

Himax Technologies, Inc.
Form 20-F
March 28, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
For the fiscal year ended December 31, 2018
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: 000-51847

HIMAX TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

CAYMAN ISLANDS

(Jurisdiction of incorporation or organization)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, par value \$0.3 per ordinary share	The NASDAQ Global Select Market Inc.*

* Not for trading, but only in connection with the listing on the NASDAQ Global Select Market, Inc. of American Depositary Shares representing such Ordinary 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. 344,290,306 Ordinary Shares.

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth

company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Although these forward-looking statements, which may include statements regarding our future results of operations, financial condition, or business prospects, are based on our own information and information from other sources we believe to be reliable, you should not place undue reliance on these forward-looking statements, which apply only as of the date of this annual report. The words “anticipate,” “believe,” “expect,” “intend,” “plan,” “estimate” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. Our actual results of operations, financial condition or business prospects may differ materially from those expressed or implied in these forward-looking statements for a variety of reasons, including, among other things and not limited to, our anticipated growth strategies, our and our customers’ future business developments, results of operations and financial condition, our ability to develop new products, the future growth and pricing trend of the display driver markets, the future growth of end-use applications that use flat panel displays, particularly TFT-LCD panels, development of alternative flat panel display technologies, market acceptance and competitiveness of the driver and non-driver products developed by us, our ability to protect intellectual property, changes in customer relations and preference, shortage in supply of key components, our ability to collect accounts receivable and manage inventory, changes in economic and financial market conditions, and other factors. For a discussion of these risks and other factors, please see “Item 3.D. Key Information—Risk Factors.”

CERTAIN CONVENTIONS

Unless otherwise indicated, all translations from U.S. dollars to NT dollars in this annual report were made at a rate of \$1.00 to NT\$30.61, the exchange rates set forth in the H.10 weekly statistical release of the Federal Reserve System of the United States (the “Federal Reserve Board”) on December 31, 2018. No representation is made that the NT dollar amounts referred to herein could have been or could be converted into U.S. dollars at any particular rate or at all. On March 22, 2019, the noon buying rate was \$1.00 to NT\$30.87.

Unless otherwise indicated, in this annual report,

the terms “we,” “us,” “our company,” “our,” and “Himax” refer to Himax Technologies, Inc., its predecessor entities and subsidiaries;

the term “Himax Taiwan” refers to Himax Technologies Limited, our wholly owned subsidiary in Taiwan and our predecessor;

“shares” or “ordinary shares” refers to our ordinary shares, par value \$0.3 per share;

“RSUs” refers to restricted share units;

“ADSs” refers to our American depositary shares, each of which represents two ordinary shares;

“ADRs” refers to the American depositary receipts that evidence our ADSs;

“AR” refers to the augmented reality;

“ROC” or “Taiwan” refers to the island of Taiwan and other areas under the effective control of the Republic of China;

“PRC” or “China” for purposes of this annual report refers to the People’s Republic of China, excluding Taiwan and the special administrative regions of Hong Kong and Macau;

“AMOLED” refers to active matrix organic light-emitting diode;

“ASIC” refers to application specific integrated circuit;

“ASC” refers to active stereo camera 3D sensing, which uses two cameras to replicate 3D vision in nature, augmented by coded light for image depth enhancement;

“CMOS” refers to complementary metal oxide semiconductor;

“head-mounted-display” refers to a display device, worn on the head or as part of a helmet, that has a small display optic in front of one or each;

“IC” refers to integrated circuit;

“IFRS” refers to The International Financial Reporting Standards as issued by the International Accounting Standards Board;

“IGZO” refers to indium gallium zinc oxide;

“Innolux” refers to Innolux Corporation, its predecessor and consolidated subsidiaries, unless the context otherwise requires;

“LCOS” refers to liquid crystal on silicon;

“LED” refers to light-emitting diode;

“LTPS” refers to low temperature poly silicon;

“MEMS” refers to micro-electro mechanical systems;

“OLED” refers to organic light-emitting diode;

“Structured Light” refers to a 3D infrared structure light projector, which is composed of a laser light source, a collimated lens and a diffractive optics element (DOE);

“SLiM^M” refers to Structured Light Imaging Module, which is Himax homegrown structured light-based 3D sensing total solution;

“TDDI” refers to touch display driver integrated circuit for advanced in cell touch display;

“TFT-LCD” refers to amorphous silicon thin film transistor liquid crystal display, or “a-Si TFT-LCD”;

“ToF” refers to a time-of-flight (ToF) 3D camera works by illuminating the scene with a modulated light source, and observing the reflected light;

“VGA” refers to Video Graphics Array;

“VR” refers to the virtual reality;

“wafer level optics” or “WLO” are optical products manufactured using semiconductor process on wafers;

“processed tape” refers to polyimide tape plated with copper foil that has a circuit formed within it, which is used in tape-automated bonding packaging;

“semiconductor manufacturing service providers” refers to third-party wafer fabrication foundries, gold bumping houses, and assembly and testing houses;

“large-sized panels” refers to panels that are typically above ten inches in diagonal measurement;

“small and medium-sized panels” refers to panels that are typically around ten inches or less in diagonal measurement;

all references to “New Taiwan dollars,” “NT dollars” and “NT\$” are to the legal currency of the ROC; and

all references to “dollars,” “U.S. dollars” and “\$” are to the legal currency of the United States.

On August 10, 2009, we effected: (i) a stock split in the form of a stock dividend of 5,999 ordinary shares for each ordinary share held by shareholders of record, followed by a consolidation of every 3,000 ordinary shares into one ordinary share; (ii) a change of the par value of our ordinary shares from \$0.0001 each to \$0.3 each; and (iii) a change in our ADS ratio from one ADS representing one ordinary share to one ADS representing two ordinary shares. See “Item 7.A. Major Shareholders and Related Party Transactions—Major Shareholders” for more information. Unless otherwise indicated, all shares, per share and share equity data in this annual report have been retroactively adjusted to reflect the effect of the stock split and the change in par value for all periods presented.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. Selected Financial Data

The selected consolidated statements of profit or loss data and selected consolidated cash flow data for the years ended December 31, 2017 and 2018 and the selected consolidated statements of financial position data as of December 31, 2017 and 2018 are derived from our audited consolidated financial statements included herein, which are presented in accordance with International Financial Reporting Standards, or “IFRS”, as issued by the International Accounting Standards Board, or “IASB”. Since these are our first audited consolidated financial statements prepared in accordance with IFRS, pursuant to the transitional relief granted by the U.S. Securities and Exchange Commission in respect of the first-time adoption of IFRS, we have only provided financial statements and financial information for the financial years ended December 31, 2017 and 2018. Additionally, financial data as of and for the years ended December 31, 2014, 2015 and 2016 derived from our consolidated financial statements prepared in accordance with U.S. GAAP have not been included below, and no audited consolidated financial statements and no financial information prepared in accordance with IFRS for the year ended December 31, 2016 have been included in this annual report. Historical financial results as of and for the year ended December 31, 2017 have also been adjusted based on IFRS, which differs from the results included in our annual reports on Form 20-F for the year ended December 31, 2017. In addition, for an explanation of how the transition to IFRS has affected our consolidated financial statements, see note 31 to our consolidated financial statements included elsewhere in this annual report. Our historical results do not necessarily indicate results expected for any future periods.

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The selected financial data set forth below should be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and the consolidated financial statements and the notes to those statements included herein.

	Year Ended December 31,	
	2017	2018
	(in thousands,	
	except per share data)	
Consolidated Statements of Profit or Loss Data:		
Revenues	\$ 685,167	\$ 723,605
Costs and expenses ⁽¹⁾ :		
Cost of revenues	518,142	554,690
Research and development	117,662	123,037
General and administrative	20,461	21,823
Expected credit loss	155	290
Sales and marketing	20,388	20,380
Operating income	\$ 8,359	\$ 3,385
Profit for the year	\$ 25,538	\$ 6,026
Profit attributable to Himax stockholders	\$ 27,680	\$ 8,569
Earnings per ordinary share attributable to Himax stockholders:		
Basic	\$ 0.08	\$ 0.02
Diluted	\$ 0.08	\$ 0.02
Earnings per ADS attributable to Himax stockholders ⁽²⁾ :		
Basic	\$ 0.16	\$ 0.05
Diluted	\$ 0.16	\$ 0.05
Weighted-average number of ordinary shares used in earnings per share computation:		
Basic	344,849	345,020
Diluted	344,903	345,069
Weighted-average number of ADS equivalent used in earnings per share computation ⁽²⁾ :		
Basic	172,425	172,510
Diluted	172,452	172,534
Cash dividends declared per ordinary share ⁽³⁾	\$ 0.12	\$ 0.05
Cash dividends declared per ADS	\$ 0.24	\$ 0.10

Note:(1) The amount of share-based compensation included in applicable costs and expenses categories is summarized as follows:

	Year Ended December 31,	
	2017	2018
	(in thousands)	
Cost of revenues	\$ 204	\$ 90
Research and development	5,222	3,165
General and administrative	723	387
Sales and marketing	995	544
Total	\$ 7,144	\$ 4,186

Of the \$7.1 million and \$4.2 million in share-based compensation in 2017 and 2018, \$6.1 million and \$3.8 million were settled in cash, respectively.

The number of ADS equivalent outstanding is determined by dividing the number of ordinary shares by two. The (2)earnings per ADS is presented solely for the convenience of the reader and does not represent a measure under IFRS.

The above cash dividends should not be considered representative of the dividends that would be paid in any future (3)periods or our dividend policy. See “Item 8.A.8. Financial Information—Dividends and Dividend Policy” for more information on our dividends and our dividend policy.

	As of December 31,	
	2017	2018
	(in thousands)	
Consolidated Statements of Financial Position Data:		
Cash and cash equivalents	\$ 138,023	\$ 106,437
Accounts receivable, net	188,774	189,279
Inventories	135,200	162,561
Total current assets	662,621	654,415
Total assets	803,193	836,678
Accounts payable	139,933	150,500
Total current liabilities	343,726	391,155
Total liabilities	349,605	394,391
Ordinary shares	107,010	107,010
Treasury shares	(8,878)	(8,819)
Total equity	453,588	442,287

	Year Ended December 31,	
	2017	2018
	(in thousands)	
Consolidated Cash Flow Data:		
Net cash provided by operating activities	\$ 29,393	\$ 4,009
Net cash used in investing activities	(35,088)	(38,266)
Net cash provided by (used in) financing activities	(41,214)	2,801

Note: More detail explanation, please see “Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

3.B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

3.D. Risk Factors

Risks Relating to Our Financial Condition and Business

Our suppliers may have increasing bargaining power as a result of industry consolidation, which could result in an increase in our average unit cost and a decrease in our profit margin.

There has been an increased level of industry consolidation among our suppliers in recent years. Chipbond Technology Corporation, or Chipbond, merged with Simpal Electronics Co., Ltd. in 2014 for more chip-on-flex capacity and vertical integration. Such merger and acquisition activities will likely increase the size and market power of the relevant suppliers and reduce the number of suppliers we could use under a simpler supplier chain. Such industry change could further reduce the number of suppliers for gold bumping, COF packages services and Tape that we could use. Therefore, suppliers could be in a better position to bargain for higher prices for their services and products, which could result in an increase in our average unit cost. Moreover, as gold is a crucial raw material in the gold bumping process, any increases in the price of gold could result in an increase in our average unit cost and a decrease in our profit margin. If we are unable to transfer any increase in average unit cost to our customers by selling at higher prices, our gross margin would decrease, and our results of operations could be adversely affected.

We derive the majority of our net revenues from sales to the TFT-LCD panel industry, which is highly cyclical and subject to price fluctuations. Such cyclical and price fluctuations could negatively impact our business or results of operations.

In 2017 and 2018, 77.3% and 81.0% of our revenues, respectively, were attributable to display drivers that were incorporated into TFT-LCD panels. We expect to continue to substantially depend on sales to the TFT-LCD panel industry for the foreseeable future. The TFT-LCD panel industry is intensely competitive and is vulnerable to cyclical market conditions. The average selling prices of TFT-LCD panels generally decline with time as a result of, among other factors, capacity ramp-up, technological advancements and cost reduction with the exception of the new high end and high-resolution products. The average selling prices of TFT-LCD panels could further decline for numerous reasons, including but not limited to the following:

- lower-than-expected demand for end-use products that incorporate TFT-LCD panels;

- a surge in industrial manufacturing capacity due to the ramping up of new fabrication facilities and/or improvements in production yields; and

- manufacturers operating at high levels of capacity utilization in order to reduce fixed costs per panel.

The TFT-LCD panel industry is volatile and difficult to predict. In 2014, smartphone boom in developed markets and in China generated great demand of small and medium sized panels, helping the TFT-LCD panel business to gradually recover. However, 2015 was a more challenging year for the TFT-LCD industry due to macro uncertainties and soft demand across the consumer electronics sectors. We cannot assure you that such similar events will not occur in the future or there will not be any future shortages of materials or components for our products or our customers' products or a decrease in demand for our products.

In addition, the merger of certain of our major customers, including CMO, Innolux and TPO in 2010, could result in an increase in their bargaining power and therefore subject us to additional downward pricing pressure. We cannot assure you that in such periods in which we experience significant downward pricing pressure, we could sufficiently reduce costs to completely offset the loss of revenues. In addition, a severe and prolonged industry downturn could also result in higher risks in relation to the collectability of our accounts receivable, the marketability and valuation of our inventories, the impairment of our tangible and intangible assets, and the stability of our supply chain. As a result, the cyclical nature of the TFT-LCD panel industry could adversely affect our revenues, cost of revenues and results of operations.

Our strategy of expanding our product offerings to non-driver products may not be successful.

We have devoted, and intend to continue to devote, financial and management resources to the development, manufacturing and marketing of non-driver products as we diversify our product portfolio and because our non-driver products have higher gross margin than our driver products. Our non-driver products include, among others, timing controllers, touch panel controllers, TFT-LCD television and monitor semiconductor solutions, LCOS and MEMS microdisplays, power management ICs, CMOS image sensors, 3D sensing solution and wafer level optics (WLO) products.

We believe end products utilizing our LCOS technology could potentially be a large market and we have made major progress toward commercialization of LCOS microdisplays for head-mounted-display. On top of that, we have seen supply chain maturing throughout the years with a growing number of significant players investing in microdisplay reference designs. Our LCOS microdisplay business hit inflection point in September 2015 with pilot production shipment made to a major customer. Since then, we have increased shipments of our LCOS products to some industry heavyweights and secured additional design engagements with current and new customers. Some of our major customers already launched their products in 2016. At present, our main focus areas for LCOS business are AR goggle devices and head-up-displays (HUD) for automotive, while AR will take a few years to fully realize its market potential. We continue to see heavyweight companies allocating major R&D resources and budgets to bring the new products into the market. Currently, Tier 1 companies and start-up companies are investing heavily to develop the ecosystem — applications, software, OS, firmware, system electronics, and optics. With all these investments, we will see an ecosystem build up within the next few years; the AR market will then be in an acceleration mode. While most customers don't expect big volume for their early generation products, we have been working with many of them for future generation devices. We are committed to providing the best technology to support them in the effort. We are also seeing constant additions of new customers using our LCOS for a variety of new applications. We believe that Himax stands to benefit from our customers' successful commercialization of their new products due to our unique position as one of the providers of choice for microdisplay and related optics. Nevertheless, these product categories are at a relatively early stage as compared to other products and they have a relatively immature supply chain. Therefore, it is difficult to project the success of the applications that use LCOS microdisplay products.

We also believe there are new market opportunities for our CMOS image sensors. Although it seems relatively challenging for us to gain significant market share in conventional RGB camera, we do think there are various interesting and different applications in imaging. On top of our legacy products in laptop and multimedia, we've launched two computer vision sensor product lines, i.e., near infrared ("NIR") sensor and Always-on-Sensor ("AoS"). NIR sensor is the key building stone for passive as well as active computer vision system. With the special design in pixel architecture and materials, our NIR sensor provides industry leading Quantum Efficiency ("QE") to absorb NIR signal. In the collaboration with our partners in structured light, NIR plays an important role in the receiver. AoS, on the other hand, is an IoT sensor which consumes only several micro watt to do people detection, eye ball tracking, and other cool features. New sensor architectures, readout, pixel, and the corresponding slim algorithms are integrated together to contribute the always-on feature. Given that the two new exciting product lines just hit the market, it's still quite new to the industry. To build up the competition barrier, we have also devoted ourselves and pour a lot of resources into making the product lines more mature. As a result, these two new products take time to bear some fruits.

Moreover, we have participated in most of the smartphone OEMs' ongoing 3D sensing projects for facial recognition and phone unlock covering all three types of technologies, namely structured light, active stereo camera (ASC) and time-of-flight. Depending on the customers' needs, we provide 3D sensing total solution or just the projector module or optics inside the module. By offering either the projector module or critical optics, we have been collaborating with a small handful of smartphone names that have in-house capability to come up with their own customized 3D sensing solutions. For most Android smartphone makers who don't have such in-house capability, however, we have to provide total solution to enable their 3D sensing. Himax's 3D sensing total solution structured light-based, which we announced jointly with Qualcomm in August 2017, brings together Qualcomm's industry leading 3D algorithm with Himax's cutting-edge design and manufacturing capabilities in optics and NIR sensors as well as our unique know-how in 3D sensing system integration. At present, the 3D sensing adoption for this market remains low. The adoption is hindered primarily by the prevailing high hardware cost of 3D sensing, the long development lead time required to integrate it into the smartphone and the lack of killer applications which is limited to phone unlock and online payment. Instead of 3D sensing, most of the Android phone makers have chosen the lower cost finger print technology which can achieve similar phone unlock and online payment functions with somewhat compromised user experience. Reacting to their lukewarm response, we are working on the next generation 3D sensing with an aim to leapfrog the market by providing high performance, easy to adopt and yet cost friendly total solutions, targeting the majority of Android smartphone players. We believe that 3D sensing will be widely adopted by more Android smartphone makers when the ecosystem is able to substantially lower the cost of adoption and develop more killer applications while offering easy-to-use, fully-integrated total solutions, for which Himax is playing a key part.

Developing and commercializing each of our non-driver products requires a significant amount of management, engineering and monetary resources. For example, we have established certain in-house facilities for key manufacturing processes of our non-driver products including LCOS microdisplay solutions, wafer-level optics and active alignment for 3D sensing. If we are unable to efficiently ramp up our production facilities or lack of customer's demand, the lower capacity utilization rate will negatively affect our gross margin and our results of operations. Moreover, we will be subject to ramp-up expenses in the early stage of mass production of our non-driver products. Numerous uncertainties exist in developing new products and we cannot assure you that we will be able to develop our non-driver products successfully. We may underestimate the amount of capital, personnel and other resources required to develop and commercialize our non-driver products, which may affect the success of our growth strategy. We may also overestimate the market potential of the end products that are utilizing or will utilize our non-driver

products, which may negatively impact our strategy for the development of non-driver products. In addition, if we are unsuccessful in expanding our product offerings to non-driver products, it may negatively affect our reputation and the status of our brand in our other markets. The failure or delay in the development, production or commercialization of any of our non-driver products, the occurrence of any product defects or design flaws, or the low market acceptance of or demand for either of our products or the end devices using our products may adversely affect our results of operations and growth prospects.

The concentration of our accounts receivable and the extension of payment terms for certain of our customers exposes us to increased credit risk and could harm our operating results and cash flows.

As of December 31, 2018, our accounts receivable from Customer A and its affiliates were \$63.5 million, which represented approximately 33.5% of our accounts receivable, net. The concentration of our accounts receivable exposes us to increased credit risk. Moreover, we have at times agreed to extend the payment terms for certain of our customers. Other customers have also requested extensions of payment terms. We may also agree to grant such requests for the extension of payment terms in the future. As a result, a default by any such customer, a prolonged delay in the payment of accounts receivable or the extension of payment terms for our customers could adversely affect our cash flow, liquidity and our operating results.

Our customers may experience a decline in profitability or may not be profitable at all, which could adversely affect our results of operations and financial condition.

The TFT-LCD panel industry is highly competitive. TFT-LCD panel manufacturers, including our customers, experience significant pressure on prices and profit margins, due largely to growing industry capacity and fluctuations in demand for TFT-LCD panels. Some TFT-LCD panel manufacturers have greater access to capital or greater production, research and development, intellectual property, marketing or other resources than our customers, who may not be able to compete successfully and sustain their market positions. In addition, our customers' business performance may fluctuate significantly due to a number of factors, many of which are beyond their control, including:

- consumer demand and the general economic conditions;

- the cyclical nature of both the TFT-LCD industry, including fluctuations in average selling prices, and its downstream industries;

- the speed at which TFT-LCD panel manufacturers expand production capacity;

- brand companies' continued needs for original equipment manufacturing services provided by TFT-LCD panel manufacturers;

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

technological changes;

the rescheduling and cancellation of large orders;

access to funding on satisfactory terms; and

fluctuations in the currencies of TFT-LCD panels exporting countries against the U.S. dollar.

Our customers continued to operate in a challenging business environment and may experience a decline in profitability or may not be profitable at all. In addition, the aggressive expansion plans for next generation fabs in China proposed by several TFT-LCD panel manufacturers might significantly increase the output of TFT-LCD panels if all of the plans are implemented in the next few years, which could result in a decline in the average selling prices of TFT-LCD panels. In addition, the antitrust lawsuits in the U.S. and the European Union against several TFT-LCD panel manufacturers have materially and adversely affected the profitability of certain of our customers, which could, in turn, adversely affect our profit margin, significantly reduce our profits and materially affect our results of operations and financial condition.

We depend on sales of display drivers used in TFT-LCD panels, and the limited potential for further growth in both the market size of display drivers and the market share of our display drivers or the absence of continued market acceptance of our display drivers could limit our growth in revenues or harm our business.

In 2017 and 2018, we derived 77.3% and 81.0% of our revenues, respectively, from the sale of display drivers used for large-sized applications, mobile handset applications and consumer electronics applications, and we expect to continue to derive a substantial portion of our revenues from these or related products. As the display drivers industry and our display drivers business are relatively mature, there may be limited potential for the overall display drivers market to grow and for us to further grow our market share, which could limit our future growth in revenues. Failure to grow our unit shipments for display drivers, coupled with a general decline in the average selling prices, could adversely and materially affect our results of operations. See also “—Risks Relating to Our Industry—The average selling prices of our products could decrease rapidly, which may negatively impact our revenues and operating results.” We expect to continue to derive a substantial portion of our revenues from the sale of display drivers. Therefore, the continued market acceptance of our display drivers is critical to our future success. Failure to grow or maintain our revenues generated from the sales of display drivers could adversely and materially affect our results of operations and financial condition.

Technological innovation may reduce the number of display drivers typically required for each panel, thereby reducing the number of display drivers we are able to sell per panel. If such a reduction in demand is not offset by the general growth of the industry, growth in our market share or an increase in our average selling prices, our revenues may decline.

With the high penetration rate of smartphones, growth of the market has been slowing down in the past two years. LCD display and its driver IC in smartphone application is getting more commoditized with lower ASP. Meanwhile, addressable market size of conventional smartphone DDIC is eroded quickly by AMOLED and in-cell display, which used to be emerging technologies but have ramped up with significant adoption rate. Being one of the leading DDIC suppliers, Himax also has been devoted to development activities for AMOLED DDIC and in-cell TDDIs. Nevertheless, AMOLED display has been dominated by Korean companies, and Himax TDDI went through the learning curve in 2016 and just started to ramp-up in 2017.

Except for certain small-sized panels, multiple display drivers are typically required for each panel to function. In order to reduce costs, TFT-LCD panel manufacturers generally seek to have display drivers with higher channel counts and new panel designs to reduce the number of display drivers required for each panel. We have been developing such innovative and cost-effective display driver solutions in order to grow our market share, attract additional customers, increase our average selling prices and capture new design wins. However, we cannot assure you that we will successfully achieve these goals. If we fail to do so and the number of display drivers typically required per panel decreases thereby reducing our unit shipments, our revenues may decline. Recently, TFT-LCD panel manufacturers have developed several panel designs to reduce the usage of display drivers, including gate in panel, or GIP, amorphous silicon gate, or ASG, or simply gateless designs, which integrate the gate driver function onto the glass and eliminate the need for gate drivers, as well as dual gate and triple gate panel designs, which would largely reduce the usage of source drivers. If such designs or technologies become widely adopted, demand for our display drivers may decrease significantly, which would adversely and materially affect our results of operations.

We face numerous challenges relating to our growth. If we are no longer able to keep our competitiveness to maintain current market share or to gain market share in new product segments, our revenues and profit may decline.

The scope and complexity of our business has grown significantly since our inception. Our growth has placed, and will continue to place, a strain on our management, personnel, systems and resources. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, execute our business plan or respond to competitive pressures. To successfully manage our growth, we believe we must effectively:

hire, train, integrate, retain and manage additional qualified engineers, senior managers, sales and marketing personnel, and information technology personnel;

- implement additional, and improve existing, administrative and operations systems, procedures and controls;

expand our accounting and internal audit team, including hiring additional personnel with IFRS and internal control expertise;

- continue to expand and upgrade our design and product development capabilities;

manage multiple relationships with semiconductor manufacturing service providers, customers, suppliers and certain other third parties; and

continue to develop and commercialize non-driver products, including, among others, timing controllers, touch controller ICs, TFT-LCD television and monitor semiconductor solutions, LCOS and MEMS microdisplays, power management ICs, CMOS image sensors, 3D sensing solution and wafer level optics products.

Moreover, if our allocation of resources does not correspond with future demand for particular products, we could miss market opportunities, and our business and financial results could be materially and adversely affected. Therefore, we cannot assure you that we will be able to manage our growth effectively in the future.

Our quarterly revenues and operating results are difficult to predict, and if we do not meet quarterly financial expectations, our ADS price will likely decline.

Our quarterly revenues and operating results are difficult to predict. They have fluctuated in the past from quarter to quarter and may continue to do so in the future. Our operating results may in some quarters fall below market expectations, likely causing our ADS price to decline. Our quarterly revenues and operating results may fluctuate because of many factors, including:

- our ability to accurately forecast shipments, average selling prices, cost of revenues, operating expenses, non-operating income/loss, foreign currency exchange rates, and effective income tax rates;

- our ability to transfer any increase in unit costs to our customers;

- our ability to accurately perform various tests, estimations and projections, including with respect to the write-down on slow or obsolete inventories, the impairment of non-financial assets, the collectability of accounts receivable, and the realization of deferred tax assets;

- our ability to successfully design, develop and introduce new or enhanced products acceptable to our customers in a timely manner;

- changes in the relative mix in the unit shipments of our products, which may have significantly different average selling prices and cost of revenues as a percentage of revenues;

- changes in share-based compensation;

- the loss of one or more of our key customers;

- decreases in the average selling prices of our products;

- our accumulation and write-down of inventory;
- the relative unpredictability in the volume and timing of customer orders;
- shortages of other components used in the manufacture of TFT-LCD panels;
- the risk of cancellation or deferral of customer orders in anticipation of our new products or product enhancements, or due to a reduction in demand of our customers' end product;
- changes in our payment terms with our customers and our suppliers;
- our ability to negotiate favorable prices with customers and suppliers;
- changes in the available capacity of semiconductor manufacturing service providers;
- the rate at which new markets emerge for new products under development;
- the evolution of industry standards and technologies;
- product obsolescence and our ability to manage product transitions;
- increase in cost of revenues due to inflation;
- our involvement in litigation or other types of disputes;
- changes in general economic conditions, especially the impact of the global financial crisis on economic growth and consumer spending, and the unease in the Middle East;

changes in our transfer pricing policy and applicable income tax regulations; and

natural disasters, particularly earthquakes and typhoons, or outbreaks of disease affecting countries where we conduct our business or where our products are manufactured, assembled or tested.

The factors listed above are difficult to foresee, and along with other factors, could seriously harm our business. We anticipate the rate of new orders may vary significantly from quarter to quarter. Our operating expenses and inventory levels are based on our expectations of future revenues, and our operating expenses are relatively fixed in the short term. Consequently, if anticipated sales and shipments in any quarter do not occur as expected, operating expenses and inventory levels could be disproportionately high, and our operating results for that quarter and, potentially, future quarters may be negatively impacted. Any shortfall in our revenues would directly impact our business. Our operating results are volatile and difficult to predict; therefore, you should not rely on the operating results of any one quarter as indicative of our future performance. Our operating results in future quarters may fall below the expectations of securities analysts and investors. In this event, our ADS price may decline significantly.

The strategic relationships between certain of our competitors and their customers and the development of in-house capabilities by TFT-LCD panel manufacturers may limit our ability to expand our customer base and our growth prospects.

Certain of our competitors have established or may establish strategic or strong relationships with TFT-LCD panel manufacturers that are also our existing or potential customers. Marketing our display drivers to such TFT-LCD panel manufacturers that have established relationships with our competitors may be difficult. Moreover, several TFT-LCD panel manufacturers have in-house design capabilities and therefore may not need to source semiconductor products from us. If our customers successfully develop in-house capabilities to design and develop semiconductors that can substitute for our products, they would likely reduce or stop purchasing our products. In addition, we also face challenges in attracting new customers for our new products. To sell new products, we will likely need to target new market segments and new customers with whom we do not have current relationships, which may require different strategies and may present difficulties that we have not encountered before. Therefore, failure to broaden our customer base and attract new customers may limit our growth prospects.

We depend primarily on nine foundries to manufacture our wafers, and any failure to obtain sufficient foundry capacity or loss of any of the foundries we use could significantly delay our ability to ship our products, causing us to lose revenues and damage our customer relationships.

Access to foundry capacity is crucial to our business because we do not manufacture our own wafers, instead relying primarily on nine third-party foundries. The ability of a foundry to manufacture our semiconductor products is limited by its available capacity. Access to capacity is especially important due to the limited availability of the high-voltage

CMOS process technology required for the manufacture of wafers used in display drivers. Moreover, Japanese integrated device manufacturer companies may outsource their semiconductor manufacturing to foundries outside Japan. This could result in tightness in the foundry supply available to us and affect our ability to acquire sufficient capacity. As we currently do not have any long-term supply arrangements with any third-party foundries to guarantee us access to a certain level of foundry capacity, if the primary third-party foundries that we rely upon are not able to meet our required capacity, or if our business relationships with these foundries are adversely affected, we would not be able to obtain the required capacity from these foundries to meet any increasing demand for our products and would have to seek alternative foundries, which may not be available on commercially reasonable terms, or at all, or which may expose us to risks associated with qualifying new foundries, as further discussed below. Our results of operations and business prospects could be adversely affected as a result of the foregoing.

