

AU OPTRONICS CORP
Form 20-F/A
June 05, 2009

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, 2008

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission file number: 001-31335

(Exact name of Registrant as specified in its charter)

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

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

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

Andy Yang
1 Li-Hsin Road 2
Hsinchu Science Park
Hsinchu, Taiwan
Republic of China
Telephone No.: +886-3-500-8800
Facsimile No.: +886-3-564-3370
Email: IR@auo.com
(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	Name of each exchange on which registered
Common Shares of par value NT\$10.00 each	The New York Stock Exchange, Inc.*

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

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 8,505,719,634 Common Shares

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

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

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

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

Accelerated filer Accelerated filer Non-accelerated

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

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

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

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



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EXPLANATORY NOTE

This Amendment No. 1 to the registrant's annual report for the fiscal year ended December 31, 2008 (File No. 001-31335) ("Original Annual Report") is being filed solely for the purpose of correcting typographical errors included in Item 18. Financial Statements, as set forth below:

1 On pages F-59 and F-60, revising the table relating to "Basic EPS for years 2006, 2007 and 2008" to remove an extraneous line item "Basic EPS—retroactively adjusted (NT\$)" at the bottom of such table.

We are including in this Amendment No. 1 currently-dated certifications by our principal executive officer and our principal financial officer in accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended. This Amendment No. 1 does not reflect events occurring after the filing of the Original Annual Report 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 Annual Report. The filing of this Amendment No. 1 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.

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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, 2007 and 2008.
- (c) Consolidated Statements of Income of AU Optronics Corp. and subsidiaries for the years ended December 31, 2006, 2007 and 2008.
- (d) Consolidated Statements of Stockholders' Equity of AU Optronics Corp. and subsidiaries for the years ended December 31, 2006, 2007 and 2008.
- (e) Consolidated Statements of Cash Flows of AU Optronics Corp. and subsidiaries for the years ended December 31, 2006, 2007 and 2008.
- (f) Notes to Consolidated Financial Statements of AU Optronics Corp. and subsidiaries.

ITEM 19. EXHIBITS

- 1.1 Articles of Incorporation (English translation) (incorporated herein by reference to Exhibit 1.1 to our annual report on Form 20-F as filed with the Commission on June 3, 2008).
- 2.1 Deposit Agreement, dated May 29, 2002, among AU Optronics Corp., Citibank, N.A. as depositary, and Holders and Beneficial Owners of American depositary shares evidenced by American depositary receipts issued thereunder, including the form of American depositary receipt (incorporated herein by reference to Exhibit 2(A) to our annual report on Form 20-F as filed with the Commission on June 30, 2003).
- 2.2 Amendment No. 1 to the Deposit Agreement, dated February 15, 2006, among AU Optronics Corp., Citibank, N.A. as depositary, and Holders and Beneficial Owners of American depositary shares evidenced by American depositary receipts issued thereunder, including the amended form of American depositary receipt (incorporated herein by reference to Exhibit 2.2 to our annual report on Form 20-F as filed with the Commission on June 29, 2007).
- 4.1 Patent and Technology License Agreement by and between FDTC and AU Optronics Corp., for TFT-LCD technologies, dated March 31, 2003 (incorporated herein by reference to Exhibit 4(g) to our annual report on Form 20-F as filed with the Commission on June 30, 2003).
- 4.2 Stock Purchase Agreement by and among FDTC, Fujitsu and AU Optronics Corp., for purchase certain amount of stocks of FDTC, dated March 25, 2003 (incorporated herein by reference to Exhibit 4(i) to our annual report on Form 20-F as filed with the Commission on June 30, 2003).
- 4.3 Patent License Agreement by and between SEL and AU Optronics Corp., for amorphous silicon TFT technologies, effective on September 1, 2003. (incorporated herein by reference to Exhibit 4.5 to our annual report on Form 20-F as filed with the Commission on May 5, 2004) (Confidential treatment requested for certain portions of the agreement).

- 4.4 Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, No. 76-6 Small Section, Hsinchu, Taiwan, Republic of China, with respect to part of the site of our previous L1 fab (incorporated herein by reference to Exhibit 4(j) to our annual report on Form 20-F as filed with the Commission on June 30, 2003).
- 4.5 Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, No. 77 Small Section, Hsinchu, Taiwan, Republic of China, with respect to part of the site of L1 fab (incorporated herein by reference to Exhibit 4(k) to our annual report on Form 20-F as filed with the Commission on June 30, 2003).

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- 4.6 Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, Nos. 255-46 Gin-Shan Section, Hsinchu, Taiwan, Republic of China, the site of one of our 3.5-generation fabs (incorporated herein by reference to Exhibit 4(l) to our annual report on Form 20-F as filed with the Commission on June 30, 2003).
- 4.7 Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, Nos. 114-4 Gin-Shan Section, Hsin-Chu, Taiwan, Republic of China, the site of one of our 3.5-generation fabs (incorporated herein by reference to Exhibit 4(m) to our annual report on Form 20-F as filed with the Commission on June 30, 2003).
- 4.8 Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, Nos. 472 etc, Gin-Shan Section, Hsinchu, Taiwan, Republic of China, the site of one of our 3.5-generation fabs (incorporated herein by reference to Exhibit 4(n) to our annual report on Form 20-F as filed with the Commission on June 30, 2003).
- 4.9 Lease Agreement by and between Acer Display Technology, Inc. and Min-Tour Inc. for No. 1 Xinhe Road Aspire Park, 325 Lungtan, Taoyuan, Taiwan, Republic of China, the site of our fourth-generation fab and module-assembly plant (in Chinese, with English summary translation) (incorporated herein by reference to Exhibit 10.12 to our Registration Statement on Form F-1 (Registration No. 333-87418) as filed with Commission on May 1, 2002).
- 4.10 Lease Agreement by and between AU Optronics Corp. and UMC for No. 1, Gin-Shan Section 7 of Hsinchu Science Park, Hsinchu, Taiwan, Republic of China, the site of one of our fourth-generation fab module-assembly plant (in Chinese, with English summary translation) (incorporated herein by reference to Exhibit 10.13 to our Registration Statement on Form F-1 (Registration No. 333-87418) as filed with the Commission on May 1, 2002).
- 4.11 Lease Agreement by and between AU Optronics (Suzhou) Corp. and Chinese-Singapore Suzhou Industrial Park Development Co., Ltd. for No. 398, Suhong Zhong Road, Suzhou Industrial Park, Suzhou, The People's Republic of China, the site of two of our module-assembly plants (incorporated herein by reference to Exhibit 4(q) to our annual report on Form 20-F as filed with the Commission on June 30, 2003).
- 4.12 Merger Agreement, dated April 7, 2006, between AU Optronics Corp. and Quanta Display Inc. (incorporated herein by reference to Item 1 of our Form 6-K as filed with the Commission on May 12, 2006).
- 4.13 Quanta Display Inc. 2002 Employee Stock Option Plan (English translation) (incorporated herein by reference to Exhibit 4.13 to our annual report on Form 20-F as filed with the Commission on June 29, 2007).
- 4.14 Quanta Display Inc. 2003 Employee Stock Option Plan (English translation) (incorporated herein by reference to Exhibit 4.14 to our annual report on Form 20-F as filed with the Commission on June 29, 2007).
- 8.1 List of Subsidiaries (incorporated herein by reference to Exhibit 8.1 to our annual report on Form 20-F as filed with the Commission on May 27, 2009).
- 12.1 Certification of Lai-Juh (L.J.) Chen, Chief Executive Officer of AU Optronics Corp., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (included on the signature page hereto).
- 12.2 Certification of Andy Yang, Chief Financial Officer of AU Optronics Corp., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (included on the signature page hereto).

13.1 Certification of Lai-Juh (L.J.) Chen, Chief Executive 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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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 and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

AU OPTRONICS CORP.

By: /s/ LAI-JUH (L.J.) CHEN
Name: Lai-Juh (L.J.) Chen
Title: Chief Executive
Officer

Date: June 5, 2009

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Certification

I, Lai-Juh (L.J.) Chen, the Chief Executive Officer of AU Optronics Corp., or the registrant, certify that:

1. I have reviewed this annual report on Form 20-F of AU Optronics Corp., as amended by this Amendment No. 1 on Form 20-F/A;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 5, 2009

By: /s/ LAI-JUH (L.J.) CHEN

Name: Lai-Juh (L.J.) Chen

Title: Chief Executive Officer

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Certification

I, Andy Yang, the Chief Financial Officer of AU Optronics Corp., or the registrant, certify that:

1. I have reviewed this annual report on Form 20-F of AU Optronics Corp., as amended by this Amendment No. 1 on Form 20-F/A;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 5, 2009

By: /s/ ANDY YANG

Name: Andy Yang

Title: Chief Financial Officer

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AU OPTRONICS CORP.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2006, 2007 and 2008

(With Report of Independent Registered Public Accounting Firm)

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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, 2007 and 2008, and the related consolidated statements of income, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2008. 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, 2007 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with accounting principles generally accepted in the Republic of China.

As further described in note 2(za) to the consolidated financial statements, the Company adopted, effective January 1, 2008, Republic of China Statement of Financial Accounting Standards (“ROC SFAS”) No. 10, “Inventories,” as amended, ROC SFAS No. 39, “Share-based Payment,” and Accounting Research and Development Foundation Interpretation No. 2007-052 on the accounting for employee bonuses and remuneration to directors and supervisors.

As further described in note 2(za) to the consolidated financial statements, the Company adopted, effective January 1, 2006, ROC SFAS No. 34, “Financial Instruments: Recognition and Measurement,” ROC SFAS No. 36, “Financial Instruments: Disclosure and Presentation,” the amended ROC SFAS No. 1, “Conceptual Framework for Financial Accounting and Preparation of Financial Statements,” and the amended ROC SFAS No. 5, “Long-term Investments under Equity Method.”

The consolidated financial statements as of and for the year ended December 31, 2008, 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 2(y) 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 26 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, 2008, 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 May 25, 2009, expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ KPMG

Hsinchu, Taiwan (Republic of China)

May 25, 2009

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AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2007 and 2008

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

	2007	2008	
	NT\$	NT\$	US\$
Assets			
Current assets:			
Cash and cash equivalents (note 3)	89,889,607	83,434,697	2,546,847
Accounts receivable, net (note 7)	71,056,007	22,225,324	678,429
Receivables from related parties, net (note 22)	4,854,909	1,673,753	51,091
Other current financial assets (note 7)	2,350,885	3,082,294	94,087
Inventories, net (note 8)	35,431,026	23,610,687	720,717
Prepayments and other current assets (note 24)	4,522,302	5,348,063	163,250
Noncurrent assets held-for-sale (note 9)	1,283,738	-	-
Deferred tax assets (note 19)	6,973,799	5,380,440	164,238
Financial assets measured at fair value—current (note 6)	168,868	1,067,531	32,586
Available-for-sale financial assets—current (note 4)	1,347,131	470,301	14,356
Total current assets	217,878,272	146,293,090	4,465,601
Long-term investments:			
Equity-method investments (note 10)	5,170,893	6,651,601	203,040
Financial assets measured at fair value—noncurrent (note 6)	24,452	-	-
Available-for-sale financial assets—noncurrent (note 4)	2,123,631	595,750	18,185
Hedging derivative financial assets—noncurrent (note 6)	274,772	5,398	165
Financial assets carried at cost (note 5)	741,045	583,197	17,802
Total long-term investments	8,334,793	7,835,946	239,192
Property, plant and equipment (notes 11, 22 and 23):			
Land	6,273,615	6,273,615	191,502
Buildings	70,998,565	73,598,148	2,246,586
Machinery and equipment	478,090,243	513,629,547	15,678,558
Other equipment	21,119,878	25,143,816	767,516
	576,482,301	618,645,126	18,884,162
Less: accumulated depreciation	(228,944,207)	(301,831,632)	(9,213,420)
Construction in progress	8,323,470	12,312,856	375,850
Prepayments for purchases of land and equipment	7,973,541	60,221,909	1,838,276
Net property, plant and equipment	363,835,105	389,348,259	11,884,868
Intangible assets:			
Goodwill (note 12)	14,020,962	11,280,595	344,341
Deferred pension cost (note 17)	-	9,509	290
Core technologies (note 12)	2,144,158	918,925	28,050
Technology-related fees (notes 12 and 24)	3,389,326	3,339,120	101,927
Total intangible assets	19,554,446	15,548,149	474,608
Other assets:			
Idle assets, net (note 11)	1,842,099	2,612,320	79,741
Refundable deposits	81,764	215,869	6,590

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Deferred charges	2,998,386	2,815,010	85,928
Deferred tax assets (note 19)	285,578	2,005,382	61,214
Restricted cash in bank (note 23)	33,500	25,501	779
Long-term prepayments for materials (note 24)	2,448,174	-	-
Prepaid pension cost (note 17)	167,123	236,112	7,207
Total other assets	7,856,624	7,910,194	241,459
Total Assets	617,459,240	566,935,638	17,305,728

See accompanying notes to consolidated financial statements.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Balance Sheets (continued)

December 31, 2007 and 2008

(Expressed in thousands of New Taiwan dollars and US dollars, except for par value)

	2007	2008	
	NT\$	NT\$	US\$
Liabilities and Stockholders' Equity			
Current liabilities:			
Short-term borrowings (note 13)	136,594	4,857,260	148,268
Accounts payable	88,985,579	45,929,222	1,401,991
Payables to related parties (note 22)	7,591,890	12,249,003	373,901
Accrued expenses and other current liabilities	25,811,939	24,471,869	747,005
Financial liabilities measured at fair value—current (note 6)	318,875	28,831	880
Equipment and construction in progress payable	15,952,167	21,363,213	652,113
Current installments of long-term borrowings (notes 16 and 23)	30,242,288	30,491,872	930,765
Current installments of bonds payable (notes 14, 15 and 23)	5,342,890	13,093,382	399,676
Liabilities directly related to noncurrent assets held-for-sale (note 9)	138,681	-	-
Total current liabilities	174,520,903	152,484,652	4,654,599
Long-term liabilities:			
Financial liabilities measured at fair value—noncurrent (note 6)	-	40,711	1,243
Bonds payable, excluding current installments (notes 14 and 23)	13,500,000	15,000,000	457,875
Convertible bonds payable (notes 15 and 23)	8,845,355	2,690,900	82,140
Long-term borrowings, excluding current installments (notes 16 and 23)	119,670,211	96,650,642	2,950,264
Hedging derivative financial liabilities—noncurrent (note 6)	81,667	788,678	24,074
Total long-term liabilities	142,097,233	115,170,931	3,515,596
Other liabilities	21,239	21,319	651
Total liabilities	316,639,375	267,676,902	8,170,846
Stockholders' equity (note 18):			
Capital stock:			
Common stock, NT\$10 par value	78,177,055	85,057,196	2,596,374
Capital in advance	474,951	-	-
Capital surplus	113,808,167	113,651,334	3,469,210
Retained earnings:			
Legal reserve	7,437,591	13,079,368	399,248
Unappropriated retained earnings	89,092,396	76,912,630	2,347,760
	96,529,987	89,991,998	2,747,008
Cumulative translation adjustments	1,050,051	2,330,858	71,150
Minimum pension liability (note 17)	-	(40,252)	(1,229)
Unrealized gains (losses) on financial instruments	1,738,754	(932,163)	(28,454)
	291,778,965	290,058,971	8,854,059
Minority interests	9,040,900	9,199,765	280,823
Total stockholders' equity	300,819,865	299,258,736	9,134,882
Commitments and contingent liabilities (note 24)			
Total Liabilities and Stockholders' Equity	617,459,240	566,935,638	17,305,728

See accompanying notes to consolidated financial statements.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2006, 2007 and 2008

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

	2006	2007	2008	US\$
	NT\$	NT\$	NT\$	
Net sales (note 22)	293,106,770	480,183,626	423,928,193	12,940,421
Cost of goods sold (note 22)	263,256,485	394,005,401	368,600,330	11,251,536
Gross profit	29,850,285	86,178,225	55,327,863	1,688,885
Operating expenses (note 22):				
Selling	6,776,339	11,600,525	11,492,831	350,819
General and administrative	4,094,917	5,432,426	7,907,578	241,379
Research and development	4,762,767	5,870,518	5,335,196	162,857
	15,634,023	22,903,469	24,735,605	755,055
Operating income	14,216,262	63,274,756	30,592,258	933,830
Non-operating income and gains:				
Interest income	1,136,209	1,693,005	1,845,712	56,340
Investment gains recognized by equity method, net (note 10)	-	201,155	-	-
Foreign currency exchange gains, net	598,282	-	-	-
Gains on valuation of financial instruments (note 6)	-	1,396,372	3,902,317	119,118
Other income (note 22)	488,256	987,020	1,709,071	52,169
	2,222,747	4,277,552	7,457,100	227,627
Non-operating expenses and losses:				
Interest expenses	3,401,740	6,150,817	4,203,946	128,325
Investment losses recognized by equity method, net (note 10)	1,701,545	-	313,621	9,573
Foreign currency exchange losses, net	-	1,271,735	4,994,189	152,448
Depreciation of idle assets	224,728	811,355	654,639	19,983
Asset impairment losses (notes 4, 5 and 11)	287,052	547,240	1,394,297	42,561
Losses on valuation of financial instruments (note 6)	608,572	-	-	-
Other losses	15,068	207,317	217,755	6,647
	6,238,705	8,988,464	11,778,447	359,537
Earnings before income tax and cumulative effect of changes in accounting principles	10,200,304	58,563,844	26,270,911	801,920
Income tax expense (note 19)	1,068,324	2,087,910	4,629,066	141,302
Income before cumulative effect of changes in accounting principles	9,131,980	56,475,934	21,641,845	660,618
Cumulative effect of changes in accounting principles (note 2(z))	(38,585)	-	-	-
Net income	9,093,395	56,475,934	21,641,845	660,618
Attributable to:				
Equity holders of the parent company	9,103,472	56,417,766	21,267,386	649,188
Minority interests	(10,077)	58,168	374,459	11,430

Net income	9,093,395	56,475,934	21,641,845	660,618
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See accompanying notes to consolidated financial statements.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Income (continued)

Years ended December 31, 2006, 2007 and 2008

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

	2006 NT\$	2007 NT\$	2008 NT\$	US\$
Earnings per share—Basic (note 20):				
Income before cumulative effect of changes in accounting principles	1.42	7.22	2.50	0.08
Cumulative effect of changes in accounting principles	(0.01)	-	-	-
Basic EPS—net income	1.41	7.22	2.50	0.08
Basic EPS—retroactively adjusted	1.27	6.68		
Earnings per share—Diluted (note 20):				
Income before cumulative effect of changes in accounting principles	1.32	6.86	2.41	0.07
Cumulative effect of changes in accounting principles	(0.01)	-	-	-
Diluted EPS—net income	1.31	6.86	2.41	0.07
Diluted EPS—retroactively adjusted	1.18	6.35		

See accompanying notes to consolidated financial statements.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2006, 2007 and 2008

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

	Capital stock		Retained earnings					Unrealized gains (losses)	Cumulative translation adjustments	Minimum pension liability	Financial instruments
	Number of shares	Amount	Capital in advance	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings				
Balance at January 1, 2006	5,830,548	58,305,471	-	57,664,144	4,964,545	201,809	34,507,005	59,213	-	-	
Appropriation for legal reserve	-	-	-	-	1,562,699	-	(1,562,699)	-	-	-	
Issuance of employee stock bonus	88,605	886,051	-	-	-	-	(886,051)	-	-	-	
Employees' profit sharing—cash	-	-	-	-	-	-	(379,736)	-	-	-	
Remuneration to directors and supervisors	-	-	-	-	-	-	(21,097)	-	-	-	
Cash dividends	-	-	-	-	-	-	(1,749,164)	-	-	-	
Stock dividends to shareholders	174,916	1,749,164	-	-	-	-	(1,749,164)	-	-	-	
Issuance of new shares for merger	1,479,110	14,791,100	-	52,957,471	-	-	-	-	-	-	
Employee stock options assumed from merger with QDI	-	-	-	76,062	-	-	-	-	-	-	
Issuance of stock for employee stock option exercised	224	2,242	-	6,390	-	-	-	-	-	-	
Adjustments to capital surplus and unrealized gains (losses) on financial instruments for changes in investees' equity	-	-	-	(28,449)	-	-	-	-	-	11,912	

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Net income	-	-	-	-	-	-	9,103,472	-	-	-
Minority interests in net income of subsidiaries	-	-	-	-	-	-	-	-	-	-
Unrealized gains on available-for-sale financial assets, net	-	-	-	-	-	-	-	-	-	255,159
Unrealized losses on cash flow hedges, net	-	-	-	-	-	-	-	-	-	(239,889)
Foreign currency translation adjustments	-	-	-	-	-	-	-	246,644	-	-
Adjustments for changes in minority interests	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2006	7,573,403	75,734,028	-	110,675,618	6,527,244	201,809	37,262,566	305,857	-	27,182

See accompanying notes to consolidated financial statements.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (continued)

Years ended December 31, 2006, 2007 and 2008

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

	Capital stock			Retained earnings			Unappropriated retained earnings	Cumulative translation adjustments	Minimum pension liability
	Number of shares	Amount	Capital in advance	Capital surplus	Legal reserve	Special reserve			
Balance at January 1, 2007	7,573,403	75,734,028	-	110,675,618	6,527,244	201,809	37,262,566	305,857	-
Appropriation for legal reserve	-	-	-	-	910,347	-	(910,347)	-	-
Issuance of employee stock bonus	57,352	573,519	-	-	-	-	(573,519)	-	-
Employees' profit sharing—cash	-	-	-	-	-	-	(245,793)	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	(30,500)	-	-
Cash dividends	-	-	-	-	-	-	(1,514,793)	-	-
Stock dividends to shareholders	151,479	1,514,793	-	-	-	-	(1,514,793)	-	-
Reversal of special reserve	-	-	-	-	-	(201,809)	201,809	-	-
Issuance of stock for conversion of bonds	34,104	341,037	460,668	2,901,626	-	-	-	-	-
Deferred compensation cost for employee stock options	-	-	-	3,890	-	-	-	-	-
Issuance of stock for employee stock option exercised	1,368	13,678	14,283	98,530	-	-	-	-	-
Adjustments to capital surplus and unrealized gains (losses) on financial	-	-	-	128,503	-	-	-	-	-

instruments for changes in investees' equity									
Net income	-	-	-	-	-	-	56,417,766	-	-
Minority interests in net income of subsidiaries	-	-	-	-	-	-	-	-	-
Unrealized gains on available-for-sale financial assets, net	-	-	-	-	-	-	-	-	-
Unrealized gains on cash flow hedges, net	-	-	-	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	-	744,194	-
Adjustments for changes in minority interests	-	-	-	-	-	-	-	-	-
Balance at December 31, 2007	7,817,706	78,177,055	474,951	113,808,167	7,437,591	-	89,092,396	1,050,051	-

