hedging derivative financial instruments executed on or after January 1, 2006, except that ROC SFAS No. 34 permits the designation of derivatives entered into before the date of initial adoption on January 1, 2006, as effective hedge. In 2009, derivative financial instruments executed before January 1, 2006 and designated by the Company as cash flow hedges upon the adoption of ROC SFAS No. 34 were fully closed and settled in the current year.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(j) Compensated absences

Under ROC GAAP, the Company is not required to accrue for earned but unused vacation at the end of each year. Under US GAAP, earned but unused vacation that can be carried over to subsequent periods is accrued at each balance sheet date.

(k) Research and development expense

Under ROC GAAP, the amortization of patent and licensing fees for product and process technology is included in the research and development expense. Under US GAAP, the amortization expense is included in the cost of goods sold.

(l) Operating leases

The Company entered into certain non-cancelable lease agreements with rental payments subject to escalation adjustments of 5% each year. Under ROC GAAP, fixed escalation of rental payment is recognized as it becomes payable. Under US GAAP, fixed escalation of rental payments is recognized on a straight-line basis over the lease term.

(m) Income taxes

The statutory income tax rate in the Republic of China is 25% before 2009. In May 2009, the ROC Income Tax Act was revised to reduce the statutory tax rate to 20% effective from 2010. In June 2010, the Republic of China government promulgated another amendment of the Income Tax Law to reduce the income tax rate from 20% to 17%, effective retroactively on January 1, 2010. In addition, an additional 10% corporation income tax is imposed but only to the extent that earnings is not distributed before the end of the subsequent year. The additional income tax, or the undistributed earnings surtax, is determined in the subsequent year when the distribution plan relating to earnings attributable to the preceding year is approved by the Company's stockholders. The actual payment of the undistributed earnings surtax will then become due and payable in the year following the finalization of the distribution plan.

Once the 10% tax is determined, the Company will not be entitled to any additional credit or refund, even if the current year's undistributed earnings on which such tax was based are distributed in future years, in which case the shareholders, but not the Company, can claim an income tax credit.

Under ROC GAAP, the undistributed earnings surtax is recorded as tax expense in the period during which the stockholders approve the amount of the earnings distribution. For US GAAP purposes, the 10% tax on unappropriated earnings is accrued during the period the earnings arise and adjusted to the extent that distributions are approved by the shareholders in the following years. For US GAAP purpose, the tax rate used by the Company to measure its income tax expenses by using effective rate was 27.2% for the year of 2009, and 24.47% for the years from and after 2010.

Under US GAAP, management considered that the cumulative losses in recent years is a significant piece of negative evidence that could not be overcome. Consequently, a valuation allowance was recognized for substantially all of the deferred tax assets at December 31, 2011.

(n) Earnings (loss) per common share

Under ROC GAAP, basic (L)EPS are computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the year. Diluted EPS are computed by taking into account the basic (L)EPS and additional common shares that would have been outstanding if the potential dilutive share equivalents had been issued. The net income (loss) is also adjusted for the interest and other income or expense derived from any underlying dilutive share equivalents. The weighted-average outstanding shares are retroactively adjusted for the effects of stock dividends transferred from retained earnings and capital surplus to common stock, and employee stock bonuses issued prior to

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January 1, 2009. Effective January 1, 2009, and under ROC GAAP, EPS are not restated for employee stock bonuses.

Under ROC GAAP, the weighted-average number of common shares outstanding during the year in computing diluted EPS is adjusted to include the effects of dilutive potential common stock related to employee bonuses, assuming the employee bonuses were to be distributed entirely by way of stock bonuses. Under US GAAP, the employee bonuses are estimated based on the minimum cash value to be paid, as management is unable to estimate the fair value of the stock award, if any, if the arrangement requires the payment in shares. Due to the contingent nature of employee stock bonuses, they are not included in the diluted EPS calculation.

(o) Principles of consolidation

As described in note 1, AUO purchased a 49% ownership interest in Toppan CFI and has an agreement in place. Under ROC GAAP, the Company consolidated Toppan CFI in accordance with ROC SFAS No. 7. Under US GAAP, AUO determined that Toppan CFI is a variable interest entity (VIE) under FASB ASC Subtopic 810-10, Consolidation Overall , and AUO is considered the primary beneficiary. Therefore, the Company consolidated Toppan CFI in accordance with FASB ASC Subtopic 810-10 starting from fiscal year 2007. Under FASB ASC Subtopic 810-10, the assets and liabilities of the VIE are recorded at fair value (including the portion attributable to noncontrolling interests). Under ROC GAAP, when the acquirer s interest in the acquiree is less than 100 percent, assets and liabilities are adjusted to reflect fair value only to the extent of the acquirer s interest in the acquiree.

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(p) Impairment of long-lived assets**

Under ROC GAAP and US GAAP, long-lived assets (excluding goodwill and other indefinite lived assets) are evaluated for impairment whenever events and changes in circumstances indicate that an asset or asset group may be impaired and the carrying amounts of these assets may not be recoverable. An asset or asset group is based on the lowest level of identifiable cash flows. Under ROC GAAP, the Company determines whether an asset or asset group is impaired by comparing the carrying amount of the asset or asset group to its recoverable amount, which is the higher of the asset's net fair value or the value in use determined by the future discounted cash flows to be generated by the asset or asset group and recognize an impairment loss, if any, to the extent that its carrying amount exceeds its recoverable amount. If there is evidence that impairment losses recognized previously no longer exists, or has diminished, and the recoverable amount of the long-lived assets increases because of an increase in the asset's estimated service potential, the amount of loss may be reversed to the extent that the resulting carrying value should not exceed the carrying value had no impairment loss been recognized in prior years. Under US GAAP, the Company compares the carrying amount of an asset or asset group with its undiscounted cash flows to evaluate whether the asset or asset group is impaired and recognize an impairment loss equal to the excess of the carrying amount over its estimated fair value derived from discounted cash flows analysis. Such impairment cannot be reversed. Based on management assessments, under US GAAP, the Company had no impairment charges on long-lived assets for the year ended December 31, 2009, 2010 and 2011.

(q) Goodwill

Goodwill is subject to an annual impairment test or more frequently whenever events and circumstances change indicating the goodwill may be impaired. Under ROC GAAP, management's assessment of impairment includes identifying the cash generating unit (CGU), determining the recoverable amount of the CGU and comparing the recoverable amount with the carrying value of CGU. The recoverable amount is the higher of the value in use (discounted entity specific future cash flows) and the fair value less costs to sell. If the recoverable amount of the CGU is lower than the carrying amount of the CGU, an impairment loss is recognized for goodwill first until it is reduced to zero. Any remaining impairment is then allocated to other long-lived assets

The Company has determined that it has two CGUs under ROC GAAP, and two reporting units under US GAAP, which are display business unit and solar business unit, for purposes of testing goodwill for impairment. Under US GAAP, pursuant to FASB ASC Topic 350,

Intangibles - Goodwill and others, impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Under US GAAP, the goodwill impairment test is a two-step test.