We place wafer orders on the basis of our customers' purchase orders and sales forecasts; however, any of the foundries we use can allocate capacity to other foundry customers and reduce deliveries to us on short notice. It could be that other foundry customers are larger and better financed than we are or have supply agreements or better relationships with the foundries we use and could induce these foundries to reallocate our capacity to them. The loss of any of the foundries we use or any shortfall in available foundry capacity could impair our ability to secure processed wafers, which could significantly delay our ability to ship our products, causing a loss of revenues and damages to our customer relationships.

Although we use several foundries for different semiconductor products, certain of our products are manufactured at only one of these foundries. If any one of the foundries that we use for a specific product is unable to provide us with our required capacity, does not deliver in a timely manner, or the quality or pricing terms are not acceptable to us, we could experience significant delays in receiving the product being manufactured for us by that foundry or incur additional costs to obtain substitutes. Also, if any of the foundries that we use experience financial difficulties or insolvency risks due to the impact of the global economic turmoil or any company-specific reasons or otherwise, if their operations are damaged or if there is any other disruption of their foundry operations, we may not be able to qualify an alternative foundry in a timely manner. If we choose to use a new foundry or process technology for a particular semiconductor product, we believe that it will take us several quarters to qualify the new foundry or process before we can begin shipping such products. If we cannot qualify a new foundry in a timely manner, we may experience a significant interruption in our supply of the affected products, which could reduce our revenues, increase our costs and expenses, and damage our customer relationships.

The recent fluctuations in the prices of certain metals, chemicals and gasoline and the recent volatility of foreign exchange rates may have increased costs for foundries and semiconductor service providers. This increase in costs could limit their ability to continue to make the research and development investments needed to keep up with technological advances. Any increase in costs for foundries and semiconductor service providers we use could lead to an increase in our unit costs or could limit our ability to lower our unit costs. We cannot assure you that we will be able to continue to reduce our costs and maintain our profit margins.

Taiwan Semiconductor Manufacturing Company Limited, or TSMC, and Vanguard International Semiconductor Corporation, or Vanguard, historically manufactured substantially all of our wafers in the early years since our inception. In order to diversify our foundry sources, we have also used Macronix International Co., Ltd., or Macronix, Powerchip Technology Corporation, or PSC, Globalfoundries Singapore Pte., Ltd. (formerly Chartered Semiconductor Manufacturing Ltd.), or Globalfoundries Singapore, United Microelectronics Corporation, or UMC, Powerchip Semiconductor Manufacturing Company, or PSMC, Semiconductor Manufacturing International Corporation, or SMIC, and SK hynix system ic or SKHYSI to manufacture a portion of our products. As a result of outsourcing the manufacturing of our wafers, we face several significant risks, including:

- failure to secure necessary manufacturing capacity, or being able to obtain required capacity only at higher costs;
- risks of our proprietary information leaking to our competitors through the foundries we use;
- limited control over delivery schedules, quality assurance and control, manufacturing yields and production costs;
- the unavailability of, or potential delays in obtaining access to, key process technologies; and

financial risks of certain of our foundry suppliers, including those that are owned by ailing dynamic random access memory, or DRAM, companies.

In addition, in order to manufacture our display drivers used in TFT-LCD panels, we require foundries with high-voltage manufacturing process capacity. Of the limited number of foundries that offer this capability, some are owned by integrated device manufacturers which are also our competitors. As a result, our dependence on high-voltage foundries presents the following additional risks:

potential capacity constraints faced by the limited number of high-voltage foundries and the lack of investment in new and existing high-voltage foundries;

difficulty in attaining consistently high manufacturing yields from high-voltage foundries;

delay and time required (approximately one year) to qualify and ramp up production at new high-voltage foundries; and

price increases.

As a result of these risks, we may be required to use foundries with which we have no established relationships, which could expose us to potentially unfavorable pricing, unsatisfactory quality or insufficient capacity allocation. Moreover, the scarcity and importance of high-voltage foundry capacity may necessitate us making investments in foundries in order to secure capacity, which would require us to substantially increase our capital outlays and possibly raise additional capital, which may not be available to us on satisfactory terms, if at all.

Shortages of processed tape used in the manufacturing of our products, increased costs of manufacturing such tape, or the loss of one of our suppliers of such tape may increase our costs or limit our revenues and impair our ability to ship our products on time.

There are a limited number of companies which supply the processed tape used to manufacture our semiconductor products, and we do not have binding long-term supply arrangements with processed tape suppliers that would guarantee us access to processed tape. Therefore, from time to time, shortages of such processed tape may occur. If any of the processed tape suppliers we rely upon experience difficulties in delivering processed tape or are unable to meet the prices, quality or services that we require, or if our business relationships with these suppliers weaken or deteriorate, we may not be able to locate alternative sources in a timely manner. Therefore, if shortages of processed tape were to occur, or if the costs of manufacturing such tape increases, we would incur additional costs or be unable to ship our products to our customers in a timely fashion, all of which could harm our business and our customer relationships and negatively impact our earnings. As a result of these risks, we may also be required to use processed tape suppliers with which we have no established relationships, which could expose us to potentially unfavorable pricing, unsatisfactory quality or insufficient capacity allocation. Moreover, the scarcity and importance of processed tape may necessitate us making investments in processed tape suppliers in order to secure adequate supply, which would require us to substantially increase our capital outlays and possibly raise additional capital, which may not be available to us on satisfactory terms, if at all.

The loss of, or our inability to secure sufficient capacity from, any of our third-party assembly and testing houses at reasonable and competitive prices could disrupt our shipments, harm our customer relationships and reduce our sales.

Access to third-party assembly and testing capacity is critical to our business because we do not have in-house assembly and testing capabilities for commercial production and instead rely on third-party service providers. Access to these services is especially important to our business because display drivers require specialized assembly and testing services. A limited number of third-party assembly and testing houses assemble and test substantially all of our current products. There has been an increased level of industry consolidation among our suppliers in recent years. Therefore, suppliers could be in a better position to bargain for higher prices for their services and products, which could result in an increase in our average unit cost. See also “—Our suppliers may have increasing bargaining power as a result of industry consolidation, which could result in an increase in our average unit cost and a decrease in our profit margin.” We do not have binding long-term supply arrangements with assembly and testing service providers that guarantee us access to our required capacity. If the primary assembly and testing service providers that we rely upon are not able to meet our requirements in price, quality, and service, or if our business relationships with these service providers were adversely affected, we would not be able to obtain the required capacity from such providers and would have to seek alternative providers, which may not be available on commercially reasonable terms, or at all. As a result, we do not directly control our product delivery schedules, assembly and testing costs, and quality assurance and control. If any of these third-party assembly and testing houses experiences capacity constraints, financial difficulties, suffers any damage to its facilities or if there is any disruption of its assembly and testing capacity, we may not be able to obtain alternative assembly and testing services in a timely manner. Because of the amount of time we usually take to qualify assembly and testing houses, we may experience significant delays in product shipments if we are required to find alternative sources. Any problems that we may encounter with the delivery, quality or cost of

our products could damage our reputation and result in a loss of customers and orders.

As a result of these risks, we may be required to use assembly and testing service providers with which we have no established relationships, which could expose us to potentially unfavorable pricing, unsatisfactory quality or insufficient capacity allocation. Moreover, the scarcity and importance of assembly and testing services may necessitate us making investments in assembly and testing service providers in order to secure capacity, which would require us to substantially increase our capital outlays and possibly raise additional capital, which may not be available to us on satisfactory terms, if at all.

Shortages of key components for our customers' products could decrease demand for our products.

Shortages of components and other materials that are critical to the design and manufacture of our customers' products may limit our sales. These components and other materials include, but are not limited to, color filters, backlight modules, polarizers, printed circuit boards and glass substrates. In the past, companies that use our products in their production have experienced delays in the availability of key components from other suppliers. In addition, component manufacturers may not be able to increase or maintain their component supply because of labor shortage in China or otherwise, and may shut down certain of their capacity from time to time because of weak demand, which may increase the instability of timely delivery and the risk of shortage of components. Such shortages of components and other materials critical to the design and manufacture of our customers' products may cause a slowdown in demand for our products, resulting in a decrease in our sales and adversely affecting our results of operations. In addition, as a result of uncertain demand conditions, our customers may hesitate to build inventory on hand and tend to release orders on short notice.

We rely on the services of our key personnel, and if we are unable to retain our current key personnel and hire additional personnel, our ability to design, develop and successfully market our products could be harmed.

We rely upon the continued service and performance of a relatively small number of key personnel, including certain engineering, technical and senior management personnel. In particular, our engineers and other key technical personnel are critical to our future technological and product innovations. Competition for highly skilled engineers and other key technical personnel is intense in the semiconductor industry in general and in Taiwan's flat panel semiconductor industry in particular. Moreover, our future success depends on the expansion of our senior management team and the retention of key employees such as Jordan Wu, our president and chief executive officer, and Dr. Biing-Seng Wu, our chairman. We rely on these individuals to manage our company, develop and execute our business strategies, and manage our relationships with key suppliers and customers. Any of our key employees could leave our company with little or no prior notice. They could also leave our company to work with a competitor. In addition, we do not have "key person" life insurance policies covering any of our employees. The loss of any key personnel or our inability to attract or retain qualified personnel, whether engineers or others, could delay the development and introduction of new products and would have an adverse effect on our ability to sell our products as well as on our overall business and growth prospects. We may also incur increased operating expenses and be required to divert the attention of other senior executives away from their original duties to recruiting replacements for key personnel.

If we fail to forecast customer demand accurately, we may have excess or insufficient inventory, which may increase our operating costs and harm our business.

The lead time required by the semiconductor manufacturing service providers that we use to manufacture our products is typically longer than the lead time that our customers provide for delivery of our products to them. Therefore, to ensure availability of our products for our customers, we will typically ask our semiconductor manufacturing service providers to start manufacturing our products based on forecasts provided by our customers in advance of receiving their purchase orders. However, these forecasts are not binding purchase commitments, and we do not recognize revenues from these products until they are delivered to customers. Moreover, for the convenience of our customers, we may agree to ship our inventory to warehouses located near our customers, so that our products can be delivered to these customers more quickly. We may from time to time agree that control over a product do not to our customer until the customer requests delivery of our products from such warehouses. In such cases, we will not recognize revenues from these products until the control over a product to our customers based on the shipping terms, which is generally when they are delivered to our customers from these warehouses. As a result, we incur inventory and manufacturing costs in advance of anticipated revenues.

The anticipated demand for our products may not materialize; therefore, manufacturing based on customer forecasts exposes us to risks of high inventory carrying costs, increased product obsolescence, and erosion of the products' market value. For example, some of our customers might overstate their forecasts because of concerns that their semiconductor suppliers cannot deliver on their rush orders. If we overestimate demand for our products or if purchase

orders are cancelled or shipments delayed, we may incur excess inventory that we cannot sell, or may have to sell at low profit margins or even at a loss, which would harm our financial results. Conversely, if we underestimate demand, we may not have sufficient inventory and may lose market share and damage customer relationships, which also could harm our business. Obtaining additional supply in the face of product shortages may be costly or impossible, particularly in the short term, which could prevent us from fulfilling orders. These inventory risks are exacerbated by the high level of customization of our products, which limits our ability to sell excess inventory to other customers, which could eventually lead to write-down of these excess inventory.

If we do not achieve additional design wins in the future, our ability to grow will be limited.

Our future success depends on our current and prospective customers designing our products into their products. To achieve design wins, we must design and deliver cost-effective, innovative, reliable and integrated products that are customized for our customers' needs. Once a supplier's products have been designed into a system, the panel manufacturer may be reluctant to change its source of components due to the significant costs and time associated with qualifying a new supplier. Accordingly, our failure to obtain additional design wins with panel manufacturers and to successfully design, develop and introduce new products and product enhancements could harm our business, financial condition and results of operations.

A design win is not a binding commitment by a customer to purchase our products and may not result in large volume orders of our products. Rather, it is a decision by a customer to use our products in the design process of that customer's products. Customers can choose at any time to stop using our products in their designs or product development efforts. Moreover, even if our products were chosen to be incorporated into a customer's products, our ability to generate significant revenues from that customer would depend on the commercial success of those products. Thus, a design win may not necessarily generate significant revenues if our customers' products are not commercially successful.

Our products are complex and may require modifications to resolve undetected errors or failures in order for them to function with panels at the desired specifications, which could lead to higher costs, a loss of customers or a delay in market acceptance of our products.

Our products are highly complex and may contain undetected errors or failures when first introduced or as new versions are released. If our products are delivered with errors or defects, we could incur additional development, repair or replacement costs, and our credibility and the market acceptance of our products could be harmed. Defects could also lead to liability for defective products and lawsuits against us or our customers. We have agreed to indemnify some of our customers under some circumstances against liability from defects in our products. A successful product liability claim could require us to make significant damage payments.

Our display drivers comprise part of a complex panel manufactured by our customers. Our display drivers must operate according to specifications with the other components used by our customers in the panel manufacturing process. For example, during the panel manufacturing process, our display drivers are attached to the panel glass and must interoperate with the glass efficiently. If other components fail to operate efficiently with our display drivers, we may be required to incur additional development time and costs to improve the interoperability of our display drivers with the other components.

Our highly integrated products are difficult to manufacture without defects. The existence of defects in our products could increase our costs, decrease our sales and damage our customer relationships and our reputation.

The manufacture of our products is a complex process, and it is often difficult for semiconductor foundries to manufacture our products completely without defects. Minor deviations in the manufacturing process can cause substantial decreases in yield and quality. In particular, some of our products are highly integrated and incorporate mixed analog and digital signal processing and embedded memory technology, and this complexity makes it even more difficult to manufacture without defects.

The ability to manufacture products of acceptable quality depends on both product design and manufacturing process technology. Defective products can be caused by design, defective materials or component parts, or manufacturing difficulties. Thus, quality problems can be identified only by analyzing and testing our display drivers in a system after they have been manufactured. The difficulty in identifying defects is compounded by the uniqueness of the process technology used in each of the semiconductor foundries with which we have subcontracted to manufacture our products. Difficulties in achieving defect-free products due to the increasing complexity of display drivers and the panel system surrounding them may result in an increase in our costs and expenses, and delays in the availability of our products. In addition, if the foundries that we use fail to deliver products of satisfactory quality in the volume and at the price required, we will be unable to meet our customers' demand for our products or to sell those products at an acceptable profit margin, which could adversely affect our sales and margins, and damage our customer relationships and our reputation.

We do not have long-term purchase commitments from our customers, which may result in significant uncertainty and volatility with respect to our revenues and could materially and adversely affect our results of operations and financial condition.

We do not have long-term purchase commitments from our customers; our sales are made on the basis of individual purchase orders. Our customers may also cancel or defer purchase orders. Our customers' purchase orders may vary significantly from period to period, and it is difficult to forecast future order quantities. In the event of a cancellation, postponement, or reduction of an order, we would likely not be able to reduce operating expenses sufficiently so as to minimize the impact of the lost revenues. Alternatively, we may have excess inventory that we cannot sell, which would harm our operating results. In addition, changes in our customers' business may adversely affect the quantity of purchase orders that we receive. In the past, some of our customers have also significantly lowered their capacity utilization rates, reduced or canceled their orders of our products, and requested higher-than-usual price concessions from us. We expect WLO shipment volume in 2019 will decline significantly year-over-year starting from the third quarter of 2019 due to a product replacement decision informed by an anchor customer a few days following the Company's last earnings call on February 19, 2019. This update will negatively affect our 2019 profitability because gross margin will be impacted by lower WLO capacity utilization rate, thereby leading to higher equipment depreciation and factory overhead on a per unit basis. For reference, WLO sales represented 4.4% of our 2018 total sales and will account for less than 5% of our total sales in the first quarter of 2019. Despite this setback, we continue to work on new development projects with the anchor customer, in addition to our multiple ongoing projects with other customers. We cannot assure you that any of our customers will continue to place orders with us in the future at the same level as in prior periods. We also cannot assure you that the volume of our customers' orders will be consistent with our expectations when we plan our expenditures. Our results of operations and financial condition may thus be materially and adversely affected.

Our corporate actions are substantially controlled by officers, directors and affiliated entities who may take actions that are not in, or may conflict with, our or our public shareholders' interests.

As of February 28, 2019, Jordan Wu and Dr. Biing-Seng Wu (who are brothers) beneficially owned approximately 2.1% and 20.9% of our ordinary shares, respectively. For information relating to the beneficial ownership of our ordinary shares, see "Item 7.A. Major Shareholders and Related Party Transactions—Major Shareholders." These shareholders, acting together, could exert substantial influence over matters requiring approval by our shareholders, including electing directors and approving mergers or other business combination transactions. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. Actions may be taken even if they were opposed by our other shareholders.

Assertions against us by third parties for infringement of their intellectual property rights could result in significant costs and cause our operating results to suffer.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights and positions, which results in protracted and expensive litigation for many companies. We have received, and expect to continue to receive, notices of infringement of third-party intellectual property rights. We may receive claims from various industry participants alleging infringement of their patents, trade secrets or other intellectual property rights in the future. Any lawsuit resulting from such allegations could subject us to significant liability for damages and invalidate our proprietary rights. These lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling products or using technology or manufacturing processes that contain the allegedly infringing intellectual property;
- pay damages to the party claiming infringement;
- attempt to obtain a license for the relevant intellectual property, which may not be available on commercially reasonable terms or at all; and
- attempt to redesign those products that contain the allegedly infringing intellectual property with non-infringing intellectual property, which may not be possible.

The outcome of a dispute may result in our need to develop non-infringing technology or enter into royalty or licensing agreements. We have agreed to indemnify certain customers for certain claims of infringement arising out of the sale of our products. Any intellectual property litigation could have a material adverse effect on our business, operating results or financial condition.

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

We believe that the protection of our intellectual property rights is, and will continue to be, important to the success of our business. We rely primarily on a combination of patent, trademark, trade secret and copyright laws and contractual restrictions to protect our intellectual property. These afford only limited protection. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to obtain, copy or use information that we regard as proprietary, such as product design and manufacturing process expertise. As of February 28, 2019, we and our subsidiaries had 130 U.S. patent applications pending, 108 Taiwan patent applications pending and 270 patent applications pending in other jurisdictions, including the PRC, Japan, Korea and Europe. Our pending patent applications and any future applications may not result in issued patents or may not be sufficiently broad to protect our proprietary technologies. Moreover, policing any unauthorized use of our products is difficult and costly, and we cannot be certain that the measures which we have implemented will prevent misappropriation or unauthorized use of our technologies, particularly in foreign jurisdictions where the laws may not protect our proprietary rights as fully as the laws of the United States. Others may independently develop substantially equivalent intellectual property or otherwise gain access to our trade secrets or intellectual property. Our failure to protect our intellectual property effectively could harm our business.

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

As part of our growth and product diversification strategy, we will continue to evaluate opportunities to acquire or invest in other businesses, intellectual property or technologies that would complement our current offerings, expand the breadth of markets we can address or enhance our technical capabilities. For example, in February 2018, our subsidiary, Himax IGI Precision Ltd., or Himax IGI, acquired certain advanced nano 3D masters manufacturing assets and related intellectual property and business from a US-based technology company. The advanced nano 3D manufacturing masters are primarily used in imprinting or stamping replication process to fabricate devices such as diffractive optical element (DOE), diffuser, collimator lens and micro lens array. The acquisition brings Himax the very upstream master tooling capability to supplement the company's world leading WLO technology, which is critical in its efforts to offer 3D sensing total solutions. In addition, Himax fully acquired Emza Visual Sense Ltd. ("Emza") in June 2018. Emza is an Israel company dedicated to the development of extremely efficient visual sensors that include proprietary machine-vision algorithms and specific architectures that enable always-on visual sensing capabilities, achieving orders of magnitude improvement in power consumption, price and form factor. With the full acquisition of Emza, Himax will be uniquely positioned for IoT solutions, which require tight integration of the critical skills and knowledge of Himax's CMOS technology and ASIC design with Emza's computer vision algorithms. Himax will be able to enter new markets beyond consumer electronics, such as connected homes, smart buildings and security, and extend our reach into new IoT markets with interest in other Himax products such as our 3D sensing solutions. We cannot assure you that we will be able to realize the benefits we anticipate from acquiring nano 3D master business or Emza. Acquisitions or investments that we have completed or potentially may make in the future entail a number of risks that could materially and adversely affect our business, operating and financial results, including:

- problems integrating the acquired operations, technologies or products into our existing business and products;
- - diversion of management's time and attention from our core business;
- adverse effects of losses of the acquired target upon our financial condition and results of operations;
- - adverse effects on existing business relationships with customers;
 - the need for financial resources above our planned investment levels;
- dilution of share ownership of current shareholders under share swap transactions;
- - failures in realizing anticipated synergies;
- difficulties in retaining business relationships with suppliers and customers of the acquired company;
- - risks associated with entering markets in which we lack experience;

potential loss of key employees of the acquired company;

potential write-offs of acquired assets;

potential expenses related to the depreciation of tangible assets and amortization of intangible assets; and

potential impairment charges related to the goodwill acquired.

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

New regulations related to conflict minerals could increase our costs and limit the supply of certain metals used in our products.

As required under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as amended, or the Dodd-Frank Act, in August 2012 the SEC promulgated final rules regarding annual disclosures by public companies of their use of certain minerals and metals, known as “conflict minerals,” which are defined as cassiterite, columbite-tantalite, gold, wolframite or their derivatives and other minerals determined by the U.S. government to be financing conflict in the Democratic Republic of Congo and adjoining countries. These new rules will require us to ascertain and disclose the origin of some of the raw materials that we use. Initial disclosures were required no later than May 31, 2014, with subsequent disclosures required no later than May 31 of each following year. There will be costs associated with complying with these disclosure requirements, including costs for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules and our compliance procedures could adversely affect the sourcing, supply, and pricing of materials used in our products. As there may be only a limited number of suppliers offering “conflict free” minerals, we cannot be sure that we will be able to obtain necessary “conflict free” minerals from such suppliers in sufficient quantities or at competitive prices.

System security risks, data protection breaches or unexpected system outage or failures could impact our business.

Our computer systems and networks are vulnerable to damage or interruption from earthquakes, fires, power loss, telecommunications failures, cyber-attacks, computer viruses or other attempts to harm our computer system and networks. The reliability and security of our information technology infrastructure and software, and our ability to expand and continually update technologies in response to our changing needs and cybersecurity threats, is critical to our business. In recent years, there are increasing and evolving risks to cybersecurity and privacy, including criminal hackers, state-sponsored intrusions, industrial espionage, employee malfeasance and human or technological error. Cyber attacks could result in a loss of our intellectual property, the release of commercially sensitive information, the misappropriation of confidential information of our employees, customers or suppliers and the interruption of our business. Failures to protect the privacy of employees, customers or suppliers' confidential data against breaches of network security could result in the loss of existing or potential customers, other financial loss, and damage to our reputation. In addition, the cost and operational consequences of responding to breaches and implementing remediation measures could be significant. While we seek to annually review and assess our cybersecurity policies and procedures to ensure their adequacy and effectiveness, we cannot guarantee that we will not be susceptible to new and emerging risks and attacks in the evolving landscape of cybersecurity threats. As of February 28, 2019, we had not been aware of any material cyber attacks or incidents that had or would expected to have a material adverse effect on our business and operations, nor had we been involved in any legal proceedings or regulatory investigations related thereof.

Some of our data centers are located in areas with a risk of major earthquakes. Our data centers are also subject to break-ins and sabotage. Our disaster recovery planning cannot account for all eventualities. Consequently, the occurrence of a natural disaster or other unanticipated problems at our data centers could result in loss of production capabilities and lengthy interruptions in our service, which could harm our relationship with our customers and suppliers.

Some of our system services are based on public cloud. The cloud services are also subject to interruption due to cloud service provider unexpected downtimes, cyberattacks or any type of failure, telecommunication failure or other unidentified problems while connecting to cloud. Consequently, cloud services interruption could result in loss of production capabilities and lengthy interruptions in our service. Cloud cybersecurity breach could result in adverse effect on our customers, our employees, our suppliers, our reputation, and our business.

Risks Relating to Our Industry

The average selling prices of our products could decrease rapidly, which may negatively impact our revenues and operating results.

The price of each semiconductor product typically declines over its product life cycle, reflecting product obsolescence, decreased demand as customers shift to more advanced products, decreased unit costs due to advanced designs or improved manufacturing yields, and increased competition as more semiconductor suppliers are able to offer similar products. We may experience substantial period-to-period fluctuations in future operating results if our average selling prices decline. We may reduce the average unit price of our products in response to competitive pricing pressures, new product introductions by us or our competitors, and other factors. The TFT-LCD panel market is highly cost sensitive, which may result in declining average selling prices of the components comprising TFT-LCD panels. We expect that these factors will create downward pressure on our average selling prices and operating results. To maintain acceptable operating results, we will need to develop and introduce new products and product enhancements on a timely basis and continue to reduce our costs. If we are unable to offset any reductions in our average selling prices by increasing our sales volumes and corresponding production cost reductions, or if we fail to develop and introduce new products and enhancements on a timely basis, our revenues and operating results will suffer.

The semiconductor industry, in particular semiconductors used in flat panel displays, is highly competitive, and we cannot assure that we will be able to compete successfully against our competitors.

The semiconductor industry, in particular semiconductors used in flat panel displays, is highly competitive. Increased competition may result in pricing pressure, reduced profitability and loss of market share, any of which could seriously harm our revenues and results of operations. Competition principally occurs at the design stage, where a customer evaluates alternative design solutions that require display drivers. We continually face intense competition from fabless display driver companies as well as from integrated device manufacturers. Some of our competitors have substantially greater financial and other resources than we do with which to pursue engineering, manufacturing, marketing and distribution of their products. As a result, they may be able to respond more quickly to changing customer demands or devote greater resources to the development, promotion and sales of their products than we can. Some of our competitors have manufacturing capabilities as well as in-house design operations that may give them

significant advantages such as more research and development resources and the ability to attract highly skilled engineers. Furthermore, some of our competitors are affiliated with, or are subsidiaries of, our panel manufacturer customers. These relationships may also give our competitors significant advantages such as early access to product roadmaps and design-in priorities, which would allow them to respond more quickly to changing customer demands and achieve more design-wins than we can. In addition, even competitors with no such strategic associations with panel manufacturers may resort to price competition to maintain their market share, which may impose pricing pressures on us, reduce our profitability or decrease our market share. We cannot assure you that we will be able to increase or maintain our revenues and market share or compete successfully against our current or future competitors in the semiconductor industry.

We may be adversely affected by the cyclical nature of the semiconductor industry.

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. The semiconductor industry has, from time to time, experienced significant downturns, often connected with, or in anticipation of, maturing product cycles of both semiconductor companies' and their customers' products and declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. Any future downturn may reduce our revenues and result in our having excess inventory. Furthermore, any upturn in the semiconductor industry could result in increased competition for access to limited third-party foundry, assembly and testing capacity. Failure to gain access to foundry, assembly and testing capacity could impair our ability to secure the supply of products that we need, which could significantly delay our ability to ship our products, cause a loss of revenues and damage our customer relationships.

We have a lengthy and expensive design-to-mass production cycle.

The cycle time from the design stage to mass production for display drivers is long and requires the investment of significant resources with each potential customer without any guarantee of sales. Our design-to-mass production cycle typically begins with a three to twelve-month semiconductor development stage and test period followed by a three to twelve-month end product development period by customers. This fairly lengthy cycle creates the risk that we may incur significant expenses but will be unable to realize meaningful sales. Moreover, prior to mass production, customers may decide to cancel the projects or change production specifications, resulting in sudden changes in our product specifications, further causing increased production time and costs. Failure to meet such specifications may delay the launch of our products.

Our business could be materially and adversely affected if we fail to anticipate changes in evolving industry standards, fail to achieve and maintain technological leadership in our industry or fail to develop and introduce new and enhanced products.

Our products are generally based on industry standards, which are continually evolving. The emergence of new industry standards could render our products or those of our customers unmarketable or obsolete and may require us to incur substantial unanticipated costs to comply with any such new standards. Likewise, the components used in the TFT-LCD panel industry are constantly changing with increased demand for improved features. Moreover, our past sales and profitability have resulted, to a significant extent, from our ability to anticipate changes in technology and industry standards, and to develop and introduce new and enhanced products in a timely fashion. If we do not anticipate these changes in technologies and rapidly develop and introduce new and innovative technologies, we may not be able to provide advanced display semiconductors on competitive terms, and some of our customers may buy products from our competitors instead of from us. Our continued ability to adapt to such changes and anticipate future standards will be a significant factor in maintaining or improving our competitive position and our growth prospects. We cannot assure you that we will be able to anticipate evolving industry standards, successfully complete the design of our new products, have these products manufactured at acceptable manufacturing yields, or obtain significant purchase orders for these products to meet new standards or technologies. If we fail to anticipate changes in technology and to introduce new products that achieve market acceptance, our business and results of operations could be materially and adversely affected.

Risks Relating to Our Holding Company Structure

Our ability to receive dividends and other payments or funds from our subsidiaries may be restricted by commercial, statutory and legal restrictions, and thereby materially and adversely affect our ability to grow, fund investments, make acquisitions, pay dividends and otherwise fund and conduct our business.

We are a holding company and our assets consist mainly of our 100% ownership interest in Himax Taiwan. We receive cash from Himax Taiwan through intercompany borrowings. Himax Taiwan has not paid us cash dividends in the past. Nonetheless, dividends and interest on shareholder loans that we receive from our subsidiaries in Taiwan, if any, will be subject to withholding tax under ROC law. The ability of our subsidiaries to provide us with loans, pay dividends, repay any shareholder loans from us or make other distributions to us is restricted by, among other things, the availability of funds, the terms of various credit arrangements entered into by our subsidiaries, as well as statutory and other legal restrictions. A Taiwan company is generally not permitted to distribute dividends or to make any other distributions to shareholders for any year in which it did not have either earnings or retained earnings (excluding reserves). In addition, before distributing a dividend to shareholders following the end of a fiscal year, the Taiwan company must recover any past losses, pay all outstanding taxes and set aside 10% of its annual profits (less prior years' losses and outstanding taxes) as a legal reserve until the accumulated legal reserve equals its paid-in capital, and may set aside a special reserve. Any limitation on dividend payments by our subsidiaries could materially and adversely affect our ability to grow, finance capital expenditures, make acquisitions, pay dividends, and otherwise fund and conduct our business. In addition, since Himax Taiwan is not a listed company, it will depend on us to meet its equity financing requirements in the future. Any capital contribution by us to Himax Taiwan may require the approval of the relevant ROC authorities. We may not be able to obtain any such approval in the future in a timely manner, or at all. If Himax Taiwan is unable to receive the equity financing it requires, its ability to grow and fund its operations may be materially and adversely affected.