See accompanying notes to consolidated financial statements.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (continued)

Years ended December 31, 2006, 2007 and 2008

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

	Capital stock		Retained earnings						
	Number of shares	Amount	Capital in advance	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation adjustments	Minimum pension liability
Balance at January 1, 2008	7,817,706	78,177,055	474,951	113,808,167	7,437,591	-	89,092,396	1,050,051	-
Appropriation for legal reserve	-	-	-	-	5,641,777	-	(5,641,777)	-	-
Issuance of employee stock bonus	243,725	2,437,247	-	-	-	-	(2,437,247)	-	-
Employees' profit sharing—cash	-	-	-	-	-	-	(1,624,832)	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	(138,604)	-	-
Cash dividends	-	-	-	-	-	-	(19,670,577)	-	-
Stock dividends to shareholders	393,412	3,934,115	-	-	-	-	(3,934,115)	-	-
Issuance of stock for conversion of bonds	48,829	488,289	(460,668)	100,418	-	-	-	-	-
Issuance of stock for employee stock option exercised	2,049	20,490	(14,283)	20,402	-	-	-	-	-
Adjustments to capital surplus and unrealized gains (losses) on financial instruments for changes in investees' equity	-	-	-	(277,653)	-	-	-	-	-
Net income	-	-	-	-	-	-	21,267,386	-	-
Minority interests in net income of subsidiaries	-	-	-	-	-	-	-	-	-

Unrealized losses on available-for-sale financial assets, net	-	-	-	-	-	-	-	-	-
Unrealized losses on cash flow hedges, net	-	-	-	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	-	1,280,807	-
Minimum pension liability	-	-	-	-	-	-	-	-	(40,252)
Adjustments for changes in minority interests	-	-	-	-	-	-	-	-	-
Balance at December 31, 2008	8,505,720	85,057,196	-	113,651,334	13,079,368	-	76,912,630	2,330,858	(40,252)
Balance at December 31, 2008 (in US\$)		2,596,374	-	3,469,210	399,248	-	2,347,760	71,150	(1,229)

See accompanying notes to consolidated financial statements.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2006, 2007 and 2008
(Expressed in thousands of New Taiwan dollars and US dollars)

	2006	2007	2008	
	NT\$	NT\$	NT\$	US\$
Cash flows from operating activities:				
Net income	9,093,395	56,475,934	21,641,845	660,618
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	50,632,568	77,546,880	78,411,867	2,393,525
Amortization of intangible assets and deferred charges	2,127,650	4,158,688	2,776,565	84,755
Provision for inventory devaluation	3,309,176	361,874	5,008,379	152,881
Unrealized foreign currency exchange losses (gains), net	(393,310)	880,974	2,298,557	70,163
Asset impairment losses	287,052	547,240	1,394,297	42,561
Losses (gains) on valuation of financial instruments	675,381	(381,052)	(1,075,326)	(32,824)
Cumulative effect of changes in accounting principles	38,585	-	-	-
Investment losses (gains) recognized by equity method, net	1,701,545	(201,155)	313,621	9,573
Proceeds from cash dividends	26,903	84,342	142,368	4,346
Losses (gains) on sale of investment securities	(25,172)	(25,014)	142,267	4,343
Amortization of premium for convertible bonds and commercial paper	(549,683)	(375,095)	(3,732)	(114)
Losses (gains) from disposal and write-off of property, plant and equipment, and others	(2,224)	52,687	33,631	1,027
Changes in operating assets and liabilities, net of effects from merger with QDI in 2006:				
Decrease (increase) in accounts receivable (including related parties)	598,788	(14,211,494)	51,485,303	1,571,590
Decrease (increase) in inventories, net	(13,975,020)	7,042,635	6,823,368	208,283
Decrease (increase) in deferred tax assets, net	(159,586)	(2,435,780)	2,411,066	73,598
Decrease (increase) in prepayments (including long-term prepayments for materials) and other current assets	1,191,679	(1,854,495)	1,625,308	49,612
Increase (decrease) in accounts payable (including related parties)	14,569,014	17,881,742	(39,799,729)	(1,214,888)
Increase (decrease) in accrued expenses and other current liabilities	(532,219)	11,474,524	(1,453,395)	(44,365)
Increase in prepaid pension assets	(87,790)	(96,521)	(118,750)	(3,625)
Net cash provided by operating activities	68,526,732	156,926,914	132,057,510	4,031,059
Cash flows from investing activities:				
Acquisition of property, plant and equipment	(87,246,727)	(65,136,668)	(98,355,181)	(3,002,295)
	279,615	138,003	1,344,356	41,036

Proceeds from disposals of property, plant and equipment, noncurrent assets held-for-sale, and idle assets				
Proceeds from disposal of and return of investments in available-for-sale financial assets	12,771	205,564	270,250	8,249
Purchase of long-term investments	(8,396,518)	(1,209,033)	(2,889,016)	(88,187)
Proceeds from disposal of and return of long-term investments	60,373	76,166	378	12
Decrease (increase) in restricted cash in bank	(11,000)	9,700	7,999	244
Increase in intangible assets and deferred charges	(2,488,687)	(2,029,574)	(1,502,092)	(45,851)
Decrease (increase) in refundable deposits	49,054	219,069	(134,105)	(4,094)
Cash increase (decrease) resulting from change in consolidated entity	(32,528)	1,603,665	-	-
Cash assumed from merger with QDI	14,473,057	-	-	-
Net cash used in investing activities	(83,300,590)	(66,123,108)	(101,257,411)	(3,090,886)

See accompanying notes to consolidated financial statements.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (continued)

Years ended December 31, 2006, 2007 and 2008
(Expressed in thousands of New Taiwan dollars and US dollars)

	2006	2007	2008	
	NT\$	NT\$	NT\$	US\$
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	(1,618,585)	(3,592,871)	4,720,666	144,099
Increase in guarantee deposits	3,275	3,054	2,912	89
Repayment of long-term borrowings and bonds payable	(19,753,513)	(76,843,555)	(57,993,509)	(1,770,254)
Proceeds from long-term borrowings and bonds payable	55,791,101	36,845,178	37,299,393	1,138,565
Proceeds from issuance of stock for employee stock options exercised	8,632	126,491	26,609	812
Cash dividends	(1,749,164)	(1,514,793)	(19,670,577)	(600,445)
Remuneration to directors and supervisors, and employees' profit sharing	(400,833)	(276,293)	(1,763,436)	(53,829)
Proceeds from issuance of subsidiary shares to minority interests	269,907	436,222	40,000	1,221
Cash dividends to minority interests and others	-	-	(97,667)	(2,981)
Net cash provided by (used in) financing activities	32,550,820	(44,816,567)	(37,435,609)	(1,142,723)
Effect of exchange rate change on cash	(114,687)	(23,172)	180,600	5,513
Net increase (decrease) in cash and cash equivalents	17,662,275	45,964,067	(6,454,910)	(197,036)
Cash and cash equivalents at beginning of year	26,263,265	43,925,540	89,889,607	2,743,883
Cash and cash equivalents at end of year	43,925,540	89,889,607	83,434,697	2,546,847
Supplemental disclosures of cash flow information:				
Cash paid for interest expense (excluding interest capitalized)	2,883,499	6,263,952	4,112,907	125,547
Cash paid for income taxes	1,232,844	930,586	5,179,223	158,096
Additions to property, plant and equipment:				
Increase in property, plant and equipment	89,246,312	49,903,453	103,289,880	3,152,927
Decrease (increase) in construction-in-progress and prepayments	(1,999,585)	15,233,215	(4,934,699)	(150,632)
	87,246,727	65,136,668	98,355,181	3,002,295
Supplementary disclosure of non-cash investing and financing activities:				
Current installments of long-term liabilities	41,889,820	35,585,178	43,585,254	1,330,441
Issuance of common stock for bond conversion rights exercised	-	3,703,331	128,039	3,908
Impact of change in consolidated entities:				
Cash	(32,528)	1,603,665	-	-

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Non-cash assets	(68,195)	15,562,075	-	-
Liabilities	37,811	(1,584,927)	-	-
Minority interests	35,121	(8,204,496)	-	-
	(27,791)	7,376,317	-	-
Cash assumed from merger with QDI:				
Common stock issued as consideration for merger	67,764,472			
Employee stock options assumed	73,383			
Liabilities assumed	122,887,762			
Less: non-cash assets acquired	(161,964,552)			
Less: goodwill	(14,288,008)			
	14,473,057			

See accompanying notes to consolidated financial statements.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of and for the years ended
December 31, 2006, 2007 and 2008

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. AUO’s common shares were publicly listed on the Taiwan Stock Exchange in September 2000, and its American Depositary Shares (“ADSs”) were listed on the New York Stock Exchange in 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, design, 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 manufacture of TFT-LCD and LCD modules.

AU Optronics (L) Corp. (“AUL”) is a wholly owned subsidiary of AUO and was incorporated in September 2000. AUL is a holding company investing in wholly owned foreign subsidiaries AU Optronics Corporation America (“AUA”), AU Optronics (Suzhou) Corp. (“AUS”), AU Optronics Europe B.V. (“AUE”), AU Optronics Korea Ltd. (“AUK”), AU Optronics Corporation Japan (“AUJ”), AU Optronics (Shanghai) Corp. (“AUSH”), AU Optronics (Xiamen) Corp. (“AUXM”), AU Optronics Singapore Pte. Ltd. (“AUSA”), and AU Optronics (Czech) s.r.o. (“AUZ”), Tech-Well (Shanghai) Display Corp. (“AUSJ”) and a 73.53%-owned subsidiary, Darwin Precisions (L) Corp. (“DPL”). AUS, AUSJ and AUXM are engaged in the assembly of TFT-LCD module products in Mainland China. AUA, AUJ, AUE, AUK and AUSA are mainly engaged in the after-sale service of TFT-LCDs. AUSH is engaged in the sale of TFT-LCD module products in Mainland China. AUZ is engaged in the repair of TFT-LCD related products in the Czech Republic. DPL is a holding company investing in the wholly owned foreign subsidiary Darwin Precisions (Hong Kong) Limited (“DPHK”). Darwin Precisions (Suzhou) Corp. (“DPS”) and Darwin Precisions (Xiamen) Corp. (“DPXM”) are wholly owned subsidiaries of DPHK. DPS and DPXM are engaged in the manufacture and assembly of backlight modules in Mainland China.

Konly Venture Corp. (“Konly”), a wholly owned subsidiary of AUO, was incorporated in August 2002. Konly is an investment holding company for investments in other technology companies.

On October 1, 2006, AUO acquired controlling interests in QDL, QIL, QDIT, QDJ, and AUSJ in connection with the merger with QDI.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

QDI Development Limited (“QDL”) is a wholly owned subsidiary of AUO. QDL is a holding company investing in the wholly owned foreign subsidiary Quanta Display Japan Inc. (“QDJ”), which is engaged in the sale of TFT-LCD module products in Japan. In October 2007, QDJ completed the liquidation process. In May 2008, QDL also completed the liquidation process.

Ronly Venture Corp. (“Ronly”), formerly Quanta Display Technology Investment Ltd. (“QDIT”), is a wholly owned subsidiary of AUO. Ronly is an investment holding company in marketable securities.

Toppan CFI (Taiwan) Co., Ltd. (“Toppan CFI”) is mainly engaged in the manufacture and sale of color filters. In August 2006, AUO acquired a 39.7% ownership interest in Toppan CFI. In October 2006, AUO made additional investment and increased its ownership interest to 49%, and entered into a shareholders agreement with Toppan Printing Co., Ltd. (“Toppan Printing”). As AUO was able to exercise significant influence over Toppan CFI’s operating and financial policies, AUO accounted for its investment in Toppan CFI using the equity method of accounting in 2006. On March 15, 2007, AUO and Toppan Printing amended the shareholders agreement. Pursuant to the amended shareholders agreement, AUO was able to exercise control over the operating, financial and personnel policies of Toppan CFI. As a result, effective from the date of amendment to the shareholders agreement, Toppan CFI is included in the Company’s consolidated financial statements.

In November 2007, AUL established a wholly owned foreign subsidiary, AUZ. In November 2007, DPL established a wholly owned foreign subsidiary, DPHK, and transferred its original shareholdings in DPS and DPXM to DPHK in December 2007.

In April and August 2008, AUO established wholly owned subsidiaries Lextar Electronics Corp. (“Lextar”) and Darwin Precisions Corp. (“DPT”), respectively. Lextar is mainly engaged in the manufacture and sale of Light Emitting Diode (“LED”) products. DPT is mainly engaged in the manufacture and sale of backlight modules. In October 2008, AUO established a 60%-owned subsidiary, BriView Technology (“BVT”). BVT is mainly engaged in the manufacture and sale of liquid crystal products and related parts. In December 2008, QIL completed the liquidation process and transferred its 74.07% shareholding in AUSJ to AUL. In addition, in December 2008, AUL made additional investment in DPL and increased its ownership interest from 50% to 73.53%.

As of December 31, 2007 and 2008, AUO and its consolidated subsidiaries had 49,110 and 43,267 employees, respectively.

2. Summary of Significant Accounting Policies

(a) Accounting principles and consolidation policy

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.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The consolidated financial statements include the accounts of AUO and the aforementioned subsidiaries, hereinafter referred to individually or collectively as “the Company.” 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) Revenue recognition

Revenue is recognized when title to the products, and the risks and rewards of ownership are transferred to customers, which occurs principally at the time of shipment. Allowance and related provisions for sales returns and discounts are estimated based on historical experience. Such provisions are deducted from sales in the year the products are sold.

(c) 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. Economic conditions and events could cause actual results to differ significantly from such estimates.

(d) Foreign currency transactions and translation

The Company’s reporting currency is the New Taiwan dollar. AUO and its subsidiaries record transactions in their respective functional currency, which generally is the local currency of the primary economic environment in which these entities operate. The translation from the applicable foreign currency assets and liabilities to the New Taiwan dollar is performed using exchange rates in effect at the balance sheet date. Revenue and expense accounts are translated using average exchange rates during the year. Gains and losses resulting from such translations are recorded as a cumulative translation adjustment, a separate component of stockholders’ equity. Foreign currency transactions are recorded at the exchange rates prevailing at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are remeasured into the functional currency using the exchange rates prevailing on that date. The resulting translation gains or losses are recorded in the consolidated statements of income.

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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 the 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.

(f) Cash equivalents and restricted cash in bank

The Company considers all highly liquid investments, such as investments in government bonds with repurchase agreements with original maturity of three months or less, to be cash equivalents. 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. Upon 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:

- (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.

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- (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.
- (3) Financial liabilities measured at amortized cost: Financial liabilities not measured at fair value through profit or loss and not designated as hedges are reported at amortized cost.
- (4) Financial assets carried at cost: Equity investments which cannot be measured at fair value are recorded based on original cost. If there is objective evidence that an impairment loss has been incurred on unquoted equity instruments that are carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.
- (5) 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 instrument held for trading purposes.

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.

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(i) Allowance for doubtful accounts

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

(j) Inventories

Inventories are recorded at cost, and cost is determined using the weighted-average method. The allocation of fixed production overheads is based on the capacity of the production facilities. If the actual level of production is different from the capacity of production facilities, the difference, if any, is adjusted to inventories and cost of sales on a proportional basis. At each period-end, inventories are measured at the lower of cost or fair value. The fair value of raw materials is determined on the basis of replacement cost. The fair value of finished goods and work-in-progress is determined on the basis of net realizable value.

Effective January 1, 2008, unallocated fixed production overheads as a consequence of abnormally low production are charged to the cost of sales in the period in which they are incurred; see note 2(za) for a discussion of the impact of adoption of the amended ROC SFAS No. 10, "Inventories."

(k) Equity-method investments

When the Company has the ability to exercise significant influence over the operating and financial policies of the investee (generally those in which the Company owns between 20% and 50% of the investee's voting shares), those investments are accounted for using the equity method.

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.

Prior to January 1, 2006, investor-level goodwill was amortized over five years on a straight-line basis. Commencing January 1, 2006, as required by the amended ROC SFAS No. 5, investor-level goodwill is no longer amortized but tested for impairment.

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 resulting from the Company's proportionate share in the net equity of the investee is recognized in profit or loss.

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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 change in the equity interest shall be used to adjust the capital surplus and long-term investment accounts. 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.

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.

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 the limited partnership are recorded as a reduction of the carrying amount of the long-term investment.

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.

(1) 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.

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 the estimated useful lives is summarized 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.

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

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(m) Deferred charges

Deferred charges consist of the cost of the software systems, electrical facility installation charges, expense associated with syndicated loans, bond issuance costs, and land use rights. The cost of the 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.

(n) Goodwill and other intangible assets

Effective January 1, 2007, the Company adopted ROC SFAS No. 37, "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. After initial recognition, intangible assets are measured at cost plus a revaluation increment (in accordance with ROC laws and regulations), 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 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 are accounted for as changes in accounting estimates. An intangible asset with an indefinite useful life is not amortized, but its useful life is reviewed annually at each fiscal year-end to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. The change from an indefinite useful life to a finite useful life is accounted for as a change in accounting estimate. The adoption of ROC SFAS No. 37 had no impact on the Company's consolidated financial statements.

Technology-related fees, including purchased patents and licenses pursuant to patent licensing agreements, are amortized on a straight-line basis over their estimated useful lives, generally for periods ranging from three to 15 years.

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.

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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. Effective January 1, 2006, in accordance with the amended ROC SFAS No. 25, goodwill is no longer 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.

Core technologies, primarily technologies in the design, manufacture and assembly of TFT-LCD products acquired in connection with the merger with QDI on October 1, 2006, are amortized using the straight-line method over the estimated useful lives of three years.

(o) Noncurrent assets held-for-sale

Effective January 1, 2007, the Company adopted ROC SFAS No. 38, "Accounting for Noncurrent Assets Held for Sale and Discontinued Operations." A noncurrent asset is classified as held-for-sale when it is available for immediate sale in its present condition subject only to terms that are usual and customary for sale, and the sale is highly probable within one year. Noncurrent assets classified as held-for-sale are measured at the lower of carrying amount or fair value less costs to sell, and cease to be depreciated or amortized. Noncurrent assets classified as held-for-sale are presented separately on the balance sheet.

An impairment loss, measured as the amount by which the carrying amount of a noncurrent asset held-for-sale exceeds its fair value, is charged to current operations. A gain from any subsequent increase in fair value less costs to sell is recognized to the extent that it is not in excess of the cumulative impairment loss that was recognized previously in accordance with ROC SFAS No. 35.

(p) Convertible bonds assumed in a business combination

Convertible bonds assumed from business combination with QDI on October 1, 2006 were recorded at fair value at the date of acquisition. The difference between the recorded amount and the par value of the convertible bonds is amortized and charged to current operations as interest expense using the interest method over the respective remaining redemption periods.

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.

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(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, the Company contributes two percent of wages and salaries to a pension fund maintained with Bank of Taiwan (formerly with the Central Trust of China before it merged with and into Bank of Taiwan on July 1, 2007). 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. For the defined contribution plan, the Company is required to make a monthly contribution at a rate 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.

AUL, DPL, QIL and DPHK have not set up their retirement plans. AUA, AUJ, AUE, AUK, AUSA, AUS, AUSH, AUXM, AUSJ, AUZ, DPS and DPXM have set up their respective retirement plans based on local government regulations.

(r) Employee bonuses and remuneration to directors

Effective January 1, 2008, 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. No subsequent adjustment to compensation expense is made if the employee stock bonuses were to be settled through the issuance of stock. The number of

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common shares to be issued, if any, as employee stock bonuses in subsequent year will be computed based on the closing price of the Company's common stock on the day before the stockholders' meeting.

(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 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.

For all period presented, the Company did not have any share-based payment arrangement within the scope of ROC SFAS No. 39.

(t) Employee stock options assumed in a business combination

AUO assumed the employee stock options of QDI in connection with the merger with QDI on October 1, 2006. Pursuant to the provisions of ROC SFAS No. 25, fair value of the vested employee stock options is measured on the consummation date and included in the purchase price. Fair value of unvested options is allocated to compensation cost and is amortized over the post-combination requisite service period.

(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

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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.

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.

(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. Income tax expense is reduced by available investment tax credits that are generated in the current year or carried over from the prior years.

(x) Earnings per common share ("EPS")

Basic 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 stock. In computing diluted EPS, net income (loss) 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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(y) Convenience translation into U.S. dollars

The consolidated financial statements are stated in New Taiwan dollars. Translation of the 2008 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 31, 2008, of NT\$32.76 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.

(z) Reclassifications

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

(za) Accounting changes

Effective January 1, 2006, the Company adopted ROC SFAS No. 34, "Financial Instruments: Recognition and Measurement," ROC SFAS No. 36, "Financial Instruments: Disclosure and Presentation," the amended ROC SFAS No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," and the amended ROC SFAS No. 5. The impact on net income and basic EPS of the Company for the year ended December 31, 2006, was as follows:

Nature of accounting changes	For the year ended December 31, 2006	
	Increase (decrease) in net income NT\$ (in thousands, except for per share data)	Increase (decrease) in basic EPS NT\$
Accounting for financial instruments	(183,363)	(0.024)
Accounting for investor-level goodwill	112,969	0.015
	(70,394)	(0.009)

On January 1, 2006, as a result of the adoption of ROC SFAS No. 34, the Company recognized NT\$(38,585) thousand as cumulative effect of changes in accounting principles for adjustments made to the carrying amounts of financial instruments classified as financial assets or liabilities measured at fair value through profit or loss, and NT\$(225,564) thousand as a separate component of stockholders' equity for adjustments made to the carrying amounts of financial instruments classified as available-for-sale and financial instruments effective as hedges.