The first step, the Company compares the fair value of each reporting unit with its carrying amount on a US GAAP basis on the impairment evaluation date to determine if goodwill is potentially impaired. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit, and the Company proceeds to perform step two of the impairment test (i.e., measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Unlike ROC GAAP, a value in use type of measurement is not acceptable in determining fair value of the report unit. Under US GAAP, fair value of the reporting unit is the price that would be received to sell the reporting unit in an orderly transaction between market participants at the measurement based on market participant assumptions utilizing observable inputs to the extent possible. The Company determines the fair value under US GAAP of the reporting unit using a discounted cash flow approach based on market participant assumptions. If the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not impaired; therefore, step two test is unnecessary. The Company performs its annual impairment review of goodwill at June 30 and when a triggering event occurs between annual impairment test dates.

The Company entered the solar business with its acquisition of M. Setek in October, 2009. The acquisition resulted in the recognition of a gain on bargain purchase under US GAAP and no goodwill was recognized. Therefore, there is no need to test the solar reporting unit for goodwill impairment because there is no goodwill allocated to it.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company performed its annual goodwill impairment test at June 30, 2011 to evaluate the potential impairment of the goodwill of the display reporting unit. The Company estimated the fair value of the display and solar business reporting units by using the discounted cash flow approach. In addition, for the purpose of analyzing the reasonableness of the fair value deriving from the discounted cash flow approach, the Company also compared the aggregate sum of the fair value measurements of its display and solar reporting units to its market capitalization at June 30, 2011 based on the quoted

market price of the Company's shares, adjusted it by an appropriate control premium. Management believes the control premium represents the additional amount that a buyer would be willing to pay to obtain a controlling voting interest in the Company as a result of the ability to take advantage of synergies and other benefits. To determine an appropriate control premium, references were made to recent and comparable merger and acquisition transactions in the high-tech electronics industry. Based on management's assessments, the estimated fair value of the display reporting unit exceeded its carrying amount at June 30, 2011. Therefore, management concluded that goodwill was not impaired for the display reporting unit, and step two of the goodwill impairment test under FASB ASC Topic 350 was not necessary.

During the second half of 2011, the quoted market price of our capital shares had sustained a further decline resulting in our market capitalization becoming substantially lower at December 31, 2011. Consequently, management determined the need for an additional test for goodwill impairment at December 31, 2011. As a result of that additional assessment, the estimated fair value of the display reporting unit exceeded its carrying amount at December 31, 2011. Therefore, management concluded that goodwill was not impaired for the display reporting unit and, accordingly, no impairment charge was recorded at December 31, 2011.

The Company performed an analysis at June 30, 2010 to evaluate the potential impairment of the goodwill of the display reporting unit. The valuation methodology of performing the goodwill impairment test was the same with that utilizing at June 30, 2011. Based on management's assessments, under the first step, the estimated fair value of the display reporting unit exceeded its carrying amount at June 30, 2010. Therefore, management concluded that goodwill was not impaired, and step two of the goodwill impairment test was not necessary. In addition, no triggering events occurred between annual impairment test dates.

In 2009, Under US GAAP, management determined that the Company in essence only has one reporting unit for purposes of testing goodwill for impairment, which is the enterprise as a whole. On June 30, 2009, management compared the carrying amount of total stockholders' equity consolidated on a US GAAP basis to market value based on the quoted market price of the Company's shares on the date of assessment to determine if goodwill is potentially impaired. Management did the test again for goodwill impairment on December 31, 2009. Based on the assessments mentioned above, management concluded that goodwill was not impaired under both ROC GAAP and US GAAP.

(r) Potential antitrust loss

Under ROC GAAP, the provision for potential antitrust losses is usually recognized in the consolidated statement of operations as a non-operating expense.

Under US GAAP, the provision for potential antitrust losses is recognized in the condensed consolidated statement of operations as an operating expense.

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(s) US GAAP reconciliations

(1) Reconciliation of consolidated net income (loss) attributable to the stockholders of AU Optronics Corp.

	For the year ended December 31,			US\$
	2009 NT\$	2010 NT\$	2011 NT\$	
	(in thousands, except for per share data)			
Net income (loss) attributable to stockholders of AU Optronics Corp., ROC GAAP	(26,769,335)	6,692,657	(61,263,814)	(2,023,912)
US GAAP adjustments:				
a) Purchase method of accounting for acquisition of Unipac				
- Depreciation	(79,663)	(36,311)	(59,405)	(1,963)
- Disposals of available-for-sale securities	136,731			
Acquisition method of accounting for acquisition of M. Setek				
- Impairment loss	653,609			
- Re-measurement loss	(1,445,660)			
- Gain on bargain purchase	162,682			
Acquisition method of accounting for others	41,099	10,515	37,875	1,251
b) Noncontrolling interests				
- Decrease in ownership not resulting in loss of control	28,323	(124,845)		
c) Compensation				
- Employee bonuses				
- Adjustment to fair value	(216,324)			
d) Long-term equity investments				
- Investment losses	(36,241)	30,426	(17,494)	(578)
- Disposal gain			31,189	1,030
- Impairment loss			(1,801,856)	(59,526)
d) Deconsolidation of subsidiary		362,842		
e) Convertible bonds		(678,777)	780,564	25,787
g) Pension expense	1,979	1,707	1,466	49
h) Depreciation of buildings	(2,209,816)	(2,367,968)	(2,835,733)	(93,681)
i) Hedging derivative financial instruments	(32,625)			
j) Compensated absences expense	(230,102)	(41,294)	(31,974)	(1,056)
k) Escalation adjustment of rent expense	2,129	2,129	2,129	70
l) Tax effect of the above US GAAP adjustments	1,031,220	920,039	536,560	17,726
m) Valuation allowance for deferred tax assets related to the above US GAAP adjustments	(96,163)	(54,527)	(16,368,774)	(540,759)
n) 10% surtax on undistributed retained earnings and others	387,836	(472,270)	41,042	1,356
Net income (loss) attributable to stockholders of AU Optronics Corp., US GAAP	(28,670,321)	4,244,323	(80,948,225)	(2,674,206)
Earnings (loss) per share:				

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Basic	(3.26)	0.48	(9.17)	(0.30)
Diluted	(3.26)	0.48	(9.17)	(0.30)
Weighted-average number of shares outstanding (in thousands):				
Basic	8,785,178	8,827,046	8,827,046	
Diluted	8,785,178	8,827,046	8,827,046	

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- (2) Reconciliation of consolidated equity attributable to the stockholders of AU Optronics Corp.:

	2010 NT\$	December 31, 2011 NT\$ (in thousands)	US\$
Equity attributable to stockholders of AU Optronics Corp., ROC GAAP	268,160,933	205,388,716	6,785,224
a) Purchase method of accounting for acquisition of Unipac			
- Goodwill	10,946,732	10,946,732	361,636
- Other assets	(143,200)	(202,605)	(6,693)
Acquisition method of accounting for acquisition of			
M. Setek			
- Impairment loss	653,609	653,609	21,593
- Re-measurement loss	(1,445,660)	(1,445,660)	(47,759)
- Gain on bargain purchase	162,682	162,682	5,374
Acquisition method of accounting for other	51,614	89,489	2,956
d) Subsidiaries and long-term equity investments			
-Adjustment for changes in investees equity	3,469,074	3,313,811	109,475
-Deconsolidation of subsidiary	359,902	359,902	11,890
-Impairment of equity investee	(1,928,709)	(3,730,565)	(123,243)
d) Cumulative translation adjustments	38,346	(4,161)	(137)
e) Convertible bonds	(780,564)		
g) Defined benefit plan			
- Accrued pension cost	(19,002)	(17,546)	(580)
- Recognition of funded status under FASB ASC Subtopic 715-60	(756,028)	(852,552)	(28,165)
h) Accumulated depreciation of buildings	(10,857,477)	(13,693,210)	(452,369)
j) Accrued compensated absences	(433,102)	(465,076)	(15,364)
l) Accrued rental expense and adjustment to land cost	(94,410)	(92,281)	(3,049)
m) Deferred income tax assets and liabilities	3,005,319	(12,752,604)	(421,295)
Equity attributable to stockholders of AU Optronics Corp., US GAAP	270,390,059	187,658,681	6,199,494

- (t) US GAAP condensed consolidated financial statements

- (1) Condensed consolidated balance sheets

	2010 NT\$	December 31, 2011 NT\$ (in thousands)	US\$
Assets			
Current assets	205,289,002	200,534,190	6,624,849
Long-term investments	17,063,593	15,314,850	505,942
Property, plant and equipment, net	376,453,239	348,452,734	11,511,488
Goodwill and intangible assets	24,834,781	26,199,253	865,519

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Other assets	7,481,711	4,559,681	150,633
Total Assets	631,122,326	595,060,708	19,658,431
Liabilities and Equity			
Current liabilities	190,887,914	205,026,818	6,773,268
Long-term liabilities	156,860,672	187,559,221	6,196,208
Equity attributable to stockholders of AU Optronics Corp.	270,390,059	187,658,681	6,199,494
Noncontrolling interests	12,983,681	14,815,988	489,461
Total Liabilities and Equity	631,122,326	595,060,708	19,658,431

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(2) Condensed consolidated statements of operations

	2009 NT\$	For the year ended December 31,		2011 US\$
		2010 NT\$	NT\$	
		(in thousands)		
Net sales	358,732,803	467,157,964	379,711,877	12,544,165
Cost of goods sold	357,966,412	435,549,584	414,029,624	13,677,886
Gross profit (loss)	766,391	31,608,380	(34,317,747)	(1,133,721)
Operating expenses	29,076,075	26,209,188	33,450,570	1,105,074
Operating income (loss)	(28,309,684)	5,399,192	(67,768,317)	(2,238,795)
Non-operating income (expenses), net	(1,352,661)	69,188	(1,855,493)	(61,298)
Income (loss) before income taxes	(29,662,345)	5,468,380	(69,623,810)	(2,300,093)
Income tax expense (benefit)	(1,359,533)	745,015	11,492,354	379,661
Net income (loss)	(28,302,812)	4,723,365	(81,116,164)	(2,679,754)
Less net income (loss) attributable to noncontrolling interests	367,509	479,042	(167,939)	(5,548)
Net income (loss) attributable to stockholders of AU Optronics Corp.	(28,670,321)	4,244,323	(80,948,225)	(2,674,206)

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(3) Condensed consolidated statements of comprehensive income (loss) under US GAAP

	2009 NT\$	For the year ended December 31,		US\$
		2010 NT\$	2011 NT\$	
		(in thousands)		
Net income (loss) attributable to stockholders of AU Optronics Corp.	(28,670,321)	4,244,323	(80,948,225)	(2,674,206)
Other comprehensive income (loss), net of tax:				
Derivative and hedging activities	226,874	186,593	64,742	2,139
Unrealized gains (losses) on securities	1,680,476	(725,095)	(769,843)	(25,432)
Cumulative translation adjustments	(611,237)	(634,165)	934,722	30,879
Defined benefit plan	(120,856)	(298,456)	(63,557)	(2,100)
Other comprehensive income (loss), net of tax	1,175,257	(1,471,123)	166,064	5,486
Comprehensive income (loss) attributable to stockholders of AU Optronics Corp.	(27,495,064)	2,773,200	(80,782,161)	(2,668,720)

	2009 NT\$	For the year ended December 31,		US\$
		2010 NT\$	2011 NT\$	
		(in thousands)		
Net income (loss) attributable to noncontrolling interests	367,509	479,042	(167,939)	(5,548)
Other comprehensive income (loss), net of tax:				
Derivative and hedging activities	123	34	411	14
Unrealized gains on securities	135	592	815	27
Cumulative translation adjustments	(73,534)	33,342	334,696	11,057
Defined benefit plan	(2,269)	(3,965)	435	14
Other comprehensive income (loss), net of tax	(75,545)	30,003	336,357	11,112
Comprehensive income attributable to noncontrolling interests	291,964	509,045	168,418	5,564

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (4) Changes in equity attributable to AU Optronics Corp., noncontrolling interests and total equity under US GAAP

	Years ended December 31, 2009, 2010 and 2011		
	Equity attributable to AU Optronics Corp.	Noncontrolling interests (in thousands)	Total equity
Balance at January 1, 2009	293,391,868	7,737,213	301,129,081
Employees profit sharing cash	2,226,093		2,226,093
Cash dividends	(2,551,716)		(2,551,716)
Net transfer from noncontrolling interest	31,232	(31,232)	
Proceeds from subsidiaries capital increase		2,445,262	2,445,262
Effect of inclusion of newly consolidated subsidiaries		1,762,956	1,762,956
Other changes in equity	666,569	(458,651)	207,918
Comprehensive income (loss):			
Net income (loss)	(28,670,321)	367,509	(28,302,812)
Other comprehensive income, net of tax:			
Derivative and hedging activities	226,874	123	226,997
Unrealized gains on securities	1,680,476	135	1,680,611
Cumulative translation adjustments	(611,237)	(73,534)	(684,771)
Defined benefit plan	(120,856)	(2,269)	(123,125)
Comprehensive income (loss)	(27,495,064)	291,964	(27,203,100)
Balance at December 31, 2009	266,268,982	11,747,512	278,016,494
Cash dividends		(238,860)	(238,860)
Net transfer from noncontrolling interest	1,143,234	(1,143,234)	
Proceeds from subsidiaries capital increase		4,338,348	4,338,348
Effect of deconsolidation of subsidiary	(2,940)	(3,870,141)	(3,873,081)
Other changes in equity	207,583	1,641,011	1,848,594
Comprehensive income (loss):			
Net income	4,244,323	479,042	4,723,365
Other comprehensive income, net of tax:			
Derivative and hedging activities	186,593	34	186,627
Unrealized gains (losses) on securities	(725,095)	592	(724,503)
Cumulative translation adjustments	(634,165)	33,342	(600,823)
Defined benefit plan	(298,456)	(3,965)	(302,421)
Comprehensive income	2,773,200	509,045	3,282,245
Balance at December 31, 2010	270,390,059	12,983,681	283,373,740
Cash dividends	(3,530,818)	(406,427)	(3,937,245)
Net transfer from noncontrolling interest	1,079,577	(1,079,577)	
Proceeds from subsidiaries capital increase		3,230,026	3,230,026
Other changes in equity	502,024	(80,133)	421,891
Comprehensive income (loss):			
Net loss	(80,948,225)	(167,939)	(81,116,164)