Political, Geographical and Economic Risks

Due to the location of our operations in Taiwan, we and many of our semiconductor manufacturing service providers, suppliers and customers are vulnerable to natural disasters and other events outside of our control, which may seriously disrupt our operations.

Most of our operations, and the operations of many of our semiconductor manufacturing service providers, suppliers and customers are located in Taiwan, which is vulnerable to natural disasters, in particular, earthquakes and typhoons. Our principal foundries and assembly and testing houses upon which we have relied to manufacture substantially all of our display drivers are located in Taiwan. In 2018, 23.2% of our revenues were derived from customers headquartered in Taiwan. As a result of this geographic concentration, disruption of operations at our facilities or the facilities of our semiconductor manufacturing service providers, suppliers and customers for any reason, including work stoppages, power outages, water supply shortages, fire, typhoons, earthquakes, contagious diseases or other natural disasters, could cause delays in production and shipments of our products. Any delays or disruptions could result in our customers seeking to source products from our competitors. Shortages or suspension of power supplies have occasionally occurred and have disrupted our operations. The occurrence of a power outage in the future could seriously hurt our business.

On February 6, 2016, the 6.4 magnitude earthquake hit the Tainan area. Fortunately, the Company's headquarters and the in-house manufacturing facilities for LCOS and WLO products, both located in Tainan, were little affected. Since most of our operations and our customers and suppliers are based mainly in Taiwan, the natural disasters could adversely affect our business, financial condition or results of operations.

The manufacturing processes of TFT-LCD panels require a substantial amount of water and, as a result, the production operations of TFT-LCD panels may be seriously disrupted by water shortages. Our customers may encounter droughts in areas where most of their current or future manufacturing sites are located. If a drought were to occur and our customers or the authorities were unable to source water from alternative sources in sufficient quantities, our customers may be required to shut down temporarily or to substantially reduce the operations of their fabs, which would seriously affect demand for our products. The occurrence of any of these events in the future could adversely affect our business.

Disruptions in Taiwan's political environment could negatively affect our business and the market price of our ADSs.

Our principal executive offices and a substantial amount of our assets are located in Taiwan, and a substantial portion of our revenues is derived from our operations in Taiwan. Accordingly, our business, financial condition and results of

operations and the market price of our ADSs may be affected by changes in ROC governmental policies, taxation, inflation or interest rates, and by social instability and diplomatic and social developments in or affecting Taiwan that are outside of our control.

Taiwan has a unique international political status. Since 1949, Taiwan and the PRC have been separately governed. The government of the PRC claims that it is the sole government in China and that Taiwan is part of China. Although significant economic and cultural relations have been established during recent years between Taiwan and the PRC, the PRC government has refused to renounce the possibility that it may at some point use force to gain control over Taiwan. Furthermore, the PRC government adopted an anti-secession law relating to Taiwan. Relations between the ROC and the PRC governments have been strained in recent years for a variety of reasons, including the PRC government's position on the "One China" policy and tensions concerning arms sales to Taiwan by the United States government. Any tension between the ROC and the PRC, or between the United States and the PRC, could materially and adversely affect the market prices of our ADSs.

Our business is sensitive to global economic conditions. A severe or prolonged downturn in the global or Taiwan economy could materially and adversely affect our business and our financial condition.

The global financial markets experienced significant disruptions in 2008 and the United States, Europe and other economies went into recession. Since then, the recovery has been uneven and the global economy is facing new challenges, such as the escalation of the European sovereign debt crisis since 2011, the slowdown of the Chinese economy since 2011, China stock market crash in 2015, volatility in oil prices and currency, and the US-China trade tension since 2018. It is unclear whether the European sovereign debt crisis will be contained. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies. There have also been concerns over unrest in the Middle East and Africa, which have resulted in volatility in oil and other markets, and over the possibility of a conflict involving Iran. There have also been concerns about the tensions in the relationship between China and Japan and about North Korea's nuclear program. Economic conditions in Taiwan are sensitive to global economic conditions. Any prolonged slowdown in the global or Taiwanese economy may have a negative impact on our business, results of operations and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

A substantial portion of our sales are made to customers in the PRC, which may expose us to additional political, regulatory, and economic risks.

We have been increasingly selling our products to customers in the PRC. In 2017 and 2018, approximately 61.5% and 66.4% of our revenues, respectively, were from customers headquartered in the PRC. We expect to continue to increase our sales to customers in the PRC in the near future. As a result of this regional customer concentration, we expect to be particularly subject to economic and political events and other developments that affect our customers in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including the structure, level of government involvement, level of development, foreign exchange control and allocation of resources. The PRC economy has been transitioning from a planned economy to a more market-oriented economy and is growing rapidly. For the past two decades, the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy and also adjusted its macroeconomic control policies from time to time. These policies have led and may continue to lead to changes in market conditions. Although we believe these reforms have had a positive effect on the business of our customers in the PRC and consequently have benefited us, we cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future customers in the PRC. In addition, the interpretation of PRC laws and regulations involves uncertainties. We cannot assure you that changes in such laws and regulations, or in their interpretation and enforcement, will not have a material adverse effect on the businesses and operations of our customers in the PRC and consequently have a material adverse effect on our own business and operations.

Fluctuations in exchange rates could result in foreign exchange losses and affect our results of operations.

Our functional and reporting currency is U.S. dollars. In 2018, more than 99% of our revenues and cost of revenues were denominated in U.S. dollars. However, we have foreign currency exposure and are primarily affected by fluctuations in exchange rates between the U.S. dollar and the NT dollar. This is because a majority portion of our operating expenses (including for research and development, general and administrative, and sales and marketing expenses) are denominated in NT dollars and we maintain a portion of our cash in NT dollars for local working capital purposes. For example, in December 2018, approximately 60% of our operating expenses were denominated in NT dollars, with a small percentage denominated in Japanese Yen, Korean Won and Chinese Renminbi, and the majority of the remainder in U.S. dollars. However, the subsidiaries located in the R.O.C. adopted Taiwan-IFRS and hereafter changed their functional currency of the tax basis of assets and liabilities from NT dollar to U.S. dollar since year 2016. Accordingly, these subsidiaries are now having a U.S. dollar dominated tax basis and functional currency, which significantly decreases the income tax effect from the fluctuations in exchange rates between the U.S. dollar and the NT dollar.

Changes in ROC tax laws would likely increase our tax expenditures and decrease our net income.

The Statute for Industrial Innovation entitles companies to tax credits for qualifying research and development expenses related to innovation activities but limits the amount of tax credit to only up to 15% of the total qualifying research and development expenditure for the current year, subject to a cap of 30% of the income tax payable for the current year. Moreover, any unused tax credits provided under the Statute for Industrial Innovation may not be carried forward. Based on the amendments to the above, effective from January 1, 2016 to December 31, 2019, if companies choose to extend the tax credits to three years, the tax credit rate will be 10% of the total qualifying research and development expenditure for the current year and subject to a cap of 30% of the income tax payable for each year. However, the amendment is not expected to have a significant impact on our results of operations and financial condition. The ROC Executive Yuan has proposed to extend the Statute for Industrial Innovation to December 31, 2029 and keep the tax credits for qualifying research and development expenses related to innovation activities. The final extension and amendment is still waiting for the ROC Legislative Yuan passing the third reading.

On July 12, 2016, the ROC Legislative Yuan passed the third reading of anti-avoidance to establish Article 43-3 Controlled Foreign Company (“CFC”) rules and Article 43-4 Place of Effective Management (“PEM”) rules of the Income Tax Act (“ITA”). Detailed introduction of the CFC and PEM rules are described as follows:

A profit-seeking enterprise (“PSE”) that directly or indirectly owns affiliated enterprises in low-tax jurisdictions outside the territory of the ROC shall recognize and include its pro rata share of affiliated enterprises’ annual profits as investment income in its income tax return for the year. Subsequent actual dividends and distributions from such affiliated enterprises that were previously recognized as investment income will then not be subject to income (i) taxation; any surplus to previously recognized investment income shall be included as taxable income in the allocated year. Low-tax jurisdictions are defined as countries where the PSE income tax rate is lower than 70% of the income tax rate of the PSE in the ROC (the statutory income tax rate is 20% from January 1, 2018). (Article 43-3 CFC rules); and

A PSE is incorporated based on foreign legislation but its place of effective management (PEM) is maintained within the territory of the ROC, the head office of such PSE will be determined to be within the territory of the (ii) ROC and profit-seeking enterprise income tax shall be levied in accordance with the ITA and relevant tax regulations. The aforementioned PEM refers to a place where substantive key management and commercial decisions of an entity’s business and its operations are made. (Article 43-4 PEM rule).

According to the legislative intent, the CFC and PEM rules, in principle, will not be put into force immediately, but will wait until the China-Taiwan Cross-Strait Tax Agreement is effectuated, the OECD’s Common Reporting and Due Diligence Standard (“CRS”) for the automatic exchange of information of financial accounts is widely implemented internationally, and the relevant bylaws of the CFC and PEM rules have been adequately enacted and properly advocated. The date of implementation will be determined by the Executive Yuan. Additionally, dividend payments made by us are not subject to withholding tax in the Cayman Islands. However, if the relevant bylaws of the PEM rules have been adequately enacted and properly advocated, we may be determined to be within the territory of the ROC and our income tax shall be levied in accordance with the Income Tax Act and relevant tax regulations. Therefore, dividend payments made by us would be subject to withholding tax in the ROC.

We may be affected by the Cayman Economic Substance Law 2018

We are incorporated in Cayman Islands. During 2017, the European Union (“EU”) Economic and Financial Affairs Council (“ECOFIN”) released a list of non-cooperative jurisdictions for tax purposes. The stated aim of this list, and accompanying report, was to promote good governance worldwide in order to maximize efforts to prevent tax fraud and tax evasion. Cayman Islands was not on the list of non-cooperative jurisdictions; however, Cayman Islands did feature in the report as having committed to address concerns relating to economic substance by December 31, 2018.

In accordance with that commitment, Cayman Islands enacted the The International Tax Co-operation (Economic Substance) Law, 2018 (the “ES Law”) in December 2018. Under the ES Law, if a Cayman Islands company is carrying on as a business one or more “relevant activity” (including: banking, distribution and service center, financing and leasing, fund management, headquarters, holding company, insurance, intellectual property or shipping) it will be required to maintain a substantial economic presence in Cayman Islands and to comply with the economic substance requirements set forth in the ES Law. Companies subject to the economic substance requirements will be required to file a declaration with the Cayman Islands Tax Information Authority stating whether or not they are carrying out relevant activities on an annual basis.

At present, the impact of the ES Law is unclear and it is impossible to predict the nature and effect of these requirements on us. We are currently evaluating the potential effect that the ES Law will have on us.

Risks Relating to Our ADSs and Our Trading Market

The market price for our ADSs is volatile.

The market price for our ADSs is volatile and has ranged from a low of \$3.03 to a high of \$10.98 on the NASDAQ Global Select Market in 2018.

The market price is subject to wide fluctuations in response to various factors, including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- changes in the expectation of our non-driver product launch timing, forecast and estimates;
- conditions in the TFT-LCD panel market;
- changes in the economic performance or market valuations of other display semiconductor companies;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
- the addition or departure of key personnel;
- fluctuations in exchange rates between the U.S. dollar and the NT dollar;

litigation related to our intellectual property; and

the release of lock-up or other transfer restrictions on our outstanding ADSs or sales of additional ADSs.

In addition, as a result of the worldwide financial crisis, global stock markets have experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons which may not be directly related to their operating performance, including but not limited to events such as tax-loss selling, mutual fund redemptions, hedge fund redemptions and margin calls. These market fluctuations may also materially and adversely affect the market price of our ADSs.

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

The market price of our ADSs could decline as a result of sales of ADSs or shares or the perception that these sales could occur. As of February 28, 2019, we had 344,290,306 outstanding shares and a significant number of our shares were beneficially owned by certain major shareholders such as our directors and executive officers. See “Item 7.A. Major Shareholders and Related Party Transactions—Major Shareholders.” If we, our executive officers, or directors or our shareholders sell ADSs or shares, the market price for our shares or ADSs could decline. Future sales, or the perception of future sales, of ADSs or shares by us, our executive officers, directors or existing shareholders could cause the market price of our ADSs to decline.

You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials sufficiently in advance to be able to exercise your right to vote.

Except as described in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attaching to the shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depositary or its nominee as their representative to exercise the voting rights attaching to the shares represented by the ADSs. In certain circumstances, however, the depositary shall refrain from voting and any voting instructions received from ADS holders shall lapse. Furthermore, in certain other circumstances, the depositary will give us a discretionary proxy to vote shares evidenced by ADSs. You may not receive voting materials sufficiently in advance to instruct the depositary to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depository will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act, or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

You may be subject to limitations on transfer of your ADSs.

Your ADSs represented by the ADRs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time whenever it deems expedient in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deem it necessary or advisable to do so because of any requirement of law, any government, governmental body, commission, or any securities exchange on which our ADSs or our ordinary shares are listed, or under any provision of the deposit agreement or provisions of, or governing, the deposited securities or any meeting of our shareholders, or for any other reason.

Your ability to protect your rights through the United States federal courts may be limited, because we are incorporated under Cayman Islands law, conduct a substantial portion of our operations in Taiwan, and all of our directors and officers reside outside the United States.

We are incorporated in the Cayman Islands. A substantial portion of our operations is conducted in Taiwan through Himax Taiwan, our wholly owned subsidiary, and substantially all of our assets are located in Taiwan. All of our directors and officers reside outside the United States, and a substantial portion of the assets of those persons is located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of Taiwan may render you unable to enforce a United States judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although a final and conclusive judgment in the federal or state courts of the United States under which a sum of money is payable, other than a sum payable in respect of multiple damages, taxes, or other charges of a like nature or in respect of a fine or other penalty, may be subject to enforcement proceedings as debt in the courts of the Cayman

Islands under the common law doctrine of obligation, provided that (a) such federal or state courts of the United States had proper jurisdiction over the parties subject to such judgment; (b) such federal or state courts of the United States did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than shareholders of a corporation incorporated in a jurisdiction in the United States.

You may face difficulties in protecting your interests as a shareholder because judicial precedents regarding shareholders' rights are more limited under Cayman Islands law than under U.S. law, and because Cayman Islands law generally provides less protection to shareholders than U.S. law.

Our corporate affairs are governed by our memorandum and articles of association, the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, or the Cayman Islands Companies Law, and the common law of the Cayman Islands. The rights of shareholders to take action against directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands have a less developed body of securities law than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands.

For example, the Cayman Islands Companies Law differs from laws applicable to United States corporations and their shareholders in certain material respects which may affect shareholders' rights and shareholders' access to information. These differences under the Cayman Islands Companies Law (as compared to Delaware law) include, though are not limited to, the following:

directors who are interested in a transaction do not have a statutory duty to disclose such interest and there are no provisions under the Cayman Islands Companies Law which render such director liable to the company for any profit realized pursuant to such transaction. Our articles of association, however, contain provisions that require our directors to disclose their interest in a transaction;

dissenting shareholders do not have comparable appraisal rights if a scheme of arrangement is approved by the Grand Court of the Cayman Islands;

shareholders may not be able to bring class action or derivative action suits before a Cayman Islands court except in certain exceptional circumstances; and

unless otherwise provided under the memorandum and articles of association of the company, shareholders do not have the right to bring business before a meeting or call a meeting.

Moreover, certain of these differences in corporate law, including, for example, the fact that shareholders do not have the right to call a meeting or bring business to a meeting, may have anti-takeover effects, which could discourage, delay, or prevent the merger or acquisition of our company by means of a tender offer, a proxy contest or otherwise, which a shareholder may have considered in its best interest, and prevent the removal of incumbent officers and directors.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would have as public shareholders of a U.S. company.

Investor confidence and the market price of our ADSs may be adversely impacted if we or our independent registered public accountants conclude that our internal controls over financial reporting are not effective.

The Securities and Exchange Commission, or the SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include in their Annual Report on Form 10-K or Form 20-F, as the case may be, a report of management on the company's internal controls over financial reporting that contains an assessment by management of the effectiveness of the company's internal controls over financial reporting. In addition, the company's independent registered public accounting firm must report on the company's internal control over financial reporting. Our management may conclude that our internal controls over financial reporting are not effective. Moreover, even if our management does conclude that our internal controls over financial reporting are effective, if our independent registered public accounting firm is not satisfied with our internal controls, the level at which our controls are documented, designed, operated or reviewed, or if our independent registered public accounting firm interprets the requirements, rules or regulations differently from us, then it may conclude that our internal controls over financial reporting are not effective. Furthermore, during the course of the evaluation, documentation and attestation, we may identify deficiencies that we may not be able to remedy in a timely manner. If we fail to achieve and maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal controls, on an ongoing basis, over financial reporting in accordance with the Sarbanes-Oxley Act. Furthermore, effective internal controls over financial reporting are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our ADSs. In addition, we have incurred considerable costs and used significant management time and other resources in our effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

ITEM 4. INFORMATION ON THE COMPANY

4.A. History and Development of the Company

Himax Taiwan, our predecessor, was incorporated on June 12, 2001 as a limited liability company under the laws of the ROC. On April 26, 2005, we established Himax Technologies Limited, an exempted company with limited liability under the Cayman Islands Companies Law, as a holding company to hold the shares of Himax Taiwan in connection with our reorganization and share exchange. On October 14, 2005, Himax Taiwan became our wholly owned subsidiary through a share exchange consummated pursuant to the ROC Business Mergers and Acquisitions Law through which we acquired all of the issued and outstanding shares of Himax Taiwan, and we issued ordinary shares to the shareholders of Himax Taiwan. Shareholders of Himax Taiwan received one of our ordinary shares in exchange for one Himax Taiwan common share. The share exchange was unanimously approved by shareholders of Himax Taiwan on June 10, 2005 with no dissenting shareholders and by the ROC Investment Commission on August 30, 2005 for our inbound investment in Taiwan, and on September 7, 2005 for our outbound investment outside of Taiwan. We effected this reorganization and share exchange to comply with ROC laws, which prohibit a Taiwan incorporated company not otherwise publicly listed in Taiwan from listing its shares on an overseas stock exchange. Our reorganization enables us to maintain our operations through our Taiwan subsidiary, Himax Taiwan, while allowing us to list our shares overseas through our holding company structure.

On September 26, 2005, we changed our name to “Himax Technologies, Inc.,” and on October 17, 2005, Himax Taiwan changed its name to “Himax Technologies Limited” upon the approval of shareholders of both companies and amendments to the respective constitutive documents. We effected the name exchange in order to maintain continuity of operations and marketing under the trade name “Himax Technologies, Inc.,” which had been previously used by Himax Taiwan.

Our ADSs have been listed on the NASDAQ Global Select Market since March 31, 2006. Our ordinary shares are not listed or publicly traded on any trading markets.

In February 2007, we completed the acquisition of Wisepal, currently known as Himax Semiconductor, Inc., a fabless semiconductor company focusing on the development of LTPS TFT-LCD drivers for small and medium-sized applications. This transaction strengthened our competitive position in the small and medium-sized product areas and further diversified our technology and product offerings. From time to time, we have also made minority investments in various companies for strategic purposes in the ordinary course of business.

In March 2007, we established Himax Imaging, Inc., or Himax Imaging, which develops and markets CMOS image sensors with an initial focus on camera applications used in cell phones and notebook computers.

In July 2012, our subsidiary, Himax Display, completed the acquisition of Spatial Photonics, currently known as Himax Display (USA) Inc., a Delaware corporation engaged in the business of manufacturing and production of MEMS products.

Our principal executive offices are located at No. 26, Zih Lian Road, Sinshih District, Tainan City 74148, Taiwan, Republic of China. Our telephone number at this address is +886-6-505-0880. Our registered office in the Cayman Islands is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Our telephone number at this address is +1-345-945-3901. In addition, we have offices in Hsinchu and Taipei, Taiwan; Foshan, Fuqing, Ningbo, Beijing, Shanghai, Shenzhen, Suzhou, Wuhan, Hefei, Qingdao, Chongqing, Xi'an and Xiamen, China; Tokyo, Japan; Asan-si and Bundang-gu, South Korea; Givatayim, Israel; and Irvine and Campbell, California and Minneapolis, Minnesota, USA.

Investor inquiries should be directed to our Investor Relations department, at +886-2-2370-3999 ext. 22202 or by email to ophelia_lin@himax.com.tw and at +1-949-585-9838 ext.223 or by email to sky_wang@himax.com.tw. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC's Internet site is <http://www.sec.gov>. Our website is www.himax.com.tw. The information contained on our website is not part of this annual report. Our agent for service of process in the United States is Puglisi & Associates located at 850 Library Avenue, Suite 204, Newark, Delaware 19711.

4.B. Business Overview

We are a fabless semiconductor solution provider dedicated to display imaging processing technologies. We are a worldwide market leader in display driver ICs and timing controllers used in TVs, laptops, monitors, mobile phones, tablets, digital cameras, car navigation, virtual reality (VR) devices and many other consumer electronics devices. Additionally, we design and provide controllers for touch sensor displays, in-cell Touch and Display Driver Integration (TDDI) single-chip solutions, LED driver ICs, power management ICs, scaler products for monitors and projectors, tailor-made video processing IC solutions, silicon IPs and LCOS micro-displays for augmented reality (AR) devices and head-up displays (HUD) for automotive. We also offer digital camera solutions, including CMOS image sensors and wafer level optics for AR devices, 3D sensing and machine vision, which are used in a wide variety of applications such as mobile phone, tablet, laptop, TV, PC camera, automobile, security, medical devices, home appliance and Internet of Things. For display drivers and display-related products, our customers are panel manufacturers, agents or distributors, module manufacturers and assembly houses. We also work with camera module manufacturers, optical engine manufacturers, and television system manufacturers for various non-driver products. We believe that our recognized leading design and engineering expertise, combined with our focus on customer service and close relationships with semiconductor manufacturing service providers, has contributed to our success.

Industry Background

We mainly operate in the flat panel display semiconductor industry. As the majority of our revenues derive from products that are critical components of flat panel displays, such as display drivers, timing controllers, scalars, power ICs and other semiconductor products, our industry is closely linked to the trends and developments of the flat panel display industry.

Flat Panel Display Semiconductors

Flat panel displays require different semiconductors depending upon the display technologies and the applications. Some of the most important ones include the following:

Display Driver. The display driver receives image data from the timing controller and delivers precise analog voltages or currents to create images on the display. The two main types of display drivers for a TFT-LCD panel are gate drivers and source drivers. Gate drivers turn on the transistor within each pixel cell on the horizontal line on the panel for data input at each row. Source drivers receive image data from the timing controller and generate voltage that is applied to the liquid crystal within each pixel cell on the vertical line on the panel for data input at each column. The combination determines the colors generated by each pixel. Typically, multiple gate drivers and source drivers are installed separately on the panel. However, for certain small and medium-sized applications, gate drivers

and source drivers are integrated into a single chip due to space and cost considerations. Large-sized panels typically have higher resolution and require more display drivers than small and medium-sized panels.

Timing Controller. The timing controller receives image data and converts the format for the source drivers' input. The timing controller also generates controlling signals for gate and source drivers. Typically, the timing controller is a discrete semiconductor in large-sized TFT-LCD panels. For certain small and medium-sized applications, however, the timing controller may be integrated with display drivers.

Scaler. For certain displays, a scaler is installed to magnify or shrink image data in order for the image to fill the panel.

Operational Amplifier. An operational amplifier supplies the reference voltage to source drivers in order to make their output voltage uniform.

Television Chipset. Television flat panel displays require chipsets that typically contain all or some of the following components: an audio processor, analog interfaces, digital interfaces, a video processor, a channel receiver and a digital television decoder. See “—Products—TFT-LCD Television and Monitor Semiconductor Solutions—TFT-LCD Monitor Chipsets” for a description of these components.

Power IC. Power ICs include certain drivers, amplifiers, DC to DC converters and other semiconductors designed to enhance power management, such as voltage regulation, voltage boosting and battery management.

Touch controller IC. For touch screen applications, touch controller ICs enable touch interfaces, such as capacitive touch panels, to identify, qualify and track user's contacts with precision and sensibility.

Others. Flat panel displays also require multiple general purpose semiconductors such as memory, power converters and inverters.

Characteristics of the Display Driver Market

Although we operate in several distinct segments of the flat panel display semiconductor industry, our principal products are display drivers. Display drivers are critical components of flat panel displays. The display driver market has specific characteristics, including those discussed below.

Concentration of Panel Manufacturers

The global TFT-LCD panel industry consists of a small number of manufacturers, substantially all of which are based in Asia. In recent years, TFT-LCD panel manufacturers, in particular Taiwan-, Korea- and China-based manufacturers, have invested or are planning to invest heavily to establish, construct and ramp up additional fab capacity. The capital intensive nature of the industry often results in TFT-LCD panel manufacturers operating at a high level of capacity utilization in order to reduce unit costs. This tends to create a temporary oversupply of panels, which reduces the average selling price of panels and puts pricing pressure on component companies including display driver companies. Moreover, the concentration of panel manufacturers permits major panel manufacturers to exert pricing pressure on display driver companies such as us. The small number of panel manufacturers exacerbates this situation as display driver companies, in addition to seeking to expand their customer base, must also focus on winning a larger percentage of such customers' display driver requirements.

Customization Requirements

Each panel display has a unique pixel design to meet its particular requirements. To optimize the panel's performance, display drivers have to be customized for each panel design. The most common customization requirement is for the display driver company to optimize the gamma curve of each display driver for each panel design. Display driver companies must work closely with their customers to develop semiconductors that meet their customers' specific needs

in order to optimize the performance of their products.

Mixed-Signal Design and High-Voltage CMOS Process Technology

Display drivers have specific design and manufacturing requirements that are not standard in the semiconductor industry. Some display drivers require mixed-signal design since they combine both analog and digital devices on a single semiconductor to process both analog signals and digital data. Manufacturing display drivers require high-voltage CMOS process technology operating typically at 4.5 to 24 volts for source drivers and 10 to 50 volts for gate drivers, levels of voltage which are not standard in the semiconductor industry. For display drivers, the driving voltage must be maintained under a very high degree of uniformity, which can be difficult to achieve using standard CMOS process technology. However, manufacturing display drivers does not require very small-geometry semiconductor processes. Typically, the manufacturing process for large panel display drivers require geometries between 0.11 micron and 1 micron because the physical dimensions of a high-voltage device do not allow for the economical reduction in geometries below this range. We believe that there are a limited number of fabs with high-voltage CMOS process technology that are capable of high-volume manufacturing of display drivers.

Special Assembly and Testing Requirements

Manufacturing display drivers requires certain assembly and testing technologies and equipment that are not standard for other semiconductors and are offered by a limited number of providers. The assembly of display drivers typically uses either tape-automated bonding, also known as TAB, or chip-on-glass, also known as COG, technologies. Display drivers also require gold bumping, which is a process in which gold bumps are plated onto each wafer to connect the die and the processed tape, in the case of TAB packages, and the glass, in the case of COG packages. TAB may utilize tape carrier packages, also known as TCP, or chip on film, also known as COF. The type of assembly used depends on the panel manufacturer's design, which is influenced by panel size and application and is typically determined by the panel manufacturers. Display drivers for large-sized applications typically require TAB package types and, to a lesser extent, COG package types, whereas display drivers for mobile handsets and consumer electronics products typically require COG packages. The testing of display drivers also requires special testers that can support high-channel and high-voltage output semiconductors. Such testers are not standard in the semiconductor industry.

Supply Chain Management

The manufacturing of display drivers is a complex process and requires several manufacturing stages such as wafer fabrication, gold bumping, and assembly and testing, and the availability of materials such as the processed tape used in TAB packaging. We refer to these manufacturing stages and material requirements collectively as the “supply chain.” Panel manufacturers typically operate at high levels of capacity utilization and require a reliable supply of display drivers. A shortage of display drivers, or a disruption to this supply, may disrupt panel manufacturers’ operations since replacement supplies may not be available on a timely basis or at all, given the customization of display drivers. As a result, a display driver company’s ability to deliver its products on a timely basis at the quality and quantity required is critical to satisfying its existing customers and winning new ones. Such supply chain management is particularly crucial to fabless display driver companies that do not have their own in-house manufacturing capacity. In the case of display drivers, supply chain management is further complicated by the high-voltage CMOS process technology and the special assembly and testing requirements that are not standard in the semiconductor industry. Access to this capacity also depends in part on display driver companies having received assurances of demand for their products since semiconductor manufacturing service providers require credible demand forecasts before allocating capacity among customers and investing to expand their capacity to support growth.

Need for Higher Level of Integration

The small form factor of mobile handsets and certain consumer electronics products restricts the space for components. Small and medium-sized panel applications typically require one or more source drivers, one or more gate drivers and one timing controller, which can be installed as separate semiconductors or as an integrated single-chip driver. Customers are increasingly demanding higher levels of integration in order to manufacture more compact panels, simplify the module assembly process and reduce unit costs. Display driver companies must be able to offer highly integrated chips that combine the source driver, gate driver and timing controller, as well as semiconductors such as memory, power circuit and image processors, into a single chip. Due to the size restrictions and stringent power consumption constraints of such display drivers, single-chip drivers are complex to design. For large-sized panel applications, integration is both more difficult to achieve and less important since size and weight are less of a priority. Lastly, as our TFT-LCD panel customers had turned to pure in-cell TDDI panel development for thinner display designs, we have developed a series of single chip touch display driver integrated circuit (TDDI) for advanced in-cell touch display panel.

Products and Solutions

We have several principal product lines:

display drivers and timing controllers;

touch controller ICs;

TFT-LCD television and monitor semiconductor solutions;

IP and ASIC;

LCOS and MEMS products;

power ICs;

CMOS image sensor products;

wafer level optics products; and

3D sensing business.