Effective January 1, 2007, the Company adopted ROC SFAS No. 37. Upon initial adoption of ROC SFAS No. 37, management reviewed the appropriateness of the amortization periods and amortization method related to its intangible assets with finite useful lives, and concluded that no changes should be made. The initial adoption of ROC

SFAS No. 37 had no impact on the Company's consolidated financial statements.

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Effective January 1, 2007, the Company adopted ROC SFAS No. 38 and reclassified certain noncurrent assets as held-for-sale (refer to note 9 for further details). The impact on net income and basic EPS for the year ended December 31, 2007, resulting from the adoption of ROC SFAS No. 38 was immaterial.

Effective January 1, 2008, the Company adopted ROC SFAS No. 39 and ARDF Interpretation No. 2007-052 to classify, measure, recognize, and disclose the Company's share-based payment transactions, employee bonuses and remuneration to directors. Upon the adoption of ROC SFAS No. 39, the Company's net income and basic EPS for the year ended December 31, 2008, decreased by NT\$2,838,788 (US\$86,654) thousand and NT\$0.33 (US\$0.01), respectively. In addition, pursuant to ARDF Interpretation No. 2008-169, the computation of basic and diluted EPS is no longer required to retroactively adjust for the effects of employee stock bonuses approved at the stockholders' meeting held in and after year 2009.

Effective January 1, 2008, the Company adopted the amended ROC SFAS No. 10. Upon the adoption of ROC SFAS No. 10, as amended, the Company's net income and basic EPS decreased by NT\$2,433,241 (US\$74,275) thousand and NT\$0.29 (US\$0.01), respectively, for the year ended December 31, 2008.

3. Cash and Cash Equivalents

	December 31, 2007	2008	
	NT\$	NT\$	US\$
		(in thousands)	
Cash and bank deposits	65,564,544	63,880,848	1,949,965
Government bonds	24,325,063	19,553,849	596,882
	89,889,607	83,434,697	2,546,847

The Company purchases ROC government bonds under agreements to sell substantially the same securities within 30 days of the repurchase agreements. Interest rates ranged from 1.80% to 1.85% and 0.3% to 1.2% in 2007 and 2008, respectively.

4. Available-for-sale Financial Assets

	December 31, 2007	2008	
	NT\$	NT\$	US\$
		(in thousands)	
Current:			
Publicly listed stocks	1,347,131	470,301	14,356
Noncurrent:			
Publicly listed stocks	2,123,631	595,750	18,185

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In 2008, the Company determined its investment in certain publicly listed stocks was impaired due to a significant and other-than-temporary decline in fair value. As a result, the Company recognized impairment losses of NT\$386,810 (US\$11,807) thousand for the year ended December 31, 2008.

5. Financial Assets Carried at Cost—noncurrent

	December 31, 2007 NT\$	2008 NT\$ (in thousands)	US\$
Non-publicly listed stocks	741,045	583,197	17,802

In 2008, the Company determined its investment in certain non-publicly listed stocks was impaired due to a significant and other-than-temporary decline in value. As a result, the Company recognized impairment loss of NT\$397,364 (US\$12,130) thousand for the year ended December 31, 2008.

6. Derivative Financial Instruments and Hedging Policy

(a) Derivative financial instruments

	December 31, 2007 NT\$	2008 NT\$ (in thousands)	US\$
Derivative financial assets:			
Foreign currency forward contracts	168,868	1,067,531	32,586
Interest rate swap contracts	299,224	5,398	165
Derivative financial liabilities:			
Foreign currency forward contracts	318,875	28,831	880
Interest rate swap contracts	81,667	829,389	25,317

The aforementioned derivative financial instruments were classified in the consolidated balance sheets under the current and noncurrent portion of financial assets and liabilities measured at fair value, except for derivative financial instruments designated as hedges, which were classified under hedging derivative financial assets and liabilities—noncurrent.

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As of December 31, 2007 and 2008, outstanding foreign currency forward contracts were as follows:

December 31, 2007		
Contract item	Maturity date	Contract amount (in thousands)
Sell USD / Buy NTD	Jan. 2008 – Feb. 2008	USD1,665,000 / NTD53,698,655
Sell USD / Buy YEN	Jan. 2008 – Apr. 2008	USD11,000 / YEN1,252,557
Sell NTD / Buy YEN	Jan. 2008 – Mar. 2008	NTD14,851,446 / YEN51,189,498
December 31, 2008		
Contract item	Maturity date	Contract amount (in thousands)
Sell USD / Buy YEN	Jan. 2009 – Feb. 2009	USD33,500 / YEN3,252,780
Sell NTD / Buy YEN	Jan. 2009 – Mar. 2009	NTD14,983,792 / YEN43,739,100
Sell NTD / Buy USD	Jan. 2009	NTD1,001,650 / USD30,000
Sell USD / Buy EUR	Jan. 2009	USD21,033 / EUR15,000
Sell USD / Buy CNY	Jan. 2009 – May 2009	USD15,000 / CNY102,847
Sell CNY / Buy USD	Jan. 2009	CNY48,272 / USD7,000

The Company entered into foreign exchange forward contracts with several banks to manage foreign currency exchange risk resulting from business operations and investment activities. For the years ended December 31, 2006, 2007 and 2008, unrealized gains (losses) resulting from changes in fair value of derivative contracts amounted to NT\$(669,147) thousand, NT\$356,625 thousand and NT\$1,188,052 (US\$36,265) thousand, respectively. The Company has not adopted hedge accounting for foreign exchange forward contracts.

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, 2007 and 2008, the total notional amount of outstanding interest rate swap contracts amounted to NT\$65,611,111 thousand and NT\$45,111,111 (US\$1,377,018) thousand, respectively. Of the total notional amounts as of December 31, 2007 and 2008, NT\$60,611,111 thousand and NT\$39,611,111 (US\$1,209,130) thousand, respectively, were related to effective hedges (see hedge accounting detailed below). For the years ended December 31, 2006, 2007 and 2008, unrealized gains (losses) resulting from changes in fair value of derivative contracts recognized in earnings amounted to NT\$(4,860) thousand, NT\$24,427 thousand and NT\$(112,726) (US\$(3,441)) thousand, respectively.

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(b) Hedge accounting

The Company entered into interest rate swap transactions to hedge its exposure to changes in cash flows associated with fluctuating interest rates on its floating-rate long-term debts. As of December 31, 2007 and 2008, details of hedged items designated as cash flow hedges and their respective hedging derivative financial instruments were as follows:

December 31, 2007				
Hedged item	Hedging instrument	Fair value of hedging instrument NT\$ (in thousands)	Expected period of cash flows	Expected period of recognition in earnings
Bonds payable with variable interest rate	Interest rate swap contracts	(27,226)	Jan. 2008– Apr. 2009	Jan. 2008– Apr. 2009
Long-term borrowings with variable interest rate	Interest rate swap contracts	220,331	Jan. 2008– Dec. 2012	Jan. 2008– Dec. 2012
December 31, 2008				
Hedged item	Hedging instrument	Fair value of hedging instrument NT\$ (in thousands)	Expected period of cash flows	Expected period of recognition in earnings
Bonds payable with variable interest rate	Interest rate swap contracts	5,398	Jan. 2009– Apr. 2009	Jan. 2009– Apr. 2009
Long-term borrowings with variable interest rate	Interest rate swap contracts	(788,678)	Jan. 2009– Dec. 2012	Jan. 2009– Dec. 2012

Unrealized gains (losses) on derivative financial instruments effective as cash flow hedges were NT\$396,472 thousand and NT\$(705,125) (US\$(21,524)) thousand as of December 31, 2007 and 2008, respectively, which were recognized as a separate component of stockholders' equity.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

7. Accounts Receivable, net

	December 31, 2007	2008	US\$
	NT\$	NT\$	
		(in thousands)	
Accounts receivable	72,295,269	23,359,219	713,041
Less: allowance for doubtful accounts	(282,940)	(97,608)	(2,979)
allowance for sales returns and discounts	(956,322)	(1,036,287)	(31,633)
	71,056,007	22,225,324	678,429

During 2007 and 2008, the Company entered into financing facilities with banks to sell certain of its accounts receivable, details of which were as follows:

December 31, 2007						
Underwriting bank	Factoring limit	Amount advanced	Amount sold	Amount excluded	Principle terms	Promissory note as collateral
(in thousands)						
Chinatrust Commercial Bank	USD15,000	-	USD45,050	USD45,050	See below	None
Mega International Commercial Bank	USD15,000	-	USD60,853	USD60,853	See below	None
Mizuho Corporate Bank	USD95,000	-	USD299,957	USD299,957	See below	None
Standard Chartered Bank	USD80,000	USD12,003	USD164,701	USD164,701	See below	None

December 31, 2008						
Underwriting bank	Factoring limit	Amount advanced	Amount sold	Amount excluded	Principle terms	Promissory note as collateral
(in thousands)						
Mizuho Corporate Bank	USD95,000	-	USD123,831	USD123,831	See below	None
	USD36,000	USD12,000	USD330,795	USD330,795		None

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Standard Chartered Bank					See below	
Bank of China	USD40,000	USD25,948	USD63,517	USD63,517	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 had informed its customers subject to the facilities to make payment directly to respective the underwriting banks.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note As of December 31, 2007 and 2008, total outstanding receivables resulting from the above transactions, net of (d): fees charged by underwriting banks, of NT\$1,759,783 thousand and NT\$2,493,779 (US\$76,123) thousand, respectively, were classified under other current financial assets.

8. Inventories, net

	December 31, 2007 NT\$	2008 NT\$ (in thousands)	US\$
Finished goods	20,055,132	17,165,109	523,966
Work-in-progress	15,508,156	11,773,496	359,386
Raw materials and spare parts	3,639,471	3,085,962	94,199
	39,202,759	32,024,567	977,551
Less: provision for inventory obsolescence and devaluation	(3,771,733)	(8,413,880)	(256,834)
	35,431,026	23,610,687	720,717

9. Noncurrent Assets Held-for-sale and Related Liabilities

On October 31, 2007, AUO's board of directors resolved to dispose of a module-assembly facility located in Songjiang, Mainland China. The sale was highly probable within one year; therefore, related noncurrent assets and liabilities were classified as held-for-sale and measured at the net fair value as of December 31, 2007. In April 2008, the sale was completed at the estimated net fair value. Information related to the noncurrent assets held-for-sale and liabilities directly related to the noncurrent assets is summarized below:

	December 31, 2007 NT\$ (in thousands)
Deferred charge—land use rights	38,876
Building	1,017,728
Machinery and equipment	327,177
Allowance for impairment loss	(100,043)
	1,283,738
Liabilities directly related to the noncurrent assets	(138,681)

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

10. Equity-Method Investments

	December 31, 2007		2008		US\$
	Ownership interest %	Amount NT\$	Ownership interest %	Amount NT\$	
					(in thousands)
Qisda Corporation ("Qisda") (formerly BenQ Corporation)	5	1,586,885	10	2,713,352	82,825
Cando Corporation ("Cando")	21	1,206,015	18	1,138,212	34,744
Nano Electro-Optical Technology Co., Ltd ("Nano-Op")	16	702,807	16	682,472	20,832
Forhouse Corporation ("Forhouse")	-	-	15	457,230	13,957
Wellypower Optronics Corporation Ltd. ("Wellypower")	9	478,414	9	437,848	13,365
Asia Pacific Genesis Venture Capital Fund L.P. ("Asia Pacific VC")	11	356,508	11	271,451	8,286
Entire Technology Co., Ltd. ("Entire")	13	266,451	12	270,944	8,271
Raydium Semiconductor Corp. ("Raydium")	16	192,170	16	268,685	8,202
Daxin Materials Corp. ("Daxin")	35	206,632	35	190,070	5,802
Light House Technology Co., Ltd. ("LHTC")	20	127,890	17	165,226	5,044
Apower Optronics Corporation ("Apower")	5	46,687	5	34,840	1,063
Dazzo Technology Corporation ("Dazzo")	-	-	26	19,948	609
Verticil Electronic Corp. ("Verticil")	-	-	30	1,323	40
Sita Technology Corp. ("Sita")	45	434	-	-	-
Patentop Ltd. ("Patentop")	41	-	41	-	-
		5,170,893		6,651,601	203,040

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the Company's investment in Qisda, the Company determined that it has the ability 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. On April 11, 2008, AUO made additional investment in Qisda by purchasing 90,456,800 shares of common stock issued by Qisda in a private placement offering at NT\$22.11 per share, totaling NT\$2,000,000 thousand. The Company cannot dispose of its investment in these private placement shares within three years of issuance unless certain conditions provided under Article 43-8 of the ROC Securities and Exchange Act are met.

In January 2007, the Company made additional investment in Nano-Op and increased its ownership interest to 16%. The Company has the ability to exercise significant influence over the operating and financial policies of Nano-Op, and therefore, the Company accounts for its investment in Nano-Op under the equity method of accounting.

In March and June 2008, the Company acquired 45% and 26% of equity interests in Verticil and Dazzo, respectively, and accounted for its investments in Verticil and Dazzo under the equity method of accounting. In September 2008, the Company's equity interest in Verticil decreased to 30% as a result of disproportionate participation in Verticil's capital increase. The Company continues to account for its investment in Verticil under the equity method of accounting. In September 2008, the Company acquired 15% equity interest in Forhouse. The Company determined that it has the ability to exercise significant influence over the operating and financial policies of Forhouse, and therefore, the Company accounts for its investment in Forhouse under the equity method of accounting.

In accordance with ROC SFAS No. 35, the Company determined that the cost of its investment in Patentop was not recoverable, and therefore, the Company recognized impairment loss on the remaining carrying amount of its investment during 2005.

As of December 31, 2007 and 2008, market value of the Company's equity-method investments in publicly listed companies, determined based on quoted market price at year-end, was as follows:

	December 31, 2007	2008	
	NT\$	NT\$	US\$
		(in thousands)	
Qisda	2,855,336	1,194,908	36,475
Nano-Op	821,909	269,966	8,241
Forhouse	-	293,500	8,959
Wellypower	1,184,020	227,288	6,938
	4,861,265	1,985,662	60,613

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In 2007 and 2008, details of the difference between acquisition cost and fair value of net assets acquired were as follows:

For the year ended December, 31, 2007					
Beginning balance	Current-period change	Effect of disposal or change in consolidated entity	Amortization or realization	Ending balance	
NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
(in thousands)					
Amortizable assets	(559,893)	-	478,335	49,706	(31,852)
Goodwill	607,849	51,105	-	-	658,954
Other assets	288,037	-	28,207	(54,642)	261,602
	335,993	51,105	506,542	(4,936)	888,704

For the year ended December 31, 2008					
Beginning balance	Current-period change	Amortization or realization	Ending balance		
NT\$	NT\$	NT\$	NT\$	NT\$	US\$
(in thousands)					
Amortizable assets	(31,852)	(508,138)	14,452	(525,538)	(16,042)
Goodwill	658,954	-	-	658,954	20,115
Other assets	261,602	(103,796)	4,859	162,665	4,965
	888,704	(611,934)	19,311	296,081	9,038

11. Property, Plant and Equipment, and Idle Assets

On October 31, 2007, AUO's board of directors resolved to dispose of a module-assembly facility located in Songjiang, Mainland China. Pursuant to ROC SFAS No. 38, the Company reclassified NT\$1,283,738 thousand to noncurrent assets held-for-sale. In April 2008, the sale was completed; see note 9 for further details.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Interest capitalized and included in property, plant and equipment for the years ended December 31, 2006, 2007 and 2008, consisted of the following:

	For the years ended December 31,			US\$
	2006	2007	2008	
	NT\$	NT\$	NT\$	
		(in thousands)		
Buildings	68,827	230,051	351,979	10,744
Machinery and equipment	574,833	441,593	1,010,719	30,852
	643,660	671,644	1,362,698	41,596

The interest rates applied for the capitalization ranged from 2.49% to 6.37%, 1.92% to 7.74%, and 3.28% to 7.74% in 2006, 2007 and 2008, respectively.

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

Idle assets as of December 31, 2007 and 2008, consisted of the following:

	December 31,		US\$
	2007	2008	
	NT\$	NT\$	
		(in thousands)	
Cost:			
Land	478,214	478,214	14,598
Buildings	544,421	544,421	16,618
Machinery and other equipment	4,713,325	8,845,770	270,017
	5,735,960	9,868,405	301,233
Less: accumulated depreciation	(3,241,491)	(6,377,846)	(194,684)
	2,494,469	3,490,559	106,549
Less: allowance for devaluation of idle assets	(652,370)	(878,239)	(26,808)
	1,842,099	2,612,320	79,741

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

12. Intangible Assets

Intangible assets as of December 31, 2007 and 2008, consisted of the following:

	December 31, 2007					Ending balance NT\$
	Beginning balance NT\$	Additions NT\$	Adjustments NT\$	Amortization NT\$		
	(in thousands)					
Goodwill	14,288,008	-	(267,046)	-		14,020,962
Core technologies	3,369,392	-	-	(1,225,234)		2,144,158
Technology-related fees	2,485,374	2,673,277	-	(1,769,325)		3,389,326
	20,142,774	2,673,277	(267,046)	(2,994,559)		19,554,446

	December 31, 2008					Ending balance	
	Beginning balance NT\$	Additions NT\$	Adjustments NT\$	Amortization NT\$	NT\$	US\$	
	(in thousands)						
Goodwill	14,020,962	-	(2,740,367)	-	11,280,595	344,341	
Core technologies	2,144,158	-	-	(1,225,233)	918,925	28,050	
Technology-related fees	3,389,326	765,896	-	(816,102)	3,339,120	101,927	
	19,554,446	765,896	(2,740,367)	(2,041,335)	15,538,640	474,318	

In 2006, in accordance with ROC SFAS No. 25, the Company recognized goodwill related to the merger with QDI of NT\$14,288,008 thousand, which represented the excess of purchase price, determined based on the market price of shares issued by AUO and other direct transaction costs incurred, over the fair value of net identifiable assets at the date of acquisition (which was October 1, 2006).

In accordance with ROC SFAS No. 25, the purchase price was allocated to certain contingent liabilities assumed based upon estimated fair value at the date of acquisition. In September 2007, the amount of liabilities assumed was determined. Pursuant to ROC SFAS No. 25, as the resolution of uncertainty occurred within 12 months of the acquisition, the Company recorded an adjustment to related liabilities and goodwill of NT\$267,046 thousand.

Pursuant to ROC SFAS No. 22, "Income Taxes," if a valuation allowance is recognized at the acquisition date for deferred tax assets acquired, the income tax benefits recognized as a result the elimination of valuation allowance subsequent to the acquisition is to be applied first to reduce goodwill related to the acquisition. In 2008, AUO recorded an downward adjustment to valuation allowance on deferred tax assets recognized in connection with the merger with QDI of NT\$2,740,367 (US\$83,650) thousand, with a corresponding adjustment to reduce goodwill.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

13. Short-term Borrowings

The Company entered into unsecured short-term bank loans to support its working capital requirements. Short-term borrowings as of December 31, 2007 and 2008, consisted of the following:

	December 31, 2007 NT\$	2008 NT\$ (in thousands)	US\$
Short-term borrowings	136,594	4,857,260	148,268
Unused available balance	24,203,785	38,760,054	1,183,152

Interest rates on short-term borrowings outstanding as of December 31, 2007 and 2008, ranged from 5.70% to 7.47% and 1.80%-6.40%, respectively.

14. Bonds Payable

Bonds payable as of December 31, 2007 and 2008, consisted of the following:

	December 31, 2007 NT\$	2008 NT\$ (in thousands)	US\$
Secured bonds payable:			
Secured Bond 1	5,000,000	2,500,000	76,313
Secured Bond 2	6,000,000	6,000,000	183,150
Secured Bond 3	5,000,000	5,000,000	152,625
Secured Bond 4	-	7,000,000	213,675
	16,000,000	20,500,000	625,763
Less: current portion	(2,500,000)	(5,500,000)	(167,888)
	13,500,000	15,000,000	457,875
Interest payable	157,952	224,051	6,839
Unused available balance	7,000,000	-	-

As of December 31, 2008, future principal repayments were as follows:

	NT\$	US\$
	(in thousands)	
2009	5,500,000	167,888
2010	5,500,000	167,888
2011	6,000,000	183,150
2012	3,500,000	106,837

	20,500,000	625,763
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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The significant terms of secured bonds payable are summarized as follows:

	Secured Bond 1	Secured Bond 2	Secured Bond 3	Secured Bond 4
Par value	N T \$ 6 , 0 0 0 , 0 0 0 thousand	NT\$6,000,000 thousand	NT\$5,000,000 thousand	NT\$7,000,000 thousand
Issue date	Apr. 23 – 24, 2004	Jun. 6 – 13, 2005	Mar. 21, 2006	Aug. 22, 2008
Issue price	At par value	At par value	At par value	At par value
Coupon rate	As stated below	Bond I: 2.0000% Bond II: 1.9901%	Fixed rate 1.948%	Fixed rate 2.90%
Duration	As stated below	Jun. 6, 2005 – Jun. 13, 2010	Mar. 21, 2006 – Mar. 21, 2011	Aug. 22, 2008 – Aug. 22, 2012
Bank that provided guarantee	Mega International Commercial Bank and eleven other banks	Bank of Taiwan and eight other banks	Mizuho Corporate Bank and six other banks	Mizuho Corporate Bank and three other banks
Redemption	As stated below	As stated below	As stated below	As stated below

Secured Bond 1 is divided into five types, namely, I, II, III, IV and V, based upon their respective issuance structures. Type I has a fixed coupon rate of 1.43%, and the remaining have floating rates. However, AUO has entered into separate interest rate swap contracts that have the effect of converting the floating rates into fixed rates. Whereas Type I has a three-year term, the rest have a term of five years. AUO is obligated to repay the principal amount of each tranche under Type I in full at maturity; the principal amount of tranches A-F under Type II, tranches A, B, E, and F under Type III, and tranches A and B under Type IV will be repaid in 3 installments in the proportion of 10/60, 25/60 and 25/60 at the end of year 3, 4 and 5, respectively, from their respective issuance date; tranches G and H under Type II, tranches C and D under Type III, tranches C and D under Type IV, and tranches A-D under Type V will be repaid in two equal installments at the end of year 4 and 5 from their respective issuance date.