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Other comprehensive income, net of tax:			
Derivative and hedging activities	64,742	411	65,153
Unrealized gains (losses) on securities	(769,843)	815	(769,028)
Cumulative translation adjustments	934,722	334,696	1,269,418
Defined benefit plan	(63,557)	435	(63,122)
Comprehensive income (loss)	(80,782,161)	168,418	(80,613,743)
Balance at December 31, 2011	187,658,681	14,815,988	202,474,669
Balance at December 31, 2011 (in US\$)	6,199,494	489,461	6,688,955

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

- (5) Condensed consolidated statements of cash flows

	2009 NT\$	For the year ended December 31,		US\$
		2010 NT\$	2011 NT\$	
		(in thousands)		
Net cash provided by (used in):				
Operating activities	58,566,108	90,852,162	14,429,301	476,687
Investing activities	(68,550,309)	(87,866,077)	(58,072,742)	(1,918,492)
Financing activities	11,467,617	1,393,867	45,849,997	1,514,701
Effect of exchange rate change on cash and cash equivalents	525,198	(327,772)	(868,379)	(28,688)
Net change in cash and cash equivalents	2,008,614	4,052,180	1,338,177	44,208
Cash and cash equivalents at beginning of year	83,434,697	85,443,311	89,495,491	2,956,574
Cash and cash equivalents at end of year	85,443,311	89,495,491	90,833,668	3,000,782

- (u) Additional US GAAP disclosure

- (1) Available-for-sale securities

The Company holds marketable securities that are classified as available-for-sale securities. Information on available-for-sale securities held at each balance sheet date is as follows:

	Cost* NT\$	Fair value NT\$	Total unrealized gains	Total unrealized losses
			NT\$	NT\$
			(in thousands)	
Long-term investments:				
As of December 31, 2010	633,807	1,373,687	761,964	22,084
As of December 31, 2011	447,318	436,774	124,913	135,457

* Cost basis as of December 31, 2011, reflects the impact of the other-than-temporary impairment loss of NT\$60,307 (US\$1,992) thousand, which resulted in a new cost basis of the related available-for-sale securities.

Gross unrealized losses on available-for-sale securities for which other-than-temporary impairment has not been recognized at December 31, 2010 and 2011, relate to investments that had been in a continuous unrealized loss position for less than 12 months.

Information on the sale of available-for-sale securities for the years ended December 31, 2009, 2010 and 2011, is summarized as follows. The costs of the securities sold were determined on a weighted-average basis.

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	Proceeds from sales NT\$	Gross realized gains NT\$	Gross realized losses NT\$
		(in thousands)	
For the year ended December 31, 2009	939,158	374,372	
For the year ended December 31, 2010	716,751	547,892	
For the year ended December 31, 2011	135,433	54,317	12,008

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(2) Allowance for doubtful accounts, sales returns and discounts (including related parties) and accrued warranty liability

A roll-forward of the allowance for doubtful accounts, and sales returns and discounts is as follows:

	For the year ended December 31,			US\$
	2009 NT\$	2010 NT\$	2011 NT\$	
	(in thousands)			
Balance at beginning of year	1,244,468	214,327	868,202	28,682
Provisions charged to earnings	620,393	2,035,875	2,362,481	78,047
Write-offs	(1,650,534)	(1,382,000)	(2,697,732)	(89,122)
Balance at end of year	214,327	868,202	532,951	17,607

A roll-forward of the accrued warranty is as follows:

	For the year ended December 31,			US\$
	2009 NT\$	2010 NT\$	2011 NT\$	
	(in thousands)			
Balance at beginning of year	1,915,016	2,313,590	2,870,895	94,843
Provisions charged to earnings	578,645	651,953	289,179	9,553
Utilization	(180,071)	(94,648)	(474,737)	(15,683)
Balance at end of year	2,313,590	2,870,895	2,685,337	88,713

(3) Pension-related benefits

(i) Defined benefit pension plans in Taiwan

AUO and Toppan CFI have established defined benefit pension plans covering their full-time employees in the Republic of China who joined the Company before July 1, 2005, and elected to participate in the plans.

One of the principal assumptions used to calculate net periodic benefit cost is the expected long-term rate of return on plan assets. The expected long-term rate of return on plan assets may result in recognized returns that are greater or less than the actual returns on those plan assets in any given year. Over time, however, the expected long-term rate of return on plan assets is designed to approximate the actual long-term returns.

The discount rate assumptions used to account for pension plans reflect the rates available on high-quality, fixed-income debt instruments on December 31 of each year. The rate of increase in compensation levels is another significant assumption used for pension accounting and is determined by AUO and Toppan CFI based upon annual review.

Net periodic benefit cost for AUO's and Toppan CFI's defined benefit pension plans amounted to NT\$14,409 thousand, NT\$24,773 thousand and NT\$48,204 (US\$1,592) thousand for the years ended December 31, 2009, 2010 and 2011, respectively.

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AUO and Toppan CFI use a measurement date of December 31 for their plans.

The following table sets forth the change in benefit obligations for the pension plans:

	2010	December 31, 2011	US\$
	NT\$	NT\$ (in thousands)	
Projected benefit obligation at beginning of year	1,265,483	1,694,278	55,972
Service cost	7,596	8,954	296
Interest cost	28,473	33,938	1,121
Actuarial loss	392,726	114,537	3,784
Benefit paid		(5,641)	(186)
 Projected benefit obligation at end of year	 1,694,278	 1,846,066	 60,987

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The accumulated benefit obligation for the pension plans was NT\$789,509 thousand and NT\$877,453 (US\$28,988) thousand at December 31, 2010 and 2011, respectively.

The following table sets forth the change in the fair value of plan assets for the pension plans:

	2010	December 31,	
	NT\$	NT\$	US\$
		(in thousands)	
Fair value of plan assets at beginning of year	1,254,680	1,386,818	45,815
Actual return on plan assets	19,429	13,126	434
Actual contributions	112,709	106,536	3,519
Benefit paid		(5,641)	(186)
Fair value of plan assets at end of year	1,386,818	1,500,839	49,582

Plan assets only contain a pension fund (the Fund), as mandated by the ROC Labor Standards Law. AUO and Toppan CFI contribute an amount equal to 2% of salaries paid every month to the Fund as required by the law. The Fund is administered by a pension fund monitoring committee (the Committee) and is deposited in the Committee's name with Bank of Taiwan. According to applicable regulations in the Republic of China, the minimum return on the plan assets should not be lower than the market interest rate on two-year time deposits. The government is not only responsible for the determination of the investment strategies and policies, but also for any shortfall in the event that the rate of return is less than the required rate of return. Due to AUO and Toppan CFI have no authority on investment decisions made for the required contributions to the fund; therefore, the Company is unable to provide the required fair value disclosures related to pension plan assets. Additional contributions may be required in the future in order to provide for unfunded obligations.