Display Drivers and Timing Controllers

Display Driver Characteristics

Display drivers deliver precise analog voltages and currents that activate the pixels on panels. The following is a summary of certain display driver characteristics and their relationship to panel performance.

Resolution and Number of Channels. Resolution refers to the number of pixels per line multiplied by the number of lines, which determines the level of fine detail within an image displayed on a panel. For example, a color display screen with 1,024 x 768 pixels has 1,024 red columns, 1,024 green columns and 1,024 blue columns for a total of 3,072 columns and 768 rows. The red, green and blue columns are commonly referred to as “RGB.” Therefore, the display drivers need to drive 3,072 column outputs and 768 row outputs. The number of display drivers required for each panel depends on the resolution of the panel and the number of channels per display driver. For example, an XGA (1,024 x 768 pixels) panel requires eight 384-channel source drivers ($1,024 \times 3 = 384 \times 8$) and three 256-channel gate drivers ($768 = 256 \times 3$), while a full HD (1,920 x 1,080 pixels) panel requires eight 720-channel source drivers and four 270-channel gate drivers. The number of display drivers required can be reduced by using drivers with a higher number of channels. For example, a full HD panel can have six 960-channel source drivers instead of eight 720-channel source drivers. Thus, using display drivers with a higher number of channels can reduce the number of display drivers required for each panel, although display drivers with a higher number of channels typically have higher unit costs.

Color Depth. Color depth is the number of colors that can be displayed on a screen, which is determined by the number of shades of a color, also known as gray scale, that can be shown by the panel. For example, a 6-bit source driver is capable of generating $2^6 \times 2^6 \times 2^6 = 2^{18}$, or 262K colors, and similarly, an 8-bit source driver is capable of generating 16 million colors. Typically, for TFT-LCD panels currently in commercial production, 262K, 16 million and 1 billion colors are supported by 6-bit, 8-bit and 10-bit source drivers, respectively.

Operational Voltage. A display driver operates with two voltages: the input voltage (which enables it to receive signals from the timing controller) and the output voltage (which, in the case of source drivers, is applied to liquid crystals and, in the case of gate drivers, is used to switch on the TFT device). Source drivers typically operate at input voltages from 3.3 to 1.8 volts and output voltages ranging from 7 up to 18 volts. Gate drivers typically operate at input voltages from 3.3 to 1.8 volts and output voltages ranging from 10 to 50 volts. Lower input voltage saves power and lowers electromagnetic interference, or EMI. Output voltage may be higher or lower depending on the characteristics of the liquid crystal (or diode), in the case of source drivers, or TFT device, in the case of gate drivers.

Gamma Curve. The relationship between the light passing through a pixel and the voltage applied to it by the source driver is nonlinear and is referred to as the “gamma curve” of the source driver. Different panel designs and manufacturing processes require source drivers with different gamma curves. Display drivers need to adjust the

gamma curve to fit the pixel design. Due to the materials and processes used in manufacturing, panels may contain certain imperfections which can be corrected by the gamma curve of the source driver, a process which is generally known as “gamma correction.” For certain types of liquid crystal, the gamma curves for RGB cells are significantly different and thus need to be independently corrected. Some advanced display drivers feature three independent gamma curves for RGB cells.

Driver Interface. Driver interface refers to the connection between the timing controller and display drivers. Display drivers increasingly require higher bandwidth interface technology to address the larger data volume necessary for video images. Panels used for higher data transmission applications, such as televisions, require more advanced interface technology. The principal types of interface technologies are transistor-to-transistor logic, or TTL, reduced swing differential signaling, or RSDS, mini-low voltage differential signaling, or mini-LVDS, and point-to-point high-speed interface. Among these, RSDS, mini-LVDS and point-to-point interface were developed as low power, low noise and low amplitude methods for high-speed data transmission using fewer copper wires and resulting in lower EMI. Moreover, there are some panel manufacturers developing their proprietary point-to-point interfaces, such as embedded panel interface, or EPI, USI-T, iSP, CEDS, CHPL and CMPI.

Package Type. The assembly of display drivers typically uses TAB and COG package types. COF and TCP are two types of TAB packages, of which COF packages have become predominantly used in recent years. Customers typically determine the package type required according to their specific mechanical and electrical considerations. In general, display drivers for small-sized panels mainly use COG package types, whereas display drivers for large-sized panels primarily use TAB package types and, to a lesser extent, COG package types.

Large-Sized Applications

We provide source drivers, gate drivers, PMIC, P-gamma OP level shifter and timing controllers (TCON) for large-sized panels principally used in desktop monitors, notebook computers and televisions. Display drivers used in large-sized applications feature different key characteristics, depending on the end-use application. For example, the industry trend for large-sized applications is generally toward super high channel, low power consumption, low cost, thin and light form factor, touch function, higher data transmission rate and higher driving capabilities. Higher speed interface technologies are also key for 4Kx2K and 8Kx4K high-resolution TVs. Greater color depth, thermal solution, high data rate and high driving, are particularly important for advanced televisions and certain monitors. To enhance our Gaming solution, we provide new gaming TCON with UHD 144Hz for next generation gaming Monitor and NB.

Our large display driver IC business achieved several milestones in 2018. For example, we successfully added a 12-inch fab into the pool of our foundry capacity for our large display driver ICs to ease the capacity shortage of 8" foundry where the vast majority of large panel driver ICs are fabricated. On high-end TV, Himax outpaced peers to lead the mass production of customized high-speed point-to-point (P2P) transmission using embedded panel intra interface such as iSP, CHPI, and CSPI for 4K TVs and developed a 2-in-1 COF driver to meet the requirements of high channel count and heat dissipation for 8K TV. On gaming monitor, we have high frame rate and high-resolution TCON to meet the needs of various resolutions and frame rates such as UHD 120Hz, QHD 165Hz, FHD 240Hz, etc. As for eDP (Embedded DisplayPort) notebook TCONs, Himax continues to develop more power-efficient drivers including mLVDS and P2P interfaces. Our mLVDS is able to integrate P-gamma OP to reduce PCB size and make notebooks slimmer, allowing more space for touch solution integration. Lastly, our P2P driver and TCON ICs with 13.3" FHD can meet Intel 1W project requirement.

We also made tremendous progress in TCON product lines in 2018. Jointly with our Tier 1 customers, we developed 8K TV TCON for their 8K 60 Hz and 120Hz TV, leveraging Himax's unique two phase demura and SHR technologies, which can greatly improve mura to improve yield rate of 8K TV panel and solve the problem of insufficient 8K content. As for Notebook applications, we added HDR (high dynamic range) in TCON ICs to enhance the resolution for high-end 4K notebook models. We also provide gaming TCON for the new UHD 144Hz gaming monitor and notebook. Last but not the least, we successfully embedded local dimming in TCON ICs for TFT-LCD automotive applications to support the accelerating trend toward large-scale screen, higher contrast instrument panels needed for drivers to read meter content quickly. This industry-leading next generation automotive display technology has been greatly appreciated by auto OEMs, Tier 1 and panel makers and is expected to begin mass production in an electronic vehicle during 2019.

The table below sets forth the features of our products for large-sized applications:

Product	Features
TFT-LCD Source Drivers	<ul style="list-style-type: none"> <li data-bbox="311 405 686 436">· 384 to 1920 output channels <li data-bbox="311 474 1193 506">· 6-bit (262K colors), 8-bit (16 million colors) or 10-bit (1 billion colors) <li data-bbox="311 543 627 575">· one gamma-type driver <li data-bbox="311 613 943 644">· two gamma-type driver to improve display quality <li data-bbox="311 682 1342 714">· three gamma-type drivers (RGB independent gamma curve to enhance color image) <li data-bbox="311 751 919 783">· output driving voltage ranging from 7 up to 18V <li data-bbox="311 821 1426 852">· input logic voltage ranging from standard 3.3V to low power 1.8V and support half VDDA <li data-bbox="311 890 799 921">· low power consumption and low EMI <li data-bbox="311 959 798 991">· support COF and COG package types <li data-bbox="311 1029 1461 1134">· support TTL, RSDS, mini-LVDS (up to 400MHz), cascade modulated driver interface, or CMDI, point-to-point high speed interface (up to 4Gbps for 8K 120Hz) and customized interface technologies <li data-bbox="311 1171 895 1203">· support dual gate and triple gate panel designs

Product	Features
TFT-LCD Gate Drivers	<ul style="list-style-type: none"> · 192 to 1600 output channels · output driving voltage ranging from 10 up to 50v · input logic voltage ranging from standard 3.3V to low power 1.8V · low power consumption · support COF and COG package types · support dual gate and triple gate panel designs · product portfolio supports a wide range of resolutions, from VGA (640 x 480 pixels) to full HD, UHD and 8K4K (1,920 x 1,080 pixels, 1,920 x 1,200 pixels, 3840 x 2160 and 7680 x 4320) · support TTL, RSDS, mini-LVDS, DETTL, turbo RSDS, CMDI, point-to-point high speed interface and customized output interface technologies · embedded overdrive function to improve response time
Timing Controllers	<ul style="list-style-type: none"> · support CABC to save power and color engine to enhance color and sharpness · support TTL, LVDS, eDP, G-sync, MIPI and V-by-one input interface technologies · support dual-gate, triple-gate, GOA (gate on array) and RGBW panel designs · support amorphous silicon, IGZO and LTPS panel
Programmable Gamma OP	<p>8 to 16 channel gamma buffer outputs channel VCOM buffer output</p> <ul style="list-style-type: none"> · Internal non-volatile memory · 2 gamma bank selection, setting time < 3uS · Analog power supply voltage: 9.0V to 20.0V · Digital power supply voltage: 2.7V to 3.6V · Peak current on gamma channels: 200mA · Peak current on VCOM channel: 400mA · Programmable VCOM limit

- 12C speed up to 1MHz

Electronic Paper Display Applications

We offer display driver for the Electronic Paper Display (EPD) applications, such as reading & writing device, Electronic Shelf Label (ESL) and Signage Display. The Electronic Paper Display (EPD) drivers can support various display resolutions to meet the customized needs of applications.

The following table summarizes the features of our Electronic Paper Display (EPD) solutions:

Product	Features
Electronic Paper Display (EPD)	<ul style="list-style-type: none">· Features 320 to 1920 output channels· output driving voltage ranging from 15 up to 50v· input logic voltage ranging from standard 3.3V to low power 1.8V· low power consumption and low EMI
Source Drivers	<ul style="list-style-type: none">· support TTL, mini-LVDS cascade modulated driver interface, or point-to-point high speed interface and customized interface technologies· support COF and COG package types
Electronic Paper Display (EPD)	<ul style="list-style-type: none">· 100 to 840 output channels· output driving voltage ranging from 10 up to 50v
Gate Drivers	

Product

Features

- input logic voltage ranging from standard 3.3V to low power 1.8V low power consumption
- support COF and COG package types
- Highly integrated chip embedded with source driver, timing controller and power circuit
- source driver output driving voltage ranging up to 30V
- Support COG package types

Electronic

Paper Display (EPD)

Integrated Drivers

Mobile Handset, Tablet and Consumer Electronics Applications

We offer display drivers for mobile handset, tablet PC and consumer electronics (“CE”) displays that combine source driver, gate driver, timing controller, DC to DC circuits, and optional frame buffer into a single chip or cascades chips in various display technologies, such as TFT-LCD, LTPS and AMOLED.

Smartphones and tablet PCs have gained greater popularity among consumers and enjoyed higher growth in recent years. This has also contributed to higher demand for mobile handset displays that have a larger size and higher resolution. In the past few years, we offered innovative handset display driver products by providing FWVGA (480 x 864), qHD (540 x 960), WSVGA (1024 x 600), HD720 (720 x 1280)/ WXGA (800 x 1280), FHD (1080 x 1920) / WUXGA (1200 x 1920) and up to QHD (1440 x 2560) / WQXGA (1600x2560) display driver ICs. We have recently continued to update new products for this mainstream smartphone and tablet PC segment with lower cost and new features, such as color enhancement and sun-light readability enhancement functions. A few years ago, we believe we developed the first HD720/WXGA display driver with compressed RAM technology, which we believe has led the industry migration to smartphones with higher resolution displays and lower power consumption. In 2013, we further applied the memory compression concept and developed frame buffer compression together with industrial leading AP (application processor) partners to reduce data transmission bandwidth between the AP and display driver IC of Himax. In 2015, we developed new technologies and led the display industry with next generation display driver ICs, such as a-si FHD (1080 x 1920), AMOLED ASICs for HD and FHD and LTPS QHD (1440 x 2560) with sub-pixel rendering technologies. In 2016, Himax developed a series of single chip touch display driver integrated circuit (TDDI) for advanced in-cell touch display panel. Himax started the shipments of in-cell TDDI for some smartphones in 2016 and extended TDDI applications to tablet PCs in 2017. Smartphone display had a dramatic change in terms of aspect ratio, instead of resolution, in 2017. Though display resolution of entry smartphones kept moving up from WVGA or qHD to HD, high-end smartphone display may be stuck at FHD or QHD since it’s pixel per inch is good enough for normal consumers’ daily use. OEMs start to seek for differentiation with 18:9 or even wider aspect ratio, full front displays. Himax has designed conventional 16:9 HD and FHD DDICs capable of supporting 18:9 or wider HD+/FHD+ displays and achieved a number of design-wins with leading Chinese smartphone brands. As in-cell TDDI, featuring thinner display, slimmer border, and better visual quality, has been getting popular, we re-invented a

new generation of TDDIs supporting COG and COF for 18:9 or wider aspect ratio with interlaced output pins, which makes the bottom border of the in-cell touch display even smaller to gain higher display to body ratio. Our new generation FHD+ TDDI with COG and COF are in design-in stage with a number of leading Chinese smartphone brands and panel makers. While COG TDDI offers cost effective slim bezel design, TDDI with COF package can enable super-slim bezel design for premium smartphone models. We started small volume shipment in the first half of 2018 with accelerating volume in the second half of 2018.

The following table summarizes the features of our products for mobile handsets:

Product	Features
Mobile Handset Display Drivers	<ul style="list-style-type: none"> · highly integrated single chip embedded with the source driver, gate driver, power circuit, timing controller and memory · suitable for a wide range of resolutions from QQVGA (128 x 160 pixels) to QHD (1440 x 2560 pixels) · support up to 16 million colors · support RGB separated gamma adjustment · support CABC · support color enhancement features including saturation, brightness, and sharpness enhancement · support MIPI interface for smartphone application and LVDS for CE applications · support RAM-less or 1/3 RAM compression technologies · low power consumption and low EMI · fewer external components to reduce costs · slimmer die for compact module to fit smaller mobile handset designs · application specific integrated circuits, or ASIC, can be designed to meet customized requirements for LCD or AMOLED · touch display driver integrated circuit (TDDI) for advanced in-cell touch display · extending from 16:9 to 18:9 or wider aspect ratio · COG and COF solutions for super slim bottom border · AMOLED driver IC with sub-pixel rendering, Demura-IPs for FHD+

Automotive Display Applications

We offer source drivers, gate drivers, timing controllers and integrated drivers for the fast ramping automotive display applications, such as instrument cluster display (ICD), center information display (CID), head-up display (HUD), rear seat entertainment display (RSE) and rearview mirror display.

The automotive display drivers can support various display resolutions to meet the customized needs of automotive display, including GIP panel and non-GIP panel, a-TFT panel and LTPS panel. Meanwhile, the automotive display drivers can support higher output driving voltage for higher contrast ratio and faster liquid crystal response in automotive display applications. The automotive Timing Controller can support Local Dimming function for the goal of higher contrast ration and reduction thermal in automotive display applications.

The following table summarizes the features of our products used in automotive display applications:

Product	Features
TFT-LCD Source Drivers	<ul style="list-style-type: none"> · 642 to 1,920 output channels · 6-bit (262K colors), 8-bit (16.7 million colors) · support RSDS, mini-LVDS, Point-to-Point interfaces · output driving voltage ranging up to 15V · support COG package type
TFT-LCD Gate Drivers	<ul style="list-style-type: none"> · 100 to 1,600 output channels · output driving voltage ranging up to 40V · support COG package type
TFT-LCD Integrated Drivers	<ul style="list-style-type: none"> · highly integrated chip embedded with source driver, timing controller and power circuit · support RGB, LVDS input interfaces · support Single Gate, Dual Gate, Triple Gate panel structure

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- support GIP panel (a-TFT GIP or LTPS GIP) and non-GIP panel
- support resolution up to 2880RBx1080 with cascaded chips
- source driver output driving voltage ranging up to $\pm 6.6V$ or 16V
- support Fail Detect Function, including CRC Function
- support Local Dimming Function
- support Teletext OSD function
- support COG and COF package type

- support LVDS, eDP 1.2 input interface
- support RSDS, mini-LVDS, Point-to-Point output interfaces
- support Single Gate, Dual Gate, Triple Gate panel structure
- support GIP panel (a-TFT GIP or LTPS GIP) and non-GIP panel
- support various resolutions up to 4K1K(ICD) or 3K2K(CID)
- support Local Dimming Function
- support Fail Detect Function, including CRC Function

Timing Controllers

Touch Controller ICs

We offer touch controller solutions for capacitive touch panels. Our touch controller solutions are suitable for electronic devices employing touch panel screens of up to 13”, such as smartphones, mobile internet devices and tablet PCs. In the third quarter of 2011, we commenced shipping capacitive touch controller ICs to a worldwide brand smartphone customer. In 2013, we expanded our customers list to a lot more well-known smartphone and tablet PC brand customers.

Our capacitive touch controller possesses certain innovations and merits. It could support sensing and tracking of up to ten points. Its embedded micro-controller single chip solution contributes to reducing cost for flexible product design. Its auto calibration mechanism can meet strict validation requirements of leading smart phone brands. With sophisticated designed hardware and firmware supporting hybrid sensing combining merits of self capacitance and mutual capacitance, Himax’s touch controller could support out-cell and on-cell with various sensor patterns and stack-ups.

In 2015, we grew shipments of our touch controller product line with successful design-wins from several smartphone and tablet end brands. We continue to gain market share in out-cell and on-cell touch panel controller markets. Meanwhile, our technological capabilities endorsed by highly recognized end brands also caught the attention of leading in-cell panel makers. They have engaged us in the development of touch-display driver integrated circuit (TDDI) as a key strategic partner rather than just a display driver IC supplier. We have developed a series of TDDI in 2015 and 2016 for these tier one in-cell touch panel makers and started mass production in smartphone brands. We also expect to start the mass production of our TDDI in tablet PC soon. In-cell TDDI, featuring thinner display, slimmer border, and better visual quality, has become the mainstream technology. Over time we will expand our TDDI solutions to replace discrete DDIC and touch controller IC.

The following table summarizes the features of our touch controller products:

Product	Features
Capacitive Touch Controller	<ul style="list-style-type: none"> · complete single chip touch controller solutions for handheld devices, supporting smartphones, tablet PCs, and laptop PCs · real multi-point capability support of up to 10 points · mass production with GG, GFF and one glass solution (“OGS”) without shielding layer

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- support ultra low cost one-layer multi-touch (OLM) solution on GF, GG, OGS, or On-cell touch sensors
- support advanced functions such as passive stylus, glove, proximity sensor replacement, etc.
- minimum components: simple, neat, and flexible mechanical design

TFT-LCD Television and Monitor Semiconductor Solutions

Himax Media Solutions, our subsidiary, provides TFT-LCD television and monitor semiconductor solutions.

TFT-LCD Monitor Chipsets

The following table summarizes the features of our monitor scaler solutions:

Product	Features
Monitor Scaler Integrated Solutions	<ul style="list-style-type: none"> · ideal for monitor applications · integrated with high performance ADC and scaler · built-in HDMI 1.4a and DVI receiver · built-in audio digital-to-analog converter · built-in high-performance color engine · integrated high speed MCU · integrated with timing control for additional cost-down · input /output resolutions range from 640 x 480 pixels up to 1,920 x 1,080 pixel. · integrated 2D to 3D conversion · integrated 3D format conversion · G5 1A and 1A1D can use the same PCB and reduce PCBA cost · G5 1A1D can resolve YCbCr color problem of DVI

In addition to scaler solutions, we expanded the product offering of monitor chipset solutions in 2013 to unveil the innovative 2D to 3D conversion solutions including RV2H and RV5 Pro. RV2H targets 2D-to-3D video conversion for projector application, and RV5 Pro targets at new 3D applications which can convert 2D/3D images into the 3D glasses-free in real time. This compact solution can be implemented in a number of hardware platforms, such as 3D Glasses-free TV, Monitor, Digital signage, DPF, Amusement machine and Portable DVD. This compact solution has already been designed into products of a number of leading players in the industry. Our algorithm utilizes human visual perception characteristics, which not only reveals more 3D details but also offers a more comfortable and enjoyable viewing experiences.

The following table summarizes the features of our current RV2H conversion:

Product

Features

- support HDMI 1.4 3D format input including 3D format
- support 2D mode, 2D to 3D mode, 3D to 2D mode and 3D bypass/converter mode
- support resolution up to full HD with 10 bits deep color
- built-in de-interlace and scaler
- built-in 2D to 3D engine
- built-in Frame rate conversion reaching 120Hz frame rate output
- built-in 64 mega bits SDR chip
- TTL interface supports up to 1920 x 1080 RGB 888 resolution
- TTL interface supports up to 12 bits RGB/YUV
- built-in 3D glass sync and L/R sync signal

RV2H 2D to 3D Conversion Solutions

Except for scalers and 2D to 3D solutions, we also extended the HDMI2.0 chipset product offerings in 2015 to meet the trend of high speed interface adoption. Below are two major and the most recent HDMI2.0 to Vx1 bridge products.

Product

Features

- support 1 HDMI 2.0 ports and is combo with MHL 2.0 receiver
- support HDMI 2.0 YCbCr 420/422/444 UHD 60Hz input
- support MHL 2.0 up to FHD 60Hz input
- support HDCP 2.2
- support HDMI 1.4 YCbCr 422/444 input
- support HDMI CEC 1.4
- support 1.4b 3D bypass
- support output 8-lane V-by-One HS Standard Version 1.4
- support up to 3.75Gbps/lane data rate, up to 8-lane, color depth 6-/8-/10-bit
- support Himax Advanced Color Engine – professional AC Edition
- embedded test pattern generator
- embedded hue/saturation, brightness/contrast, sharpness adjustment function
- embedded CABC (Content Adaptive Backlight Control)
- audio processor
- built-in 7.1 channel audio PCM sample rate converter (SRC) to 48KHz
- I2S interface support up to 192K Fs 7.1ch PCM and HD audio non-PCM output
- support OSD Generator and Display
- high performance 32-bit RISC CPU, with SPI flash interface
- support dithering function
- support Slave I2C programming interface

4Kx2K HDMI2.0 to Vx1 Simple Bridge
HX6308 Solutions

Product

4Kx2K HDMI2.0 to Vx1 Bridge HX6310 Solutions

Features

- support 2 HDMI 2.0 ports and one of them is combo with MHL 2.0 receiver
- support HDMI 2.0 YCbCr 420/422/444 UHD 60Hz input
- support MHL 2.0 up to FHD 60Hz input
- support HDCP 2.2
- support HDMI 1.4 YCbCr 422/444 input
- support HDMI CEC 1.4
- support 1.4b 3D format
- support output 8-lane V-by-One HS Standard Version 1.4
- support up to 3.75Gbps/lane data rate, up to 8-lane, color depth 6-/8-/10-bit
- support Himax Advanced Color Engine – professional AC Edition
- embedded test pattern generator
- embedded hue/saturation, brightness/contrast, sharpness adjustment function
- embedded CABC (Content Adaptive Backlight Control)
- embedded 1D gamma correction LUT (Look-Up Table)
- audio processor
- built-in 7.1 channel audio PCM sample rate converter (SRC) to 48KHz
- built-in audio delay up to 100ms for Lip Sync (Not for SPDIF)
- I2S interface support up to 192K Fs 7.1ch PCM and HD audio non-PCM output
- built-in sound effect: EQ, Triple Bass, L/R Balance and Volume control
- built-in 2-ch audio DAC

- support UHD display for identification of 3D L/R frame and SG 3D out
- support major frame rate conversion
- support OSD Generator and Display
- high performance 32-bit RISC CPU, with SPI flash interface
- support dithering function
- support Slave I2C programming interface

IP and ASIC

From the fourth quarter of 2011, Himax Media Solutions, our subsidiary, developed a new business segment on IP and ASIC service. It is a brand new model based on our core technology of video display and High Speed Transmission. For video display related, we offer RGBW IP Technology Licensing. For High Speed Transmission related, we offer HDMI, V-by-One HS Silicon IP (SIP) Licensing. For ASIC service, it is based on an integrated and verified design platform of depth sensing and High Speed Transmission IPs to enable a time-to-market Specification-to-Chip ASIC service.

Video IP

As an expert player in image and display core technologies solutions, we develop and own unique IPs of image and video applications. The high quality IP, used in various products, can provide our licensees with differentiated products and advantage in time-to-market. The features of IPs are summarized in the following table:

Product Features

- Supporting, RGBW gray-level transform from RGB input, RGBW color enhancement and sub-pixel rendering.
- Support color temperature adjustment
- Support consistent color temperature
- Support consistency of Gamma
- Support 16 bytes of sub-pixel permutation

RGBW IP

- Support resolution: 3840x2160 & 7680x4320
- Support bit depths
- Input RGB30 per pixel
- Output 30bit per pixel (3-channel data, whose representation depends on sub-pixel permutation configuration)
- No SRAM for line buffer

Silicon IP

We also develop and own unique IPs of high speed transmission. These silicon IPs are not only silicon proven but also “product proven” and are used in various popular media commercial products. We provide our licensees with unique, high quality and cost competitive silicon IPs to reduce risk and accelerate time-to-market. The features of silicon IPs are summarized in the below table:

Product	Features
HDMI Receiver IP	<ul style="list-style-type: none"> · provide configurable HDMI digital controllers and high-speed mixed signal Physical Layer IP (“PHY”) · fully compliant with HDMI 1.4a/HDMI 2.0 specifications and received the ATC certification
VBO Transmitter and Receiver IP	<ul style="list-style-type: none"> · fully compliant with the V-by-One® HS Standard Version 1.4 · provide configurable VBO digital controllers and high-speed mixed signal PHY

- designed for supporting high-speed video data transmission between the host device and display device, especially UltraHD TV application

ASIC Service

From 2012, we had successfully completed several ASIC service projects for Japan top TV, Project and HMD makers with advanced and high performance customized video processing chips. All of these chips are implemented with Himax Media Solutions' proprietary video process platform that includes our video process display IP and high-speed transmission IPs. The process nodes adopted for these ASIC are usually 40nm, 55nm and even 28nm processes. From 2016, Himax Media Solutions also developed the depth sensing technology that aims 3D sensing and AR/VR markets. On the other hand, the low power Convolution Neural Network (CNN) accelerator platform is also developed for the emerging ultra-low-power Computer Vision market.

The following table summarizes the features of our ASIC service:

Product	Features
	<ul style="list-style-type: none">· Well established ASIC development platform, based on our unique video processor and image processing technologies.· offer a wide variety of video interface IPs, like LVDS, HDMI, DVI, V-by-one, Display port, MIPI, MHL, etc.· built-in 8/32-bit microprocessor built-in video processing algorithm like super-high resolution, sun-light readable, MEMC, FRC, etc
ASIC Service	<ul style="list-style-type: none">· built-in 3D feature technologies like 2D-to-3D, Glasses-free 3D, 3D multi-view, 3D visual protection, etc.· support 4K x 2K/ 5K x 2K/ 8K x 4K display· Depth sensing algorithm and hardware accelerator for 3D sensing and AR/VR applications· Low power Convolution Neural Network (CNN) algorithm and hardware accelerator for Computer Vision market· Ultra low power controller design for Always-on image sensing applications

ASIC Product

From 2018, we had started to develop ASIC product for IoT application with ultra-low power consumption and high-performance image/video processing chip. The chip is implemented with high performance ARC EM9D 32-bits DSP, pixel processing hardware accelerator, security engine, and rich peripherals. The process node is 28nm process. Also integrated with EMZA's high efficient algorithm for advance computer vision, like intruder detection, human classification, occupancy identification, people counting, face detection.

The following table summarizes the features of our ASIC product:

Product	Features
ASIC Product	<ul style="list-style-type: none"> · Ultra-low power consumption: 40 uW/MHz @ Active mode, 30 uW @ Sleep mode, 15 uW @ Standby mode · Boot up (secure boot) time < 40ms, Wake up time < 1ms, TFVT (time of first video target) < 150ms · ARC-EM9D 32-bit DSP: Frequency up to 400MHz, XCCM/YCCM 32Kbyte, 1.81 DMIPIS/MHz · Memory: Up to 2MByte SRAM with 1.7MByte Retention, 1kByte OTP, SIP 1MByte flash
	<ul style="list-style-type: none"> · High performance pixel processing accelerator: JPEG codec, 2x2 Block, 5x5 demosaic + FIR, Change Detection Module, HOG-YUV, Re-sampler
	<ul style="list-style-type: none"> · Security Engine: Support secure boot, secure FW update, secure debug mode, Support AES 128bits, RSA 2048bits, Hash-256, TRNG, Secure key management
	<ul style="list-style-type: none"> · Peripheral: 1/4/8-bit camera interface, I2C/SPI master/slave, UART, PWM, GPIO with 5 wake-up pins, 12-bit ADC with 4 channels, up to 1Msps, RTC Timer
	<ul style="list-style-type: none"> · Package: FBGA121 (5mm*5mm), QFN76 (8mm*8mm), LQFP64 (10mm*10mm)

LCOS and MEMS Products

Himax Display, our subsidiary, has contributed to our microdisplay products lines: Color-filter LCOS, Color-sequential LCOS, Front-Lit™ LCOS and MEMS.

The latest development of Front-Lit™ LCOS enables an ultra-compact and extremely power-efficient optical engine by consolidating LED illumination system and the polarization beam splitter (PBS) and integrating them into the micro display module itself. Front-Lit™ LCOS enables a much simplified optical engine design and assembly process and successfully lowered customers' manufacturing time and costs.

Himax Display is the market leader of the LCOS industry based on market share since 2012 with the whole product line patented by the Company. We believe Himax Display is the only non-captive LCOS company that owned a mass production ready liquid crystal assembly line. We have produced and shipped over 2.0 million units from this ISO certified line. Our customers use our products in various applications such as pico-projector, communication, toy projector, AR glasses, HUD for automotive and HUD for motorcycle.