Secured Bond 2 is divided into two types, namely I and II, based upon their respective coupon rates and interest calculation structure. While AUO is obligated to make annual interest payments for both types of bonds, Type I is calculated based on simple interest and Type II is calculated semi-annually based on compound interest. Based upon their respective issuance date, the bonds can be further divided into six tranches, namely A, B, C, D, E and F, payable in two equal installments at the end of year 4 and 5 from their respective issuance date.

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

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

As of December 31, 2007, the current portion of bonds payable of NT\$2,500,000 thousand was related to Secured Bond 1, representing the second installment of Type II, Type III and Type IV of NT\$625,000 thousand, NT\$416,667 thousand, and NT\$208,333 thousand, respectively, and the first installment of Type II, Type III, Type IV and Type V of NT\$250,000 thousand, NT\$250,000 thousand, NT\$250,000 thousand and NT\$500,000 thousand, respectively, due on April 23, 2008.

As of December 31, 2008, the current portion of bonds payable of NT\$5,500,000 thousand comprised (a) Secured Bond 1 of NT\$2,500,000 thousand, representing the third installment of Type II, Type III and Type IV of NT\$625,000 thousand, NT\$416,667 thousand, and NT\$208,333 thousand, respectively, and the second installment of Type II, Type III, Type IV and Type V of NT\$250,000 thousand, NT\$250,000 thousand, NT\$250,000 thousand and NT\$500,000 thousand, respectively, due on April 23, 2009, and (b) Secured Bond 2 of NT\$3,000,000 thousand, representing the first installment of Type I and Type II of NT\$1,500,000 thousand and NT\$1,500,000 thousand, respectively, due on June 6, 2009.

All of the aforementioned bonds are secured by bank guarantees through an arrangement of a syndicated bank guarantee facility. Based on financial covenants under the syndicate agreement for the bond guarantee, AUO is obligated to maintain its 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, as defined, at a certain level. AUO complied with the aforementioned financial covenants in 2007 and 2008.

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

15. Convertible Bonds Payable

AUO assumed the convertible bonds of QDI in connection with the merger with QDI on October 1, 2006, and recorded the outstanding convertible bonds payable at fair value on the date of acquisition.

AUO assumed two unsecured domestic convertible corporate bonds (hereinafter referred to as "TCB 1" and "TCB 2") and two unsecured overseas convertible corporate bonds (hereinafter referred to as "ECB 2" and "ECB 3") from the merger with QDI. In 2007, AUO redeemed the total principal amount outstanding of ECB 2 in whole, amounting to US\$1,950 thousand. Details of these convertible bonds are discussed in detail in the following paragraphs.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2007 and 2008, outstanding convertible bonds payable consisted of the following:

	December 31, 2007			Total NT\$
	TCB 1 NT\$	TCB 2 NT\$	ECB 3 NT\$	
	(in thousands)			
Convertible bonds payable	5,194,300	2,749,300	3,765,217	11,708,817
Unamortized premium (discount)	(114,162)	93,590	-	(20,572)
	5,080,138	2,842,890	3,765,217	11,688,245
Less: current portion	-	(2,842,890)	-	(2,842,890)
	5,080,138	-	3,765,217	8,845,355

	December 31, 2008			Total NT\$	US\$
	TCB 1 NT\$	TCB 2 NT\$	ECB 3 NT\$		
	(in thousands)				
Convertible bonds payable	5,194,300	2,690,900	2,427,861	10,313,061	314,806
Unamortized premium (discount)	(28,779)	-	-	(28,779)	(878)
	5,165,521	2,690,900	2,427,861	10,284,282	313,928
Less: current portion	(5,165,521)	-	(2,427,861)	(7,593,382)	(231,788)
	-	2,690,900	-	2,690,900	82,140

As the TCB 2 bondholders had the right to request AUO to repurchase outstanding bonds on July 18, 2008, the entire outstanding balances were reclassified as a current liability as of December 31, 2007.

The TCB 2 bondholders did not exercise such put right, which expired during 2008. AUO reclassified TCB 2's outstanding balance as a long-term liability as of December 31, 2008.

As of December 31, 2008, future principal repayments were as follows:

	NT\$	US\$
	(in thousands)	
2009	7,593,382	231,788
2010	2,690,900	82,140
	10,284,282	313,928

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AU OPTRONICS CORP. AND SUBSIDIARIES

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Significant terms of the aforementioned convertible bonds payable are summarized as follows:

(a) Domestic convertible bond 1 (“TCB 1”)

Par value	NT\$10,500,000 thousand
Original issue date	April 22, 2004
Original issue price	102.5% of par value
Coupon rate	0%
Maturity date	April 21, 2009
Collateral	None
Conversion method	Bondholders may convert bonds into AUO’s common shares at any time between May 22, 2004, and April 11, 2009.
Conversion price	NT\$70.49, as adjusted, effective October 1, 2006, as a result of merger with QDI. The conversion price was adjusted to NT\$68.61 and NT\$62.55 as a result of earnings distributions on August 10, 2007 and July 31, 2008, respectively.
Put right	No
Redemption terms	(a) Unless previously redeemed, purchased and cancelled, or converted, bonds will be redeemed on maturity at par. (b) Effective from the first anniversary of issuance to 40 days before maturity, AUO may redeem the outstanding bonds at par if the closing price of its common shares on the Taiwan Stock Exchange is at least 150% of the conversion price for 30 consecutive trading days. (c) Effective from the first anniversary of issuance to 40 days before maturity, AUO may redeem the outstanding bonds at par if the total amount of outstanding bonds is less than NT\$1,050,000 thousand.

During 2007, certain bondholders exercised their rights to convert bonds into common shares with total principal amount of NT\$3,200 thousand. There was no conversion during 2008.

(b) Domestic convertible bond 2 (“TCB 2”)

Par value	NT\$6,000,000 thousand
Original issue date	July 18, 2005

Original issue price	At par value
Coupon rate	0%
Maturity date	July 18, 2010
Collateral	None

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AU OPTRONICS CORP. AND SUBSIDIARIES

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Conversion method	Bondholders may convert bonds into AUO's common shares at any time between August 18, 2005, and July 8, 2010.
Conversion price	NT\$44.10, as adjusted, effective October 1, 2006, as a result of merger with QDI. The conversion price was adjusted to NT\$42.92 and NT\$38.21 as a result of earnings distributions on August 10, 2007, and July 31, 2008, respectively.
Put right	Bondholders have the right to request AUO to repurchase bonds on July 18, 2008, at par.
Redemption terms	(a) Unless previously redeemed, purchased and cancelled, or converted, bonds will be redeemed on maturity at par. (b) Effective from the first anniversary of issuance to 40 days before maturity, AUO may redeem the outstanding bonds at par if the closing price of its common shares on the Taiwan Stock Exchange is at least 150% of the conversion price for 30 consecutive trading days. (c) Effective from the first anniversary of issuance to 40 days before maturity, AUO may redeem the outstanding bonds at par if the total amount of outstanding bonds is less than NT\$600,000 thousand.

During 2007 and 2008, certain bondholders exercised their rights to convert bonds with total principal amount of NT\$3,237,800 thousand and NT\$58,400 thousand, respectively, into common shares.

(c) Overseas convertible bond 3 ("ECB 3")

Par value	US\$294,500 thousand
Original issue date	November 26, 2004
Original issue price	At par value
Coupon rate	0%
Maturity date	November 26, 2009
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	NT\$52.54, as adjusted, effective October 1, 2006, as a result of merger with QDI. The conversion price was adjusted to NT\$51.13 and NT\$47.30 as a result of earnings distributions on August 10, 2007, and July 31, 2008,

respectively. For purposes of determining the number of converted shares, a fixed exchange rate of US\$1=NT\$32.57 is used.

Put right

Bondholders have the right to request AUO to repurchase bonds on January 26, 2007, at par.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- Redemption terms
- (a) Unless previously redeemed, purchased and cancelled, or converted, bonds will be redeemed on maturity at par.
- (b) Effective from the 26th month of issuance, AUO may, at any time after January 26, 2007, redeem the bonds at par, 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 125% of the conversion price (translated into U.S. dollars at the rate of NT\$32.57 = US\$1) for 30 consecutive trading days.
- (c) AUO may redeem the total amount of outstanding bonds in whole at par in the event that 95% of the bonds have been previously redeemed, converted, or purchased and cancelled.

During 2007 and 2008, certain bondholders exercised their rights to convert bonds with total principal amount of US\$8,826 thousand and US\$2,200 thousand, respectively, into common shares.

During 2008, AUO purchased outstanding bonds amounted to US\$40,000 thousand, and recognized a gain of NT\$142,055 (US\$4,336) thousand for the year ended December 31, 2008.

16. Long-term Borrowings

Bank or agent bank	Purpose	Line of credit and key terms	December 31,		
			2007 NT\$	2008 NT\$ (in thousands)	US\$
Bank of Taiwan	As stated below, see note (b)	From Dec. 18, 2004, to Dec. 18, 2011, NT\$49,000 million and US\$150 million, repayable in 9 semi-annual installments starting from Dec. 2007, annual interest at 3.44%-6.49% in 2007 and 3.47%-3.85% in 2008.	47,875,888	35,949,387	1,097,356
Bank of Taiwan	As stated below, see note (b)	From Dec. 29, 2005, to Dec. 29, 2012, NT\$37,000 million, repayable in 9 semi-annual installments starting from Dec. 2008, annual interest at 3.45% in 2007 and 3.49% in 2008.	37,000,000	32,885,600	1,003,834
Mega International Commercial Bank	As stated below, see	From Jul. 14, 2006, to Jul. 14, 2013, NT\$27,000	14,000,000	27,000,000	824,176

(see note (a) below) note (b)	million, repayable in 10 semi-annual installments starting from Jan. 2009, annual interest at 3.40% in 2007 and 3.06% in 2008.
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Bank or agent bank	Purpose	Line of credit and key terms	December 31,		US\$
			2007 NT\$	2008 NT\$ (in thousands)	
Bank of Taiwan	As stated below, see note (b)	From Sep. 13, 2006, to Sep. 13, 2014, NT\$48,000 million, repayable in 9 semi-annual installments starting from Sep. 2010, with annual interest at 3.44% in 2008.	-	10,000,000	305,250
Industrial Bank of Taiwan (see note (a) below)	As stated below, see note (c)	From Aug. 29, 2006, to Aug. 29, 2010, NT\$1,000 million, repayable in 5 semi-annual installments starting from Aug. 2008, with interest at 2.73% per annum.	1,000,000	825,000	25,183
Industrial Bank of Taiwan (see note (a) below)	As stated below, see note (c)	From Nov. 17, 2005, to Nov. 17, 2009, NT\$500 million, repayable in 6 semi-annual installments starting from May 2007, with interest at 2.68% per annum.	350,000	200,000	6,105
Mega International Commercial Bank	As stated below, see note (b)	From May 11, 2004, to May 11, 2011, NT\$29,000 million, repayable in 9 semi-annual installments starting from May 2007. Early repayment in full was made in May 2008, annual interest at 3.51% in 2007.	22,533,000	-	-
Chinatrust Commercial Bank	As stated below, see note (b)	From Apr. 25, 2003, to Apr. 25, 2010, NT\$11,500 million and US\$100 million repayable in 9 semi-annual installments starting from Apr. 2006. Early repayment in full was made in Apr. 2008, annual interest at 3.57%-6.35% in 2007.	8,190,644	-	-
ABN-AMRO Bank, Shanghai branch (Phase A)	As stated below, see note (b)	From Aug. 2, 2006, to Aug. 2, 2013, RMB1,400 million, repayable in 8 semi-annual installments starting from Feb. 2010, annual interest at 5.91%-6.89% in 2007 and 6.80%-6.97% in 2008.	2,355,797	3,507,358	107,062

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Bank or agent bank	Purpose	Line of credit and key terms	December 31,		US\$
			2007 NT\$	2008 NT\$ (in thousands)	
ABN-AMRO Bank, Shanghai branch (Phase B)	As stated below, see note (b)	From Aug. 2, 2006, to Aug. 2, 2013, RMB600 million, repayable in 9 semi-annual installments starting from Aug. 2009, repayable in annual installments of RMB60 million for the first 8 installments, with remaining balance payable at final installment, annual interest at 5.83% in 2007 and 4.54%-5.43% in 2008.	1,822,409	2,862,073	87,365
ABN-AMRO Bank, Shanghai branch	As stated below, see note (b)	From Aug. 2, 2006, to Aug. 2, 2013, US\$75 million, repayable in 9 semi-annual installments starting from Aug. 2009, annual interest at 5.56% in 2007 and 2.50% in 2008.	1,266,260	2,398,190	73,205
ABN-AMRO Bank, Shanghai branch	As stated below, see note (b)	From Aug. 2, 2006, to Aug. 2, 2013, RMB800 million, repayable in 9 semi-annual installments starting from Aug. 2009, annual interest at 5.83%-6.72% in 2007 and 5.43%-6.32% in 2008.	1,991,315	3,734,765	114,004
Citibank, Shanghai branch (Syndicated loan II)	As stated below, see note (b)	From Nov. 30, 2004, to Nov. 30, 2009, RMB830 million, repayable in 4 semi-annual installments starting from May 2008, annual interest at 6.24% in 2007 and 5.43%-6.89% in 2008.	2,460,188	664,819	20,294
Citibank, Shanghai branch (Syndicated loan II)	As stated below, see note (b)	From Dec. 2, 2004, to Dec. 2, 2009, US\$54 million, repayable in 6 semi-annual installments starting from Jun. 2007, annual interest at 5.72% in 2007 and 2.82% in 2008.	1,168,856	591,075	18,043
Bank of America, Shanghai branch	As stated below, see note (b)	From Dec. 30, 2004, to Dec. 30, 2009, RMB200 million, repayable in 6 semi-annual	296,327	-	-

installments starting from Jun. 2007, annual interest at 6.89% in 2007 and 6.89% in 2008. Early repayment in full was made in Dec. 2008.

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Bank or agent bank	Purpose	Line of credit and key terms	December 31,		US\$
			2007 NT\$	2008 NT\$ (in thousands)	
Standard Chartered Bank, Shanghai branch	As stated below, see note (b)	From Nov. 27, 2007, to Nov. 27, 2012, US\$42 million, first drawdown started from Jan. 2008, repayable in 5 semi-annual installments starting from Nov. 2010, annual interest at 2.63% in 2008.	-	1,379,176	42,099
Agriculture Bank of China, Shanghai Songjiang branch	As stated below, see note (b)	From Dec. 29, 2006, to Dec. 28, 2007, RMB771 million, repayable starting from Jan. 2009, each drawdown repayable in two years, annual interest at 5.33%-6.80% in 2007 and 5.95%-6.10% in 2008.	3,171,010	1,316,967	40,200
Agriculture Bank of China, Shanghai Songjiang branch	As stated below, see note (b)	From Sep. 11, 2008, to Sep. 10, 2009, RMB771 million, repayable starting from Nov. 2010, each drawdown repayable in two years, annual interest at 5.10%-6.80% in 2008.	-	816,782	24,932
Citibank, Shanghai branch	As stated below, see note (b)	From Mar. 30, 2005, to Mar. 30, 2010, US\$80 million, repayable in 7 semi-annual installments starting from Mar. 2007, annual interest at 5.73% in 2007 and 1.45% in 2008.	1,855,327	401,087	12,243
Citibank, Shanghai branch	As stated below, see note (b)	From Mar. 30, 2005, to Mar. 30, 2010, RMB249 million, repayable in 7 semi-annual installments starting from Mar. 2007, annual interest at 5.67%-6.08% in 2007 and 7.00% in 2008.	790,557	256,360	7,825
Agricultural Bank of China, Xiamen branch	As stated below, see note (b)	From Apr. 3, 2006, to Apr. 3, 2012, US\$20 million, 25% payable in Apr. 2010, 50% in Apr. 2011, and the remaining principal due in Apr. 2012, annual interest at 6.89%-7.74%	555,613	600,575	18,333

in 2007 and 5.76%-7.56% in
2008.

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Bank or agent bank	Purpose	Line of credit and key terms	December 31,		US\$
			2007 NT\$	2008 NT\$ (in thousands)	
Bank of China, Xiamen branch	As stated below, see note (b)	From Apr. 28, 2007, to Apr. 28, 2012, RMB80 million, 25% payable in Dec. 2010, 25% in Dec. 2011 and 50% in Apr. 2012, annual interest at 6.89% in 2007 and 5.35%-6.32% in 2008.	355,592	384,368	11,733
Bank of Communications, Xiamen branch	As stated below, see note (b)	From Dec. 20, 2006, to Dec. 20, 2009, RMB50 million, each drawdown due in three years, repayable in full by Dec. 20, 2010, annual interest at 6.72% in 2007 and 4.86%-5.67% in 2008.	88,898	240,230	7,333
Bank of Communications, Xiamen branch	As stated below, see note (b)	From Aug. 18, 2008, to Aug. 18, 2012, RMB100 million, repayable in 6 semi-annual installments starting from Feb. 2010, repayable in semi-annual installments of RMB15 million for the first 5 installments, with the remaining balance payable at final installment, annual interest at 5.76%-5.94% in 2008.	-	144,138	4,400
Agricultural Bank of China, Xiamen branch	As stated below, see note (b)	From Feb. 22, 2008, to Feb. 21, 2011, US\$5 million, 3-year term, one-time repayment upon maturity, annual interest at 6.75% in 2008.	-	144,138	4,400
Bank of China (Suzhou)	As stated below, see note (b)	From Feb. 12, 2007, to Feb. 12, 2012, RMB80 million, 25% payable in Feb. 2010, 25% in Feb. 2011 and 50% in Feb. 2012, annual interest at 6.48% in 2007 and 7.74% in 2008.	355,592	384,368	11,733
China Construction Bank (Suzhou)	As stated below, see note (b)	From Aug. 10, 2006, to Aug. 9, 2011, RMB71 million, 5-year term, one-time repayment upon maturity, annual interest at 6.84% in 2007 and 7.35% in 2008.	315,588	341,127	10,413

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China Construction Bank (Suzhou)	As stated below, see note (b)	From Aug. 28, 2007, to Aug. 23, 2010, US\$1.5 million, 3-year term, one-time repayment upon maturity, annual interest at 5.18% in 2007 and 3.42% in 2008.	48,702	49,256	1,504
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Notes to Consolidated Financial Statements

Bank or agent bank	Purpose	Line of credit and key terms	December 31,		US\$
			2007 NT\$	2008 NT\$ (in thousands)	
China Construction Bank (Suzhou)	As stated below, see note (b)	From Aug. 10, 2006, to Aug. 9, 2011, US\$1 million, 5-year term, one-time repayment upon maturity, annual interest at 5.90% in 2007 and 3.39% in 2008.	32,468	32,838	1,002
China Construction Bank (Suzhou)	As stated below, see note (b)	From Jul. 24, 2007, to Jul. 23, 2010, US\$1 million, 3-year term, one-time repayment upon maturity, annual interest at 5.41% in 2007 and 4.12% in 2008.	32,468	32,837	1,002
			149,912,499	127,142,514	3,881,029
	Less: current portion		(30,242,288)	(30,491,872)	(930,765)
			119,670,211	96,650,642	2,950,264
	Unused available balance		79,674,787	103,818,007	3,169,048

Note (a): Long-term borrowings assumed from QDI in connection with the merger on October 1, 2006.

Note (b): The purpose of the loan is to fund the purchase of machinery, equipment and building.

Note (c): The purpose of the loan is for operational use.

As of December 31, 2008, future principal repayments were as follows:

	NT\$	US\$ (in thousands)
2009	30,491,872	930,765
2010	32,018,967	977,380
2011	31,946,583	975,171
2012	19,745,575	602,734
Thereafter	12,939,517	394,979
Total	127,142,514	3,881,029

The Company entered into the aforementioned long-term loan arrangements with banks and financial institutions to support 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, 2007 and 2008. 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 current portion of long-term debts), debt-equity ratio, interest coverage ratio, net worth ratio and others as specified in the loan agreements. The Company complied with the aforementioned financial covenants in 2007 and 2008.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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's and Toppan CFI's retirement plans.

	December 31, 2007	2008	US\$
	NT\$	NT\$	
		(in thousands)	
Benefit obligation:			
Vested benefit obligation	(5,405)	-	-
Non-vested benefit obligation	(452,694)	(490,196)	(14,963)
Accumulated benefit obligation	(458,099)	(490,196)	(14,963)
Additional benefits based on future salary increase	(519,291)	(567,180)	(17,313)
Projected benefit obligation	(977,390)	(1,057,376)	(32,276)
Fair value of plan assets	932,964	1,111,106	33,916
Funded status	(44,426)	53,730	1,640
Unrecognized net transition obligation	10,592	8,506	260
Unrecognized pension loss	200,957	223,637	6,826
Minimum pension liability	-	(49,761)	(1,519)
Prepaid pension assets	167,123	236,112	7,207

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

	For the year ended December 31,			US\$
	2006	2007	2008	
	NT\$	NT\$	NT\$	
			(in thousands)	
Defined benefit pension plan:				
Service cost	8,100	8,949	8,116	248
Interest cost	20,508	26,445	29,547	902
Expected return on plan assets	(15,208)	(21,760)	(28,561)	(872)
Amortization	3,092	13,184	6,907	211
Gain on curtailment	-	-	(1,630)	(50)
Net periodic pension cost	16,492	26,818	14,379	439

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Significant weighted-average actuarial assumptions used are summarized as follows:

	December 31, 2006	2007	2008
Discount rate	2.75%	3.00%	2.50%
Rate of increase in future compensation levels	3.50%	3.50%	2.50% – 3.00%
Expected long-term rate of return on plan assets	2.75%	3.00%	2.50%

AUO, Toppan CFI, Konly and DPT have set up defined contribution plans in accordance with the ROC Labor Pension Act, and for the years ended December 31, 2006, 2007 and 2008, the Company recognized total benefit costs of NT\$442,814 thousand, NT\$584,311 thousand and NT\$667,327 (US\$20,370) thousand, respectively, related to these defined contribution plans. 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\$240,693 thousand, NT\$414,769 thousand and NT\$490,427 (US\$14,970) thousand for the years ended December 31, 2006, 2007 and 2008, respectively.