The Company's pension fund is managed by a government-established institution with minimum return guaranteed by government and the fund asset is treated as cash category.

The following table sets forth the amounts recognized related to AUO's and Toppan CFI's pension plans in the condensed consolidated balance sheets for US GAAP purposes:

	2010	December 31,	
	NT\$	NT\$	US\$
		(in thousands)	
Funded status plan assets less than benefit obligations	(307,460)	(345,227)	(11,405)
Accrued liability	(307,460)	(345,227)	(11,405)

	2010	December 31,	
	NT\$	NT\$	US\$
		(in thousands)	
Prepaid pension cost (accrued liability) at beginning of year	(10,803)	(307,460)	(10,157)

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Net periodic benefit cost	(24,773)	(48,204)	(1,592)
Actual contributions	112,709	106,536	3,519
Pension liability adjustments under FASB Topic 715-60	(384,593)	(96,099)	(3,175)
Accrued liability at end of year	(307,460)	(345,227)	(11,405)

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Net periodic benefit cost for the defined benefit pension plans consisted of the following:

	For the year ended December 31,			
	2009 NT\$	2010 NT\$	2011 NT\$	US\$
	(in thousands)			
Service cost	8,077	7,596	8,954	296
Interest cost	26,435	28,473	33,938	1,121
Expected return on plan assets	(27,881)	(28,172)	(27,736)	(916)
Amortization of net transition cost	323	323	323	11
Amortization of net loss		83	378	12
Recognized net actuarial loss	7,455	16,470	32,347	1,068
Net periodic benefit cost	14,409	24,773	48,204	1,592

The weighted-average assumptions used in computing the benefit obligations were as follows:

	2009	December 31,		2011	
		2010	2010		
Discount rate	2.25%	2.00%	2.25%	1.75%	2.00%
Rate of increase in compensation levels	3.00%	3.00%	4.00%	2.00%	3.00%

The weighted-average assumptions used in computing net periodic benefit cost were as follows:

	For the year ended December 31,				
	2009	2010	2010	2011	2011
Discount rate	2.50%	2.50%	2.25%	2.00%	2.25%
Rate of increase in compensation levels	2.50%	3.00%	3.00%	3.00%	4.00%
Expected long-term rate of return on plan assets	2.25%	2.50%	2.00%	2.00%	

AUO and Toppan CFI contributed NT\$106,536 (US\$3,520) thousand to the pension plans in 2011, and anticipate contributing NT\$106,500 thousand to the plans in 2012.

The benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter are summarized as follows:

Year	Retirement benefit payments	
	NT\$	US\$
	(in thousands)	
2012	22,226	734
2013	4,799	159
2014	51,935	1,716
2015	26,724	883

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2016	18,850	623
2017-2020	376,407	12,435

The expected benefits are estimated based on the same assumptions used to measure the Company's benefit obligation on December 31, 2011 and include estimated future employee service.

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(ii) Defined benefit pension plans in Japan

The following table sets forth the change in benefit obligations for the pension plans:

	2010 NT\$	December 31, 2011 NT\$ (in thousands)	US\$
Projected benefit obligation at beginning of year	163,842	185,243	6,120
Service cost	25,552	24,397	806
Interest cost	3,522	3,725	123
Actuarial loss	(2,772)	19,288	637
Benefit paid	(17,160)	(132,327)	(4,372)
Effect of exchange rate	12,259	9,797	324
Projected benefit obligation at end of year	185,243	110,123	3,638

The accumulated benefit obligation for the pension plans was NT\$161,539 thousand and NT\$93,074 (US\$3,075) thousand on December 31, 2010 and 2011, respectively.

The following table sets forth the change in the fair value of plan assets for the pension plans:

	2010 NT\$	December 31, 2011 NT\$ (in thousands)	US\$
Fair value of plan assets at beginning of year	32,635	36,966	1,221
Actual return on plan assets	929	(1,469)	(49)
Actual contributions	4,994	24,573	812
Benefit paid	(4,035)	(62,025)	(2,049)
Effect of exchange rate	2,443	1,955	65
Fair value of plan assets at end of year	36,966		

Under the defined benefit plans in Japan, the pension fund is maintained with Asahi Mutual Life Insurance with a fixed yield rate. M. Setek does not have authority on how investment allocation decisions are made, but is eligible for getting a fixed yield back. The Asahi Mutual Life Insurance is responsible for any shortfall in the event that the rate of return is less than the agreed yield rate in the contract.

The following table sets forth the amounts recognized related to M. Setek's pension plans in the condensed consolidated balance sheets for US GAAP purposes:

December 31,

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	2010 NT\$	2011 NT\$ (in thousands)	US\$
Funded status plan assets less than benefit obligations	(148,278)	(110,123)	(3,638)
Accrued liability	(148,278)	(110,123)	(3,638)

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2010	December 31,	
	NT\$	NT\$	US\$
		(in thousands)	
Accrued liability at beginning of year	(131,207)	(148,278)	(4,898)
Net periodic benefit cost	(28,811)	(27,878)	(921)
Benefit paid	13,126	70,302	2,322
Actual contributions	4,994	24,573	812
Pension liability adjustments under FASB Topic 715-60	3,438	(20,999)	(694)
Effect of exchange rate	(9,818)	(7,843)	(259)
Accrued liability at end of year	(148,278)	(110,123)	(3,638)

Net periodic benefit cost for the defined benefit pension plans consisted of the following:

	For the year ended December 31,		
	2010	2011	US\$
	NT\$	NT\$	
	(in thousands)		
Service cost	25,552	24,397	806
Interest cost	3,522	3,725	123
Expected return on plan assets	(263)	(243)	(8)
Gain on settlement		(518)	(17)
Net periodic benefit cost	28,811	27,361	904

The weighted-average assumptions used in computing the benefit obligations were as follows:

	December 31,			
	2010		2011	
Discount rate	2.0%	2.0%	2.0%	2.0%
Rate of increase in compensation levels	1.2%	5.55%	1.2%	5.55%

The weighted-average assumptions used in computing net periodic benefit cost were as follows:

	For the year ended			
	December 31,			
	2010	2011		
Discount rate	2.0%	2.0%	2.0%	2.0%
Rate of increase in compensation levels	1.2%	5.55%	1.2%	5.55%
Expected long-term rate of return on plan assets	0.75%	0.75%	0.75%	0.75%

M. Setek contributed NT\$24,397 (US\$806) thousand to the pension plans during the year of 2011, and anticipates no contribution to the plans in 2012.