Both technologies have their own merits for different applications in resolution, power consumption, size, cost, optical engine design, and image quality. We provide a rich products family for customers to choose for different applications, since each product has its own most important parameters to select. Himax Display provides choices to customers. The following table shows certain details of our products:

Product	Size and Resolution
	<ul style="list-style-type: none"> · 0.28” (320x240 pixels) QVGA · 0.38” (640x360 pixels) nHD
Color-Filter LCOS Microdisplays	<ul style="list-style-type: none"> · 0.44” (640x480 pixels) VGA · 0.59” (800x600 pixels) SVGA · Customized design · 0.22” (640 x 360 pixels) nHD · 0.28” (852 x 480 pixels) WVGA · 0.38” (640 x 480 pixels) VGA
Color-Sequential LCOS Microdisplays	<ul style="list-style-type: none"> · 0.37” (800 x 600 pixels) SVGA · 0.37” (1366 x 768 pixels) WXGA · 0.45” (1024 x 768 pixels) XGA · Customized design · 0.22” (640 x 360 pixels) nHD
Front-Lit™ Color Filter LCOS	<ul style="list-style-type: none"> · Customized design
MEMS	<ul style="list-style-type: none"> · 0.55” (1280 x 800 pixels) WXGA
Power ICs	

Himax provides TFT-LCD television, monitor and notebooks power management solutions. The main products are Power Managements ICs (PMIC), Programmable Gamma OP ICs (PGOP) and Level Shifter ICs (LS). In recent years, PMIC/PGOP/LS 3-in-1 PMIC has gradually become the mainstream solution.

Power Management ICs

A power management IC integrates several power components to fulfill system power requirements. It may include step-up or step-down pulse width modulation, or PWM, DC-to-DC converters, low-dropout regulators, or LDO regulators, voltage detectors, operational amplifiers, p-gamma OP, level shifters, or other components. For panel module applications, a power management IC provides a reliable and precise voltage for source drivers, gate drivers, timing controllers, and panel cells. Moreover, its built-in over-temperature and over-current protections help prevent components from being damaged under certain abnormal conditions. As integrating an increasing number of components into a power management IC is likely to be a continuing trend, we believe power management ICs will continue to be critical components of a TFT-LCD panel module. The following table summarizes certain features of our power management IC products:

Product	Features
Integrated Multi-Channel Power Solutions for Notebooks	<ul style="list-style-type: none"> · built-in power MOSFET · step-up PWM converter · charge pump regulator · LDO regulator · voltage detector · gate pulse modulator · Vcom operational amplifier · 2ch programmable gamma voltage with operational amplifier · I2C programmable · low frame rate control for power saving solution · PMIC/PGOP/Level Shifter 3-in-1
Integrated Multi-Channel Power Solutions for Monitors	<ul style="list-style-type: none"> · built-in power MOSFET · step-up PWM converter · HV LDO regulator · voltage detector · gate pulse modulator · programmable Vcom voltage / Vcom operational amplifier · programmable gamma voltage with operational amplifier · level shifter

Product

Integrated Multi-Channel Power Solutions for TVs

Features

- PMIC/PGOP/Level Shifter 3-in-1
- built-in power MOSFET
- step-up PWM converter
- step-down PWM converter
- charge pump regulator
- HV LDO regulator
- voltage detector
- gate pulse modulator
- Vcom operational amplifier
- I2C programmable
- level shifter
- programmable gamma voltage with operational amplifier

Programmable Gamma OP ICs

It is a Programmable Gamma, DVR and VCOM IC. Each controlled by a 10-bit digital analog converter (DAC). The user can easily select one of the two gamma curves to compensate for the display. The PGOP also includes a channel DVR, VCOM buffer and built-in 7-bit DAC. Support 128-step to adjust the VCOM output voltage by I2C control setting automatically.

Product

14 channel PGOP for dual gate GOA TFT-LCD

Features

- Programmable gamma buffer DVR and VCOM buffer
- 14 channel analog output gamma reference voltage
- 10-bit Gamma DAC resolution
- 2 Gamma bank register
- 2 Gamma bank NVM

- Built in output channel resistor
- I2C interface

Level shifter

TFT-LCD panel manufacturers have developed panel designs to reduce the usage of display drivers, like gateless designs, which integrate the gate driver function onto the glass but needed level shifter. All level shifter channels feature the same input circuitry and are compatible with the standard logic-level signals generated by timing controllers in typical applications. The level shifter converts the timing-controller (TCON) logic-level signals to the high-level signals needed by the GOA (gate on array) display. The output circuitry has been designed to achieve high rise and fall times when driving the capacitive loads typically encountered in TFT-LCD display applications.

Product

16- channel level shifter for dual gate GOA
TFT-LCD

Features

- support two kinds of T-con input signals
- 6/8/10 clock channel output
- 2 channel STV
- 2 channel LC
- 2 discharge channels
- support charge sharing function
- reset function
- OTP/OCP (detect level, time and count) with I2C adjustment
- Support 2 input and 6/8/10 output

CMOS Image Sensor Products

The CMOS image sensor products are developed by our subsidiary, Himax Imaging. The products were designed firstly for camera-equipped mobile devices, such as mobile phones, tablets and notebook computers, with a focus on low light image and video quality. Based on the technologies and IP we developed, our product lines have been expanded to various applications. In early 2016, we decided to re-shape our strategies and put more focuses on the following three domains: ultra low power computer vision- Always-On Sensor (“AoS”), Near Infrared (“NIR”) sensor, and big pixel BSI sensors in automotive and surveillance.

Given that IoT applications bring a lot of demand and applications of ultra-low power computer vision, we're developing the eyes for IoT. With our super low power AoS, we've been collaborating with Emza, an Israeli company dedicated to the development of extremely efficient visual sensors acquired by Himax, to build up a people detection camera system named WiseEye running in approximately 2.5mW. Leveraging Himax Imaging's AoS and Emza's specialized low power algorithms, the WiseEye can be used in different kinds of applications, including smart office, smart building, surveillance, robotics, etc. Our AoS is also highly appreciated in under display finger print market. Several fingerprint sensor vendors have adopted our AoS as their key foundation block in their solutions.

In addition to developing the AoS product to drive the power as low as possible, we're also devoted ourselves to designing the industrial leading pixel with higher near infrared Quantum Efficiency (“QE”) to support the new generate 3D depth camera. Several NIR sensors such as HD(720p), Full HD(1080p), and 5MP sensor have been developed in our NIR product line with QE over 50% in 850nm and around 35% in 940nm. Their superior performance hugely helps to lower the system power and enhances the system performance. With the high QE in NIR band, we open the doors to building more sensor and camera systems for machine vision. Regarding the conventional color sensors, we put the resource in more specialized and customized big pixel sensors for automotive and surveillance with higher value to the customers by providing unique features like better sensitivity in low light, high dynamic range, slim embedded ISP, etc.

We are committed to being a key player in the CMOS image sensor business with investments in experienced human resources, an efficient supply chain, and strategic technology developments and partnerships to further increase the performance and features of small and specially designed pixel sensors.

The following table sets forth the features of our CMOS image sensor products:

Product

Features

- 1/2.6” format color type with high sensitivity BSI pixel

- 5MP UltraSense 2™ NIR Sensor tailored for 3D Sensing
- 5MP resolution at 45 frames per second, support QHD video at 60 frames per second
 - Compact die size design to support small modules
 - 4x NIR sensitivity at 940nm
 - 4-lane MIPI CSI2 outputs RAW8/10
 - 1/5” format color type
- 2.0MP ClearView™ Color Image Sensor
- UXGA YUV output at 30 frames per second, 720p HD resolution at 60 frames per second
 - 1-lane MIPI CSI2 outputs RAW8/10
 - 1/6” format with high sensitivity BSI pixel
 - 1080p FHD resolution at 60 frames per second
 - Low power consumption
- FHD 1/6” 1080p UltraSense™ Color Image Sensor
- Alternating frame support for HDR
 - Provide 2x2 RGB-IR option
 - 2-lane MIPI CSI2 outputs
 - Frame-Sync control for multiple camera system
 - 1/3” format with high sensitivity BSI pixel
 - 1080p HD resolution at 60 frames per second
 - Low power consumption
- FHD 1/3” 1080p UltraSense™ Color Image Sensor
- Support for Staggered HDR
 - Provide high NIR sensitivity option
 - 2-lane MIPI CSI2 and 12bit parallel DVP outputs
 - Frame-Sync control for multiple camera system

Product	Features
FHD 1/4" 1080p UltraSense™ Color Image Sensor	<ul style="list-style-type: none"> · 1/4" format with high sensitivity BSI pixel · 1080p FHD resolution at 30 frames per second · Low power consumption · Provide high NIR sensitivity and 4x4 RGB-IR option · 2-lane MIPI CSI2 and 10bit parallel DVP outputs · Frame-Sync control for multiple camera system
HD 720p UltraSense™ NIR Sensor tailored for 3D Sensing	<ul style="list-style-type: none"> · 1/6.5" format with high sensitivity BSI pixel · 720p HD resolution at 60 frames per second · Low power consumption · Support Intel SSC function on MIPI I/F · 4x NIR sensitivity at 940nm · 1-lane MIPI CSI2 outputs RAW8/10 · 1/9" format with high sensitivity BSI pixel · 720p HD resolution at 30 frames per second
HD 720p UltraSense 2™ Color Image Sensor	<ul style="list-style-type: none"> · Low power consumption · Support LED-sync for Microsoft Windows Hello · 1-lane MIPI CSI2 outputs RAW8/10
1.3MP ClearSense™ EDR Color Image Sensor embedded with image processor for Surveillance	<ul style="list-style-type: none"> · 1/4" format with ultra-high sensitivity · ClearSense™ achieves higher dynamic range in color up to 84dB with on-chip tone mapping · 800p and 720p resolution at 30 frames per second · Flexi™ engine automatically controls dynamic range, exposure, gain, and white balance to balance color fidelity and contrast · Color processing pipeline including lens shading correction, defect correction, edge enhancement, color interpolation and correction, gamma

control, and saturation/hue adjustment.

- Anti-blooming and dark sun cancellation
- Built-in low dropout regulator and power on reset
- 10-bit parallel video data port supports RAW, YUV422, and RGB565/555/444
- 1/4" format with ultra-high sensitivity
- Ultrasense 2™ BSI pixel offers higher sensitivity for low light condition
- Operation up to 105°C
- 960p and 720p resolution at 30 frames per second

1.2MP UltraSense 2™ Color Image
Sensor embedded with image processor
for Automotive

- Color processing pipeline including lens shading correction, defect correction, edge enhancement, color interpolation and correction, gamma control, and saturation/hue adjustment
- Dynamic Range Optimizer offers best dynamic range of video
- Anti-blooming and dark sun cancellation
- Built-in low dropout regulator and power on reset
- 10-bit parallel video data port supports RAW, YUV422, and RGB565/555/444

Product

Features

NTSC/PAL WVGA Color Image System on embedded with image processor for Automotive and Surveillance

- High sensitivity, low noise VGA sensor operating up to 60FPS
- Visible and near infrared sensitivity
- Operation up to 105°C
- Ultra-compact automotive package
- Advanced defect correction with built-in temperature sensor
- Embedded ISP with programmable automatic exposure and white balance
- Optical alignment pixel with crop and zoom to native resolution
- 4Kb OTP for sensor initialization, module storage, and overlay setting
- Multi-color static overlay engine
- High sensitivity, low noise 1/11" 320x320 image area
- Under 2.5mW at QVGA 30fps and 1mW at QQVGA 15fps
- Embedded auto-exposure and motion detection
- NeoPac and CSP package
- Parallel 8bits, 4bits and 1bit data output
- 1/2.6" format color type with high sensitivity BSI pixel
- 5MP resolution at 45 frames per second, support QHD video at 60 frames per second
- Compact die size design to support small modules
- 4x NIR sensitivity at 940nm
- 4-lane MIPI CSI2 outputs RAW8/10

Ultra-Low Power CMOS Color Image System for Machine Vision and Detection

5MP UltraSense 2™ NIR Sensor tailored for 3D Sensing

2.0MP ClearView™ Color Image Sensor

- 1/5" format color type
- UXGA YUV output at 30 frames per second, 720p HD resolution at 60 frames per second
- 1-lane MIPI CSI2 outputs RAW8/10

Wafer Level Optics Products

Wafer level optics are optical products manufactured using semiconductor process on wafers. This innovative approach enables wafer level optics to manufacture micro/nano optics structure and high temperature resistance, making the compatible Surface-Mount Technology or SMT reflow process possible. We offer entire optical solutions for customers who need compact and easy-to-handle optical products on their electronic devices.

Combining traditional optical lens design, precise mold control and semiconductor manufacturing expertise, our WLO lens with integrated waveguide, refractive optics and diffractive optical element (DOE) is the best solution for next generation computational imaging module for 2D/3D illumination and 3D dot projector, which can be applied to 3D face recognition, 3D sensing, 3D reconstruction, and gesture control. With the innovative process and specific structure, our wafer level optics products provide small form factor and compact module size to be easily integrated into consumer products such as smartphones, AR/VR devices, and other mobile devices.

Our WLO technology is also adapted to form microstructure such as lens array, DOE and lenticular lens for advanced applications in digital and computational imaging fields. These technologies stand in a unique position to integral optical design, semiconductor manufacturing process, and compact packaging service, which are rarely covered by one single company. Deeply rooted in core wafer level optics technologies, we provide highly customized optical solutions and high-volume manufacturing to many tier 1 customers in the AR/VR, mobile device and wearable front.

Our WLO business hit inflection in the middle of 2017 when we began mass shipment to an anchor customer. The overall 2018 shipment increased considerably year-over-year because of the customer's large-scale adoption in more models. Himax's WLO business in terms of shipment volume has been largely dependent on one anchor customer for the past 18 months.

As a semiconductor company, we are not immune to a customer's supplier decision which can work in or against our favor. We believe this is a normal occurrence in the semiconductor industry and would not affect our long-term valuation. We expect WLO shipment volume in 2019 will decline significantly year-over-year starting from the third quarter of 2019 due to a product replacement decision informed by an anchor customer a few days following the Company's last earnings call on February 19, 2019. This update will negatively affect our 2019 profitability because gross margin will be impacted by lower WLO capacity utilization rate, thereby leading to higher equipment depreciation and factory overhead on a per unit basis. For reference, WLO sales represented 4.4% of our 2018 total

sales and will account for less than 5% of our total sales in the first quarter of 2019. Despite this setback, we continue to work on new development projects with the anchor customer, in addition to our multiple ongoing projects with other customers. The following table sets forth the features of our wafer level optics products:

Product	Features
Refractive Optical Lens	<ul style="list-style-type: none"> · for Micro Lens Array(MLA) illumination diffuser, lighting control, flux illumination lens, collimation lens, and compact size camera lens · provide multi-layer solution including optical AR coating, IR-cutting filter coating, aspheric surface · double-side manufacture process · already in mass production · computational imaging, flux illumination, dot projector for 3D sensing, 3D reconstruction, gesture and illumination control
Diffractive Optical Element (DOE)	<ul style="list-style-type: none"> · using WLO process to integral multi-layers DOE and refractive lens · provide customized solution for specific application · the smallest form factor and reflowable component · eye safety detect circuit embedded · using WLO process to integral multi-layers DOE technology
Diffuser element for flood illumination and TOF	<ul style="list-style-type: none"> · the smallest form factor and reflowable component · eye safety detect circuit embedded · dot projector module solution for computer vision, 3D sensing, 3D reconstruction, gesture and illumination control
Near Infrared(NIR) Projector Module	<ul style="list-style-type: none"> · integral NIR Laser (830/850/940nm), optical system (refractive+ diffractive lens) and high precise active alignment assembly solution to provide the smallest form factor · module design for smartphone and other mobile devices · provide customized module solution for different application · the smallest form factor and reflowable device · including active eye safety solution (Class-1)
Flood illumination Module	<ul style="list-style-type: none"> · provide customized solution for specific application integral NIR Laser (830/850/940nm), and high precise active alignment assembly solution · module design for smartphone and other mobile devices

- the smallest form factor and reflowable device
- including active eye safety solution (Class-1)

3D Sensing Business

We have participated in most of the smartphone OEMs' ongoing 3D sensing projects for facial recognition and phone unlock covering all three types of technologies, namely structured light, active stereo camera (ASC) and time-of-flight. Depending on the customers' needs, we provide 3D sensing total solution or just the projector module or optics inside the module. By offering either the projector module or critical optics, we have been collaborating with a small handful of smartphone names that have in-house capability to come up with their own customized 3D sensing solutions. For most Android smartphone makers who don't have such in-house capability, however, we have to provide total solution to enable their 3D sensing. Himax's 3D sensing total solution structured light-based, which we announced jointly with Qualcomm in August 2017, brings together Qualcomm's industry leading 3D algorithm with Himax's cutting-edge design and manufacturing capabilities in optics and NIR sensors as well as our unique know-how in 3D sensing system integration. At present, the 3D sensing adoption for this market remains low. The adoption is hindered primarily by the prevailing high hardware cost of 3D sensing, the long development lead time required to integrate it into the smartphone and the lack of killer applications which is limited to phone unlock and online payment. Instead of 3D sensing, most of the Android phone makers have chosen the lower cost finger print technology which can achieve similar phone unlock and online payment functions with somewhat compromised user experience. Reacting to their lukewarm response, we are working on the next generation 3D sensing with an aim to leapfrog the market by providing high performance, easy to adopt and yet cost friendly total solutions, targeting the majority of Android smartphone players. We believe that 3D sensing will be widely adopted by more Android smartphone makers when the ecosystem is able to substantially lower the cost of adoption and develop more killer applications while offering easy-to-use, fully-integrated total solutions, for which Himax is playing a key part. Our critical 3D sensing Technologies include the followings.

Wafer Level Optics Products

WLO is one of the key technologies enabling 3D sensing, AR goggle devices, and many other applications. At present, 3D sensing is the top priority of our WLO business. Levering on our exceptional design know-how and mass production experience in WLO technology, we are able to produce the world's most compact optics required of 3D sensing while achieving superior performance. Our WLO business hit inflection in the middle of 2017 when we began mass shipment to an anchor customer. The overall 2018 shipment increased considerably year-over-year because of the customer's large-scale adoption in more models. We expect WLO shipment volume in 2019 will decline significantly year-over-year starting from the third quarter of 2019 due to a product replacement decision informed by an anchor customer a few days following the Company's last earnings call on February 19, 2019. Despite this setback, we continue to work on new development projects with the anchor customer, in addition to our multiple ongoing projects with other customers.

CMOS Image Sensor

Our NIR sensor is a critical part in the structured light 3D sensing total solution. Our NIR sensors' overall performance is far ahead of those of our peers in 3D sensing applications. We currently offer low noise HD, or 1 megapixel, and 5.5 megapixel NIR sensors and are planning to add more to further enrich our product portfolio. Our NIR sensors deliver superior quantum efficiency in the NIR range, especially over 940nm band which is critical for outdoor applications.

ASIC

One of the critical elements of our 3D sensing total solution is an ASIC for 3D depth map generation. We are able to develop the ASIC thanks to our unique in-house capability in developing video ASICs for customers. Equipped with the ASIC, our 3D sensing total solution can substantially reduce the power consumed while processing 3D sensing, enhance personal data security, accelerate the 3D depth map generation, and free up a smartphone's processor for other applications. We view this unique capability as a significant competitive advantage. It has been and will continue to be one of our key drivers in the success of our 3D sensing total solution.

Active Alignment

With much experience in optical assembly for AR and VR devices, our factory has developed a system to do active alignment for tiny components. From the incoming quality check, assembly process, and testing, all steps are monitored and checked. The precision assembly capability gives us a very good foundation to do the optical assembly for DOE, WLO, and laser.

Laser Driver

Based on our expertise in projector, optics, and driver, we have designed a special Glass Broken Detection (“GBD”) mechanism on our projector. With the support from laser driver, it can cease the laser to prevent users from being exposed to higher power laser energy.

The following table sets forth the features of our SLiM™ 3D sensing total solutions:

Product	Features
SLiM™ 3D sensing total solution	<ul style="list-style-type: none">· Dot projector: More than 33,000 invisible dots, the highest in the industry, projected onto object to build the most sophisticated 3D depth map among all structured light solutions· Depth map accuracy: Error rate of < 1% within the entire operation range of 20cm-100cm· Face recognition: Enabled by the most sophisticated 3D depth data to build unique facial map that can be used for instant unlock and secure online payment· Indoor/outdoor sensitivity: Superior sensing capability even under total darkness or bright sunlight· Eye safety: Certified for IEC 60825 Class 1, the international laser product standard which governs laser product safety under all conditions of normal use with naked eyes· Glass broken detection: Patented glass broken detection mechanism in the dot projector whereby laser is shut down instantaneously in the event of broken glass in the projector· Power consumption: Less than 400mW for projector, sensor and depth decoding combined, making it the lowest power consuming 3D sensing device by far among all structured light solutions· Module size: the smallest structured light solution in the market, ideal for embedded and mobile device integration

In an attempt to accelerate the adoption of 3D sensing for Android phones, in addition to SLiM™, Himax teamed up with MediaTek and Megvii to offer the industry’s first active stereo camera 3D sensing reference design for Android smartphone in September 2018. Unlike SLiM™ which utilizes structure light to generate 3D, active stereo camera 3D sensing uses two cameras to replicate 3D vision in nature, augmented by coded light for image depth enhancement. Both types of solutions offered by Himax operate on active NIR light source with high sensitivity NIR sensors, thus working well even under extreme brightness or total darkness. For 3D sensing purposes, structure light approach offers better depth precision than active stereo camera but the cost is also higher. The ASC 3D sensing solution combines MediaTek’s stereo matching depth engine, Megvii’s Face++ AI-based computer vision algorithm with Himax’s cutting-edge projector, sensor and laser driver. The critical technologies provided by Himax include DOE and collimator utilizing its world leading WLO technology in the projector, a high efficiency laser driver IC, high precision active alignment for the projector assembly, and two high sensitivity near-infrared CMOS image sensors in the receiver. Despite of its cost benefit versus structured light 3D sensing solution, the ASC 3D sensing solution gained lukewarm responses from smartphone OEMs, again due to the lower cost finger print technology can already achieve similar phone unlock and online payment functions.

The following table sets forth the features of our ASC 3D sensing solutions:

Product	Features
ASC 3D sensing solution	<ul style="list-style-type: none"> · Customized infrared projector with patterned DOE and collimator: Between 7,000 - 10,000 invisible dots to build sophisticated 3D depth map · High quantum efficiency sensor at 940nm band: Superior sensing capability in both indoor/outdoor environments · Glass broken detection: Patented glass broken detection mechanism enabled by tailor made laser driver in the projector whereby laser is shut down instantaneously in the event of broken glass in the projector · Eye safety: Certified for IEC 60825 Class 1, the international standard governing laser product safety under all conditions of normal use with naked eyes · Compact form factor and power-efficient: Ideal for embedded and mobile device integration

3D sensing can have a wide range of applications beyond smartphone. We have started to explore business opportunities in various industries by leveraging our SLiM™ 3D sensing total solution. Such industries are typically less sensitive to cost and always require a total solution. We are collaborating with Kneron, an industry leader in edge-based artificial intelligence in which we have made an equity investment, to develop an AI-enabled 3D sensing solution targeting security and surveillance markets. We are also working with partners/customers on new applications covering home appliances and industrial manufacturing.

Core Technologies and Know-How

Driving System Technology. Through our collaboration with panel manufacturers, we have developed extensive knowledge of circuit design, TFT-LCD driving systems, high-voltage processes and display systems, all of which are important to the design of high-performance TFT-LCD display drivers. Our engineers have in-depth knowledge of the driving system technology, which is the architecture for the interaction between the source driver, gate driver, timing controller and power systems as well as other passive components. We believe that our understanding of the entire driving system has strengthened our design capabilities. Our engineers are highly skilled in designing power efficient and compact display drivers that enhance the performance of TFT-LCD. We are leveraging our know-how of display drivers and driving system technology to develop display drivers for panels utilizing other technologies such as OLED.

High-Voltage CMOS Circuit Design. Unlike most other semiconductors, TFT-LCD display drivers require a high output voltage of 3.3 to 50 volts. We have developed circuit design technologies using a high-voltage CMOS process that enables us to produce high-yield, reliable and compact drivers for high-volume applications. Moreover, our technologies enable us to keep the driving voltage at very high uniformity, which can be difficult to achieve when using standard CMOS process technology.

3D Technologies. Several technologies in Himax are integrated together to form our 3D solution. First, wafer level imprinted technology is used to design and manufacture DOE and WLO. Then, the totally new design CMOS sensor architecture and process gives the industry leading NIR Quantum Efficiency (QE) sensors which are specially designed for 3D applications. Our expertise in precision assembly in optics as well as ASIC and driver design additionally help us to provide a more complete solution to our customers.

High-Bandwidth Interfaces. In addition to high-voltage circuit design, TFT-LCD display drivers require high bandwidth transmission for video signals. We have applied several high-speed interfaces, including transistor-transistor logic (“TTL”), Reduced Swing Differential Signaling (“RSDS”), mini low-voltage differential signaling (“LVDS”), dual-edge TTL (“DETTL”), turbo Reduced Swing Differential Signaling (“RSDS”), Mobile Industry Processor Interface (“MIPI”) and other customized interfaces in our display drivers. Moreover, we are developing additional driver interfaces for special applications with optimized speed, lower EMI and higher system stability.

Die Shrink and LowPower Technologies. Our engineers are highly skilled in employing their knowledge of driving technology and high-voltage CMOS circuit design to shrink the die size of our display drivers while leveraging their understanding of driving technology and panel characteristics to design display drivers with low power consumption. Die size is an important consideration for applications with size constraints. Smaller die size also reduces the cost of the chip. Lower power consumption is important for many portable devices such as notebook computers, mobile handsets and consumer electronics products.

Customers

Our customers for display drivers are primarily panel manufacturers and mobile device module manufacturers, who in turn design and market their products to manufacturers of end-use products such as notebook computers, desktop monitors, televisions, mobile handsets and consumer electronics products. We may sell our products through agents or distributors for certain products or in certain regions. As of December 31, 2018, we sold our products to more than 200 customers. Our ten largest customers together accounted for approximately 75.3% and 74.6% of our revenues in 2017 and 2018, respectively. In 2017 and 2018, our two largest customers accounted for 10% or more of our net revenue: customer A and its affiliates accounted for 25.8% and 28.1% of our revenues, respectively; customer B and its affiliates accounted for 15.5% and 12.6% of our revenues, respectively.

Certain of our customers provide us with a long-term (twelve-month) forecast plus three-month rolling non-binding forecasts and confirm orders about one month ahead of scheduled delivery. In general, purchase orders are not cancellable by either party, although from time to time we and our customers have agreed to amend the terms of such orders.

As a semiconductor company, we are not immune to a customer's supplier decision which can work in or against our favor. We believe this is a normal occurrence in the semiconductor industry and would not affect our long-term valuation. As an example, our WLO business hit inflection in the middle of 2017 when we began mass shipment to an anchor customer. The overall 2018 shipment increased considerably year-over-year because of the customer's large-scale adoption in more models. Himax's WLO business in terms of shipment volume has been largely dependent on one anchor customer for the past 18 months. We expect WLO shipment volume in 2019 will decline significantly year-over-year starting from the third quarter of 2019 due to a product replacement decision informed by an anchor customer a few days following the Company's last earnings call on February 19, 2019. This update will negatively affect our 2019 profitability because gross margin will be impacted by lower WLO capacity utilization rate, thereby leading to higher equipment depreciation and factory overhead on a per unit basis. For reference, WLO sales represented 4.4% of our 2018 total sales and will account for less than 5% of our total sales in the first quarter of 2019. Despite this setback, we continue to work on new development projects with the anchor customer, in addition to our multiple ongoing projects with other customers.

Sales and Marketing

We focus our sales and marketing strategy on establishing business and technology relationships principally with TFT-LCD panel manufacturers, panel manufacturers using LTPS or OLED, or Oxide technologies, mobile display module and mobile device manufacturers and camera module houses in order to work closely with them on future semiconductor solutions that align with their product road maps. Our engineers collaborate with our customers' engineers to create products that comply with their specifications and provide a high level of performance at competitive prices and also create customized features for end brand customers. Our end market for large-sized panels is concentrated among a limited number of major panel manufacturers. We also market our products directly to monitor, notebook and mobile device manufacturers so that our products can be qualified for their specifications and designed into their products. Furthermore, we extend our business development with system and ODM companies by using strategic ASIC business model to not only develop ASIC product based on customer specification but also jointly research and develop new technologies to meet customers' future product demand. Additionally, we will form a strategic partnership with tier-1 customers for our LCOS microdisplays to penetrate into an emerging market. We believe we need this close relationship with our customers to create a new application eco system.

We primarily sell our products through our direct sales teams located in Taiwan, China, South Korea and Japan. We also have dedicated sales teams for certain of our most important current or prospective customers. We have offices in Tainan, Hsinchu, Taipei, Taiwan; and Shenzhen and Suzhou, China. We have other sales and technical support offices in Hefei, Beijing, Shanghai, Fuzhou, Foshan, Fuqing, Ningbo, Wuhan, Chongqing, Chengdu, Xi'an and Xiamen, China; Tokyo, Japan; Asan-si and Bundang-gu, South Korea; Givatayim, Israel; and Irvine and Campbell, California and Minneapolis, Minnesota, USA, all in close proximity to our customers. For certain products or regions, we may sell our products through agents or distributors.

Our sales and marketing team possesses a high level of technical expertise and industry knowledge used to support a lengthy and complex sales process. This includes a highly trained team of product managers and field applications engineers. Our team is equipped with extensive strategic marketing experience and a strong capability to identify market trends. We also provide technical support and assistance to potential and existing customers in system/SoC architecture, designing, testing and qualifying display modules, camera modules and end application systems that incorporate our products and ASICs. We believe that the depth and quality of this design support are key to improving customers' time-to-market and maintaining a high level of customer satisfaction.

Manufacturing

We operate primarily in a fabless business model that utilizes substantially third-party foundry and assembly and testing capabilities. We leverage our experience and engineering expertise to design high-performance semiconductors and rely on semiconductor manufacturing service providers for wafer fabrication, gold bumping, assembly and testing.