18. Stockholders' Equity

(a) Common stock

Based on a stockholder resolution on June 15, 2006, AUO increased its common stock by NT\$2,635,215 thousand, par value NT\$10 per share, through the transfer of retained earnings and employee bonuses of NT\$1,749,164 thousand and NT\$886,051 thousand, respectively. The stock issuance was authorized by and registered with the government authorities. Pursuant to a stockholder resolution, AUO issued 263,522 thousand shares of its common stock.

On June 15, 2006, AUO's stockholders approved the merger with QDI. Upon consummation of the merger, AUO issued 1,479,110 thousand new shares of common stock, par value NT\$10 per share, to shareholders of QDI at the conversion ratio of 3.5 shares of common stock of QDI to one share of common stock of AUO. The merger was completed on October 1, 2006, and registered with the government authorities. Upon completion of the merger, QDI was dissolved. The same conversion ratio was applied to the conversion of 171,429 thousand private placement shares previously issued by QDI.

Based on a stockholder resolution on June 13, 2007, AUO increased its common stock by NT\$2,088,312 thousand, par value NT\$10 per share, through the transfer of retained earnings and employee bonuses of NT\$1,514,793 thousand and NT\$573,519 thousand, respectively. The stock issuance was authorized by and registered with the government authorities. Pursuant to a stockholder resolution, AUO issued 208,831 thousand shares of its common stock.

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AU OPTRONICS CORP. AND SUBSIDIARIES

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Based on a stockholder resolution on June 19, 2008, AUO increased its common stock by NT\$6,371,362 thousand, par value NT\$10 per share, through the transfer of retained earnings and employee bonuses of NT\$3,934,115 thousand and NT\$2,437,247 thousand, respectively. The stock issuance was authorized by and registered with the government authorities. Pursuant to a stockholder resolution, AUO issued 637,136 thousand shares of its common stock.

In connection with the merger with QDI, AUO assumed the employee stock options of QDI. As of December 31, 2007, 1,428 thousand shares were still in the process of registration. AUO recorded capital in advance of NT\$14,283 thousand as of December 31, 2007.

In connection with the merger with QDI, AUO assumed the convertible bonds of QDI. As of December 31, 2007, 46,067 thousand shares were still in the process of registration. AUO recorded capital in advance of NT\$460,668 thousand as of December 31, 2007. The registration with the government authorities was completed in 2008.

AUO's authorized common stock, par value NT\$10 per share, was NT\$90,000,000 thousand as of December 31, 2007 and 2008. AUO's issued common stock, par value NT\$10 per share, was NT\$78,177,055 thousand and NT\$85,057,196 thousand as of December 31, 2007 and 2008, respectively. The registration with the government authorities was completed in 2008.

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, 2008, AUO had issued 97,652 thousand ADSs, which represented 976,523 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. Pursuant to the Republic of China Securities and Exchange Act, the total sum of capital surplus capitalized per annum shall not exceed 10 percent of the issued common stock. Capital surplus arising from premium from issuing stock shall only be applied to increase common stock one year after it has been approved by and registered with the relevant governmental authorities.

(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 accumulated legal reserve equals the issued common stock. Legal reserve can only be used to offset accumulated deficits and increase common stock. The distribution of additional shares to shareholders through capitalizing legal reserve is limited to 50 percent of the accumulated legal reserve and is effected only when the accumulated legal reserve exceeds 50 percent of the issued common stock.

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(d) Distribution of earnings and dividend policy

According to AUO's articles of incorporation revised on June 13, 2007, 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 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 incorporation, the cash dividend shall not be less than 10 percent of the total dividends.

Employee bonuses and remuneration to directors in 2008 were computed at a distribution rate of 15% and 0.3%, respectively, as proposed by the board of directors, and based on the Company's net income for the year ended December 31, 2008, after setting aside 10% as legal reserve. Accordingly, the Company recorded employee bonuses and remuneration to directors of NT\$2,871,097 thousand and NT\$57,422 thousand, respectively. The number of common shares to be issued, if any, as employee bonuses will be computed based on the closing price of the Company's common stock on the day before the stockholders' meeting, taking into consideration the effects of any dividend announcement and rights offering. The difference, if any, between the amount approved by stockholders in the subsequent year and the amount estimated in the current-year financial statements shall be accounted for as a change in accounting estimate, and charged to profit or loss in the period during which stockholders' approval is obtained.

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Information on the distributions of earnings and dividends per share for 2006 and 2007, as approved by stockholders on June 13, 2007, and June 19, 2008, respectively, is as follows:

	Distribution of earnings		Dividends per share	
	2006	2007	2006	2007
	NT\$		NT\$	
	(in thousands, except for per share data)			
Legal reserve	910,347	5,641,777	-	-
Employee bonuses—cash	245,793	1,624,832	-	-
Employee bonuses—stock (at par)	573,519	2,437,247	-	-
Remuneration to directors and supervisors	30,500	138,604	-	-
Cash dividend	1,514,793	19,670,577	0.2	2.5
Stock dividend	1,514,793	3,934,115	0.2	0.5

The aforementioned distributions of earnings for 2006 and 2007 were consistent with the resolutions in the board of directors' meetings held on April 24, 2007, and April 25, 2008, respectively. If the above distributions of employee bonuses and remuneration to directors and supervisors were made entirely by way of cash dividend and recorded as expenses (assuming employee stock bonuses were recorded at par value) in 2006 and 2007, respectively, the basic EPS for years 2006 and 2007 would have decreased from NT\$1.37 and NT\$6.68 to NT\$1.24 and NT\$6.19, respectively. Shares issued for the aforementioned distributions represented 0.76% and 0.49% of AUO's outstanding shares as of December 31, 2006 and 2007, respectively.

In addition to the aforementioned distribution of earnings, the stockholders' meeting on June 13, 2007, also resolved to reverse special reserve of NT\$201,809 thousand to unappropriated retained earnings.

The distribution of earnings for fiscal year 2008 has not been proposed by the board of directors and is still subject to approval at the stockholders' meeting.

Effective June 13, 2007, AUO elected to replace the duties of supervisors with an Audit Committee.

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AU OPTRONICS CORP. AND SUBSIDIARIES

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(e) Employee stock option plans

AUO assumed Employee Stock Option (“ESO”) Plans from the merger with QDI. The ESO Plans entitle option holders to subscribe 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.

Details of the ESO Plans were as follows:

Plan	Issuing date	Units issued	Term of grant	Option exercising term
2002 ESO Plan	Aug. 8, 2002	1,861	Aug. 8, 2002–Aug. 7, 2008	Aug. 8, 2004–Aug. 7, 2008
2003 ESO Plan	Dec. 31, 2003	5,631	Dec. 31, 2003–Dec. 30, 2009	Dec. 31, 2005–Dec. 30, 2009

A summary of the ESO Plans, and changes during the years ended December 31, 2006, 2007 and 2008, are as follows:

	Unit (in thousands)	Weighted-average exercise price NT\$
Balance at October 1, 2006	7,492	48.00
Units exercised	(224)	38.50
Units cancelled	(122)	48.20
Balance at December 31, 2006	7,146	48.30
Units exercised	(2,796)	45.30
Units increased due to issuance of stock dividends	142	47.90
Units cancelled	(798)	50.60
Balance at December 31, 2007	3,694	48.10
Units exercised	(621)	42.90
Units increased due to issuance of stock dividends	250	45.20
Units cancelled	(526)	42.50
Balance at December 31, 2008	2,797	46.00

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As of December 31, 2007 and 2008, details of outstanding and vested options of the ESO Plans were as follows:

Plan	December 31, 2007			
	Outstanding stock options Remaining vesting period (years)	Units (in thousands)	Vested options Units (in thousands)	Exercise price NT\$
2002 ESO Plan		494	494	37.50
2003 ESO Plan		3,200	3,200	49.70
		3,694	3,694	

Plan	December 31, 2008			
	Outstanding stock options Remaining vesting period (years)	Units (in thousands)	Vested options Units (in thousands)	Exercise price NT\$
2003 ESO Plan		2,797	2,797	46.00

AUO determined the fair value of vested ESO at the date of acquisition using the Black-Scholes option pricing model. The fair value of NT\$73,382 thousand was included in the purchase price for the merger, with a corresponding offset to capital surplus.

On the date of acquisition, the exercise price and units issued were adjusted in accordance with the conversion ratio of 3.5 QDI shares to one AUO share.

Assumptions used to estimate the fair value of the aforementioned ESO are summarized as follows:

	2002 ESO Plan	2003 ESO Plan
Dividend yield	2.4%	2.4%
Expected volatility	40.6%	43.7%
Risk-free interest rate	1.7%	1.7%
Expected continuing period	0.9 year	1.9 years

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19. Income Taxes

(a) Pursuant to the Act for Establishment and Administration of Science Parks and the Statute for Upgrading Industries, AUO (including the extinguished Unipac and QDI), and Toppan CFI are entitled to elect appropriate tax incentives, such as tax exemption and investment tax credits for shareholders, based on initial investments and subsequent capital increases for the purpose of purchasing qualified TFT-LCD and color filter production equipment and machinery.

AUO and Toppan CFI were entitled to the following tax exemptions:

Year of investment	Tax incentive chosen	Tax exemption period
AUO:		
1996	Exemption from corporate income taxes for five years	Jan. 1, 2003 – Dec. 31, 2007
1999	Exemption from corporate income taxes for four years	Jan. 1, 2005 – Dec. 31, 2008
1999, 2000, 2001	Exemption from corporate income taxes for five years	Jan. 1, 2005 – Dec. 31, 2009
2001, 2002, 2003	Exemption from corporate income taxes for five years	Jan. 1, 2006 – Dec. 31, 2010
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, 2007	Exemption from corporate income taxes for five years	Pending designation
Toppan CFI:		
2001	Exemption from corporate income taxes for five years	Jan. 1, 2004 – Dec. 31, 2008
2002	Exemption from corporate income taxes for five years	Jul. 31, 2004 – Jul. 30, 2009
2004	Exemption from corporate income taxes for five years	Jun. 30, 2005 – Jun. 29, 2010

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

	For the year ended December 31,			US\$
	2006	2007	2008	
	NT\$	NT\$	NT\$	
	(in thousands)			
Current income tax expense	1,227,910	4,475,124	2,205,215	67,314
Deferred income tax expense (benefit)	(159,586)	(2,387,214)	2,423,851	73,988
	1,068,324	2,087,910	4,629,066	141,302

The statutory income tax rate applicable to AUO and its subsidiaries located in the Republic of China is 25%. Effective January 1, 2006, 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.

The differences between income tax expense based on the Republic of China statutory income tax rate of 25% and income tax expense as reported in the consolidated statements of income for the years ended December 31, 2006, 2007 and 2008, are summarized as follows:

	For the year ended December 31,			US\$
	2006	2007	2008	
	NT\$	NT\$	NT\$	
	(in thousands)			
Expected income tax expense	2,550,076	14,640,961	6,567,728	200,480
Tax exemption	(917,564)	(6,085,443)	(2,975,267)	(90,820)
Increase in investment tax credits, net of expired portion	(4,327,895)	(1,654,487)	(5,162,128)	(157,574)
Tax on undistributed retained earnings	927,908	431,373	2,297,061	70,118
Increase (decrease) in valuation allowance	2,710,172	(5,082,677)	3,374,806	103,016
Impairment loss on domestic marketable securities	65,708	-	412,087	12,578
Non-deductible expenses and others	59,919	(161,817)	114,779	3,504
Income tax expense	1,068,324	2,087,910	4,629,066	141,302

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	December 31, 2007	2008	US\$
	NT\$	NT\$ (in thousands)	
Current:			
Investment tax credits	4,451,127	9,527,886	290,839
Net operating loss carryforwards	700	-	-
Timing differences of revenue recognition between accounting and taxable income	1,263,941	538,820	16,448
Inventories devaluation	750,598	2,078,665	63,451
Product warranty	419,957	471,338	14,388
Unrealized losses and expenses	557,021	1,154,627	35,245
Others	10,206	282,110	8,611
	7,453,550	14,053,446	428,982
Valuation allowance	(479,751)	(8,673,006)	(264,744)
Net deferred tax assets—current	6,973,799	5,380,440	164,238
Noncurrent:			
Investment tax credits	17,502,547	13,015,255	397,291
Net operating loss carryforwards	709,315	256,900	7,841
Investment gain under the equity method	(492,664)	(1,035,489)	(31,608)
Goodwill	(444,646)	(765,906)	(23,379)
Others	(304,734)	(339,953)	(10,377)
	16,969,818	11,130,807	339,768
Valuation allowance	(16,684,240)	(9,125,425)	(278,554)
Net deferred tax assets—noncurrent	285,578	2,005,382	61,214
Total gross deferred tax assets	25,869,579	28,098,244	857,700
Total gross deferred tax liabilities	(1,446,211)	(2,913,991)	(88,950)
Total valuation allowance	(17,163,991)	(17,798,431)	(543,298)
	7,259,377	7,385,822	225,452

(d) Investment tax credits

Pursuant to the Statute for Upgrading Industries, tax credits may be applied over a period of five years to offset income tax payable. The amount of 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 in which such tax credit expires.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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, 2008, unused investment tax credits available to AUO amounted to NT\$4,592,507 (US\$140,186) thousand, and a valuation allowance of NT\$4,592,507 (US\$140,186) thousand was recognized.

In 2008, AUO recorded an adjustment to valuation allowance on investment tax credits recognized in connection with the merger with QDI of NT\$2,740,367 (US\$83,650) thousand, the benefits of which was recorded as a reduction of goodwill; see note 12 for further details.

As of December 31, 2008, unused tax credits of AUO (including the extinguished QDI) and Toppan CFI, and their respective years of expiration were as follows:

Year of assessment	Unused tax credits		Expiration year
	NT\$	US\$	
	(in thousands)		
2005	9,527,886	290,839	2009
2006	5,583,571	170,439	2010
2007	2,350,559	71,751	2011
2008 (estimated)	5,081,125	155,101	2012
	22,543,141	688,130	

(e) Net operating loss carryforwards

Pursuant to the Income Tax Act, as amended on January 21, 2009, unused net operating loss (“NOL”) assessed by the tax authorities and allowed to be carried forward to offset future taxable income is extended from a period of five years to ten years. The extension of the tax loss carryforward period has no effect in the Company’s 2008 consolidated financial statements since the new tax law was enacted after December 31, 2008 and it is not expected to have a material impact on the Company’s 2009 consolidated financial statements. As of December 31, 2008, unused NOL sustained by Toppan CFI and its respective years of expiration were as follows:

Year of assessment	Unused NOL		Expiration year	
	NT\$	US\$	Current	As amended
	(in thousands)			
2006	783,130	23,905	2011	2016
2007	193,740	5,914	2012	2017
2008 (estimated)	50,730	1,549	2013	2018
	1,027,600	31,368		

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(f) Assessments by the tax authorities

As of December 31, 2008, the tax authorities had completed the examination of income tax returns of AUO through 2006.

The tax authorities have completed the examination of income tax returns of Toppan CFI through 2006. The 2004 income tax return was assessed with additional tax payable of NT\$17,751 thousand by the tax authorities due to a dispute on the calculation of tax exemption and investment tax credits pursuant to the Statute for Upgrading Industries. Toppan CFI disagreed with the assessment and subsequently filed a tax appeal. Management does not expect that the final outcome of this matter will have a material impact on the Company's consolidated financial statements.

The tax authorities have completed the examination of income tax returns of Konly and Ronly through 2006.

(g) The Enterprise Income Tax Law of the People's Republic of China (the "EITL"), as approved by related government authorities on March 16, 2007, is effective from January 1, 2008. Prior to 2008 and the promulgation of the EITL, income tax rates applicable to the Company's subsidiary companies located in Mainland China ranged from 0% to 33%. Beginning on January 1, 2008, income tax rates changed to a range of 0% to 25%. The Company remeasured deferred tax assets and liabilities as of December 31, 2007, in accordance with the EITL, and concluded that the adoption of the EITL did not have a material impact on the Company's consolidated financial statements.

(h) The integrated income tax system

Information related to the imputation credit account ("ICA") is summarized below:

	December 31, 2007 NT\$	2008 NT\$ (in thousands)	US\$
Unappropriated earnings:			
Earned after January 1, 1998	89,092,396	76,912,630	2,347,760
ICA balance	1,768,147	4,487,600	136,984
		For the year ended December 31, 2007 (actual)	2008 (estimated)
Creditable ratio for earnings distribution to Republic of China resident stockholders		7.74%	7.78%

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 be different from the actual distribution.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

20. Earnings per Share ("EPS")

Basic EPS for years 2006, 2007 and 2008 were computed as follows:

	For the year ended December 31, 2006		2007		2008	
	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:						
Net income before cumulative effect of changes in accounting principles	10,119,034	9,142,458	58,443,002	56,417,766	25,903,996	21,267,386
Cumulative effect of changes in accounting principles	(38,986)	(38,986)	-	-	-	-
	10,080,048	9,103,472	58,443,002	56,417,766	25,903,996	21,267,386
Weighted-average number of shares outstanding during the year:						
Shares of common stock at beginning of year	5,830,547	5,830,547	7,573,403	7,573,403	7,865,201	7,865,201
Common stock issued in connection with the merger with QDI	372,817	372,817	-	-	-	-
Employee stock options	41	41	1,138	1,138	419	419
Convertible bonds	-	-	26,126	26,126	2,398	2,398
Issuance of shareholders' stock dividends and employee stock bonus	263,522	263,522	208,831	208,831	637,136	637,136

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6,466,927 6,466,927 7,809,498 7,809,498 8,505,154 8,505,154

Basic EPS (NT\$):

Basic EPS—net income before cumulative effect of changes in accounting principles	1.57	1.42	7.48	7.22	3.05	2.50
--------------------------------------------------------------------------------------------------	------	------	------	------	------	------

Basic

EPS—cumulative effect of changes in accounting principles	(0.01)	(0.01)	-	-	-	-
	1.56	1.41	7.48	7.22	3.05	2.50

Weighted-average number of shares outstanding during the year—retroactively adjusted	7,182,446	7,182,446	8,441,866	8,441,866
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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the year ended December 31,

	2006		2007		2008	
	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)

Basic EPS—retroactively
adjusted (NT\$):

Basic EPS—net income
before cumulative effect
of changes in
accounting
principles—retroactively
adjusted

	1.41	1.28	6.92	6.68		
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Basic EPS—cumulative
effect of changes in
accounting
principles—retroactively
adjusted

	(0.01)	(0.01)	-	-		
	1.40	1.27	6.92	6.68		

Diluted EPS for years 2006, 2007 and 2008 were computed as follows:

	2006		2007		2008	
	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
attributable to
equity holders of
the parent
company

	10,080,048	9,103,472	58,443,002	56,417,766	25,903,996	21,267,386
--	------------	-----------	------------	------------	------------	------------

Effects of
potential
common stock:

Convertible

bonds payable	(706,883)	(530,162)	(300,056)	(225,042)	53,055	39,792
	9,373,165	8,573,310	58,142,946	56,192,724	25,957,051	21,307,178

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the year ended December 31,
 2006 2007 2008
 Pre-tax After tax Pre-tax After tax Pre-tax After tax
 NT\$ NT\$ NT\$ NT\$ NT\$ NT\$
 (in thousands, except for per share data)

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

6,466,927	6,466,927	7,809,498	7,809,498	8,505,154	8,505,154
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Effects of potential common
stock:

Convertible bonds payable

99,045	99,045	377,304	377,304	204,708	204,708
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Employee bonuses

-	-	-	-	135,795	135,795
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Employee stock options

56	56	547	547	104	104
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6,566,028	6,566,028	8,187,349	8,187,349	8,845,761	8,845,761
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Diluted EPS (NT\$)

1.43	1.31	7.10	6.86	2.93	2.41
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Weighted-average number
of shares
outstanding—retroactively
adjusted (including the
effect of dilutive potential
common stock)

7,292,512	7,292,512	8,850,313	8,850,313
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Diluted EPS—retroactively
adjusted (NT\$):

Diluted EPS—net income
before cumulative effect of
changes in accounting
principles—retroactively
adjusted

1.30	1.19	6.57	6.35
------	------	------	------

Diluted EPS—cumulative
effect of changes in
accounting
principles—retroactively
adjusted

(0.01)	(0.01)	-	-
1.29	1.18	6.57	6.35

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

21. Additional Disclosure on Financial Instruments

(a) Fair value information

As of December 31, 2007 and 2008, the fair value of the Company's financial assets and liabilities was as follows:

	December 31, 2007 Carrying amount NT\$	Fair value NT\$
	(in thousands)	
Financial assets:		
Cash and cash equivalents	89,889,607	89,889,607
Accounts receivable (including related parties)	75,910,916	75,910,916
Available-for-sale financial assets—current	1,347,131	1,347,131
Financial assets carried at cost—noncurrent	741,045	See (b) (3)
Foreign currency forward contracts	168,868	168,868
Interest rate swap contracts	299,224	299,224
Other current financial assets	2,350,885	2,350,885
Available-for-sale financial assets—noncurrent	2,123,631	2,123,631
Refundable deposits	81,764	81,764
Restricted cash in bank	33,500	33,500
Financial liabilities:		
Short-term borrowings	136,594	136,594
Accounts payable (including related parties)	96,577,469	96,577,469
Equipment and construction-in-progress payables	15,952,167	15,952,167
Long-term borrowings (including current portion)	149,912,499	149,917,471
Convertible bonds payable (including current portion)	11,688,245	14,327,740
Bonds payable (including current portion)	16,000,000	16,005,852
Foreign currency forward contracts	318,875	318,875
Interest rate swap contracts	81,667	81,667