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The benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter are summarized as follows:

Year	Retirement benefit payments	
	NT\$	US\$
	(in thousands)	
2012	1,293	43
2013	1,429	47
2014	1,565	52
2015	10,348	342
2016	1,705	56
2017-2021	25,177	832

The expected benefits are estimated based on the same assumptions used to measure M. Setek's benefit obligation at December 31, 2011 and include estimated future employee service.

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(4) Income taxes

(i) The sources of income (loss) before taxes are summarized as follows:

	2009 NT\$	For the year ended December 31,		US\$
		2010 NT\$	2011 NT\$	
		(in thousands)		
Domestic operations	(34,957,294)	5,104,098	(60,223,738)	(1,989,552)
Foreign operations	5,294,949	364,282	(9,400,072)	(310,541)
	(29,662,345)	5,468,380	(69,623,810)	(2,300,093)

The components of the provision for income tax expense (benefit) are summarized as follows:

	2009 NT\$	For the year ended December 31,		US\$
		2010 NT\$	2011 NT\$	
		(in thousands)		
Current income tax expense (benefit):				
Domestic	(13,453)	1,092,315	86,284	2,850
Foreign	698,484	809,077	323,408	10,684
Deferred income tax benefit:				
Domestic	(1,816,893)	(749,520)	11,222,137	370,735
Foreign	(227,671)	(406,857)	(139,475)	(4,607)
Income tax expense (benefit)	(1,359,533)	745,015	11,492,354	379,662

A reconciliation of the expected income tax expense (benefit) to the actual income tax expense (benefit) as reported under US GAAP for 2009, 2010 and 2011 was as follows:

	2009 NT\$	For the year ended December 31,		US\$
		2010 NT\$	2011 NT\$	
		(in thousands)		
Expected income tax expense (benefit)	(7,415,586)	929,624	(11,836,048)	(391,015)
Decrease (increase) in investment tax credits, including amounts that expired unused (a)	2,664,946	3,581,523	752,040	24,845
Increase (decrease) in valuation allowance (a)	2,259,473	(5,010,968)	24,262,500	801,536
Tax exemption		(303,655)		
Tax on undistributed retained earnings	667	876,762	1,343	44
Effect of changes in statutory income tax rate	2,321,716	1,552,898	544,351	17,983
Effect of different subsidiary income tax rate	341,515	555,907	(1,770,110)	(58,477)
Tax holiday (b)	(832,894)	(477,400)	(196,860)	(6,504)

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Permanent differences	(284,628)	(481,927)	15,209	503
Others	(414,742)	(477,749)	(280,071)	(9,253)
Income tax expense (benefit)	(1,359,533)	745,015	11,492,354	379,662

- (a) For the years ended December 31, 2009, 2010 and 2011, investment tax credits that expired unused amount to NT\$6,680,020 thousand, NT\$6,220,123 thousand and NT\$2,308,078 (US\$76,250) thousand, respectively. Valuation allowances had previously been recognized for these deferred tax assets. Consequently, the subsequent write-off of these investment tax credits and the related reversals of the deferred tax asset valuation allowances had no impact on income tax expense in the period these investments tax credits expired unused.
- (b) Under preferential tax policies previously available to foreign-invested enterprises and foreign enterprises in China, some subsidiaries located in China were entitled to tax holidays. The Company will no longer be eligible for the abovementioned income tax holidays starting from 2013. The per share effect of the tax holidays for the years ended December 31, 2009, 2010 and 2011 were NT\$0.09, NT\$0.05 and NT\$0.02 (US\$0.0007), respectively.

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(ii) The components of deferred income tax assets and liabilities were as follows:

	2010 NT\$	December 31, 2011 NT\$ (in thousands)	US\$
Deferred tax assets:			
Inventories	1,042,378	1,196,603	39,531
Unrealized loss and expenses	3,159,902	4,138,775	136,729
Other current liabilities	492,195	577,308	19,072
Investment tax credits	14,331,405	13,568,531	448,250
Net operating loss carryforwards	6,709,035	17,987,690	594,242
Convertible bonds	217,709	131,770	4,353
Property, plant and equipment	4,846,254	5,793,902	191,407
Others	1,594,440	1,182,694	39,071
Gross deferred tax assets	32,393,318	44,577,273	1,472,655
Valuation allowance	(17,588,929)	(42,133,096)	(1,391,909)
Net deferred tax assets	14,804,389	2,444,177	80,746
Deferred tax liabilities:			
Long-term investment equity method	(1,560,617)	(135,255)	(4,468)
Goodwill	(865,881)	(1,042,495)	(34,440)
Property, plant and equipment	(1,087,019)	(875,354)	(28,918)
Cumulative translation adjustments	(264,676)	(542,961)	(17,937)
Others	(505,190)	(448,133)	(14,805)
Total deferred tax liabilities	(4,283,383)	(3,044,198)	(100,568)
Net deferred tax assets	10,521,006	(600,021)	(19,822)

In assessing the realizability of deferred tax assets in accordance with US GAAP, management considers whether it is more likely than not that some portion or most of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and net operating losses and investment tax credits are utilized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences and carryforwards, net of the existing valuation allowance on December 31, 2011. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward or reversal periods are reduced.

The valuation allowance on December 31, 2011, represented the amount of tax benefits related to investment tax credit carryforwards which management determined are not more likely than not to be realized due, in part, to projections of future taxable income. As of December 31, 2009, 2010 and 2011, the increase (decrease) in valuation allowance amounted to NT\$3,230,638 thousand, NT\$(2,266,558) thousand and NT\$24,544,167 (US\$810,841) thousand, respectively.

Under US GAAP, cumulative losses in recent years is a significant piece of negative evidence which is difficult to overcome with projections of future operating profits for the purpose of determining the valuation allowance for deferred income tax assets. As a result, as of December 31,

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2011, AUO recorded full valuation allowances against its net deferred tax assets in the amount of NT\$33,758,246 (US\$1,115,238) thousand.

Pursuant to the Business Mergers and Acquisition Act, the Company is entitled to net operating loss carryforwards of NT\$1,014,035 thousand and investment tax credits of NT\$9,410,776 thousand sustained by QDI prior to the date of acquisition. As of October 1, 2006, the Company recognized a valuation allowance of NT\$9,410,776 thousand on the unused investment tax credits because management believes that it is more likely than not that the Company will not realize the benefits of those deferred tax assets based on expected future earnings. As of December 31, 2010 and 2011, NT\$640,750 thousand and nil of such investment tax credits have expired unutilized. Any further subsequent recognition of tax benefit related to valuation allowance for deferred tax assets will be recorded in the consolidated statements of operations under FASB ASC Topic 805.