We also rely largely on third-party suppliers of processed tape used in TAB packaging. We engage foundries with high-voltage CMOS process technology for our display drivers and engage assembly and testing houses that specialize in TAB and COG packages, thereby taking advantage of the economies of scale and the specialization of such semiconductor manufacturing service providers. Our primarily fabless model enables us to capture certain financial and operational benefits, including reduced manufacturing personnel, capital expenditures, fixed assets and fixed costs. It also gives us the flexibility to use the technology and service providers that are the most suitable for any given product.

We operate a fab under Himax Display primarily for performing manufacturing processes for our LCOS microdisplays. Moreover, for better integration, we also established an in-house color filter facility under Himax Taiwan, which commenced shipments from 2010. This in-house facility provides color filter for CMOS image sensor products with over 50 million optics shipment record to tier-1 customers and LCOS products. The color filter line is a critical and unique process for our proprietary single-panel color LCOS microdisplays. An in-house color filter facility enhances the competitiveness of our LCOS products and creates value for our customers. In addition, we have established an in-house WLO facility under Himax Taiwan for the key process of our wafer level optics products, which commenced small-scale shipments in December 2009. We began construction of our new building in March 2017, located nearby the current headquarters to house additional WLO capacity, the new active alignment equipment needed for our SLiM™ 3D sensing business and to provide extra office space. The construction of the new building has been completed on schedule.

Manufacturing Stages

The diagram below sets forth the various stages in manufacturing display drivers according to the two different types of assembly utilized: TAB or COG. The assembly type depends primarily on the application and design of the panel and is determined by our customers.

Wafer Fabrication: Based on our design, the foundry provides us with fabricated wafers. Each fabricated wafer contains many chips, each known as a die.

Gold Bumping: After the wafers are fabricated, they are delivered to gold bumping houses where gold bumps are plated on each wafer. The gold bumping process uses thin film metal deposition, photolithography and electrical plating technologies. The gold bumps are plated onto each wafer to connect the die to the processed tape, in the case of TAB package, or the glass, in the case of COG package.

Chip Probe Testing: Each die is electrically tested, or probed, for defects. Dies that fail this test are discarded.

Assembly and Testing: Our display drivers use two types of assembly technology: TAB or COG. Display drivers for large-sized applications typically require TAB package types and to a lesser extent COG package types, whereas display drivers for mobile handsets and consumer electronics products typically require COG package types.

TAB Assembly

We use two types of TAB technologies: TCP and COF. TCP and COF packages are both made of processed tape that is typically 35mm or 48mm wide, plated with copper foil and has a circuit formed within it. TCP and COF packages differ, however, in terms of their chip connections. With TCP packages, a hole is punched through the processed tape in the area of the chip, which is connected to a flying lead made of copper. By contrast, with COF packages, the lead is mounted directly on the processed tape and there is no flying lead. In recent years, COF packages have become predominantly used in TAB technology.

Inner-Lead Bonding: The TCP and COF assembly process involves grinding the bumped wafers into their required thickness and cutting the wafers into individual dies, or chips. An inner lead bonder machine connects the chip to the printed circuit processed tape and the package is sealed with resin at high temperatures.

Final Testing: The assembled display drivers are tested to ensure that they meet performance specifications. Testing takes place on specialized equipment using software customized for each product.

COG Assembly

COG assembly connects display drivers directly to LCD panels without the need for processed tape. COG assembly involves grinding the tested wafers into their required thickness and cutting the wafers into individual dies, or chips. Each individual die is picked and placed into a chip tray and is then visually or auto-inspected for defects. The dies are packed within a tray in an aluminum bag after completion of the inspection process.

Quality Assurance

We maintain a comprehensive quality assurance system. Using a variety of methods, from conducting rigorous simulations during the circuit design process to evaluating supplier performance at various stages of our products' manufacturing process, we seek to bring about improvements and achieve customer satisfaction. In addition to monitoring customer satisfaction through regular reviews, we implement extensive supplier quality controls so that the products we outsource achieve our high standards. Prior to engaging a third party as our supplier, we perform a series of audits on their operations, and upon engagement, we hold frequent quality assurance meetings with our suppliers to evaluate such factors as product quality, production costs, technological sophistication and timely delivery.

In November 2002, we received ISO 9001 certification, which was renewed in February 2018 and will expire in February 2021. In February 2006, we received ISO 14001 certification, which was renewed in December 2017 and will expire in December 2020. In addition, in March 2007, we received IECQ QC 080000 certification, which was renewed in March 2016 and will expire in March 2019.

Environmental Management System and Safety and Health Management System

Himax follows closely the global environmental trends, including energy saving and waste reduction, in its daily operations. The Company is certified in accordance with ISO14001, OHSAS18001 and ISO14064.

Himax is a leader in its sector when it comes to the environment and safety, operating under measures much stringent than domestic regulations. The Company aims to grow sustainably, delivering economic, social and environmental benefits with its healthy employees.

Himax has also been tirelessly reducing impacts to the environment and improving safety in its operations, specifically targeting product design and waste handling.

Semiconductor Manufacturing Service Providers and Suppliers

Through our relationships with leading foundries, assembly, gold bumping and testing houses and processed tape suppliers, we believe we have established a supply chain that enables us to deliver high-quality products to our customers in a timely manner.

Access to semiconductor manufacturing service providers is critical as display drivers require high-voltage CMOS process technology and specialized assembly and testing services, all of which are different from industry standards. We have obtained our foundry services from TSMC, Vanguard, Macronix, Globalfoundries Singapore, SMIC and PSMC in the past few years and have also established relationships with UMC, PSC and SKHYSI. These are among a select number of semiconductor manufacturers that provide high-voltage CMOS process technology required for manufacturing display drivers. We engage assembly and testing houses that specialize in TAB and COG packages such as Chipbond, Chipmore International trading company Ltd., ChipMOS Technologies Inc., Nepes Corporation and King Yuan Electronics Co., Ltd.

We plan to strengthen our relationships with our existing semiconductor manufacturing service providers and diversify our network of such service providers in order to ensure access to sufficient cost-competitive and high-quality manufacturing capacity. We are selective in our choice of semiconductor manufacturing service providers. It takes a substantial amount of time to qualify alternative foundries, gold bumping, assembly and testing houses for production. As a result, we expect that we will continue to rely on a limited number of semiconductor manufacturing service providers for a substantial portion of our manufacturing requirements in the near future.

The table below sets forth (in alphabetical order) our principal semiconductor manufacturing service providers and suppliers:

Wafer Fabrication	Gold Bumping
Globalfoundries Singapore Pte., Ltd.	Chipbond Technology Corporation
Macronix International Co., Ltd.	Chipmore International Trading Company Ltd.
Powerchip Semiconductor Manufacturing Corp.	ChipMOS Technologies Inc.
Powerchip Technology Corporation	LB Semicon, Inc.
Semiconductor Manufacturing International Corporation	Nepes Corporation
SK hynix system ic	Union Semiconductor Co., Ltd.
Taiwan Semiconductor Manufacturing Company Limited	
United Microelectronics Corporation	
Vanguard International Semiconductor Corporation	
Processed Tape for TAB Packaging	Assembly and Testing
JMC Electronics Co., Ltd.	Ardentec Corporation
LG Innotek Co., Ltd.	Advanced Semiconductor Engineering Inc.
Stemco., Ltd.	Chipbond Technology Corporation
	Chipmore International Trading Company Ltd.
	ChipMOS Technologies Inc.
	Global Testing Corporation
	Greatek Electronics Inc.
	Jiangsu Changjiang Electronics Technology Co., Ltd.
	King Yuan Electronics Co., Ltd.
	Micro Silicon Electronics Corp.
	Nepes Corporation
	Orient Semiconductor Electronics Ltd.
	Taiwan IC Packaging Corporation
	LB Lusem Co., Ltd.
	Union Semiconductor Co., Ltd.
Chip Probe Testing	
Ardentec Corporation	
Chipbond Technology Corporation	

Chipmore International Trading Company Ltd.
ChipMOS Technologies Inc.
Global Testing Corporation
Greatek Electronics Inc.
King Yuan Electronics Co., Ltd.
Micro Silicon Electronics Corp.
Nepes Corporation
LB Semicon, Inc.
Union Semiconductor Co., Ltd.

Intellectual Property

As of February 28, 2019, we held a total of 2,992 patents, including 1,376 in Taiwan, 922 in the United States, 612 in China, and 82 in other countries. The expiration dates of our patents range from 2019 to 2039. We also have a total of 108 pending patent applications in Taiwan, 130 in the United States and 270 in other jurisdictions, including the PRC, Japan, Korea and Europe. In addition, we have registered “Himax and logo” as trademarks in Taiwan, China, Europe, Singapore, Korea and Japan and the United States, as well as “EMZA VISUAL SENSE and logo” and “WISEEYE” as trademarks in Israel and the United States.

Competition

The markets for our products are, in general, intensely competitive, characterized by continuous technological change, evolving industry standards, and declining average selling prices. We believe key factors that differentiate the competition in our industry include:

- customer relations;
- product performance;
- design customization;
- development time;
- product integration;
- technical services;
- manufacturing costs;
- supply chain management;
- timely delivery;
- economies of scale; and
- broad product portfolio.

We continually face intense competition from fabless display driver companies, including Fitipower Integrated Technology, Inc., FocalTech Systems Co., Ltd., Novatek Microelectronics Corp., Raydium Semiconductor Corporation, Sitronix Technology Co., Ltd., Silicon Works Co. Ltd., and Synaptics Incorporated. We also face competition from integrated device manufacturers, such as Rohm Co., Ltd.

Many of our competitors, some of whom are affiliated or have established relationships with other panel manufacturers, have longer operating histories, greater brand recognition and significantly greater financial, manufacturing, technological, sales and marketing, human and other resources than we do. Additionally, we expect that as the flat panel semiconductor industry expands, more companies may enter and compete in our markets.

For touch controller ICs, we compete with worldwide suppliers, such as Cypress Semiconductor Corp., Synaptics Inc, FocalTech Systems Limited and Shenzhen Huiding Technology Co., Ltd.

Our monitor semiconductor solutions compete against solutions offered by a significant number of semiconductor companies including Mstar Semiconductor, Inc., Novatek Microelectronics Corp., and Realtek Semiconductor Corp. For 2D to 3D conversion solutions, we face competition from Mediatek Corp. and Mstar Semiconductor, Inc.

For LCOS microdisplay products, we face competition from OmniVision, Jasper, Citizen, Syndiant, Kopin, Compound Photonics and RAONTECH. We also compete with alternative microdisplay technology providers such as Texas Instruments with DLP, Sony with Micro OLED and Bosch with scanning mirror.

For power ICs, we face competition from Taiwan companies including Global Mixed-mode Technology Inc., Advanced Analog Technology, Inc and On-Bright Electronics Co. We also compete with worldwide suppliers such as Maxim Integrated Products, Inc., Texas Instruments Incorporated and Rohm Co., Ltd.

For CMOS image sensor products, our focus is on machine vision. Competition in this space is primarily from OmniVision Technologies Inc. and Sony Corporation.

For wafer level optics products, we face competition primarily from Heptagon that was acquired by ams AG.

For 3D sensing, the Qualcomm/Himax solution is by far the best performing 3D sensing and face recognition total solution available for the Android smartphone market right now. Himax is the only one to provide the one-stop solution though there are more companies jumping into the game. ams AG will be the main competitor we face in the worldwide while Orbbec and Mantis Vision will be the competitors in China.

Insurance

We maintain insurance policies on our buildings, equipment and inventories covering property damage and damage due to, among other events, fires, typhoons, earthquakes and floods. We maintain these insurance policies on our facilities and on transit of inventories. Additionally, we maintain director and officer liability insurance. We do not have insurance for business interruptions, nor do we have key person insurance.

Environmental Matters

The business of semiconductor design does not cause any significant pollution. Himax Taiwan maintains a color filter facility and a wafer level optics facility and Himax Display maintains a facility for our LCOS products as well as Himax IGI operates under the designated facility related for 3D mask production, where we have taken the necessary steps to obtain the appropriate permits and believe that we are in compliance with the existing environmental laws and regulations in the ROC and US jurisdiction applicable. In addition, we have entered into various agreements with certain customers whereby we have agreed to indemnify them, and in certain cases, their customers, for any claims made against them for hazardous material violations that are found in our products.

4.C. Organizational Structure

The following chart sets forth our corporate structure and ownership interest in each of our principal operating subsidiaries and affiliates as of February 28, 2019.

The following table sets forth summary information for our subsidiaries as of February 28, 2019.

Subsidiary	Main Activities	Jurisdiction of Incorporation	Percentage of Our Ownership Interest
Himax Technologies Limited	IC design and sales	ROC	100.0%
Himax Technologies Korea Ltd.	IC design and sales	South Korea	100.0%
Himax Technologies (Samoa), Inc.	Investments	Samoa	100.0% ⁽¹⁾
Himax Technologies (Suzhou) Co., Ltd.	Sales and technical support	PRC	100.0% ⁽²⁾
Himax Technologies (Shenzhen) Co., Ltd.	Sales and technical support	PRC	100.0% ⁽²⁾
Himax Display, Inc.	LCOS and MEMS design, manufacturing and sales	ROC	82.7% ⁽¹⁾
Integrated Microdisplays Limited	LCOS design	Hong Kong	82.7% ⁽³⁾
Himax Display (USA) Inc.	LCOS and MEMS design, sales and technical support	Delaware, USA	82.7% ⁽³⁾
Himax Analogic, Inc.	IC design and sales	ROC	98.6% ⁽¹⁾
Himax Imaging, Inc.	Investments	Cayman Islands	100.0%
Himax Imaging, Ltd.	IC design and sales	ROC	93.7% ⁽¹⁾
Himax Imaging Corp.	IC design	California, USA	93.7% ⁽⁴⁾
Himax Media Solutions, Inc.	TFT-LCD television and monitor chipset operations, ASIC service and IP Licensing	ROC	99.2% ⁽¹⁾
Harvest Investment Limited	Investments	ROC	100.0% ⁽¹⁾
Himax Technologies Japan Ltd.	Sales	Japan	100.0%
Himax Semiconductor (Hong Kong) Limited	Investments	Hong Kong	100.0%
Liqxtal Technology Inc.	LC Lens design and sales	ROC	64.0% ⁽¹⁾
Himax IGI Precision Ltd.	3D micro and nano structure mastering and prototype replication	Delaware, USA	100.0% ⁽¹⁾
Emza Visual Sense Ltd.	Visual sensors and efficient machine vision algorithm	Israel	100.0% ⁽¹⁾

(1) Indirectly, through our 100.0% ownership of Himax Technologies Limited.

(2) Indirectly, through our 100.0% ownership of Himax Technologies (Samoa), Inc.

(3) Indirectly, through our 82.7% ownership of Himax Display, Inc.

(4) Indirectly, through our 93.7% ownership of Himax Imaging, Ltd.

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4.D. Property, Plants and Equipment

Our corporate headquarters are located at a 22,172 square meter facility within the Tree Valley Industrial Park in Tainan, Taiwan. The facility houses our research and development, engineering, sales and marketing, operations and general administrative staff.

We also lease office space in Taipei, Hsinchu and Tainan, Taiwan; Suzhou, Shenzhen, Foshan, Beijing, Shanghai, Ningbo, Wuhan, Hefei, Xiamen, Chongqing, China; Tokyo, Japan; Asan-si and Bundang-gu, South Korea; Givatayim, Israel; and Irvine and Campbell, California and Minneapolis, Minnesota, USA. The lease contracts may be renewed upon expiration.

We have established under Himax Taiwan an in-house WLO facility for the key process of our products, with 1,171 square meters of floor space in a building leased from Innolux, which already produced and shipped over 50 million optics to tier-1 customer from 2010. We have also expanded certain facilities for LCOS and WLO products to accommodate new customers and new applications located at our headquarters in Tainan, Taiwan. In addition, Himax Taiwan owns and operates a fab with 1,431 square meters of floor space in a building leased from Innolux in Tainan, where it established an in-house color filter facility that commenced shipments from 2010. This in-house facility provides color filter for CMOS image sensor and LCOS products. The color filter line is a critical and unique process for our proprietary single-panel color LCOS microdisplays. An in-house color filter facility enhances the competitiveness of our color-filter LCOS microdisplays products and creates value for our customers.

We began construction of our new building in March 2017, located nearby the current headquarters. The new building houses additional WLO capacity, the new active alignment equipment needed for our SLiM™ 3D sensing business and provide extra office space. The construction of the new building has been completed on schedule. The capital expenditure for 2018 and 2017 was \$49.7 million and \$39.3 million, respectively, of which \$7.6 million and \$6.3 million was for the investment of design tools and R&D related equipment related to our traditional IC design business. Other capital expenditures include mainly investment in a new office building, capacity expansion for 3D sensing business and land lease, which we paid \$42 million in 2018 versus \$33 million in 2017. In 2019, we anticipate continued payments for the above capex items to be totaling around \$39 million including a payment of \$27.7 million for the land, which will conclude the current phase of capital expenditure.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with our audited consolidated financial statements and their accompanying notes included elsewhere herein. Such consolidated annual financial statements are our first financial statements prepared in accordance with IFRS. Pursuant to the transitional relief granted by the SEC in respect of the first-time application of IFRS, no comparative information in respect to the audited consolidated financial statements and no financial information prepared under IFRS for the year ended December 31, 2016 have been included in this annual report. Consequently, no discussion is included for the year 2016.

5.A. Operating Results

Overview

We are a fabless semiconductor solution provider dedicated to display imaging processing technologies. We are a worldwide market leader in display driver ICs and timing controllers used in TVs, laptops, monitors, mobile phones, tablets, digital cameras, car navigation, virtual reality (VR) devices and many other consumer electronics devices. Additionally, we design and provide controllers for touch sensor displays, in-cell Touch and Display Driver Integration (TDDI) single-chip solutions, LED driver ICs, power management ICs, scaler products for monitors and projectors, tailor-made video processing IC solutions, silicon IPs and LCOS micro-displays for augmented reality (AR) devices and head-up displays (HUD) for automotive. We also offer digital camera solutions, including CMOS image sensors and wafer level optics for AR devices, 3D sensing and machine vision, which are used in a wide variety of applications such as mobile phone, tablet, laptop, TV, PC camera, automobile, security, medical devices, home appliance and Internet of Things. For display drivers and display-related products, our customers are panel manufacturers, agents or distributors, module manufacturers and assembly houses. We also work with camera module manufacturers, optical engine manufacturers, and television system manufacturers for various non-driver products.

We commenced operations through our predecessor, Himax Taiwan, in June 2001. We must, among other things, continue to expand and diversify our customer base, broaden our product portfolio, maintain our leading technology position, achieve additional design wins and manage our costs to partially mitigate declining average selling prices and any other market risks in order to maintain our profitability. Moreover, we must continue to address the challenges of being a growing technology company, including hiring and retaining managerial, engineering, operational and financial personnel and implementing and improving our existing administrative, financial and operations systems.

We operate primarily in a fabless business model that utilizes substantially third-party foundry and assembly and testing capabilities. We leverage our experience and engineering expertise to design high-performance semiconductors and rely largely on third-party semiconductor manufacturing service providers for wafer fabrication, gold bumping, assembly and testing with the exception of manufacturing of LCOS microdisplay and wafer level optics products, which we manufacture through our own factories. We are able to take advantage of the economies of scale and the specialization of our third-party semiconductor manufacturing service providers. Our primarily fabless model enables us to capture certain financial and operational benefits, including reduced manufacturing personnel, capital expenditures, fixed assets and fixed costs. It also gives us the flexibility to use the technology and service providers that are the most suitable for any given product. For LCOS microdisplay and wafer level optics products, our in-house factories enable us to protect our proprietary technologies and manufacturing expertise in the effort to further expand these businesses.

As our semiconductors are critical components of flat panel displays, our industry is closely linked to the trends and developments of the flat panel display industry, in particular, the TFT-LCD panel segment. The majority of our revenues in 2018 were derived from sales of display drivers that were eventually incorporated into TFT-LCD panels. We expect display drivers for TFT-LCD panels to continue to be our primary products. The TFT-LCD panel industry is intensely competitive and is vulnerable to cyclical market conditions. The average selling prices of TFT-LCD panels could decline for numerous reasons, which could in turn result in downward pricing pressure on our products. See “Item 3.D. Key Information–Risk Factors–Risks Relating to Our Financial Condition and Business–We derive the majority of our net revenues from sales to the TFT-LCD panel industry, which is highly cyclical and subject to price fluctuations. Such cyclicity and price fluctuations could negatively impact our business or results of operations.” The revenue expansion of our non-driver products as well as TFT-LCD product trending toward high resolution and any other new product introduction help to mitigate these risks.

Factors Affecting Our Performance

Our business, financial position and results of operations, as well as the period-to-period comparability of our financial results, are significantly affected by a number of factors, some of which are beyond our control, including:

- average selling prices;
- unit shipments;
- product mix;
- design wins;
- cost of revenues and cost reductions;
- supply chain management;
- share-based compensation expenses; and
- tax credits.

Average Selling Prices

Our performance is affected by the selling prices of each of our products. We price our products based on several factors, including manufacturing costs, life cycle stage of the product, competition, technical complexity of the product, size of the purchase order and our relationship with the customer. We typically are able to charge the highest price for a product when it is first introduced. Although from time to time we are able to raise our selling prices during times of supply constraints, our average selling prices typically decline over a product's life cycle, which may be offset by changes in conditions in the semiconductor industry such as constraints in foundry capacity. The general trend in the semiconductor industry is for the average selling prices of semiconductors to decline over a product's life cycle due to competition, production efficiencies, emergence of substitutes and technological obsolescence. Our cost reduction efforts also contribute to this decline in average selling prices. See “—Cost of Revenues and Cost Reductions.”

From 2011 to 2014, smartphone and tablet boom across the world created impressive demand of TFT-LCD panels. The phenomenal smartphone market growth naturally invited intense competition in the driver IC space, especially in the lower-end segments, resulting in severe ASP pressure. In the second half of 2015, over-supply issues happened to the large-sized TFT-LCD panel industry again. As high inventory level was built up in the first half of 2015 along with new capacity ramp from China panel makers, ASP pressure became intense as a result. In the first half of 2016, our large-sized display drivers suffered from another ASP erosion due to the oversupply in large-sized TFT-LCD panel industry. Large-sized display drivers and small and medium-sized panel driver business also experienced ASP erosion in 2017. In addition, our average selling prices are affected by the size and bargaining power of our customers. The merger of CMO, the predecessor of Innolux and TPO could negatively affect our ability to maintain, if not raise, our selling prices. In addition, as new China panel makers emerge in the marketplace and continue to expand their capacity, China panel makers' bargaining power will increase accordingly, negatively impacting our average selling price. Our average selling prices are also affected by the packaging type our customers choose as well as the level of product integration. See “—Product Mix” below. Lastly, competition level affects our average selling prices as well. For example, as competitors have started to enter into the smartphone driver IC space and compete aggressively to get market share since the second quarter of 2012, average selling prices of smartphone driver IC for mid to low-end resolution have been under pressure since then. However, the impact of declining average selling prices on our profitability might be offset or mitigated to a certain extent by increased volume as lower prices may stimulate demand and thereby drive sales and TFT-LCD panel products trending toward higher resolution and Touch and Display Driver Integration (TDDI) single-chip solutions which creates a higher barrier of entry, less competition and higher profit margins.

Unit Shipments

Our performance is also affected by the number of semiconductors we ship, or unit shipments. As our display drivers are critical components of flat panel displays, our unit shipments depend primarily on our customers' panel shipments among other factors. Our unit shipments have grown since our inception primarily as a result of our increased market share with certain major customers and their increased shipments of panels. Our growth in unit shipments also

reflected the demand for higher resolution panels which typically require more display drivers. However, the development of higher channel display drivers or new technologies, if successful, could potentially reduce the number of display drivers required for each panel while achieving the same resolution. If such technologies become commercially available, the market for our display drivers will be reduced and we could experience a decline in revenue and profit.

Product Mix

The proportion of our revenues that is generated from the sale of different product types, also referred to as product mix, also affects our average selling prices, revenues and profitability. Our display driver products vary depending on, among other things, the number of output channels, the level of integration and the package type. Variations in each of these specifications could affect the average selling prices of such products. For example, the trend for display drivers for use in large-sized panels is toward products with a higher number of channels, which typically command higher average selling prices than traditional products with a lower number of channels. However, panels that use higher-channel display drivers typically require fewer display drivers per panel. As a result, our profitability will be adversely affected to the extent that the decrease in the number of display drivers required for each panel is not offset by increased total unit shipments and/or higher average selling prices for display drivers with a higher number of channels. The level of integration of our display drivers also affects average selling prices, as more highly integrated chips typically have higher selling prices. Additionally, average selling prices are affected by changes in the package types used by our customers. For example, the chip-on-glass package type typically has lower material costs because no processed tape is required. Moreover, our different non-driver products vary in average selling prices and costs.

The proportion of non-driver business would also affect our financial position and results of operations. For the past three years, we have experienced operating losses from our non-driver business. This was partly due to low sales volume during these periods that led to insufficient revenue to fully cover expenses such as research and development and operating expenses. We expect, however, to ramp up the volume production and sales of our non-driver products in the future and generate positive operation income from such non-driver products. In addition, given that our non-driver products have higher gross margins and higher growth potential than our driver products, we expect the overall profit margin across our product platform to improve.

Design Wins

Achieving design wins is important to our business, and it affects our unit shipments. Design wins occur when a customer incorporates our products into their product designs. There are numerous opportunities for design wins, including, but not limited to, when panel manufacturers:

- introduce new models to improve the cost and/or performance of their existing products or to expand their product portfolio;
- establish new fabs and seek to qualify existing or new component suppliers; and
- replace existing display driver companies due to cost or performance reasons.

Design wins are not binding commitments by customers to purchase our products. However, we believe that achieving design wins is an important performance indicator. Our customers typically devote substantial time and resources to designing their products as well as qualifying their component suppliers and their products. Once our products have been designed into a system, the customer may be reluctant to change its component suppliers due to the significant costs and time associated with qualifying a new supplier or a replacement component. Therefore, we strive to work closely with current and prospective customers in order to anticipate their requirements and product roadmaps and achieve additional design wins.

Cost of Revenues and Cost Reductions

We strive to control our cost of revenues. Our cost of revenues as a percentage of total revenues in 2017 and 2018 was 75.6% and 76.7%, respectively. In 2018, as a percentage of Himax Taiwan's total manufacturing costs, the cost of wafer fabrication was 51.7%, the cost of processed tape was 11.2%, the cost of assembly and testing was 36.2%, and

overhead was 0.9%. Our cost of revenues may increase as a result of an increase in raw material prices, any failure to obtain sufficient foundry, assembly or testing capacity or any shortage of processed tape or failure to improve our manufacturing utilization rate or production yield. As a result, our ability to manage our wafer fabrication costs, costs for processed tape, and assembly and testing costs is critical to our performance. In addition, to mitigate declining average selling prices, we aim to reduce unit costs by, among other things:

improving product design (e.g., having smaller die size allows for a larger number of dies on each wafer, thereby reducing the cost of each die);

improving manufacturing yields through our close collaboration with our semiconductor manufacturing service providers and in our in-house manufacturing facilities; and

achieving better pricing from a diversified pool of semiconductor manufacturing service providers and suppliers, reflecting our ability to leverage our scale, volume requirements and close relationships as well as our strategy of sourcing from multiple service providers and suppliers.

Supply Chain Management

Due to the competitive nature of the flat panel display industry and our customers' need to maintain high capacity utilization in order to reduce unit costs per panel, any delays in the delivery of our products could significantly disrupt our customers' operations. To deliver our products on a timely basis and meet the quality standards and technical specifications our customers require, we must have assurances of high-quality capacity from our semiconductor manufacturing service providers. We therefore strive to manage our supply chain by maintaining close relationships with our key semiconductor manufacturing service providers and strive to provide credible forecasts of capacity demand and seek for new manufacturing service providers in case of any manufacturer's capacity shortage. Any disruption to our supply chain could adversely affect our performance and could result in a loss of customers as well as potentially damage our reputation.

Share-Based Compensation Expenses

Our results of operations have been affected by, and we expect our results of operations to continue to be affected by, our share-based compensation expenses, which consist of charges taken relating to grants of mainly RSUs as well as non-vested shares to employees.

Restricted Share Units (RSUs). We adopted two long-term incentive plans in October 2005 and September 2011, respectively, which permit the grant of options or RSUs to our employees and non-employees where each unit represents two ordinary shares. The actual awards will be determined by our compensation committee. The 2005 plan was terminated in October 2010. We recognized share-based compensation expenses under the long-term incentive plan totaling \$6.9 million and \$4.1 million in 2017 and 2018, respectively. See “—Critical Accounting Policies and Estimates—Share-Based Compensation Expenses.” Of the total share-based compensation expenses recognized, \$6.1 million and \$3.8 million in 2017 and 2018, respectively, were settled in cash. We measure and recognize compensation expense for all share-based payments at fair value.

Set forth below is a summary of our historical share-based compensation plans for the years ended December 31, 2017 and 2018 as reflected in our consolidated financial statements.

We made grants of 1,219,791 RSUs to our employees on September 26, 2014. The vesting schedule for such RSU grants is as follows: 82.57% of the RSU grants vested immediately and were settled by cash in the amount of \$9.3 million on the grant date, with the remainder vesting equally on each of September 30, 2015, 2016 and 2017, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 597,596 RSUs to our employees on September 25, 2015. The vesting schedule for such RSU grants is as follows: 94.15% of the RSU grants vested immediately and were settled by cash in the amount of \$4.5 million on the grant date, with the remainder vesting equally on each of September 30, 2016, 2017 and 2018, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 1,208,785 RSUs to our employees on September 28, 2016. The vesting schedule for such RSU grants is as follows: 91.93% of the RSU grants vested immediately and were settled by cash in the amount of \$9.2 million on the grant date, with the remainder vesting equally on each of September 30, 2017, 2018 and 2019, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 580,235 RSUs to our employees on September 29, 2017. The vesting schedule for such RSU grants is as follows: 96.91% of the RSU grants vested immediately and were settled by cash in the amount of \$6.1 million on the grant date, with the remainder vesting equally on each of September 30, 2018, 2019 and 2020, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 676,273 RSUs to our employees on September 26, 2018. The vesting schedule for such RSU grants is as follows: 97.15% of the RSU grants vested immediately and were settled by cash in the amount of \$3.8 million on the grant date, with the remainder vesting equally on each of September 30, 2019, 2020 and 2021, which will be settled by our ordinary shares, subject to certain forfeiture events.