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2008		Fair value	
	Carrying amount NT\$	US\$	NT\$	US\$
(in thousands)				
Financial assets:				
Cash and cash equivalents	83,434,697	2,546,847	83,434,697	2,546,847
Accounts receivable (including related parties)	23,899,077	729,520	23,899,077	729,520
Available-for-sale financial assets—current	470,301	14,356	470,301	14,356
Financial assets carried at cost—noncurrent	583,197	17,802	See (b) (3)	-
Foreign currency forward contracts	1,067,531	32,586	1,067,531	32,586
Interest rate swap contracts	5,398	165	5,398	165
Other current financial assets	3,082,294	94,087	3,082,294	94,087
Available-for-sale financial assets—noncurrent	595,750	18,185	595,750	18,185
Refundable deposits	215,869	6,590	215,869	6,590
Restricted cash in bank	25,501	779	25,501	779
Financial liabilities:				
Short-term borrowings	4,857,260	148,268	4,857,260	148,268
Accounts payable (including related parties)	58,178,225	1,775,892	58,178,225	1,775,892
Equipment and construction-in-progress payables	21,363,213	652,113	21,363,213	652,113
Long-term borrowings (including current portion)	127,142,514	3,881,029	127,152,178	3,881,324
Convertible bonds payable (including current portion)	10,284,282	313,928	9,971,668	304,385
Bonds payable (including current portion)	20,500,000	625,763	20,808,217	635,171
Foreign currency forward contracts	28,831	880	28,831	880
Interest rate swap contracts	829,389	25,317	829,389	25,317

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

(1) The carrying amount of cash and cash equivalents, accounts receivable/payable (including related parties), other current financial assets, equipment and construction-in-progress payables, and short-term borrowings approximates their fair value due to the short-term nature of these items.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (2) The fair value of financial instruments other than financial assets carried at cost is based on quoted market prices, if available, in active markets. If market price is unavailable, fair value is determined using a valuation technique, with estimates and assumptions consistent with those made by market participants.
- (3) It is not practicable to estimate the fair value of financial assets carried at cost, as these financial instruments are not traded in an active public market.
- (4) The fair value of floating-rate long-term borrowings is calculated based on the prevailing market rate adjusted by the Company's credit spread. Management believes the carrying value of floating-rate long-term borrowings approximates the fair value.
- (5) 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.
- (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, 2007	
	Publicly quoted market prices NT\$	Fair value based on valuation technique NT\$
	(in thousands)	
Financial assets:		
Cash and cash equivalents	89,889,607	-
Accounts receivable (including related parties)	-	75,910,916
Available-for-sale financial assets—current	1,347,131	-
Foreign currency forward contracts	-	168,868
Interest rate swap contracts	-	299,224
Other current financial assets	-	2,350,885
Available-for-sale financial assets—noncurrent	2,123,631	-
Refundable deposits	-	81,764
Restricted cash in bank	33,500	-
Financial liabilities:		
Short-term borrowings	-	136,594
Accounts payable (including related parties)	-	96,577,469
Equipment and construction-in-progress payables	-	15,952,167
Long-term borrowings (including current portion)	-	149,917,471
Convertible bonds payable (including current portion)	-	14,327,740
Bonds payable (including current portion)	-	16,005,852
Foreign currency forward contracts	-	318,875

Interest rate swap contracts	-	81,667
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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2008		Fair value based on	
	Publicly quoted market prices NT\$	US\$	valuation technique NT\$	US\$
	(in thousands)			
Financial assets:				
Cash and cash equivalents	83,434,697	2,546,847	-	-
Accounts receivable (including related parties)	-	-	23,899,077	729,520
Available-for-sale financial assets—current	470,301	14,356	-	-
Foreign currency forward contracts	-	-	1,067,531	32,586
Interest rate swap contracts	-	-	5,398	165
Other current financial assets	-	-	3,082,294	94,087
Available-for-sale financial assets—noncurrent	595,750	18,185	-	-
Refundable deposits	-	-	215,869	6,590
Restricted cash in bank	25,501	779	-	-
Financial liabilities:				
Short-term borrowings	-	-	4,857,260	148,268
Accounts payable (including related parties)	-	-	58,178,225	1,775,892
Equipment and construction-in-progress payables	-	-	21,363,213	652,113
Long-term borrowings (including current portion)	-	-	127,152,178	3,881,324
Convertible bonds payable (including current portion)	-	-	9,971,668	304,385
Bonds payable (including current portion)	-	-	20,808,217	635,171
Foreign currency forward contracts	-	-	28,831	880
Interest rate swap contracts	-	-	829,389	25,317

(d) The Company pledged certain of its financial assets to secure long-term borrowings as of December 31, 2007 and 2008; see note 23.

(e) Gains (losses) on valuation of financial instruments resulting from the change in fair value, determined using valuation techniques, were NT\$(608,572) thousand, NT\$381,052 thousand and NT\$1,075,326 (US\$32,824) thousand for the years ended December 31, 2006, 2007 and 2008, respectively.

(f) Financial liabilities exposed to cash flow risk resulting from change in interest rates were NT\$89,437,982 thousand and NT\$85,688,663 (US\$2,615,649) thousand as of December 31, 2007 and 2008, respectively.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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 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.

(2) Credit risk

The Company's potential credit risk is derived primarily from cash in bank and accounts receivable. The Company maintains its cash and short-term 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 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 2006, 2007 and 2008, the Company's five largest customers accounted for 34.5%, 32.1% and 39.4%, respectively, of the consolidated net sales.

(3) Liquidity risk

The Company had negative working capital at December 31, 2008 amounted to NT\$6,191,562 (US\$188,998) thousand. However, the Company has positive cash flows generated from operations and sufficient unused available balance under long-term loan arrangements. Management believes that the Company's existing liquidity sources, including cash flows generated from operations and unused available balance under long-term loan arrangements, are sufficient to fulfill its contractual payment obligations over the next twelve months. Therefore, management believes that there is no significant liquidity risk.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

The Company's short-term and long-term borrowings are floating-interest-rate borrowings. 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, 2008, 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\$214,222 (US\$6,539) thousand higher.

22. Related-party Transactions

(a) Name and relationship

party	Name of related party	Relationship with the Company
	Cando	Investee of AUO and Konly
	Raydium	Investee of Konly
	Wellypower	Investee of Konly
	Entire	Investee of Konly
	Orise	Investee of Konly prior to December 2007; see note (i) below
	Sita	Investee of Konly
	Daxin	Investee of Konly
	Qisda	Shareholder represented on AUO's board of directors; investee of AUO and Konly
	BenQ Corporation ("BenQ") (formerly BenQ Asia Pacific Corp.)	Subsidiary of Qisda
	Qisda Czech s.r.o. ("QZBR") (formerly BenQ Technologies Czech s.r.o)	Subsidiary of Qisda
	Daxon Technology Inc. ("Daxon")	Subsidiary of Qisda
	Qisda Co., Ltd. Suzhou ("QCSZ") (formerly BenQ (IT) Co., Ltd. Suzhou)	Subsidiary of Qisda
	Qisda Optronics (Suzhou) Co., Ltd. ("QCOS") (formerly BenQ Optronics (Suzhou) Co., Ltd.)	Subsidiary of Qisda
	Darfon Electronics Corp. ("Darfon")	Subsidiary of Qisda
	Nano-Op	Investee of Konly and Ronly
	Nano Electro-Op (Kunshan) Co., Ltd. ("Nano-Kunshan")	Subsidiary of Nano-Op
	New Nano Electro-Op (Kunshan) Co., Ltd. ("New Nano-Kunshan")	Subsidiary of Nano-Op
	Forhouse	Investee of DPT; see note (ii) below
	Fortech International Corp. ("Fortech")	Subsidiary of Forhouse; see note (ii) below
	Fortress Optronics International Corporation ("Fortress")	Subsidiary of Forhouse; see note (ii) below

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of related party	Relationship with the Company
Fortech Electronics (Suzhou) Co., Ltd. ("FHSS")	Subsidiary of Forhouse; see note (ii) below
Fortech Optronics (Xiamen) Co., Ltd. ("FHSSXM")	Subsidiary of Forhouse; see note (ii) below
Fortress Optronics (Shanghai) Co., Ltd. ("FHUU")	Subsidiary of Forhouse; see note (ii) below
Directors, supervisors, president and vice-presidents	The Company's executive officers

Note (i): Towards the end of 2007, Konly lost its ability to exercise significant influence over the operating and financial policies of Orise. Transactions with Orise through December 2007 were disclosed as related-party transactions.

Note (ii): The Company invested in Forhouse through DPT during the year 2008 and accounted for its investment in Forhouse under the equity method of accounting. Forhouse is considered a related party of the Company, and related-party transactions were disclosed starting from September 3, 2008.

(b) Significant transactions with related parties

(1) Sales

Net sales to related parties were as follows:

	For the year ended December 31,		2008	US\$
	2006	2007		
	NT\$	NT\$	NT\$	
	(in thousands)			
QCSZ	21,647,010	23,732,707	14,250,810	435,006
QZBR	209,841	858,118	2,427,621	74,103
QCOS	1,227,909	814,471	1,350,840	41,234
Qisda	1,997,401	2,441,050	638,016	19,476
Acer	3,909,532	-	-	-
Others	1,809,534	1,786,566	855,427	26,112
Less: allowance for sales returns and discounts	(131,735)	-	-	-
	30,669,492	29,632,912	19,522,714	595,931

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, 2006, 2007 and 2008, were 106 days, 92 days, and 61 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, 2006, 2007 and 2008, were 57 days, 48 days and 42 days, respectively. The pricing and other terms for sales to related parties were not materially different from those with unrelated customers.

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AU OPTRONICS CORP. AND SUBSIDIARIES

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As of December 31, 2007 and 2008, receivables resulting from the above transactions were as follows:

	December 31, 2007	2008	US\$
	NT\$	NT\$ (in thousands)	
QCSZ	4,275,805	505,725	15,437
QZBR	113,108	352,534	10,761
QCOS	151,601	341,779	10,433
BenQ	133,134	196,908	6,011
Qisda	437,501	186,254	5,685
FHSSXM	-	118,284	3,611
Others	18,645	47,890	1,462
Less: allowance for doubtful accounts	(34,243)	(1,725)	(53)
Less: allowance for sales returns and discounts	(298,710)	(108,848)	(3,323)
	4,796,841	1,638,801	50,024

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

The Company leased part of its facility to related parties. Total rental income for the years ended December 31, 2006, 2007 and 2008, amounted to NT\$23,728 thousand, NT\$39,500 thousand, and NT\$90,439 (US\$2,761) thousand, respectively. The payment term was quarter-end 15 days, and the pricing was not materially different from that with unrelated parties.

During 2006, 2007 and 2008, the Company sold property, plant and equipment to related parties for a total consideration of NT\$242,643 thousand, NT\$30,300 thousand, and NT\$1,950 (US\$60) thousand, respectively. Gains (losses) on disposals for the years ended December 31, 2006, 2007 and 2008, amounted to NT\$(1,622) thousand, NT\$28,314 thousand and NT\$0 thousand, respectively. The pricing for sales to related parties was not materially different from that with unrelated parties.

As of December 31, 2007 and 2008, rental and other receivables from the disposal of property, plant and equipment resulting from the aforementioned transactions amounted to NT\$10,640 thousand and NT\$10,866 (US\$332) thousand, respectively.

During 2007, the Company paid on behalf of Cando NT\$15,726 thousand for purchases of materials. As of December 31, 2007, outstanding receivables resulting from these transactions amounted to NT\$689 thousand.

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AU OPTRONICS CORP. AND SUBSIDIARIES

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During 2008, the Company received compensation income of NT\$98,489 (US\$3,006) thousand from related parties due to product quality issues.

During 2007 and 2008, the Company received other income of NT\$16,527 thousand and NT\$6,531 (US\$199) thousand, respectively, from related parties. As of December 31, 2007 and 2008, receivables from such transactions amounted to NT\$1,770 thousand and NT\$24,086 (US\$735) thousand, respectively.

During 2007, the Company received commission of NT\$38,340 thousand from Darfon. As of December 31, 2007, receivables from such transactions amounted to NT\$19,769 thousand.

During 2007, as a result of capital reduction by Sita, long-term investments returned to Konly amounted to NT\$25,200 thousand. As of December 31, 2007, the proceeds had not been received. This transaction was recorded as a reduction in the long-term investments account. During 2007 and 2008, the Company received total cash dividends of NT\$83,001 thousand and NT\$140,568 (US\$4,291) thousand, respectively, from its investees.

(3) Purchases

Net purchases from related parties were as follows:

	For the year ended December 31,			US\$
	2006	2007	2008	
	NT\$	NT\$	NT\$	
	(in thousands)			
Daxon	3,730,519	8,775,448	8,903,819	271,789
Raydium	157,084	4,137,943	6,331,750	193,277
Cando	3,365,891	4,042,390	3,414,922	104,241
Nano-Kunshan	-	-	3,286,114	100,309
Toppan CFI	2,241,338	-	-	-
Orise	134,647	1,644,595	-	-
Others	403,010	2,651,804	10,001,922	305,309
	10,032,489	21,252,180	31,938,527	974,925

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 in 2007 and 2008.

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AU OPTRONICS CORP. AND SUBSIDIARIES

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As of December 31, 2007 and 2008, payables resulting from the above purchases were as follows:

	December 31, 2007	2008	US\$
	NT\$	NT\$ (in thousands)	
Raydium	1,214,517	1,624,681	49,593
Daxon	2,975,279	1,583,567	48,338
Forhouse	-	1,522,802	46,484
Fortech	-	1,509,808	46,087
Nano-Kunshan	-	1,069,640	32,651
Fortress	-	1,063,740	32,471
Cando	1,295,361	584,959	17,856
Darfon	406,125	421,973	12,881
Daxin	423,128	324,869	9,917
Orise	861,897	-	-
Others	395,201	2,480,502	75,717
	7,571,508	12,186,541	371,995

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

During 2007 and 2008, the Company acquired property, plant, and equipment from related parties for a total consideration of NT\$4,571 thousand and NT\$63,364 (US\$1,934) thousand, respectively.

During 2006, 2007 and 2008, the Company paid commission and other expenses of NT\$36,370 thousand, NT\$64,769 thousand and NT\$114,264 (US\$3,488) thousand, respectively, to related parties.

As of December 31, 2007 and 2008, amounts due to related parties as a result of the aforementioned transactions amounted to NT\$20,382 thousand and NT\$62,462 (US\$1,907) thousand, respectively.

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Notes to Consolidated Financial Statements

(5) Compensation to executive officers

During 2007 and 2008, compensation paid to the Company's executive officers including directors, supervisors, president and vice-presidents was as follows:

	For the year ended December 31,		US\$
	2007 NT\$	2008 NT\$ (in thousands)	
Salaries	212,972	149,267	4,556
Compensation	58,866	28,127	859
Service charges	690	765	23
Employee bonuses	1,172,120	143,690	4,386

The aforementioned compensation included 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	December 31,		US\$
		2007 NT\$	2008 NT\$ (in thousands)	
Restricted cash in banks	Oil purchases, customs duties, and guarantees for foreign workers	33,500	25,501	779
Building	Long-term borrowings	25,665,722	33,779,934	1,031,133
Machinery and equipment	Long-term borrowings and bonds payable	164,963,405 190,662,627	150,759,321 184,564,756	4,601,933 5,633,845

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AU OPTRONICS CORP. AND SUBSIDIARIES

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24. Commitments and Contingencies

The significant commitments and contingencies of the Company as of December 31, 2008, 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, 2007 and 2008, the Company had the following outstanding letters of credit:

Currency	December 31,	
	2007	2008
	(in thousands)	
USD	30,228	5,336
JPY	9,506,687	7,540,907
EUR	43	2,527
RMB	17,644	0

The outstanding letters of credit facilitate the Company's purchase of machinery and equipment and materials from foreign suppliers. The letters of credit are irrevocable and expire upon the Company's payment of the related obligations.

(b) Technology licensing agreements

Since 1998, AUO has entered into technical collaboration, patent licensing, and patent cross-licensing agreements with Fujitsu Limited, Toppan Printing Co., Ltd. ("Toppan Printing"), Semiconductor Energy Laboratory Co., Ltd. ("SEL"), Hitachi Displays Ltd., Guardian Industries Corp., Sharp Corporation, Honeywell International Inc., Honeywell Intellectual Properties Inc., Fergason Patent Properties LLC, Samsung Electronics Co., Ltd., and others. Additionally, in connection with the merger with QDI, AUO assumed QDI's technical cooperation and patent licensing agreements with Hitachi Displays Ltd., Guardian Industries Corp., and others. Pursuant to the terms of each signed agreement, AUO is required to pay fixed licensing fees and/or periodic royalties based upon its use of technology and patents. The Company is in compliance with the aforementioned contractual obligations under technology licensing agreements.

(c) Purchase commitments

In March 2005, AUO entered into a non-cancelable long-term materials supply agreement with Corning Display Technologies Taiwan Co. Ltd. ("Corning Taiwan") for the supply of LCD glass substrates. The contract runs from March 9, 2005, to June 30, 2009. Additionally, in connection with the merger with QDI, AUO assumed QDI's five-year materials purchase and supply agreement with Corning Taiwan, entered into by QDI in April 2005, for the supply of sixth-generation TFT-LCD and color filters glass substrates.

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On September 30, 2007, AUO and Corning Taiwan signed a new long-term materials supply agreement to replace the aforementioned two agreements. The new agreement runs from January 1, 2008, to December 31, 2010. Corning Taiwan guarantees to supply TFT-LCD and color filters glass substrates at the quantity and pricing negotiated.

As of December 31, 2007 and 2008, significant outstanding purchase commitments for property, plant and equipment totaled NT\$46,492,062 thousand and NT\$57,122,485 (US\$1,743,666) thousand, respectively.

On April 11, 2008, Toppan CFI and Allied Material Technology Corporation (“AMTC”) 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. As of December 31, 2008, Toppan CFI had paid the first installment of NT\$30,000 thousand to AMTC. However, the property is currently under the registration of provisional seizure initiated by AMTC’s creditors. AMTC is seeking the withdrawal of the foregoing registration of provisional seizure through negotiation with its creditors or the court’s approval of its reorganization plan, so that the transfer can be processed. In addition, Toppan CFI and AMTC entered into a lease agreement with the right to use the aforementioned property for a term of five years. Both parties agreed that, upon the court’s termination of the reorganization, Toppan CFI may, at any time by providing written notice to AMTC, invalidate the foregoing lease agreement. In accordance with the lease agreement, the down payment paid by Toppan CFI for the purchase of the property shall be treated as rental payments.

(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, AUSJ, AUSH, AUZ and DPS, also entered into operating lease agreements for operating facilities and land for periods from May 22, 2007, to July 31, 2028. Future minimum lease payments as of December 31, 2008, under existing non-cancelable agreements were as follows:

Year	Minimum lease payments	
	NT\$	US\$
	(in thousands)	
2009	362,892	11,077
2010	331,007	10,104
2011	324,002	9,890
2012	324,002	9,890
2013	276,261	8,433
Thereafter	2,295,214	70,061

Rental expense for operating leases amounted to NT\$290,162 thousand, NT\$557,202 thousand, and NT\$421,341 (US\$12,861) thousand in 2006, 2007 and 2008, respectively.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In April 2008, Plasma Physics Corporation (“Plasma”) and Solar Physics Corporation (“Solar”) filed a lawsuit in the United States District Court for the Eastern District of New York against AUO, AUA, and other TFT-LCD manufacturers, claiming infringement of certain of its patents in the United States relating to the use of machines manufactured by AKT America, Inc. in the manufacturing of TFT-LCD panels. In the complaint, Plasma and Solar are seeking, among other things, unspecified monetary damages for past infringement and injunction against future infringement. This litigation is still in the preliminary phase. 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 suit on an on-going basis.

In September 2008, Apeldyn Corporation (“Apeldyn”) filed a lawsuit in the United States District Court for the District of Delaware against AUO, AUA, 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. This litigation is still in the preliminary phase. 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 suit on an on-going basis.

(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. Specifically, since December 2006, AUO and certain of its overseas subsidiaries have become involved in antitrust investigations by the United States Department of Justice (“US DOJ”), the Commission of the European Communities Directorate-General for Competition, the Canadian Competition Bureau and the Japan Fair Trade Commission concerning allegations of price fixing by manufacturers of TFT-LCD panels. In addition, in December 2006, the Korea Fair Trade Commission visited AUO’s Korean subsidiary, and in January 2009, the Taiwan Fair Commission visited AUO’s office in Taiwan and requested certain information from AUO as part of their respective investigations into the TFT-LCD industry. The Company intends to continue to cooperate with these investigations.

AUO, its subsidiaries, their respective officers and/or employees may be indicted in the United States for possible violation of the antitrust and/or competition laws. If AUO and its subsidiaries are found to have violated antitrust and/or competition laws, AUO and its subsidiaries will likely have to pay a fine or penalty. 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 US 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, management is

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

aware of the outcome of those plea bargain agreements, which may or may not be the amounts which AUO and its subsidiaries may agree to pay and/or which the US DOJ may agree to accept as part of any plea bargain and/or settlement, if any, with the US DOJ. The ultimate outcome of the US DOJ antitrust investigation cannot be predicted with certainty.

(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. AUO has retained counsel to handle the related matters. These civil lawsuits are still in the preliminary phase. Management 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. Management is reviewing the merits of these civil lawsuits on an on-going basis.

The Company has made accruals for potential losses relating to the above-mentioned litigation, including defense costs and claims, except when management concluded and disclosed herein that it is not probable that a liability had been incurred and/or the amount of loss cannot be reasonably estimated. Given the unpredictable nature of the above-mentioned litigation, any estimate or accruals for possible loss made by management of the Company may be materially different from the actual loss. Amount paid upon the ultimate resolution of the litigation may be materially different from previous estimates and could require adjustments to the estimated reserves to be recognized in the period such ultimate resolution becomes known.

In addition to the matters described above, the Company is also a party to other litigation that arises during the normal course of operations. In management's opinion, the aggregate liability, if any, with respect to these other litigation is not expected to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

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Notes to Consolidated Financial Statements

25. Segment Information

(a) Industrial information

The Company consists of a single reportable operating segment, namely, the research and development, production, and sale of TFT-LCDs and other flat panel displays.