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Similar to ROC GAAP, deferred tax assets and liabilities under US GAAP would be classified as current or noncurrent based on the classification of the related asset or liability, and the valuation allowance is allocated on a pro rata basis between current and noncurrent deferred tax assets for the relevant jurisdiction. As of December 31, 2010 and 2011, deferred tax assets and liabilities under US GAAP were as follows:

	2010 NT\$	December 31,	
		2011 NT\$	US\$
		(in thousands)	
Deferred tax assets current	5,909,322	190,116	6,281
Deferred tax assets noncurrent	8,705,191	2,358,761	77,924
Deferred tax liabilities current	(219,309)	(30,079)	(994)
Deferred tax liabilities noncurrent	(3,874,198)	(3,118,819)	(103,033)
	10,521,006	(600,021)	(19,822)

(iii) Summary of total income taxes (benefit):

In 2009, 2010 and 2011, the total income taxes (benefit) were allocated as follows:

	2009 NT\$	For the year ended December 31,		
		2010 NT\$	2011 NT\$	US\$
		(in thousands)		
Income tax expense (benefit) from continuing operations	(1,359,533)	745,015	11,492,354	379,662
Other comprehensive income	(179,004)	(91,798)	184,554	6,097
Total income tax expense (benefit)	(1,538,537)	653,217	11,676,908	385,759

(iv) Accounting for uncertainty in income taxes:

A reconciliation of the beginning and ending amounts of unrecognized tax benefits was as follows:

	2009 NT\$	For the year ended December 31,		
		2010 NT\$	2011 NT\$	US\$
		(in thousands)		
Balance at beginning of year		3,368	11,270	372
Increase related to prior-year tax positions	3,368	11,270		
Decrease related to prior-year tax positions				
Settlements		(3,368)	(11,270)	(372)

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Balance at end of year	3,368	11,270
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In 2009 and 2010, the income tax authorities in Taiwan completed the examination of AUO's income tax returns for 2007 and 2008, respectively. As a result of the examination, the Company increased the accrued liability for unrecognized tax benefits related to prior-year tax positions for an amount of NT\$3,368 thousand and NT\$11,270 thousand, respectively. As of December 31, 2011, the Company did not have significant unrecognized tax benefits and does not expect any significant change in the unrecognized tax benefits within the next 12 months.

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(5) Property, plant and equipment

As of December 31, 2010 and 2011, the components of property, plant and equipment were as follows:

	December 31, 2010		
	Cost NT\$	Accumulated depreciation NT\$	Carrying amount NT\$
		(in thousands)	
Land	8,071,084		8,071,084
Buildings	112,993,562	(27,428,557)	85,565,005
Machinery and equipment	659,723,809	(442,656,492)	217,067,317
Other equipment and general assets	54,108,133	(45,352,643)	8,755,490
Construction in progress	2,718,857		2,718,857
Prepayments for purchases of land and equipment	54,275,486		54,275,486
	891,890,931	(515,437,692)	376,453,239

	December 31, 2011		
	Cost NT\$	Accumulated depreciation NT\$	Carrying amount NT\$
		(in thousands)	
Land	9,385,200		9,385,200
Buildings	123,369,332	(34,948,752)	88,420,580
Machinery and equipment	728,308,445	(512,883,397)	215,425,048
Other equipment and general assets	61,679,902	(54,723,053)	6,956,849
Construction in progress	8,279,012		8,279,012
Prepayments for purchases of land and equipment	19,986,045		19,986,045
	951,007,936	(602,555,202)	348,452,734

- (6) The changes in the components of accumulated other comprehensive income (loss) attributable to AU Optronics Corp. were as follows:

	Derivative and hedging activities NT\$	Unrealized gains (losses) on securities NT\$	Cumulative translation adjustments NT\$	Defined benefit plan NT\$	Accumulated other comprehensive income (loss) NT\$
			(in thousands)		
Balance at December 31, 2008	(542,090)	(111,009)	2,323,297	(142,067)	1,528,131
Net current-period change	226,874	1,680,476	(611,237)	(120,856)	1,175,257

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Balance at December 31, 2009	(315,216)	1,569,467	1,712,060	(262,923)	2,703,388
Net current-period change	186,593	(725,095)	(634,165)	(298,456)	(1,471,123)
Balance at December 31, 2010	(128,623)	844,372	1,077,895	(561,379)	1,232,265
Net current-period change	64,742	(769,843)	934,722	(63,557)	166,064
Balance at December 31, 2011	(63,881)	74,529	2,012,617	(624,936)	1,398,329

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The related income tax effects allocated to each component of other comprehensive income (loss) attributable to AU Optronics Corp. were as follows:

	For the year ended December 31, 2009		
	Before	Tax	Net-of-tax amount NT\$
	tax	(expense)	
	amount	benefit	
NT\$	NT\$		
Derivative and hedging activities	299,014	(72,140)	226,874
Unrealized losses on securities	2,054,848		2,054,848
Less: reclassification adjustment for gains realized in income	(374,372)		(374,372)
Cumulative translation adjustments	(809,581)	198,344	(611,237)
Defined benefit plan	(173,656)	52,800	(120,856)
Net current-period changes	996,253	179,004	1,175,257

	For the year ended December 31, 2010		
	Before	Tax	Net-of-tax amount NT\$
	tax	(expense)	
	amount	benefit	
NT\$	NT\$		
Derivative and hedging activities	218,750	(32,157)	186,593
Unrealized gains on securities	(177,203)		(177,203)
Less: reclassification adjustment for gains realized in income	(547,892)		(547,892)
Cumulative translation adjustments	(655,625)	21,460	(634,165)
Defined benefit plan	(400,951)	102,495	(298,456)
Net current-period changes	(1,562,921)	91,798	(1,471,123)

	For the year ended December 31, 2011		
	Before	Tax	Net-of-tax amount NT\$
	tax	(expense)	
	amount	benefit	
NT\$	NT\$		
Derivative and hedging activities	78,002	(13,260)	64,742
Unrealized gains on securities	(877,898)		(877,898)
Less: reclassification adjustment for gains realized in income	108,055		108,055
Cumulative translation adjustments	1,129,739	(195,017)	934,722
Defined benefit plan	(87,281)	23,724	(63,557)
Net current-period changes	350,617	(184,553)	166,064

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There are no tax effects from realized or unrealized gains (losses) on available-for-sale securities since capital gains (losses) on Republic of China securities are not taxable (deductible) in Taiwan.