The amount of share-based compensation expense with regard to the RSUs granted to our employees on September 26, 2014, September 25, 2015, September 28, 2016, September 29, 2017 and September 26, 2018 was \$9.27 per ADS, \$7.92 per ADS, \$8.30 per ADS, \$10.93 per ADS and \$5.76 per ADS, respectively, which was based on the trading price of our ADSs on that day.

Tax Credits

Our results of operations have been affected by, and we expect our results of operations to continue to be affected by, tax credits available to us.

The Statute for Industrial Innovation entitles companies to tax credits for qualifying research and development expenses related to innovation activities but limits the amount of tax credit to only up to 15% of the total qualifying research and development expenditure for the current year, subject to a cap of 30% of the income tax payable for the current year. Moreover, any unused tax credits provided under the Statute for Industrial Innovation may not be carried forward.

Based on the amendments to the above, effective from January 1, 2016 to December 31, 2019, if companies choose to extend the tax credits to three years, the tax credit rate will be 10% of the total qualifying research and development expenditure for the current year and subject to a cap of 30% of the income tax payable for each year. The ROC Executive Yuan has proposed to extend the Statute for Industrial Innovation to December 31, 2029 and keep the tax credits for qualifying research and development expenses related to innovation activities. The final extension and amendment is still waiting for the ROC Legislative Yuan passing the third reading.

Description of Certain Statements of Profit or Loss Line Items

Revenues

Historically, we have generated revenues from sales of display drivers for large-sized applications, display drivers for mobile handsets and display drivers for consumer electronics products. In addition, our product portfolio includes operational amplifiers, timing controllers, touch controller ICs, TFT-LCD television and monitor semiconductor solutions, LCOS microdisplay solutions, power management ICs, CMOS image sensors, 3D sensing solution, wafer level optics products, ASIC service and IP licensing.

Revenues from large-sized application totaled \$260.5 million in 2018, an increase of 15.9% year-over-year, representing 36.0% of our total revenues, as compared to 32.8% in 2017. The strong year-over-year growth was primarily driven by the market's 4K TV demands and our Chinese panel customers' continued ramping of new LCD fabs. Revenues from small and medium-sized applications totaled \$325.7 million in 2018, an increase of 6.8% year-over-year, representing 45.0% of our total revenues, as compared to 44.5% in 2017. Combing TDDI and traditional discrete smartphone driver, sales into mobile handsets application in this segment declined 1.2% in 2018 attributed to the notably decreased shipment of the traditional driver IC as the market is being quickly replaced by TDDI and AMOLED, yet Himax only made a small amount of shipment for TDDI in 2018 when we suffered from foundry capacity shortage. In 2018, display drivers for consumer electronics applications increased 11.5% mainly due to the significant year-over-year growth of automotive business but offset by the decline of our tablet and other consumer electronics businesses. Revenues from non-driver products totaled \$137.4 million in 2018, a decrease of 11.6% year-over-year, representing 19.0% of our total revenues, as compared to 22.7% a year ago. The year-over-year decrease was due mainly to receive a reimbursement from a certain customer totaling \$13.3 million booked in 2017 in relation to the AR goggle business. Excluding \$13.3 million, the year-over-year decrease was 3.3%.

The following table sets forth, for the periods indicated, our revenues by amount and our revenues as a percentage of revenues by each product line:

	Year Ended December 31,			
	2017	2018	2017	2018
	Amount	Percentage of Revenues	Amount	Percentage of Revenues
Display drivers for large-sized applications	\$224,798	32.8	\$260,540	36.0
Display drivers for mobile handsets applications	113,591	16.6	112,221	15.5
Display drivers for consumer electronics applications	191,458	27.9	213,497	29.5
Non-driver products ⁽¹⁾	155,320	22.7	137,347	19.0
Total	\$685,167	100.0	\$723,605	100.0

Includes, among other things, timing controllers, touch controller ICs, TFT-LCD television and monitor Note: (1) chipsets, LCOS projector solutions, power management IC, CMOS image sensors, programmable gamma OP, wafer level optics (WLO) products, scaler, NRE incomes, ASIC service and IP licensing.

A limited number of customers account for substantially all our revenues. For example, Customer A and its affiliates accounted for 25.8% and 28.1% of our revenues in 2017 and 2018, respectively. Customer B and its affiliates accounted for 15.5% and 12.6% of our revenues in 2017 and 2018, respectively.

	Year Ended December 31,			
	2017	2018	2017	2018
	Amount	Percentage of Revenues	Amount	Percentage of Revenues
(in thousands, except percentages)				
Customer A and its affiliates	\$176,728	25.8	\$202,995	28.1
Customer B and its affiliates	106,380	15.5	90,844	12.6
Others	402,059	58.7	429,766	59.3
Total	\$685,167	100.0	\$723,605	100.0

The global TFT-LCD panel market is highly concentrated, with only a limited number of TFT-LCD panel manufacturers producing large-sized TFT-LCD panels in high volumes. We sell large-sized panel display drivers to many of these TFT-LCD panel manufacturers. Our revenues, therefore, will depend on our ability to capture an increasingly larger percentage of each panel manufacturer's display driver requirements. Our sales to panel makers in

China grew significantly in 2017 and 2018 due to the Chinese panel maker business expansion which started in 2011. These sales have become a significant portion of our revenue.

We derive substantially all of our revenues from sales to Asia-based customers whose end products are sold worldwide. In 2017 and 2018, approximately 25.8% and 23.2% of our revenues, respectively, were from customers headquartered in Taiwan and approximately 61.5% and 66.4% of our revenues, respectively, were from customers headquartered in China. We believe that substantially all of our revenues will continue to be from customers located in Asia, where almost all of the TFT-LCD panel manufacturers and mobile device module manufacturers are located. As a result of the regional customer concentration, we expect to continue to be subject to economic and political events and other developments that affect our customers in Asia. A substantial majority of our sales invoices are denominated in U.S. dollars.

Costs and Expenses

Our costs and expenses consist of cost of revenues, research and development expenses, general and administrative expenses, sales and marketing expenses and share-based compensation expenses. Costs would be greatly affected by product mix.

Cost of Revenues

The principal items of our cost of revenues are:

- cost of wafer fabrication;
- cost of processed tape used in TAB packaging;
- cost of gold bumping, assembly and testing; and
- other costs and expenses.

We outsource the manufacturing of our semiconductors and semiconductor solutions to semiconductor manufacturing service providers. The costs of wafer fabrication, gold bumping, assembly and testing depend on the availability of capacity and demand for such services. The wafer fabrication industry, in particular, is highly cyclical, resulting in fluctuations in the price of processed wafers depending on the available foundry capacity and the demand for foundry services.

Research and Development Expenses

Research and development expenses consist primarily of research and development employee salaries, including related employee welfare costs, costs associated with prototype wafers, processed tape, masks, molding and tooling sets and depreciation on research and development equipment. We believe that we will need to continue to spend a significant amount on research and development in order to remain competitive. We expect to continue increasing our spending on research and development in absolute dollar amounts in the future as we continue to increase our research and development headcount and associated costs to pursue additional product development opportunities. As a percentage of revenues, our research and development expenses in 2017 and 2018 were 17.2% and 17.0%, respectively.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries of general and administrative employees, including related employee welfare costs, depreciation on buildings, office furniture and equipment, rent and professional fees. We anticipate that our general and administrative expenses will increase in absolute dollar amounts as we expand our operations, hire additional administrative personnel, incur depreciation expenses in connection with the increase in office equipment and new building, and incur additional compliance costs required of a publicly listed company in the United States.

Sales and Marketing Expenses

Our sales and marketing expenses consist primarily of salaries of sales and marketing employees, including related employee welfare costs, travel expenses and product sample costs. We expect that our sales and marketing expenses will increase in absolute dollar amounts over the next several years. However, we believe that as we continue to achieve greater economies of scale and operating efficiencies, our sales and marketing expenses may decline over time as a percentage of our revenues.

Share-Based Compensation Expenses

Our share-based compensation expenses consist of various forms of share-based compensation that we have historically issued to our employees and consultants, as well as share-based compensation issued to employees, directors and service providers under our 2005 and 2011 long-term incentive plans. The 2005 plan was terminated in October 2010. We allocate such share-based compensation expenses to the applicable cost of revenues and expense categories as related services are performed. See note 19 to our consolidated financial statements. Under the long-term incentive plan, we granted RSUs on December 30, 2005 to our employees and directors and again on September 29, 2006, September 26, 2007, September 29, 2008, September 28, 2009, September 28, 2010, September 28, 2011, September 26, 2012, September 26, 2013, September 26, 2014, September 25, 2015, September 28, 2016, September 29, 2017 and September 26, 2018 to our employees. Share-based compensation expenses recorded under the long-term incentive plan totaled \$6.9 million and \$4.1 million in 2017 and 2018, respectively. See “—Critical Accounting Policies and Estimates—Share-Based Compensation” for further discussion of the accounting of such expenses.

Income Taxes

Since we and our direct and indirect subsidiaries are incorporated in different jurisdictions, we file separate income tax returns. Under the current laws of the Cayman Islands, we are not subject to income or capital gains tax. Additionally, dividend payments made by us are not subject to withholding tax in the Cayman Islands. However, if the relevant bylaws of the PEM rules have been adequately enacted and properly advocated, we may be determined to be within the territory of the ROC and our income tax shall be levied in accordance with the Income Tax Act and relevant tax regulations. Therefore, dividend payments made by us would be subject to withholding tax in the ROC. We recognize income taxes at the applicable statutory rates in accordance with the jurisdictions where our subsidiaries are located and as adjusted for certain items including accumulated losses carried forward, non-deductible expenses, research and development tax credits, certain tax holidays, as well as changes in our deferred tax assets and liabilities.

Our effective income tax rate was 15.1% in 2017 and 14.2% in 2018.

ROC law offers preferential tax treatments to industries that are encouraged by the ROC government. The Statute for Industrial Innovation entitles companies to tax credits for qualifying research and development expenses related to innovation activities but limits the amount of tax credit to only up to 15% of the total qualifying research and development expenditure for the current year, subject to a cap of 30% of the income tax payable for the current year. Moreover, any unused tax credits provided under the Statute for Industrial Innovation may not be carried forward.

Based on the amendments to the above, effective from January 1, 2016 to December 31, 2019, if companies choose to extend the tax credits to three years, the tax credit rate will be 10% of the total qualifying research and development expenditure for the current year and subject to a cap of 30% of the income tax payable for each year.

The ROC Executive Yuan has proposed to extend the Statute for Industrial Innovation to December 31, 2029 and keep the tax credit for qualifying research and development expenses related to innovation activities. The final extension and amendment is still waiting for the ROC Legislative Yuan passing the third reading.

According to the amendments to the "Income Tax Act" enacted by the office of the President of the ROC on February 7, 2018, an increase in the statutory income tax rate from 17% to 20% and decrease in the undistributed earning tax from 10% to 5% are effective from January 1, 2018. This increase does not affect the amounts of the current or deferred taxes recognized for the year ended December 31, 2017. However, it would affect the Company's current tax expense from 2018, and deferred taxes were remeasured in 2018, the period of enactment.

On December 22, 2017, the U.S. President Trump signed into law H.R. 1, known as the “Tax Cuts and Jobs Act” that significantly changes the United States federal income tax system. Among a number of significant changes to the current United States federal income tax rules, the Tax Cuts and Jobs Act reduces the marginal United States corporate income tax rate from 35% to 21%, limits the deduction for net interest expense, shifts the United States toward a more territorial tax system, and imposes new taxes to combat erosion of the United States federal income tax base. The Company does not expect the Tax Cuts and Jobs Act to have a material effect on the Company’s results of operations.

Critical Accounting Policies and Estimates

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements in accordance with IFRS.

Share-Based Compensation

Share-based compensation primarily consists of grants of non-vested or restricted shares of common stock, stock options and RSUs issued to employees. The cost of employee services received in exchange for share-based compensation is measured based on the grant-date fair value of the share-based instruments issued. The cost of employee services is equal to the grant-date fair value of shares issued to employees and is recognized in earnings over the service period by graded vesting. Share-based compensation expense estimates also take into account the number of shares awarded that management believes will eventually vest. We adjust our estimate for each period to reflect the current estimate of forfeitures. As of December 31, 2018, we based our share-based compensation cost on an assumed forfeiture rate of 4.2% per annum for RSUs issued in 2016, 0% per annum for RSUs issued in 2017 and 0% per annum for RSUs issued in 2018, respectively, under our long-term incentive plan. If actual forfeitures occur at a lower rate, share-based compensation costs will increase in future periods.

For our issuance of RSUs in 2017 and 2018, the fair value of the ordinary shares underlying the RSUs granted to our employees was \$10.93 and \$5.76 per unit, respectively, which was the closing price of our ADSs on September 29, 2017 and September 26, 2018, respectively.

Loss Allowance for Accounts Receivable

We evaluate our outstanding accounts receivable on a monthly basis for collectability purposes. The loss allowance for accounts receivable is measured at an amount using the simplified approach under IFRS 9 with the lifetime expected credit losses. To measure the expected credit losses, accounts receivable have been grouped based on the days past due, as well as incorporated forward looking information, including relevant industry information. The activity in the loss allowance for accounts receivable for the years ended December 31, 2017 and 2018 are as follows:

Loss Allowance

Year	Balance at Beginning of Year	Charges to Earnings	Amounts Utilized / write-offs	Balance at End of Year
	(in thousands)			
2017	\$ 1,395	\$ 155	\$ (1,550)	\$ -
2018	\$ -	\$ 290	\$ -	\$ 290

Inventory

Inventories are stated at the lower of cost and net realizable value, and we use judgment and estimate to determine the net realizable value of inventory at the end of each reporting period. Due to the rapid technological changes, we estimate the net realizable value of inventory for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon. The inventory write-downs in 2017 and 2018 were approximately \$12.3 million and \$17.7 million, respectively, and were included in cost of revenues in our consolidated statements of profit or loss.

Impairment of Non-financial Assets other than Goodwill

We routinely review our non-financial assets at the reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. However, due to the cyclical nature of our industry and changes in our business strategy, market requirements, or the needs of our customers, we may not always be in a position to accurately anticipate declines in the utility of our equipment or acquired technology until they occur. Although we have the recurring losses in non-Driver product segment, we remain positive on the long-term prospect of our non-Driver product segment, judging by the expanding customer list that covers some of the world's biggest tech names, and the busy engineering activities going on with such customers. For the years ended December 31, 2017 and 2018, we did not recognize any impairment loss on non-financial assets.

Goodwill

We evaluate goodwill for impairment at least annually, or more frequently when there is an indication that the cash-generating unit (CGU) may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Company's CGU or groups of CGU that are expected to benefit from the synergies of the combination. If the recoverable amount of a CGU is less than its carrying amount, the difference is allocated first to reduce the carrying amount of any goodwill allocated to such CGU and then to the other assets of the CGU pro rata based on the carrying amount of each asset in the CGU. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

The recoverable amount is the higher of fair value less costs of disposal and value in use. The assessment of impairment of goodwill requires management to make subjective judgment to determine the identified CGU, allocate the goodwill to relevant CGU and estimate the recoverable amount of relevant CGU. In the process of estimating the recoverable amount of relevant CGU, management is required to make subjective judgments in determining the discounted rate, the terminal growth rate, the independent cash flows, useful lives, expected future revenue and expenses related to the CGU.

As of December 31, 2017 and 2018, goodwill in Driver IC CGU and WLO CGU was \$26,846 thousand and \$1,292 thousand, respectively. For the years ended December 31, 2017 and 2018, we did not recognize any impairment loss on goodwill.

Income Taxes

According to the amendments to the Income Tax Act enacted by the office of the President of the ROC on February 7, 2018, effective starting from January 1, 2018, dividends distributed by a Taiwan company to its foreign shareholders are subject to ROC withholding tax, the rate of which increased from 20% to 21% on the amount of the distribution in the case of cash dividends or on the par value of the ordinary shares in the case of stock dividends. The surtax rate for undistributed earnings will be reduced from 10% to 5%. However, surtax paid on undistributed earnings can no longer be used to offset against the withholding tax imposed on the dividend distributed to foreign shareholders.

As of December 31, 2018, we have not provided for retained earnings tax on the undistributed earnings of approximately \$605.7 million of our subsidiaries since we have specific plans to reinvest these earnings indefinitely. The undistributed earnings in our foreign subsidiaries are mainly from Himax Taiwan totaling approximately \$604.8 million as of December 31, 2018. We intend to use accumulated and future earnings of Himax Taiwan to expand operations in Taiwan.

However, a deferred tax liability will be recognized when the Taiwanese company can no longer demonstrate that it plans to reinvest indefinitely these undistributed earnings. This amount becomes taxable when we execute other investments, share buybacks or shareholder dividends to be funded by cash distribution by our foreign subsidiaries. It is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings.

We are a holding company located in the Cayman Islands and have paid dividends and repurchased outstanding shares. To fund such dividends and repurchases, in the past years, we have received cash from bank loans and from Himax Taiwan through intercompany borrowings instead of dividends distributed by Himax Taiwan. At December 31, 2017 and 2018, the amount of cash and cash equivalents held by Himax Taiwan were \$80.1 million and \$86.3 million, respectively, which are not available to fund our ultimate parent company's activities unless the cash is distributed.

As part of the process of preparing our consolidated financial statements, our management is required to estimate income taxes and tax bases of assets and liabilities for us and our subsidiaries. This process involves estimating current tax exposure together with assessing temporary differences resulting from differing treatments of items for tax and accounting purposes and the amount of tax credits and tax loss carry-forward. These differences result in deferred tax assets and liabilities, which are included in the consolidated statements of financial position. Management must then assess deferred tax assets at each reporting date and reduce to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Consolidated Results of Operations

The following table sets forth a summary of our consolidated statements of profit or loss as a percentage of revenues:

	Year Ended December 31,			
	2017		2018	
	100.0	%	100.0	%
Revenues				
Costs and expenses:				
Cost of revenues	75.6		76.7	
Research and development	17.2		17.0	
General and administrative	3.0		2.9	
Sales and marketing	3.0		2.9	
Total costs and expenses	98.8		99.5	
Operating income	1.2		0.5	
Non-operating income, net	3.2		0.5	
Income tax expense	0.7		0.2	
Profit for the year	3.7		0.8	
Loss attributable to noncontrolling interests	0.3		0.4	
Profit attributable to Himax stockholders	4.0		1.2	

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues. Our revenues increased by 5.6% to \$723.6 million in 2018 from \$685.2 million in 2017. The increase was attributable mainly to a 15.9% increase in revenues from display drivers for large-size application to \$260.5 million in 2018 from \$224.8 million in 2017. The strong year-over-year growth was primarily driven by the market's 4K TV demands and our Chinese panel customers' continued ramping of new LCD fabs. Revenues from small and medium-sized applications totaled \$325.7 million in 2018, an increase of 6.8% year-over-year. Combining TDDI and traditional discrete smartphone driver, sales into mobile handsets application in this segment declined 1.2% in 2018 attributed to the notably decreased shipment of the traditional driver IC as the market is being quickly replaced by TDDI and AMOLED, yet Himax only made a small amount of shipment for TDDI in 2018 when we suffered from foundry capacity shortage. The display drivers for consumer electronics applications also recorded a 11.5% increase to \$213.5 million in 2018 from \$191.5 million in 2017 mainly due to the significant year-over-year growth of automotive business but offset by the decline of our tablet and other consumer electronics businesses. However, a 11.6% decrease in revenues occurred from non-driver products to \$137.4 million in 2018 from \$155.3 million in 2017. The year-over-year decrease was due mainly to receive a reimbursement from a certain customer totaling \$13.3 million booked in 2017 in relation to the AR goggle business. Excluding \$13.3 million, the year-over-year decrease was 3.3%. Our average selling prices increased by 4.6%, primarily due to the increase from our core driver IC business, and our unit shipments increased by 0.9% as a result of the increase in large-size application during 2018.

Costs and Expenses. Costs and expenses increased by 6.4% to \$720.2 million in 2018 from \$676.8 million in 2017. As a percentage of revenues, costs and expenses increased to 99.5% in 2018 compared to 98.8% in 2017.

Cost of Revenues. Cost of revenues increased to \$554.7 million in 2018 from \$518.1 million in 2017. The increase in cost of revenues was due primarily to a 0.9% increase in unit shipments in 2018, as compared to 2017. Inventory write-downs, which are included in cost of revenues, increased to \$17.7 million in 2018 from \$12.3 million in 2017. As a percentage of revenues, cost of revenues increased to 76.7% in 2018 from 75.6% in 2017.

Research and Development. Research and development expenses increased by 4.6% to \$123.0 million in 2018 from \$117.7 million in 2017. This increase was primarily attributable to increases in tape-out expense \$4.8 million to capture the increasing business opportunities. The salary expense was little increased in 2018, primarily as a result of higher average salaries and acquiring new subsidiary but offset by lower RSU compensation.

General and Administrative. General and administrative expenses increased by 6.7% to \$21.8 million in 2018 from \$20.5 million in 2017, primarily as a result of increases in salary expenses from acquiring new subsidiary.

Sales and Marketing. Sales and marketing expenses little changed amounting to \$20.4 million in both 2018 and 2017. The sales and marketing expenses little changed primarily as a result of increase in salary expense but offset by decrease in travel expenses and product sample costs.

Non-Operating Income, net. We had net non-operating income of \$3.6 million in 2018 compared to \$21.7 million in 2017. We recognized changes in fair value of financial assets at fair value through profit or loss of \$2.0 million in 2018 and \$23.2 million in 2017, among which, \$23.0 million was from disposal of equity security in 2017. The decrease in changes in fair value of financial assets at fair value through profit or loss was partially offset by re-measurement gain on previously held equity interest in Emza of \$1.7 million included in other income in 2018.

Income Tax Expense. Our income tax expense decreased to \$1.0 million in 2018 from \$4.6 million in 2017. Our effective income tax rate decreased to 14.2% from 15.1% in 2017. The decrease in our effective income tax rate was primarily attributable to recognized \$1.2 million income tax benefit for effect of tax rate changes in 2018 and the lower withholding tax rate on gain on disposal of equity security \$23.0 million included in changes in fair value of financial assets at fair value through profit or loss in 2017.

Profit for the year. As a result of the foregoing, our profit for the year decreased to \$6.0 million in 2018 from \$25.5 million in 2017 and profit attributable to Himax stockholders decreased to \$8.6 million in 2018 from \$27.7 million in 2017.

Segment Results

The following table sets forth the revenues and operating results for our reportable segments for the periods indicated:

	Year Ended December 31,	
	2017	2018
	(in thousands)	
Segment Revenues		
Driver IC	\$ 529,847	\$ 586,258
Non-Driver Products	155,320	137,347
Total	\$ 685,167	\$ 723,605

	Year Ended December 31,	
	2017	2018
	(in thousands)	
Segment Operating Income (loss)		
Driver IC	\$ 43,021	\$ 56,023
Non-Driver Products	(34,662)	(52,638)
Total	\$ 8,359	\$ 3,385

Driver IC Segment

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Segment revenues. Our revenues from the Driver IC segment increased by 10.6% to \$586.2 million in 2018 from \$529.9 million in 2017. The increase was mainly from the increase in display drivers for large-size application and consumer electronics applications. This increase was attributable to a 13.3% increase in our average selling price but partially offset by a 2.3% decrease in unit shipments of our driver IC products.

Segment operating income. Operating income from the Driver IC segment increased to \$56.0 million in 2018 from \$43.0 million in 2017. This increase was primarily attributable to an increase in revenues in 2018 as compared to 2017. As a percentage of segment revenues, segment operating income increased to 9.6% in 2018 from 8.1% in 2017. The increase was mainly from improved gross margin due to a more favorable product mix.

Non-Driver Products Segment

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Segment revenues. Our revenues from the Non-Driver Products segment decreased by 11.6% to \$137.4 million in 2018 from \$155.3 million in 2017. The year-over-year decrease was due mainly to receive a reimbursement from a certain customer totaling \$13.3 million booked in 2017 in relation to the AR goggle business. Excluding \$13.3 million, the year-over-year decrease was 3.3%. This decrease was attributable mainly to a 22.4% decrease in average selling price of our non-driver products but partially offset by an 13.9% increase in unit shipments of the non-driver products.

Segment operating loss. Operating loss from the Non-Driver Products segment increased to \$52.6 million in 2018 from \$34.6 million in 2017. The operating loss increases was attributable mainly to the decrease in revenues and increase in operating expense.

5.B. Liquidity and Capital Resources

We need cash primarily for technology advancement, capacity expansion, paying dividend and working capital. We have historically been able to meet our cash requirements through cash flow from operations and borrowings to pay dividend.

As of December 31, 2018, we had total current assets of \$654.4 million, total current liabilities of \$391.2 million and cash and cash equivalents of \$106.4 million. As of December 31, 2018, we had total short-term borrowings of \$184.0 million with cash and time deposits of \$164.0 million as collateral and did not have any outstanding long-term borrowings. As of December 31, 2018, we had total unused short-term credit lines of \$247.3 million, of which \$30.2 million will expire before the end of March 2019, and \$136.0 million belonging to the parent company needs to be secured with equal amount of cash and time deposits when borrowing money from banks. We believe that our existing short-term credit lines, together with cash generated from our operations, are sufficient to liquidity needs. We expect

to meet our present working capital requirements through cash flow from operations and bank borrowings from time to time.

The following table sets forth a summary of our cash flows for the periods indicated:

	Year Ended December 31,	
	2017	2018
	(in thousands)	
Net cash provided by operating activities	\$ 29,393	\$ 4,009
Net cash used in investing activities	(35,088)	(38,266)
Net cash provided by (used in) financing activities	(41,214)	2,801
Net decrease in cash and cash equivalents	(46,429)	(31,586)
Cash and cash equivalents at beginning of period	184,452	138,023
Cash and cash equivalents at end of period	138,023	106,437

Operating Activities. Net cash provided by operating activities in 2018 was \$4.0 million compared to \$29.4 million in 2017. This decrease in net cash provided by operating activities in 2018 was lower mainly because, in response to capacity shortage of foundry and certain packaging material, we had to keep the inventory level higher than usual. The trend may continue into 2019.

Investing Activities. Net cash used in investing activities in 2018 was \$38.3 million compared to \$35.1 million in 2017. This increase in net cash used in investing activities was due primarily to an increase in cash used for purchasing of property, plant and equipment in 2018 compared to 2017, but offset by an increase in cash provided by disposal of financial assets at fair value through profit or loss in 2018 compared to 2017.

Financing Activities. Net cash provided by financing activities in 2018 was \$2.8 million compared to net cash used in financing activities of \$41.2 million in 2017. This increase was due primarily to a decrease in distribution of cash dividends and an increase in short-term borrowings of \$20 million in 2018.

Our liquidity could be negatively impacted by a decrease in demand for our products that are subject to rapid technological change, among other factors, which could result in revenue variability in future periods. In addition, we have at times agreed to extend the payment terms for certain of our customers. Other customers have also requested extension of payment terms and we may grant such requests for extensions in the future. The extension of payment terms for our customers could adversely affect our cash flow, liquidity and our operating results. Our subsidiaries' ability to distribute dividends and other payments to us may be limited by ROC regulations. See "Risk Factors — Risks Related to Our Holding Company Structure — Our ability to receive dividends and other payments or funds from our subsidiaries may be restricted by commercial, statutory and legal restrictions, and thereby materially and adversely affect our ability to grow, fund investments, make acquisitions, pay dividends and otherwise fund and conduct our business."

Our capital expenditures were incurred primarily in connection with the purchase of property and equipment. Our capital expenditures totaled \$39.3 million and \$49.7 million in 2017 and 2018, respectively, higher than usual capital expenditure due to a new building construction and WLO capacity expansion. In 2018, our significantly higher than usual capital expenditures of \$49.7 million, of which \$7.6 million was for the investment of design tools and R&D related equipment related to our traditional IC design business. Other capital expenditures, mainly investment in a new office building, capacity expansion for 3D sensing business and land lease, which we paid \$42 million in 2018. In 2019, we anticipate continued payments for the above capex items to be totaling around \$39 million including a payment of \$27.7 million for the land, which will conclude the current phase of capital expenditure.

The capex budget will be funded through our internal resources and banking facilities, if so needed. We will continue to make capital expenditures to meet the expected growth of our operations. We believe that our working capital and borrowings under our existing and future credit lines should be sufficient for our present requirements.

5.C. Research and Development

Our research and development efforts focus on improving and enhancing our core technologies and know-how relating to the semiconductor solutions we offer to the flat panel display industry. In particular, we have committed a significant portion of our resources to the research and development of non-driver products because we believe in the long-term business prospects of such products and are committed to continuing to diversify our product portfolio. Although a significant portion of the resources at our integrated circuit design center are invested in advanced research for future products, we continue to invest in improving the performance and reducing the costs of our existing products. Our application engineers, who provide on-system verification of semiconductors and product

specifications, and field application engineers, who provide on-site engineering support at our customers' offices or factories, work closely with panel manufacturers to co-develop display solutions for their electronic devices. In 2017 and 2018, we incurred research and development expenses of \$117.7 million and \$123.0 million, respectively, representing 17.2% and 17.0% of our revenues, respectively.

5.D. Trend Information

Looking into 2019, on the backdrop of an uncertain global economy, the TV panel market is overshadowed by concerns of over-supply and the global smartphone sales are projected to suffer some decline. We are, however, still targeting some top line growth with upside momentum coming from TV and automotive markets as well as significantly more TDDI shipments for smartphone application, where we only made a small amount of shipment in 2018 when we suffered from foundry capacity shortage. We will continue to advance our technologies across key strategic areas. These include, among others, next generation display driver technology for 8K TV and AMOLED, 3D sensing for both mobile phone and non-mobile phone applications and ultra-low power smart sensing where we are seeing rising momentum in new applications such as smart home. Fully aware that we are operating in an uncertain macro environment, we are also putting cost control at the top of our agenda list, targeting to continuing R&D activities across all our strategic areas without raising R&D expenses from 2018. Total operating expense is budgeted to be at around the same level as that of 2018 excluding the anticipated increase in depreciation arising primarily from the construction of the new fab described above.