(b) Geographic information

A geographical breakdown of sales for the years ended December 31, 2006, 2007 and 2008, is as follows:

	For the year ended December 31,			US\$
	2006 NT\$	2007 NT\$	2008 NT\$	
Taiwan	89,840,936	174,272,661	184,895,032	5,643,926
The People's Republic of China	80,559,955	115,309,356	82,626,965	2,522,191
Other (individually less than 10% of total net sales)	122,705,879	190,601,609	156,406,196	4,774,304
	293,106,770	480,183,626	423,928,193	12,940,421

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

The Company's TFT-LCD manufacturing process can be divided into three primary steps: the array process, cell process, and module-assembly process. The array and cell processes are capital-intensive and thus require highly automated production equipment. The module-assembly process is highly labor-intensive, and therefore the Company has moved a majority of the module-assembly operations to Mainland China beginning in 2002. A geographical breakdown of long-lived assets (which primarily consist of property, plant and equipment, goodwill, and other intangible assets) as of December 31, 2006, 2007 and 2008, is as follows:

	December 31,			US\$
	2006 NT\$	2007 NT\$	2008 NT\$	
Taiwan	377,307,330	352,858,986	371,526,051	11,340,844
The People's Republic of China	26,155,953	31,799,442	35,798,587	1,092,753
Other	6,902	6,625	184,090	5,619
	403,470,185	384,665,053	407,508,728	12,439,216

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AU OPTRONICS CORP. AND SUBSIDIARIES

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(c) Major customer information

For the years ended December 31, 2006, 2007 and 2008, sales to individual customers representing greater than 10 percent of consolidated net sales were as follows:

	For the year ended December 31, 2006		2007		2008	
	Amount NT\$	%	Amount NT\$ (in thousands)	%	Amount NT\$	US\$
Samsung	32,824,794	11	61,141,835	13	62,865,559	1,918,973

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AU OPTRONICS CORP. AND SUBSIDIARIES

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26. 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 aggregate purchase price of NT\$39,636,901 thousand 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.

In 2008, the Company partially disposed of its investments in certain available-for-sale securities that were originally acquired in connection with the merger with Unipac. The adjustment of NT\$14,030 (US\$428) 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.

In 2008, the reconciliation of net income determined in accordance with ROC GAAP and US GAAP for the year ended December 31, 2008, included a reversal of the impairment loss of NT\$274,961 (US\$8,393) thousand recognized under ROC GAAP related to an available-for-sale security (see note 4) originally acquired in connection with the merger with Unipac. The adjustment represented the excess of Unipac's original cost basis over the fair value of the available-for-sale security at the date of acquisition.

In addition, under US GAAP, the Company recorded an impairment loss of NT\$457,427 (US\$13,963) thousand related to another available-for-sale security acquired in connection with the merger with Unipac. The US GAAP cost basis of this investment, which was based on its fair value at the date of the Unipac acquisition, was significantly higher than the ROC GAAP cost basis based on Unipac's original cost of the investment. This cost basis difference contributed to management's conclusion that there was an other-than-temporary impairment of this security for US GAAP purposes, but not for ROC GAAP purposes.

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(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 U.S. Statement of Financial Accounting Standards (“US SFAS”) No. 141, “Business Combinations,” using the purchase method of accounting. Under purchase accounting, the aggregate purchase price of NT\$67,837,855 thousand 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.

(b) Compensation

(1) Remuneration to directors and supervisors

Under ROC GAAP, prior to January 1, 2008, remuneration to directors and supervisors was charged directly to retained earnings in the period stockholders approved such payments and was presented under financing activities in the consolidated statement of cash flows. Under US GAAP, such cash payments are recorded, based on management’s best estimate of the amounts to be paid upon stockholders’ approval, as compensation expense in the period when the related services are rendered, and presented under operating activities in the consolidated statement of cash flows.

Effective January 1, 2008, the Company is also required to account for such remuneration under ROC GAAP based on the period when the related services are rendered; see note 2(r). The change in accounting principle is accounted for prospectively in accordance with ARDF Interpretation No. 2007-052. Accordingly, there is no difference between the accounting under ROC GAAP and US GAAP in the remuneration to directors starting from fiscal year 2008. The reconciling item of NT\$13,397 (US\$409) thousand for the year ended December 31, 2008, represented the reversal of the prior-year difference.

(2) 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.

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Under ROC GAAP, effective January 1, 2008, employee bonuses are estimated and charged to expense in the period when the related services are provided; see note 2(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.

(3) Transfer of treasury stock to employees

In 2005, AUO transferred treasury stock to certain employees at a price below the carrying value of the treasury stock. The plan prescribed a service condition of one year. Under ROC GAAP, in accordance with ROC SFAS No. 30, “Accounting for Treasury Stock,” the difference between the selling price and carrying value of treasury stock was recorded in capital surplus in fiscal year 2005. Under US GAAP, AUO adopted US SFAS No. 123, “Accounting for Stock-Based Compensation,” and evaluated the arrangement as an employee stock purchase plan (“ESPP”) that granted rights to purchase shares at the stated price and had no option feature. Compensation cost was measured as the excess of the quoted market price over the exercise price at the grant date taking into account the expected forfeiture rate. Pursuant to the terms in the transfer agreement, AUO recognized compensation cost of NT\$147,658 thousand for the year ended December 31, 2006. Effective January 1, 2006, the Company adopted US SFAS No. 123 (Revised 2004), “Share-based Payment.” The adoption of US SFAS No. 123R did not have a material impact on the accounting for the above transactions.

(c) 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 a capital 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.

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

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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 2008, 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 was less than the carrying amount of the investment, management concluded there was an other-than-temporary impairment at December 31, 2008, for US GAAP purposes. As a result, the Company recognized an impairment loss of NT\$1,928,709 (US\$58,874) thousand related to its investment in Qisda for the year ended December 31, 2008. No impairment loss is recorded for ROC GAAP purposes for the investment in Qisda because management believes that the carrying amount is supported by the expected discounted cash flows from the investment.

(d) Convertible bonds

Under ROC GAAP, each of the convertible bonds assumed from the merger with QDI in 2006 was recorded in its entirety as a liability at fair value at the date of acquisition. The difference between fair value and redemption value at the date of acquisition is recorded as a discount or premium, and amortized over the redemption period using the effective interest rate method. When the bond is converted into common stock, the par value of the shares is credited to common stock, and the difference between the carrying value of the bond and the par value of common stock is recorded in capital surplus.

Under US GAAP, in accordance with US SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its related interpretations, management concluded that the conversion features for the two overseas convertible bonds assumed from the merger with QDI at October 1, 2006, namely ECB 2 and ECB 3, qualified as embedded derivative instruments under US SFAS No. 133, as these bonds are denominated in a currency that is different from AUO's functional currency, and therefore were required to be bifurcated from the debt hosts. Management further concluded that the put and call options embedded in the convertible bonds did not meet the definition of embedded derivative instrument under US SFAS No. 133, as they were considered to be clearly and closely related to the debt hosts. As a result, under US GAAP, ECB 2 and ECB 3 were recorded at the fair value at the date of acquisition without taking into account the embedded conversion options. The recorded carrying amounts are accreted to their respective maturity and/or redemption amounts over the remaining terms of the bonds using the effective interest method.

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AU OPTRONICS CORP. AND SUBSIDIARIES

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In 2007, the differences in the amortization of discount (premium) for ECB 2 and ECB 3 between ROC GAAP and US GAAP were fully amortized. Further, as discussed in note 15, ECB 2 was fully redeemed by AUO and ECB 3 was partially redeemed in cash upon the exercise of the redemption right by certain bondholders in 2007. For US GAAP purposes, the carrying amounts of the convertible bonds redeemed, including any unamortized premiums or discounts, and the fair value of the related embedded derivative instrument liabilities at the date of redemption exceeded the cash paid to redeem the bonds, resulting in a gain of NT\$864,034 thousand for the year ended December 31, 2007.

The reconciliation of net income determined in accordance with ROC GAAP and US GAAP for the year ended December 31, 2008, included the impact of changes in the fair value of the embedded derivative instrument liability of NT\$1,252,181 (US\$38,223) thousand, which is recognized only for US GAAP purposes.

(e) 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 2006, 2007 and 2008 decreased retained earnings and increased capital surplus by NT\$5,439,900 thousand, NT\$6,862,012 thousand and NT\$16,129,873 (US\$492,365) thousand, respectively.

(f) Defined pension benefits

Effective January 1, 1998, the Company adopted ROC SFAS No. 18, which is not materially different from US SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," with the exception of the accounting upon adoption. Pension expense is different under ROC GAAP and US GAAP primarily as a result of unrecognized prior service cost.

In 2006, the Company adopted US SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." US SFAS No. 158 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. Upon the adoption of US SFAS No. 158, the Company recognized an increase in accrued pension liabilities of NT\$234,510 thousand and a corresponding decrease in accumulated other comprehensive income as of December 31, 2006. The adoption of US SFAS No. 158 had no effect on the statements of income for the periods presented.

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AU OPTRONICS CORP. AND SUBSIDIARIES

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(g) Depreciation of buildings

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 of 20 years.

(h) 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.

(i) 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 for at each balance sheet date.

(j) 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.

(k) 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.

(l) Income taxes

The statutory income tax rate in the Republic of China is 25%. Under a revised tax rule effective on January 1, 1998, an additional 10% corporation income tax is assessed but only to the extent that taxable income 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.

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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. Accordingly, prior to 2006, the tax rate used by the Company to measure its income tax expense for US GAAP purposes, including the tax effects of temporary differences, was 32.5%, which reflects the 25% statutory income tax rate on earnings and the additional tax on undistributed earnings at an effective rate of 7.5%.

In May 2006, the ROC Income Tax Act was revised to amend the definition of "undistributed retained earnings" such that the undistributed earnings surtax will be computed as 10% of income after tax as determined in accordance with the Commercial Accounting Act, which is based on ROC GAAP. The revised definition of "undistributed retained earnings" is applied retroactively commencing from the determination of the undistributed earnings surtax for 2005. Under ROC GAAP, despite the change in the calculation of the undistributed earnings surtax, the additional tax expense will continue to be recognized in the period when the amount of earnings distribution is approved by the stockholders.

Under US GAAP, since the new tax law requires the calculation of the undistributed earnings surtax be based solely on the Company's ROC GAAP income, any tax expense associated with the undistributed earnings surtax recorded under ROC GAAP will effectively reduce the computed amount of the undistributed earnings surtax pertaining to the period such tax expense is recorded for ROC GAAP purposes. As a result, the tax rate used by the Company to measure income tax expense under US GAAP changed from 32.5% to 31.8% beginning in 2006. In addition, since the undistributed earnings surtax would be based on the Company's ROC GAAP income, temporary differences arising from any differences between the tax basis and ROC GAAP basis of the Company's assets and liabilities would no longer have an impact on the computation of the amount of the undistributed earnings surtax. Because the reversal of such temporary differences will not result in future taxable or deductible amounts for purposes of the calculation of the undistributed earnings surtax, the deferred tax assets and liabilities relating to such temporary differences are recognized at the distributed income tax rate of 25%, rather than at the undistributed tax rate of 32.5% prior to the tax law change. For temporary differences that arise from the differences between US GAAP and ROC GAAP, the resulting deferred tax assets and liabilities are recognized at the revised undistributed tax rate of 31.8%.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Effective January 1, 2007, the Company adopted FASB Interpretation No. (“FIN”) 48, “Accounting for Uncertainty in Income Taxes.” FIN 48 addresses the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, classification, interest and penalties, and disclosure. The adoption and implementation of FIN 48 did not have a material impact on the Company’s consolidated financial statements. ROC GAAP does not provide any explicit guidance on the accounting for uncertainty in income taxes. There is no significant difference in the Company’s accounting policy for income tax uncertainties between ROC GAAP and US GAAP.

(m) Earnings per common share

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

Under ROC GAAP, effective January 1, 2008, pursuant to the provisions of ARDF Interpretation No. 2008-169, the weighted-averaged 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.

(n) 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, “Consolidated Financial Statements.” Under US GAAP, AUO determined that Toppan CFI is a variable interest entity (“VIE”) under FIN 46R, “Consolidation of Variable Interest Entities, an interpretation of ARB No. 51,” and AUO is considered the primary beneficiary. Therefore, the Company consolidated Toppan CFI in accordance with FIN 46R starting from fiscal year 2007. Under FIN 46R, 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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AU OPTRONICS CORP. AND SUBSIDIARIES

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(o) Goodwill

Under ROC GAAP, the Company determined that it is a single CGU for purposes of testing goodwill for impairment. The recoverable amount of the CGU is calculated using a cash flow projection of eight years and is compared to the carrying value of CGU. If the recoverable amount of the CGU is lower than the carrying amount of the CGU, an impairment loss is recognized.

Under US GAAP, pursuant to US SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill arising from a purchase business combination is tested for impairment annually or more frequently if events or circumstances indicate it might be impaired. The Company has determined that it is a single reporting unit for purposes of testing goodwill for impairment. The goodwill impairment test is a two-step test. Under the first step, the Company compares the carrying amount of its total stockholders' equity determined on a US GAAP basis to its market value based on the quoted value of its common stock 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, in accordance with US SFAS No. 141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a control premium analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. The Company performs its annual impairment review of goodwill at June 30 and when a triggering event occurs between annual impairment tests.

During the fourth quarter of 2008, the global financial crisis had a significant adverse effect on the Company's quoted market price. At December 31, 2008, the market capitalization of the Company dropped below the book value of stockholders' equity, which necessitated an additional test for goodwill impairment at the 2008 year-end. Consequently, the Company performed an analysis at the 2008 year-end to evaluate the potential impairment of the Company's goodwill based on the Company's adjusted market capitalization at December 31, 2008. Specifically, the Company's market capitalization was adjusted by an appropriate control premium to derive at the estimated fair value of the Company. 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 industry that the Company operates. Furthermore, the results of the control premium analysis were corroborated with the results of an income approach of measuring the fair value of the Company. Based on management's assessment, the Company's fair value exceeded the book value of the Company's stockholders' equity at December 31, 2008. Therefore, management concluded that goodwill was not impaired, and step two of the goodwill impairment test under US SFAS No. 142 was not necessary.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(p) Recent accounting pronouncements

Effective January 1, 2008, the Company adopted the provisions of US SFAS No. 157, "Fair Value Measurements," for fair value measurements of all financial assets and 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. US SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. US SFAS No. 157 also establishes a framework for measuring fair value and expands disclosures about fair value measurements; see note 26(s)(10). FASB Staff Position ("FSP") FAS No. 157-2, "Effective Date of FASB Statement No. 157," delays the effective date of US SFAS No. 157 until fiscal years beginning after November 15, 2008, for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. In accordance with FSP FAS No. 157-2, the Company has not applied the provisions of US SFAS No. 157 to the measurement of long-lived assets upon recognition of an impairment charge during 2008. Additionally, the provisions of US SFAS No. 157 were not applied to fair value measurements of the Company's reporting units (step one of goodwill impairment test performed under US SFAS No. 142) and nonfinancial assets and nonfinancial liabilities measured at fair value to determine the amount of goodwill impairment (step two of goodwill impairment test performed under US SFAS No. 142).

Beginning January 1, 2009, the Company will be required to apply the provisions of US SFAS No. 157 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis. Management is currently evaluating the impact, if any, of applying these provisions on the Company's financial position and results of operations.

In October 2008, the FASB issued FSP FAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active," which was effective immediately. FSP FAS 157-3 clarifies the application of US SFAS No. 157 in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. Management has considered the guidance provided by FSP FAS No. 157-3 in its determination of estimated fair values during 2008.

Effective January 1, 2008, the Company adopted the provisions of US SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." US SFAS No. 159 gives the Company the irrevocable option to report most financial assets and financial liabilities at fair value on a contract-by-contract basis, with changes in fair value reported in earnings. Management has not adopted the fair value option for the Company's financial assets and financial liabilities.

In December 2007, the FASB issued US SFAS No. 141R, "Business Combinations," which requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at "full fair value." Under US SFAS No. 141R, all business combinations will be accounted for by applying the acquisition method. US SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. The Company will adopt US

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SFAS No. 141R on January 1, 2009. The impact of the adoption on the Company's financial position and results of operations is dependent upon the specific terms of any applicable future business combination(s) occurring after the effective date.

In December 2007, the FASB issued US SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements," which requires noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent 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. US SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. Management does not expect the initial adoption of US SFAS No. 160 to have a material impact on the Company's results of operations for US GAAP purposes.

In March 2008, the FASB issued US SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which amends US SFAS No. 133 and requires companies with derivative instruments to disclose information about how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under US SFAS No. 133, and how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows. US SFAS No. 161 expands the current disclosure framework in US SFAS No. 133, and is effective prospectively for periods beginning on or after November 15, 2008. Management does not expect the adoption of US SFAS No. 161 to have a material impact on the Company's disclosure for US GAAP purposes.

In November 2008, the FASB issued Emerging Issue Task Force Issue No. ("EITF") 08-6, "Equity Method Investment Accounting Considerations." EITF 08-6 applies to all investments accounted for under the equity method and clarifies the accounting for certain transactions and impairment considerations involving equity-method investments. EITF 08-6 is effective for transactions occurring on or after December 15, 2008. Management does not expect the initial adoption of EITF 08-6 to have a material impact on the Company's financial position and results of operations.

In December 2008, the FASB issued FSP FAS 132(R)-1, "Employer's Disclosures about Postretirement Benefit Plan Assets." FSP FAS 132(R)-1 amends US SFAS No. 132 (revised 2003) to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by FSP FAS 132(R)-1 shall be provided for financial statements issued for fiscal years ending after December 15, 2009. Management does not expect the adoption of FSP FAS 132(R)-1 to have a material impact on the Company's disclosure for US GAAP purposes.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(q) US GAAP reconciliations

(1) Reconciliation of consolidated net income

	For the year ended December 31,			
	2006	2007	2008	US\$
	NT\$	NT\$	NT\$	
	(in thousands, except for per share data)			
Net income attributable to stockholders of the parent company, ROC GAAP	9,103,472	56,417,766	21,267,386	649,188
US GAAP adjustments:				
a) Purchase method of accounting for acquisition of Unipac				
-Amortization of intangible assets	(1,049,496)	(1,049,496)	(1,049,496)	(32,036)
-Depreciation	(70,961)	(16,868)	(22,266)	(680)
-Disposals of available-for-sale securities	-	-	14,030	428
-Impairment of available-for-sale securities	-	-	(182,466)	(5,570)
b) Compensation				
-Remuneration to directors and supervisors	(24,000)	(158,500)	13,397	409
-Employee bonuses				
-Current-year provision	(737,381)	(4,573,000)	-	-
-Adjustment to fair value	(3,265,096)	(2,584,194)	(6,520,538)	(199,040)
-Compensation cost arising from ESPP	(147,658)	-	-	-
c) Long-term equity investments				
-Investment losses	(334,340)	(72,354)	(192,840)	(5,886)
-Impairment loss	-	-	(1,928,709)	(58,874)
d) Convertible bonds	(1,223,176)	(132,599)	1,252,181	38,223
f) Pension expense	1,108	2,550	2,307	70
g) Depreciation of buildings	(1,147,039)	(1,675,418)	(1,728,045)	(52,748)
h) Hedging derivative financial instruments	144,730	167,019	32,625	996
i) Compensated absences expense	(88,171)	(11,014)	80,470	2,456
k) Escalation adjustment of rent expense	2,130	6,802	2,129	65
l) Tax effect of the above US GAAP adjustments	1,089,033	832,523	430,476	13,140
l) Valuation allowance for deferred tax assets related to the	(1,089,033)	(17,489)	(80,789)	(2,466)

above US GAAP adjustments

l) 10% surtax on undistributed retained earnings and others	9,086	(1,780,248)	1,699,802	51,887
Net income, US GAAP	1,173,208	45,355,480	13,089,654	399,562

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	For the year ended December 31,			US\$
	2006 NT\$	2007 NT\$	2008 NT\$	
(in thousands, except for per share data)				
Earnings per share:				
Basic	0.17	5.56	1.57	0.05
Diluted	0.17	5.32	1.53	0.05
Weighted-average number of shares outstanding (in thousands):				
Basic	6,882,566	8,164,667	8,355,989	
Diluted	6,882,626	8,561,409	8,560,801	

(2) Reconciliation of consolidated stockholders' equity

	December 31,		US\$
	2007 NT\$	2008 NT\$ (in thousands)	
Equity attributable to stockholders of the parent company, ROC GAAP	291,778,965	290,058,971	8,854,059
a) Purchase method of accounting for acquisition of Unipac			
- Goodwill	10,946,732	10,946,732	334,149
- Intangible assets, net of amortization	1,049,496	-	-
- Other assets	(4,961)	(27,227)	(831)
b) Compensation			
- Accrued remuneration to directors and supervisors	(152,000)	-	-
- Accrued employee bonuses	(4,573,000)	-	-
c) Subsidiaries and long-term equity investments	113,135	(2,004,853)	(61,198)
c) Cumulative translation adjustments	(5,845)	(11,086)	(338)
d) Convertible bonds	(1,275,935)	-	-
f) Defined benefit plan			
- Accrued pension cost	(24,972)	17,587	537
- Recognition of funded status under US SFAS No. 158	(181,113)	(207,207)	(6,325)
g) Accumulated depreciation of buildings	(4,551,648)	(6,279,693)	(191,688)
i) Accrued compensated absences	(242,176)	(161,706)	(4,936)
k) Accrued rental expense and adjustment to land cost	(100,797)	(98,668)	(3,012)

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1) Deferred income tax assets and liabilities	(910,059)	1,159,018	35,379
Total stockholders' equity, US GAAP	291,865,822	293,391,868	8,955,796

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(r) US GAAP condensed consolidated financial statements

(1) Condensed consolidated balance sheets

	December 31, 2007	2008	
	NT\$	NT\$	US\$
		(in thousands)	
Assets			
Current assets	215,928,964	145,522,348	4,442,074
Long-term investments	8,599,901	6,469,741	197,489
Property, plant and equipment, net	361,197,229	383,958,143	11,720,334
Goodwill and intangible assets	30,334,693	26,399,359	805,841
Other assets	7,594,249	6,636,001	202,565
Total Assets	623,655,036	568,985,592	17,368,303
Liabilities, Minority Interests and Stockholders' Equity			
Current liabilities	180,765,111	152,647,199	4,659,560
Long-term liabilities	142,182,091	115,209,312	3,516,768
Minority interests	8,842,012	7,737,213	236,179
Stockholders' equity	291,865,822	293,391,868	8,955,796
Total Liabilities, Minority Interests and Stockholders' Equity	623,655,036	568,985,592	17,368,303