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Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(7) Basic and diluted (loss) earnings per share

Basic (loss) earnings per share for years 2009, 2010 and 2011 were computed as follows:

	For the year ended December 31,		
	2009 NT\$	2010 NT\$	2011 NT\$
	(in thousands, except for per share data)		
Net income (loss) attributable to stockholders of AU Optronics Corp.	(28,670,321)	4,244,323	(80,948,225)
Weighted-average number of shares outstanding during the year retroactively adjusted:			
Shares of common stock at beginning of year	8,505,720	8,827,046	8,827,046
Issuance of shareholders' stock dividends and employee stock bonus	279,458		
	8,785,178	8,827,046	8,827,046
Basic (loss) earnings per share:			
Net income (loss)	(3.26)	0.48	(9.17)

Diluted (loss) earnings per share for years 2009, 2010 and 2011 were computed as follows:

	For the year ended December 31,		
	2009 NT\$	2010 NT\$	2011 NT\$
	(in thousands, except for per share data)		
Net income (loss) attributable to stockholders of AU Optronics Corp. for computing diluted (loss) earnings per share:	(28,670,321)	4,244,323	(80,948,225)
Weighted-average number of shares outstanding during the year retroactively adjusted (including the effect of dilutive potential common stock):			
Shares of common stock at beginning of year	8,505,720	8,827,046	8,827,046
Issuance of shareholders' stock dividends and employee stock bonus	279,458		
	8,785,178	8,827,046	8,827,046
Diluted (loss) earnings per share:			
Net income (loss)	(3.26)	0.48	(9.17)

As of December 31, 2010 and 2011, the zero coupon convertible bond with a principal amount of NT\$24,622,400 thousand and NT\$23,779,167 (US\$785,569) thousand, respectively, which can be converted to 132,467 thousand shares, and 583,681 thousand shares, respectively, was not included in the computation of diluted earnings per share due to its anti-dilutive effect.

(8) Goodwill and other intangible assets

(i) Goodwill

There is no change in the carrying amount of goodwill for the years ended December 31, 2010 and 2011.

As of December 31, 2010 and 2011, the carrying amount of goodwill both amounted to NT\$22,227,327 (US\$734,302) thousand.

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(ii) Other intangible assets

Details of the other intangible assets were as follows:

	December 31, 2010		
	Cost NT\$	Accumulated amortization NT\$ (in thousands)	Carrying amount NT\$
Amortizable intangible assets:			
Patents and licensing fees	23,563,620	20,956,166	2,607,454
Core technologies	3,675,700	3,675,700	
	27,239,320	24,631,866	2,607,454

	December 31, 2011			
	Cost NT\$	Accumulated amortization NT\$ (in thousands)	Carrying amount NT\$	US\$
Amortizable intangible assets:				
Patents and licensing fees	25,505,115	21,533,189	3,971,926	131,217
Core technologies	3,675,700	3,675,700		
	29,180,815	25,208,889	3,971,926	131,217

Patents and licensing fees have a weighted-average amortization period of approximately eight years. Core technologies have a weighted-average useful life of three years.

Amortization expense on intangible assets amounted to NT\$1,630,962 thousand, NT\$654,525 thousand and NT\$576,679 (US\$19,051) thousand for the years ended December 31, 2009, 2010 and 2011, respectively.

As of December 31, 2011, the Company's estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

Year	NT\$	US\$
	(in thousands)	
2012	743,019	24,546
2013	671,826	22,194
2014	570,950	18,862
2015	548,184	18,110
2016	538,882	17,803
Thereafter	899,065	29,702

Total	3,971,926	131,217
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(9) Fair value measurements

The Company adopted FASB ASC Topic 820 on January 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. On January 1, 2009, the Company adopted the provisions of FASB ASC Topic 820 for fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (i.e., Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (i.e., Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- (i) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Assets utilizing Level 1 inputs include available-for-sale securities that are actively traded.

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- (ii) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs include interest rate swap contracts, foreign currency forward contracts and embedded derivative financial instruments.

- (iii) Level 3 inputs are unobservable inputs for the asset or liability.

Fair value is a market-based measure considered from the perspective of a market participant who holds the assets or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are the same as those that market participants would use in pricing the asset or liability at the measurement date. The Company uses inputs that are current as of the measurement date, including during periods when the market may be abnormally high or abnormally low. Accordingly, fair value measurement can be volatile based on various factors that may or may not be within the Company's control.

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2010 and 2011.

	December 31, 2010 NT\$	Fair value measurements at reporting date using		
		Quoted prices in active market for identical assets (Level 1) NT\$	Significant other observable inputs (Level 2) NT\$	Significant unobservable inputs (Level 3) NT\$
(in thousands)				
Assets:				
Foreign currency forward contracts	425,443		425,443	
Options contracts	1,822		1,822	
Available-for-sale financial assets - noncurrent	1,373,687	1,373,687		
Liabilities:				
Foreign currency forward contracts	102,455		102,455	
Interest rate swap contracts	361,889		361,889	
Options contracts	180,020		180,020	

	December 31, 2011 NT\$	Fair value measurements at reporting date using		
		Quoted prices in active market for identical assets (Level 1) NT\$	Significant other observable inputs (Level 2) NT\$	Significant unobservable inputs (Level 3) NT\$
(in thousands)				
Assets:				
Foreign currency forward contracts	85,621		85,621	
Options contracts	172		172	
Interest rate swap contracts	3		3	
Available-for-sale financial assets - noncurrent	436,774	436,774		
Liabilities:				
Foreign currency forward contracts	17,523		17,523	
Interest rate swap contracts	198,401		198,401	
Options contracts	176,185		176,185	

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table presents the balances for those assets that are measured at fair value on a nonrecurring basis and the associated losses recognized during the years ended December 31, 2010 and 2011.

	December 31, 2010 NT\$	Fair value measurements at reporting date using			For the Year Ended December 31, 2010 Impairment Loss NT\$
		Quoted prices in active market for identical assets (Level 1) NT\$	Significant other observable inputs (Level 2) NT\$	Significant unobservable inputs (Level 3) NT\$	
(in thousands)					

Assets:

Financial assets carried at cost – noncurrent	896,294			896,294	
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	December 31, 2011 NT\$	Fair value measurements at reporting date using			For the Year Ended December 31, 2011 Impairment Loss NT\$
		Quoted prices in active market for identical assets (Level 1) NT\$	Significant other observable inputs (Level 2) NT\$	Significant unobservable inputs (Level 3) NT\$	
(in thousands)					

Assets:

Financial assets carried at cost – noncurrent	1,481,390			1,481,390	43,759
Equity-method investment	1,185,244	1,185,244			2,161,723

Financial assets carried at cost consist primarily of non-publicly listed stocks. Due to the absence of quoted market prices in an active market, the fair value measurement of the Company's non-publicly listed stocks is determined by using an analysis of various factors. These factors include the private company's current operating and future expected performance (based on evaluation of the latest available financial statements), as well as changes in the industry and market prospects (based on publicly available information).

The fair value of the equity method investment that was impaired was based on quoted market price.

The following table reconciles the Company's Level 3 fair value measurement from December 31, 2009 to December 31, 2011:

	Assets NT\$
(in thousands)	
Financial asset carried at cost-noncurrent:	
Balance at December 31, 2009	484,009
Purchases	658,959

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Sales	(445)
Transfer out	(246,229)
Balance at December 31, 2010	896,294
Total realized and unrealized losses	(45,338)
Purchases	30,000
Transfer in	600,434
Balance at December 31, 2011	1,481,390

Investment in securities with a fair value of \$285,431 thousand were transferred from Level 3 to Level 1 during the year of 2010 as a result of increased activity in the market for securities that were not being actively traded in the prior year.

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