(2) Condensed consolidated statements of income

	For the year ended December 31,			
	2006	2007	2008	US\$
	NT\$	NT\$	NT\$	
		(in thousands)		
Net sales	293,106,770	480,184,256	423,928,193	12,940,421
Cost of goods sold	269,734,794	407,004,913	380,968,342	11,629,070
Gross profit	23,371,976	73,179,343	42,959,851	1,311,351
Operating expenses	15,819,338	21,328,332	22,811,722	696,328
Operating income	7,552,638	51,851,011	20,148,129	615,023
Non-operating expenses, net	(5,330,269)	(3,416,728)	(4,061,975)	(123,992)
Earnings before income tax and minority interests	2,222,369	48,434,283	16,086,154	491,031
Income tax expense	1,059,238	3,053,124	2,579,576	78,742
Income before minority interests	1,163,131	45,381,159	13,506,578	412,289
	(10,077)	25,679	416,924	12,727

Minority interests in income
(losses)

Net income	1,173,208	45,355,480	13,089,654	399,562
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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Condensed consolidated statements of comprehensive income

	For the year ended December 31,			US\$
	2006	2007	2008	
	NT\$	NT\$	NT\$	
	(in thousands)			
Net income	1,173,208	45,355,480	13,089,654	399,562
Other comprehensive income (loss), net of tax:				
Derivative and hedging activities	(104,907)	290,193	(727,376)	(22,203)
Unrealized gains (losses) on securities	292,017	1,436,558	(1,693,174)	(51,684)
Cumulative translation adjustments	327,996	646,134	1,277,232	38,987
Defined benefit plan	-	110,991	(18,548)	(566)
Other comprehensive income (loss)	515,106	2,483,876	(1,161,866)	(35,466)
Comprehensive income	1,688,314	47,839,356	11,927,788	364,096

(4) Condensed consolidated statements of cash flows

	For the year ended December 31,			US\$
	2006	2007	2008	
	NT\$	NT\$	NT\$	
	(in thousands)			
Net cash provided by (used in):				
Operating activities	67,955,306	156,942,207	132,044,194	4,030,653
Investing activities	(83,130,667)	(66,313,691)	(101,242,355)	(3,090,426)
Financing activities	32,951,652	(44,816,566)	(37,473,199)	(1,143,870)
Effect of exchange rate change on cash and cash equivalents	(114,291)	152,392	216,450	6,607
Net change in cash and cash equivalents	17,662,000	45,964,342	(6,454,910)	(197,036)
Cash and cash equivalents at beginning of year	26,263,265	43,925,265	89,889,607	2,743,883
Cash and cash equivalents at end of year	43,925,265	89,889,607	83,434,697	2,546,847

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(s) 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*	Fair value	Total unrealized gains	Total unrealized losses
	NT\$	NT\$	NT\$	NT\$
	(in thousands)			
Current assets:				
As of December 31, 2007	1,417,453	1,347,131	17,349	87,671
As of December 31, 2008	504,823	470,301	-	34,522
Long-term investments:				
As of December 31, 2007	489,610	2,123,631	1,659,294	25,273
As of December 31, 2008	592,697	595,750	137,343	134,290

* Cost basis as of December 31, 2008, reflects the impact of the other-than-temporary impairment losses of NT\$514,163 (US\$15,695) 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, 2008, 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, 2006, 2007 and 2008, is summarized as follows. The costs of the securities sold were determined on a weighted-average basis.

	Proceeds from sales	Gross realized gains	Gross realized losses
	NT\$	NT\$	NT\$
	(in thousands)		
For the year ended December 31, 2006	-	-	-
For the year ended December 31, 2007	29,956	15,714	-
For the year ended December 31, 2008	270,250	40,475	58

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(i) Obligation and funded status

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

	December 31, 2007	2008	US\$
	NT\$	NT\$	
		(in thousands)	
Projected benefit obligation at beginning of year	970,987	984,913	30,064
Service cost	9,264	8,116	248
Interest cost	26,679	29,548	902
Actuarial loss (gain)	(22,017)	36,303	1,108
Curtailment	-	(1,503)	(46)
Projected benefit obligation at end of year	984,913	1,057,377	32,276

The accumulated benefit obligation for the pension plans was NT\$462,884 thousand and NT\$490,196 (US\$14,963) thousand at December 31, 2007 and 2008, respectively.

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

	December 31, 2007	2008	US\$
	NT\$	NT\$	
		(in thousands)	
Fair value of plan assets at beginning of year	799,999	947,714	28,929
Actual return on plan assets	18,601	30,264	924
Actual contributions	129,114	133,128	4,064
Fair value of plan assets at end of year	947,714	1,111,106	33,917

Plan assets only contain a pension fund (the "Fund"), as mandated by the ROC Labor Standards Law. The government is responsible for the administration of the fund and determination of the investment strategies and policies. 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 (formerly with the Central Trust of China before it merged with and into Bank of Taiwan on July 1, 2007). Additional contributions may be required in the future in order to provide for unfunded obligations.

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Notes to Consolidated Financial Statements

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:

	December 31, 2007	2008	US\$
	NT\$	NT\$	
	(in thousands)		
Funded status-plan assets more (less) than benefit obligations	(37,198)	53,730	1,640
Prepaid pension cost (accrued liability)	(37,198)	53,730	1,640

	December 31, 2007	2008	US\$
	NT\$	NT\$	
	(in thousands)		
Accrued liability at beginning of year	(170,988)	(37,198)	(1,136)
Net periodic benefit cost	(24,397)	(15,661)	(478)
Actual contributions	129,114	133,128	4,064
Pension liability adjustments under US SFAS No. 158	29,073	(26,539)	(810)
Prepaid pension cost (accrued liability) at end of year	(37,198)	53,730	1,640

(ii) Components of net periodic benefit cost

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

	For the year ended December 31,			US\$
	2006	2007	2008	
	NT\$	NT\$	NT\$	
	(in thousands)			
Service cost	8,100	9,264	8,116	248
Interest cost	20,508	26,679	29,547	902
Expected return on plan assets	(15,208)	(22,031)	(28,408)	(867)
Amortization of net transition cost	472	323	288	9
Recognized net actuarial loss	1,512	10,162	6,118	186
Net periodic benefit cost	15,384	24,397	15,661	478

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(iii) Assumptions

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

	December 31, 2006	2007	2008
Discount rate	2.75%	3.00%	2.50%
Rate of increase in compensation levels	3.50%	2.00% – 3.50%	2.50% – 3.00%

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

	For the year ended December 31,		
	2006	2007	2008
Discount rate	3.50%	2.50% – 2.75%	3.00%
Rate of increase in compensation levels	3.50%	2.00% – 3.50%	2.00% – 3.50%
Expected long-term rate of return on plan assets	2.75%	2.50% – 3.00%	2.50%

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 responsible for any shortfall in the event that the rate of return is less than the required rate of return.

(iv) Contributions

AUO and Toppan CFI contributed NT\$133,128 (US\$4,064) thousand to the pension plans in 2008, and anticipate contributing NT\$134,235 thousand to the plans in 2009.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(v) Expected benefit payments

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)	
2009	8,710	266
2010	-	-
2011	32,186	982
2012	10,947	334
2013	10,034	306
2014-2018	233,555	7,129

The expected benefits are estimated based on the same assumptions used to measure the Company's benefit obligation at December 31, 2008 and include estimated future employee service.

(4) Income taxes

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

	For the year ended December 31,			US\$
	2006 NT\$	2007 NT\$	2008 NT\$	
	(in thousands)			
Current income tax expense	1,218,824	4,493,225	2,205,215	67,314
Deferred income tax expense (benefit)	(159,586)	(1,440,101)	374,361	11,428
Income tax expense	1,059,238	3,053,124	2,579,576	78,742

Substantially all of the income before income tax and income tax expense is from domestic sources.

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AU OPTRONICS CORP. AND SUBSIDIARIES

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	December 31,		
	2007	2008	US\$
	NT\$	NT\$	
	(in thousands)		
Deferred tax liabilities:			
Long-term investment—equity method	(492,664)	(1,035,489)	(31,608)
Goodwill	(140,651)	(765,906)	(23,379)
Cumulative translation adjustments	(348,543)	(773,427)	(23,609)
Others	(285,628)	(452,256)	(13,805)
Total deferred tax liabilities	(1,267,486)	(3,027,078)	(92,401)
Net deferred tax assets	7,565,297	8,544,840	260,832

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 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 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 at December 31, 2008. 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 at December 31, 2008, 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, 2006, 2007 and 2008, the increase (decrease) in valuation allowance amounted to NT\$13,071,076 thousand, NT\$(7,297,685) thousand and NT\$3,108,708 (US\$94,893) thousand, respectively.

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, 2008, NT\$2,077,902 (US\$63,428) thousand of such investment tax credits have expired unutilized and an accumulated adjustment of NT\$2,740,367 (US\$83,650) thousand has been allocated to reduce goodwill for the subsequent release of valuation allowance resulting from the utilization of investment tax credits acquired from the merger with QDI. Any further

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

subsequent recognition of tax benefit related to valuation allowance for deferred tax assets will be recorded in the consolidated statements of income under US SFAS No. 141R.

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, 2007 and 2008, deferred tax assets and liabilities under US GAAP were as follows:

	December 31, 2007	2008	US\$
	NT\$	NT\$	
		(in thousands)	
Deferred tax assets—current	5,181,516	4,877,051	148,872
Deferred tax assets—noncurrent	3,653,125	6,556,452	200,136
Deferred tax liabilities—current	(160,332)	(267,355)	(8,161)
Deferred tax liabilities—noncurrent	(1,109,012)	(2,621,308)	(80,015)
	7,565,297	8,544,840	260,832

(iii) Summary of total income tax expense (benefit):

In 2006, 2007 and 2008, the total income tax expense (benefit) was allocated as follows:

	For the year ended December 31,			US\$
	2006	2007	2008	
	NT\$	NT\$	NT\$	
		(in thousands)		
Income tax expense from continuing operations	1,059,238	3,053,124	2,579,576	78,742
Other comprehensive income	-	331,665	183,268	5,594
Tax benefit allocated to reduce goodwill	-	(1,215,980)	(1,524,387)	(46,532)
Total income tax expense	1,059,238	2,168,809	1,238,457	37,804

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(iv) Accounting for uncertainty in income taxes:

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

	2007	For the year ended December 31,	
	NT\$	2008	US\$
		NT\$	
		(in thousands)	
Balance at beginning of year	-	709,134	21,646
Increase related to prior-year tax positions	709,134	-	-
Decrease related to prior-year tax positions	-	(309,327)	(9,442)
Settlements	-	(399,807)	(12,204)
Balance at end of year	709,134	-	-

Included in the balance of unrecognized tax benefits at December 31, 2007, were potential tax benefits of NT\$709,134 thousand that, if recognized, would affect the effective tax rate on income from continuing operations. No interest and penalties related to unrecognized tax benefits were recorded by the Company as of January 1, 2007, and for the years ended December 31, 2007 and 2008. In 2008, the income tax authorities in Taiwan completed the examination of AUO's income tax returns for 2004 to 2006, and AUO made a payment in 2008 to settle the liabilities accordingly. As a result of this settlement, a portion of the previously accrued liability for unrecognized tax benefits was reversed in the consolidated statement of income for the year ended December 31, 2008. As of December 31, 2008, the Company did not have any unrecognized tax benefits and does not expect any significant change in the unrecognized tax benefits within the next 12 months.

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AU OPTRONICS CORP. AND SUBSIDIARIES

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(5) Property, plant and equipment

As of December 31, 2007 and 2008, the components of property, plant and equipment were as follows:

	December 31, 2007		
	Cost	Accumulated depreciation	Carrying amount
	NT\$	NT\$ (in thousands)	NT\$
Land	6,187,337	-	6,187,337
Buildings	70,963,869	(12,196,263)	58,767,606
Machinery and equipment	473,796,707	(202,364,144)	271,432,563
Other equipment and general assets	28,838,990	(20,326,279)	8,512,711
Construction in progress	8,323,471	-	8,323,471
Prepayments for purchases of land and equipment	7,973,541	-	7,973,541
	596,083,915	(234,886,686)	361,197,229

	December 31, 2008		
	Cost	Accumulated depreciation	Carrying amount
	NT\$	NT\$ (in thousands)	NT\$
Land	6,187,337	-	6,187,337
Buildings	72,120,009	(16,159,543)	55,960,466
Machinery and equipment	509,371,848	(268,798,291)	240,573,557
Other equipment and general assets	37,233,663	(28,481,052)	8,752,611
Construction in progress	12,299,311	-	12,299,311
Prepayments for purchases of land and equipment	60,184,861	-	60,184,861
	697,397,029	(313,438,886)	383,958,143

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) The changes in the components of accumulated other comprehensive income (loss) were as follows:

	Derivative and hedging activities NT\$	Unrealized gains (losses) on securities NT\$	Cumulative translation adjustments NT\$ (in thousands)	Defined benefit plan NT\$	Accumulated other comprehensive income (loss) NT\$
Balance at December 31, 2005	-	(146,410)	71,935	-	(74,475)
Net current-period change	(104,907)	292,017	327,996	-	515,106
Adoption of US SFAS No. 158	-	-	-	(234,510)	(234,510)
Balance at December 31, 2006	(104,907)	145,607	399,931	(234,510)	206,121
Net current-period change	290,193	1,436,558	646,134	110,991	2,483,876
Balance at December 31, 2007	185,286	1,582,165	1,046,065	(123,519)	2,689,997
Net current-period change	(727,376)	(1,693,174)	1,277,232	(18,548)	(1,161,866)
Balance at December 31, 2008	(542,090)	(111,009)	2,323,297	(142,067)	1,528,131

The related income tax effects allocated to each component of other comprehensive income (loss) were as follows:

	For the year ended December 31, 2006		
	Before tax amount NT\$	Tax (expense) benefit NT\$	Net-of-tax amount NT\$
Derivative and hedging activities	(104,907)	-	(104,907)
Unrealized gains on securities	292,017	-	292,017
Cumulative translation adjustments	327,996	-	327,996
Net current-period changes	515,106	-	515,106
	For the year ended December 31, 2007		
	Before tax amount NT\$	Tax (expense) benefit NT\$	Net-of-tax amount NT\$
Derivative and hedging activities	357,891	(67,698)	290,193
Unrealized gains on securities	1,436,558	-	1,436,558
Cumulative translation adjustments	893,121	(246,987)	646,134
Defined benefit plan	127,971	(16,980)	110,991

Net current-period changes	2,815,541	(331,665)	2,483,876
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AU OPTRONICS CORP. AND SUBSIDIARIES

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	For the year ended December 31, 2008		
	Before tax amount NT\$	Tax (expense) benefit NT\$	Net-of-tax amount NT\$
Derivative and hedging activities	(961,446)	234,070	(727,376)
Unrealized losses on securities	(1,693,174)	-	(1,693,174)
Cumulative translation adjustments	1,702,116	(424,884)	1,277,232
Defined benefit plan	(26,094)	7,546	(18,548)
Net current-period changes	(978,598)	(183,268)	(1,161,866)

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.

(7)Product revenue information

The Company's chief operating decision maker is the Executive Board, which comprises key personnel in top management. The Executive Board reviews consolidated results of revenue by product and manufacturing operations when making decisions about allocating resources and assessing performance of the Company. Consequently, the Company has determined that it has no operating segments as that term is defined by US SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

The revenue for principal products comprised the following:

	For the year ended December 31,			US\$
	2006 NT\$	2007 NT\$	2008 NT\$	
	(in millions)			
Panels for computer products:				
Panels for notebook computers	46,897	89,031	81,100	2,475
Panels for desktop monitors	100,576	133,278	93,097	2,842
Total panels for computer products	147,473	222,309	174,197	5,317
Panels for LCD televisions	104,794	200,573	188,162	5,744
Panels for consumer electronics products	31,290	43,023	42,599	1,300
Panels for industrial products	7,862	11,988	13,665	417
Other(1)	1,688	2,291	5,305	162
Total	293,107	480,184	423,928	12,940

(1)Includes revenues generated from sales of raw materials, components, and other TFT-LCD panel products, and from service charges.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(8) Basic and diluted EPS

Basic EPS for years 2006, 2007 and 2008 were computed as follows:

	For the year ended December 31,		
	2006	2007	2008
	NT\$	NT\$	NT\$
	(in thousands, except for per share data)		
Net income	1,173,208	45,355,480	13,089,654
Weighted-average number of shares outstanding during the year—retroactively adjusted:			
Shares of common stock at beginning of year	5,830,547	7,573,403	7,865,201
Common stock issued in connection with the merger with QDI	372,817	-	-
Employee stock options	41	1,138	419
Issuance of common stock for conversion of bonds	-	26,126	2,398
Issuance of shareholders' stock dividends and employee stock bonus	223,467	175,206	487,971
Retroactive adjustment for capitalization of retained earnings	455,694	388,794	-
	6,882,566	8,164,667	8,355,989
Basic EPS:			
Net income	0.17	5.56	1.57

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AU OPTRONICS CORP. AND SUBSIDIARIES

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Diluted EPS for 2006, 2007 and 2008 was computed as follows:

	For the year ended December 31,		
	2006	2007	2008
	NT\$	NT\$	NT\$
	(in thousands, except for per share data)		
Net income for computing diluted EPS:			
Net income	1,173,208	45,355,480	13,089,654
Effect of dilutive potential common stock related to convertible bonds	-	208,622	39,792
	1,173,208	45,564,102	13,129,446
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	5,830,547	7,573,403	7,865,201
Common stock issued in connection with the merger with QDI	372,817	-	-
Employee stock options	41	1,138	419
Issuance of common stock for conversion of bonds	-	26,126	2,398
Issuance of shareholders' stock dividends and employee stock bonus	223,467	175,205	487,971
Effect of dilutive potential common stock related to stock options	56	547	104
Effect of dilutive potential common stock related convertible bonds	-	377,304	204,708
Retroactive adjustment of capitalization of retained earnings	455,698	407,686	-
	6,882,626	8,561,409	8,560,801
Diluted EPS:			
Net income	0.17	5.32	1.53

As of December 31, 2006, convertible bonds with principal amounts of NT\$11,184,600 thousand and US\$296,451 thousand were excluded from the computation of diluted EPS due to their anti-dilutive effect.

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AU OPTRONICS CORP. AND SUBSIDIARIES

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(9) Goodwill and other intangible assets

(i) Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2007 and 2008, were as follows:

	For the year ended December 31,		US\$
	2007	2008	
	NT\$	NT\$	
		(in thousands)	
Balance at beginning of year	25,234,740	23,751,714	725,022
Adjustment to goodwill acquired through merger with QDI	(267,046)	-	-
Tax benefit allocated to reduce goodwill	(1,215,980)	(1,524,387)	(46,532)
Balance at end of year	23,751,714	22,227,327	678,490

(ii) Other intangible assets

Details of the other intangible assets are as follows:

	December 31, 2007		
	Cost	Accumulated amortization	Carrying amount
	NT\$	NT\$	NT\$
		(in thousands)	
Amortizable intangible assets:			
Patents and licensing fees	22,439,097	18,000,276	4,438,821
Core technologies	3,675,700	1,531,542	2,144,158
	26,114,797	19,531,818	6,582,979

	December 31, 2008			US\$
	Cost	Accumulated amortization	Carrying amount	
	NT\$	NT\$	NT\$	
		(in thousands)		
Amortizable intangible assets:				
Patents and licensing fees	22,842,711	19,589,604	3,253,107	99,301
Core technologies	3,675,700	2,756,775	918,925	28,050
	26,518,411	22,346,379	4,172,032	127,351

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AU OPTRONICS CORP. AND SUBSIDIARIES

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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\$2,383,210 thousand, NT\$4,042,617 thousand and NT\$2,981,572 (US\$91,013) thousand for the years ended December 31, 2006, 2007 and 2008, respectively.

As of December 31, 2008, the Company's estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

Year	December 31, 2008	
	NT\$	US\$
	(in thousands)	
2009	1,619,035	49,421
2010	608,182	18,565
2011	353,974	10,805
2012	341,338	10,419
2013	312,678	9,544
Thereafter	936,825	28,597
Total	4,172,032	127,351

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Fair value measurements

On January 1, 2008, the Company adopted US SFAS No. 157 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 consolidated financial statements on a recurring basis (at least annually). US SFAS No. 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. 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 fair value hierarchy are as follows:

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.

Level 2 inputs are quoted prices in markets that are not active or for which all significant input are observable, 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.

Level 3 inputs are unobservable inputs.

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.

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AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table presents assets and liabilities that are measured at fair value on a recurring basis in the consolidated balance sheet as of December 31, 2008:

	December 31, 2008 NT\$	Fair value measurements at reporting date using		
		Quoted prices in active market for identical assets (Level 1) NT\$ (in thousands)	Significant other observable inputs (Level 2) NT\$	Significant unobservable inputs (Level 3)* NT\$
Assets:				
Available-for-sale financial assets—current	470,301	470,301	-	-
Foreign currency forward contracts	1,067,531	-	1,067,531	-
Interest rate swap contracts	5,398	-	5,398	-
Available-for-sale financial assets—noncurrent	595,750	595,750	-	-
Liabilities:				
Foreign currency forward contracts	28,831	-	28,831	-
Interest rate swap contracts	829,389	-	829,389	-
Embedded derivative instrument liabilities	-	-	-	-

* There are no assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in US SFAS No. 157 for the year ended December 31, 2008.

The consolidated financial statements as of and for the year ended December 31, 2008 do not include any nonrecurring fair value measurements relating to assets or liabilities for which the Company has adopted the provisions of US SFAS No. 157. The Company will not adopt the provisions of US SFAS No. 157 for nonrecurring fair value measurements involving nonfinancial assets and nonfinancial liabilities until January 1, 2009.

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