Large display driver IC business enjoyed strong growth in the second half of 2018 as 4K TV penetration continued to rise globally and China continued to ramp brand new advanced generation LCD fabs. Looking into 2019, while the market is facing the challenge of potential oversupply, we are seeing continued strength in our business, backed by strong design-ins with certain LCD makers who are leading the market in capacity and brand customer engagements. After a lot of engineering efforts, we are now better prepared than 2018 in terms getting the necessary capacity support from our strategic vendors. Notably, most of our panel customers have completed qualifications of our new foundry with their key customers and we have also successfully secured additional COF packaging capacity to meet our customers' TV and monitor demands. 8K TV is a strategic area for Himax because of its much higher display driver and timing controller contents and high technical barrier of entry. With its cost still high and true 8K content still scarce, 8K TV is unlikely to generate much sales in 2019. We are encouraged by the recent establishment of the 8K Association to help develop 8K TV ecosystem and accelerate its adoption.

Small and medium-sized driver sales recorded an increase of 6.8% year-over-year in 2018, driven by the increase of TDDI shipment due to the ramping of the new capacity. While we are positive on the trend of higher TDDI penetration in smartphone in 2019 and our much improved TDDI supply, our TDDI business will nevertheless be challenged by the anticipated lackluster sales of global smartphone market and the expected decline of TDDI's average sales price as competition intensifies. To gain market share in 2019, we are working to secure more design wins by offering new generation TDDI solutions. The new solutions can enable narrow bezel panel design without the usage of COF packaging, which not only is costly but also suffers from serious supply constraint. Several leading panel makers are now sampling panels with our new TDDI solution. As expected, our traditional discrete driver IC sales into smartphone declined by over 25% sequentially in the fourth quarter as the market is being quickly replaced by TDDI and AMOLED. This segment accounted for less than 6% of our total sales in the fourth quarter and will further shrink in 2019. On AMOLED product line, we have been collaborating closely with leading panel makers across China for product development. We believe AMOLED driver ICs will be one of the long-term growth engines for our small panel driver IC business. As to our automotive business, the demands for more sophisticated and higher performing displays are still rising with automakers. We are pleased to see our state-of-the-art technology for super large, end-to-end automotive displays showcased at the CES. In addition, we launched the world's first TDDI design for automotive displays and the technology is scheduled to start shipping within 2019. Our technological prowess will continue to separate us from the rest as, for the next generation display for automotive, we are the leader in all key technologies including TDDI, AMOLED and local dimming timing controller.

The non-driver category has been our most exciting growth area and a differentiator for the Company. We are devoted to the development, manufacturing and marketing of non-driver products to diversify our customer base and product portfolio to offer total solutions of image processing and human interface related technologies in addition to our driver IC products. Our non-driver products delivered the strongest growth in 2014 owing to many new product launches and project wins. During 2016, our non-driver businesses experienced tremendous growth, primarily driven by the LCOS and WLO businesses due to shipments to one of our leading AR device customers. Additionally, our WLO business hit inflection in the middle of 2017 when we began mass shipment to an anchor customer. The overall 2018 shipment increased considerably year-over-year because of the customer's large-scale adoption in more models. We expect WLO shipment volume in 2019 will decline significantly year-over-year starting from the third quarter of 2019 due to a product replacement decision informed by an anchor customer a few days following the Company's last earnings call on February 19, 2019. Despite this setback, we continue to work on new development projects with the anchor customer, in addition to our multiple ongoing projects with other customers.

On 3D sensing, we have participated in most of the smartphone OEMs' ongoing 3D sensing projects covering all three types of technologies, namely structured light, active stereo camera (ASC) and time-of-flight. Depending on the customers' needs, we provide 3D sensing total solution or just the projector module or optics inside the module. At present, 3D sensing adoption for the Android smartphone market remains low. The adoption is hindered primarily by the prevailing high hardware cost of 3D sensing and the long development lead time required to integrate it into the smartphone. Instead of 3D sensing, most of the Android phone makers have chosen the lower cost fingerprint technology which can achieve similar phone unlock and online payment functions with somewhat compromised user experience. Reacting to their lukewarm response, we are working on the next generation 3D sensing with our platform partners aiming to leapfrog the market by providing high performance, easy to adopt and yet cost friendly total solutions, targeting the majority of Android smartphone players. We have a solid product roadmap and plan including new architecture and new algorithm to make it happen. The development progress is on track and the new solution is aiming for smartphone customers' 2020 models. We believe that 3D sensing will be widely used by more Android smartphone makers when more killer applications become available and the ecosystem is able to substantially lower the cost of adoption while offering easy-to-use, fully-integrated total solutions, for which Himax is playing a key part. In the meantime, we are working closely with a number of leading smartphone makers on multiple projects by providing projector module or critical optical components targeting their 2019 or 2020 models. For 3D sensing beyond smartphone, we have started to explore business opportunities in various industries by leveraging our SLiM™ 3D sensing total solution. Such industries are typically less sensitive to cost and always require a total solution. We are collaborating with Kneron, an industry leader in edge-based artificial intelligence in which we have made an equity investment, to develop an AI-enabled 3D sensing solution targeting security and surveillance markets. We are also working with partners/customers on new applications covering home appliances and industrial manufacturing.

We continue to make great progress with our machine-vision sensor product lines. Combining Himax’s industry leading super low power CIS and ASIC designs with Emza’s unique AI-based, ultra-low power computer vision algorithm, we are uniquely positioned to provide ultra-low power, smart imaging sensing total solutions. We are pleased with the status of engagement with leading players in areas such as connected home, smart building and security, all of which new frontiers for Himax.

In 2018, many AR goggle devices were launched, targeting primarily niche industrial or business applications, while top name multinationals continued to invest heavily to develop the ecosystem — applications, software, operating system, system electronics, and optics. While AR goggles will take a few more years to fully realize its market potential, we believe LCOS remains the mainstream technology in this space. Our technology leadership and proven manufacturing expertise are evidenced by the growing list of AR goggle device customers and ongoing engineering projects. In addition, we continue to make great progress in developing high-end holographic head-up displays for high-end automotive. One of our customers has demonstrated its state-of-the-art HUD product with Himax LCOS inside at the 2019 CES with extremely positive market reception. LCOS for both goggle device and HUD represents much higher ASP and gross margin for us and represents a long-term growth driver for us.

For more trend information, see “Item 5.A. Operating and Financial Review and Prospects—Operating Results.”

5.E. Off-Balance Sheet Arrangements

As of December 31, 2018, we did not have any off-balance-sheet guarantees, interest rate swap transactions or foreign currency forwards. We do not engage in trading activities involving non-exchange traded contracts. Furthermore, as of December 31, 2018, we did not have any interests in variable interest entities.

5.F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2018:

	Payment Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands)				
Short-term borrowings	184,000	184,000	-	-	-

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Operating lease obligations ⁽¹⁾	4,874	2,361	1,987	480	46
Purchase obligations ⁽²⁾	325,277	325,277	-	-	-
Other obligations ⁽³⁾	163	163	-	-	-
Total	514,314	511,801	1,987	480	46

Notes: (1) We expect to recognize the lease contract of lessees in line with IFRS 16 from January 1, 2019 and the lease liability will be increased by \$5,899 thousand.

(2) Includes obligations for construction of new building, purchase of land, equipment, computer software and machinery and wafer fabrication, raw material, supplies, assembly and testing services.

(3) Includes obligations to donations for laboratory commitments.

As of December 31, 2018, the short-term borrowings consisted of bank loans with interest rates per annum that ranged from 0.35% to 2.96%, and cash and time deposit totaling \$164,000 thousand are pledged as collateral.

We lease office and building space pursuant to operating lease arrangements with unrelated third parties. In 2017 and 2018, rental expenses for operating leases amounted to \$2.2 million and \$2.5 million, respectively. The lease arrangements will expire gradually from 2019 to 2024. As of December 31, 2018, we agreed to make future minimum lease payments of \$2.4 million, \$1.6 million, \$0.4 million, \$0.3 million and \$0.2 million in 2019, 2020, 2021, 2022 and 2023, respectively, under non-cancelable operating leases.

We have, from time to time, entered into contracts for the acquisition of land, equipment and computer software and construction of new building. As of December 31, 2018, the remaining commitments under such contracts were \$38.6 million. These outstanding contracts had a total contract value of \$75.8 million.

Pursuant to several wafer fabrication or assembly and testing service arrangements we entered into with service providers, we may be obligated to make payments for purchase orders made under such arrangements. As of December 31, 2018, our contractual obligations pursuant to such arrangements amounted to approximately \$173.0 million.

Under the ROC Labor Standard Law, we established a defined benefit plan and were required to make monthly contributions to a pension fund in an amount equal to 2% of wages and salaries of our employees. Under the ROC Labor Pension Act, beginning on July 1, 2005, we are required to make a monthly contribution for employees that elect to participate in the new defined contribution plan of no less than 6% of the employee's monthly wages, to the employee's individual pension fund account. Substantially all participants in the defined benefit plan have elected to participate in the new defined contribution plan. Participants' accumulated benefits under the defined benefit plan are not impacted by their election to change plans. We are required to make contributions to the defined benefit plan until it is fully funded. Total contributions to the new defined contribution plan in 2018 were \$3.5 million compared to \$3.4 million in 2017. Total contributions to the defined benefit plan and the new defined contribution plan in 2018 were \$3.7 million compared to \$3.4 million in 2017. Such changes in contributions have not, and are not expected to have, a material effect on our cash flows or results of operations.

Inflation

Inflation in Taiwan has not had a material impact on our results of operations in recent years. However, an increase in inflation can lead to increases in our costs and lower our profit margins. According to the Directorate General of Budget, Accounting and Statistics, Executive Yuan, ROC, the changes of the consumer price index in Taiwan were 0.62% and 1.35% in 2017 and 2018, respectively.

Recent Accounting Pronouncements

Please refer to note 3 to the consolidated financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. Directors and Senior Management

Members of our board of directors may be elected by our directors or our shareholders. Our board of directors consists of five directors, three of whom are independent directors within the meaning of Rule 5605(a)(2) of the Nasdaq Rules. Other than Jordan Wu and Dr. Biing-Seng Wu, who are brothers, there are no family relationships between any of our directors and executive officers. The following table sets forth information regarding our directors and executive officers as of February 28, 2019. Unless otherwise indicated, the positions or titles indicated in the table below refer to Himax Technologies, Inc.

Directors and Executive Officers	Age	Position/Title
Dr. Biing-Seng Wu	61	Chairman of the Board
Jordan Wu	58	President, Chief Executive Officer and Director
Dr. Yan-Kuin Su	70	Director
Yuan-Chuan Horng	67	Director
Hsiung-Ku Chen	67	Director
Jackie Chang	59	Chief Financial Officer
Norman Hung	61	Executive Vice President, Sales and Marketing

Directors

Dr. Biing-Seng Wu is the chairman of our board of directors. Prior to our reorganization in October 2005, Dr. Wu served as president, chief executive officer and a director of Himax Taiwan. Dr. Wu also served as the vice chairman of the board of directors of CMO prior to its merger with the predecessor of Innolux and TPO. Dr. Wu has been active in the TFT-LCD panel industry for over 20 years and is a member of the boards of the Taiwan TFT-LCD Association and the Society for Information Display. Prior to joining CMO in 1998, Dr. Wu was senior director and plant director of Prime View International Co., Ltd., a TFT-LCD panel manufacturer, from 1993 to 1997, and a manager of Thin Film Technology Development at the Electronics Research & Service Organization/Industry Technology Research Institute, or ERSO/ITRI, of Taiwan. Dr. Wu holds a B.S. degree, an M.S. degree and a Ph.D. degree in electrical engineering from National Cheng Kung University. Dr. Wu is the brother of Mr. Jordan Wu, our president and chief executive officer.

Jordan Wu is our president, chief executive officer and director. Prior to our reorganization in October 2005, Mr. Wu served as the chairman of the board of directors of Himax Taiwan, a position which he held since April 2003. Prior to joining Himax Taiwan, Mr. Wu served as chief executive officer of TV Plus Technologies, Inc. and chief financial officer and executive director of DVN Holdings Ltd. in Hong Kong. Prior to that, he was an investment banker at Merrill Lynch (Asia Pacific) Limited, Barclays de Zoete Wedd (Asia) Limited and Baring Securities, based in Hong Kong and Taipei. Mr. Wu holds a B.S. degree in mechanical engineering from National Taiwan University and an M.B.A. degree from the University of Rochester. Mr. Wu is the brother of Dr. Biing-Seng Wu, our chairman.

Dr. Yan-Kuin Su is our director. He has retired from the president of Kun Shan University effective July 31, 2018 and also a professor in the Department of Electrical Engineering, National Cheng Kung University since 1983 and retired in 2011. Dr. Su is devoted to the field of research in semiconductor engineering and devices, optoelectronic devices, and microwave device and integrated circuits. He is a fellow of the Institute of Electrical and Electronics Engineers, or IEEE. Dr. Su holds a B.S. degree and an M.S. degree and a Ph.D. degree in Electrical Engineering from National Cheng Kung University.

Yuan-Chuan Horng is our director. Prior to our reorganization in October 2005, Mr. Horng served as a director of Himax Taiwan from August 2004 to October 2005. Mr. Horng has retired from the position of the vice president of the Finance Division of China Steel Corporation effective November 30, 2016. Mr. Horng held various positions including general manager, assistant vice president and vice president in the Finance Division of China Steel Corporation Group over 30 years. Mr. Horng holds a B.A. degree in economics from Soochow University.

Hsiung-Ku Chen is our director. He has a B.S. degree in Physics from Fu-Jen University, an M.A. degree in Physics from Temple University and a Ph.D. degree in Applied Physics from Oregon Graduate Center. Dr. Chen specializes in areas including Thin Film Transistor Technology, Liquid Crystal Display Technology, IC Process Technology and

Patent Laws and Regulations, etc. He has dedicated himself to the researching and performing practice of the TFT-LCD industry. From 1980 to 2002, Dr. Chen held various positions including manager, director and special assistant of the director's office in the Electronics Research & Service Organization of the Industrial Technology Research Institute for over 20 years and was the leader of many research projects during his tenure. Additionally, Dr. Chen was elected as Society of Information Display, Taipei Chapter Director and Treasurer from 1992 to 1997 and as Taiwan TFT LCD Association Secretary General from 2000 to 2002. Furthermore, Dr. Chen contributed his professional knowledge to serve as a supervisor of Himax Technologies Limited from April 2003 to December 2003 and as a director from December 2003 to October 2005. Dr. Chen was also the Special Assistant of the CEO Office at Etron Technology, Inc. from 2005 to 2007. Dr. Chen had served as consultants in various organizations, including Color Imaging Industry Promotion Office and the Intellectual Property Innovation Corporation. Currently, Dr. Chen serves as consultant of Color Display Industry Promotion Office.

Other Executive Officers

Jackie Chang is our chief financial officer. Before joining Himax, Ms. Chang served as the CFO of Castlink Corporation and Tongxing International, as well as the VP of Finance and Operations for PlayHut, Inc. Prior to joining PlayHut, Ms. Chang was General Manager –Treasury Control for Nissan North America. She held several positions in Nissan North America from 1994 to 2006 including finance, treasury planning, operations and accounting. She worked at Nissan JV in China from 2003 to 2006, where she implemented IFRS and SAP successfully. She holds a BBA in accounting from the National Chung-Hsing University in Taiwan and an MBA in Finance from Memphis State University.

Norman Hung is our executive vice president in charge of Sales and Marketing and also serves as a supervisor of Himax Analogic and Himax Media Solutions. From 2000 to 2006, Mr. Hung served as president of ZyDAS Technology Corp., a fabless integrated circuit design house. From 1999 to 2000, he served as vice president of Sales and Marketing for HiMARK Technology Inc., another fabless integrated circuit design house. Prior to that, from 1996 to 1998, Mr. Hung served as Director of Sales and Marketing for Integrated Silicon Solution, Inc. He has also served in various Marketing positions for Hewlett-Packard and Logitech. Mr. Hung holds a B.S. degree in electrical engineering from National Cheng Kung University and an executive M.B.A. degree from National Chiao Tung University.

6.B. Compensation

For the year ended December 31, 2018, the aggregate cash compensation that we paid to our executive officers was approximately \$0.9 million. The aggregate share-based compensation that we paid to our executive officers was approximately \$0.04 million. In 2018 our executive officers voluntarily reduced the number of RSUs to be granted proposed by the compensation committee to \$1 and then compensate other employees. The goal is to provide competitive compensation to our employees. No executive officer is entitled to any severance benefits upon termination of his or her employment with us.

For the year ended December 31, 2018, the aggregate cash compensation that we paid to our independent directors was approximately \$135,000. The aggregate share-based compensation that we paid to our independent directors was nil.

The following table summarizes the RSUs and cash award that we granted in 2018 to our directors and executive officers under our 2011 long-term incentive plan. Each unit of RSU represents two ordinary shares. See “Item 6.D. Directors, Senior Management and Employees—Employees—Share-Based Compensation Plans” for more details regarding our RSU grants.

Name	Total RSUs Granted	Total Cash Award Granted (in thousands)	Ordinary Shares Underlying Vested Portion of RSUs	Ordinary Shares Underlying Unvested Portion of RSUs	Unvested Portion of cash award (in thousands)
Dr. Biing-Seng Wu	-	-	-	-	-
Jordan Wu	-	-	-	-	-
Dr. Yan-Kuin Su	-	-	-	-	-
Yuan-Chuan Horng	-	-	-	-	-
Hsiung-Ku Chen	-	-	-	-	-
Jackie Chang	3,591	-	4,174	3,008	-

Norman Hung	4,561	-	4,174	4,948	-
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6.C. Board Practices

General

Our board of directors consists of five directors, three of whom are independent directors within the meaning of Rule 5605(a)(2) of the Nasdaq Rules. We intend to comply with Rule 5605(b)(1) of the Nasdaq Rules that require boards of U.S. companies to have a board of directors which is comprised of a majority of independent directors. We intend to follow home country practice that permits our independent directors not to hold regularly scheduled meetings at which only independent directors are present in lieu of complying with Rule 5605(b)(2).

Committees of the Board of Directors

To enhance our corporate governance, we have established three committees under the board of directors: the audit committee, the compensation committee and the nominating and corporate governance committee. We have adopted a charter for each of the three committees. Each committee's members and functions are described below.

Audit Committee. Our audit committee currently consists of Yuan-Chuan Horng, Hsiung-Ku Chen and Dr. Yan-Kuin Su. Our board of directors has determined that all of our audit committee members are "independent directors" within the meaning of Rule 5605(a)(2) of the Nasdaq Rules and meet the criteria for independence set forth in Section 10A(m)(3)(B)(i) of the Exchange Act. Our audit committee will oversee our accounting and financial reporting processes and the audits of our financial statements. The audit committee will be responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation SK under the Securities Act;
- discussing the annual audited financial statements with management and the independent auditors;
 - reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material internal control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- meeting separately and periodically with management and the independent auditors;
- reporting regularly to the board of directors; and
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time.

Compensation Committee. Our current compensation committee consists of Yuan-Chuan Horng, Hsiung-Ku Chen and Dr. Yan-Kuin Su. Our compensation committee assists our board of directors in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting where his or her compensation is deliberated. We intend to follow Rule 5605(d)(1)(B) and (2)(B) of the Nasdaq Rules which requires the compensation committees of U.S. companies to be comprised solely of independent directors. The compensation committee will be responsible for, among other things:

- reviewing and making recommendations to our board of directors regarding our compensation policies and forms of compensation provided to our directors and officers;
- reviewing and determining bonuses for our officers and other employees;

- reviewing and determining share-based compensation for our directors, officers, employees and consultants;
- administering our equity incentive plans in accordance with the terms thereof; and

· such other matters that are specifically delegated to the compensation committee by our board of directors from time to time.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee assists the board of directors in identifying individuals qualified to be members of our board of directors and in determining the composition of the board and its committees. Our current nominating and corporate governance committee consists of Yuan-Chuan Horng, Hsiung-Ku Chen, and Dr. Yan-Kuin Su. We intend to follow Rule 5605(e)(1)(B) of the Nasdaq Rules which requires that nominations committees of U.S. companies be comprised solely of independent directors. Our nominating and corporate governance committee will be responsible for, among other things:

· identifying and recommending to our board of directors nominees for election or re-election, or for appointment to fill any vacancy;

· reviewing annually with our board of directors the current composition of our board of directors in light of the characteristics of independence, age, skills, experience and availability of service to us;

· reviewing the continued board membership of a director upon a significant change in such director's principal occupation;

· identifying and recommending to our board of directors the names of directors to serve as members of the audit committee and the compensation committee, as well as the nominating and corporate governance committee itself;

· advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to our board of directors on all matters of corporate governance and on any corrective action to be taken; and

· monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Terms of Directors and Officers

Under Cayman Islands law and our articles of association, each of our directors holds office until a successor has been duly elected or appointed, except where any director was appointed by the board of directors to fill a vacancy on the board of directors or as an addition to the existing board, such director shall hold office until the next annual general meeting of shareholders at which time such director is eligible for re-election. Our directors are subject to periodic retirement and re-election by shareholders in accordance with our articles of association, resulting in their retirement and re-election at staggered intervals. At each annual general meeting, one-third of our directors are subject to retirement by rotation, or if their number is not a multiple of three, the number nearest to one-third but not exceeding one-third shall retire from office. Any retiring director is eligible for re-election. The chairman of our board of directors and/or the managing director will not be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. Under our articles of association, which director will retire at each annual general meeting will be determined as follows: (i) any director who wishes to retire and not offer himself for re-election, (ii) if no director wishes to retire, the director who has been longest in office since his last re-election or appointment, and (iii) if two or more directors have served on the board the longest, then as agreed among the directors themselves or as determined by lot.

6.D. Employees

As of December 31, 2017 and 2018, we had 2,190 and 2,160 employees, respectively. The following is a breakdown of our employees by function as of December 31, 2018:

Function	Number
Research and development ⁽¹⁾	1,351
Engineering and manufacturing ⁽²⁾	372
Sales and marketing ⁽³⁾	294
General and administrative	143
Total	2,160

Notes: (1) Includes semiconductor design engineers, application engineers, assembly and testing engineers and quality control engineers.

(2) Includes manufacturing personnel of Himax Taiwan and Himax Display, our subsidiaries focused on design and manufacturing of WLO and LCOS products.

(3) Includes field application engineers.

Share-Based Compensation Plans

Himax Technologies, Inc. 2005 and 2011 Long-Term Incentive Plan

We adopted two long-term incentive plans in October 2005 and September 2011, however, the 2005 plan was terminated in October 2010. The following description of the plan is intended to be a summary and does not describe all provisions of the plan.

Purpose of the Plan. The purpose of the plan is to advance our interests and those of our shareholders by:

providing the opportunity for our employees, directors and service providers to develop a sense of proprietorship and personal involvement in our development and financial success and to devote their best efforts to our business; and

providing us with a means through which we may attract able individuals to become our employees or to serve as our directors or service providers and providing us a means whereby those individuals, upon whom the responsibilities of our successful administration and management are of importance, can acquire and maintain share ownership, thereby strengthening their concern for our welfare.

Type of Awards. The plan provides for the grant of stock options and restricted share units.

Duration. Generally, the plan will terminate five years from the effective date of the plan. But, the 2011 Plan was amended and restated by extending its duration for three (3) years to September 6, 2019, which was approved by our shareholders at the annual general meeting held on August 31, 2016. After the plan is terminated, no awards may be granted, but any award previously granted will remain outstanding in accordance with the plan.

Administration. The plan is administered by the compensation committee of our board of directors or any other committee designated by our board to administer the plan. Committee members will be appointed from time to time by, and will serve at the discretion of, our board. The committee has full power and authority to interpret the terms and intent of the plan or any agreement or document in connection with the plan, determine eligibility for awards and adopt such rules, regulations, forms, instruments and guidelines for administering the plan. The committee may delegate its duties or powers.

Number of Authorized Shares. We have authorized a maximum issuance of 36,153,854 shares in the 2005 plan and 20,000,000 shares in the 2011 plan, and the 2005 plan was terminated in October 2010. As of the date of this annual report, there were no stock options or restricted share units outstanding under the plan except as described under “—Restricted Share Units.”

Eligibility and Participation. All of our employees, directors and service providers are eligible to participate in the plan. The committee may select from all eligible individuals those individuals to whom awards will be granted and will determine the nature of any and all terms permissible by law and the amount of each award.

Stock Options. The committee may grant options to participants in such number, upon such terms and at any time as it determines. Each option grant will be evidenced by an award document that will specify the exercise price, the maximum duration of the option, the number of shares to which the option pertains, conditions upon which the option will become vested and exercisable and such other provisions which are not inconsistent with the plan.

The exercise price for each option will be:

- based on 100% of the fair market value of the shares on the date of grant;
- set at a premium to the fair market value of the shares on the date of grant; or
- indexed to the fair market value of the shares on the date of grant, with the committee determining the index.

The exercise price on the date of grant must be at least equal to 100% of the fair market value of the shares on the date of grant.

Each option will expire at such time as the committee determines at the time of its grant; however, no option will be exercisable later than the 10th anniversary of its grant date. Notwithstanding the foregoing, for options granted to participants outside the United States, the committee can set options that have terms greater than ten years.

Options will be exercisable at such times and be subject to such terms and conditions as the committee approves. A condition of the delivery of shares as to which an option will be exercised will be the payment of the exercise price. Subject to any governing rules or regulations, as soon as practicable after receipt of written notification of exercise and full payment, we will deliver to the participant evidence of book-entry shares or, upon his or her request, share certificates in an appropriate amount based on the number of shares purchased under the option(s). The committee may impose such restrictions on any shares acquired pursuant to the exercise of an option as it may deem advisable.

Each participant's award document will set forth the extent to which he or she will have the right to exercise the options following termination of his or her employment or services.

We have not yet granted any stock options under the plan.

Restricted Share Units. The committee may grant restricted share units to participants. Each grant will be evidenced by an award document that will specify the period(s) of restriction, the number of restricted share units granted and such other provisions as the committee determines.

Generally, restricted share units will become freely transferable after all conditions and restrictions applicable to such shares have been satisfied or lapse and restricted share units will be paid in cash, shares or a combination of the two, as determined by the committee.

The committee may impose such other conditions or restrictions on any restricted share units as it may deem advisable, including a requirement that participants pay a stipulated purchase price for each restricted share unit, restrictions based upon the achievement of specific performance goals and time-based restrictions on vesting.

A participant will have no voting rights with respect to any restricted share units.

Each award document will set forth the extent to which the participant will have the right to retain restricted share units following termination of his or her employment or services.

We made grants of 1,219,791 RSUs to our employees on September 26, 2014. The vesting schedule for such RSU grants is as follows: 82.57% of the RSU grants vested immediately and was settled by cash in the amount of \$9.3 million on the grant date, with the remainder vesting equally on each of September 30, 2015, 2016 and 2017, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 597,596 RSUs to our employees on September 25, 2015. The vesting schedule for such RSU grants is as follows: 94.15% of the RSU grants vested immediately and were settled by cash in the amount of \$4.5 million on the grant date, with the remainder vesting equally on each of September 30, 2016, 2017 and 2018, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 1,208,785 RSUs to our employees on September 28, 2016. The vesting schedule for such RSU grants is as follows: 91.93% of the RSU grants vested immediately and were settled by cash in the amount of \$9.2 million on the grant date, with the remainder vesting equally on each of September 30, 2017, 2018 and 2019, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 580,235 RSUs to our employees on September 29, 2017. The vesting schedule for such RSU grants is as follows: 96.91% of the RSU grants vested immediately and were settled by cash in the amount of \$6.1 million on the grant date, with the remainder vesting equally on each of September 30, 2018, 2019 and 2020, which will be settled by our ordinary shares, subject to certain forfeiture events.

We made grants of 676,273 RSUs to our employees on September 26, 2018. The vesting schedule for such RSU grants is as follows: 97.15% of the RSU grants vested immediately and were settled by cash in the amount of \$3.8 million on the grant date, with the remainder vesting equally on each of September 30, 2019, 2020 and 2021, which will be settled by our ordinary shares, subject to certain forfeiture events.

Dividend Equivalents. Any participant selected by the committee may be granted dividend equivalents based on the dividends declared on shares that are subject to any award, to be credited as of dividend payment dates, during the period between the date the award is granted and the date the award is exercised, vests or expires, as determined by the committee, provided that unvested RSUs are currently not entitled to dividend equivalents. Dividend equivalents will be converted to cash or additional shares by such formula and at such time and subject to such limitations as determined by the committee.

Transferability of Awards. Generally, awards cannot be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

Adjustments in Authorized Shares. In the event of any of the corporate events or transactions described in the plan, to avoid any unintended enlargement or dilution of benefits, the committee has the sole discretion to substitute or adjust the number and kind of shares that can be issued or otherwise delivered.

Forfeiture Events. The committee may specify in an award document that the participant's rights, payments and benefits with respect to an award will be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an award.

If we are required to prepare an accounting restatement owing to our material noncompliance, as a result of misconduct, with any financial reporting requirement under the securities laws, then if the participant is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, the participant will reimburse us the amount of any payment in settlement of an award earned or accrued during the twelve-month period following the first public issuance or filing with the SEC (whichever first occurred) of the financial document embodying such financial reporting requirement.

Amendment and Termination. Subject to, and except as, provided in the plan, the committee has the sole discretion to alter, amend, modify, suspend, or terminate the plan and any award document in whole or in part. Amendments to the plan are subject to shareholder approval, to the extent required by law, or by stock exchange rules or regulations.

6.E. Share Ownership

The following table sets forth the beneficial ownership of our ordinary shares, as of February 28, 2019, by each of our directors and executive officers.

Name	Number of Shares Owned	Percentage of Shares Owned	
Dr. Biing-Seng Wu	71,789,206	20.9	%
Jordan Wu	7,306,065	2.1	%
Dr. Yan-Kuin Su	-	-	
Yuan-Chuan Horng	916,104	0.3	%
Hsiung-Ku Chen	-	-	
Jackie Chang	27,136	-	
Norman Hung	528,930	0.2	%

None of our directors or executive officers has voting rights different from those of other shareholders.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. Major Shareholders

On August 10, 2009, we effected certain changes in our capital stock structure in order to meet the Taiwan Stock Exchange's primary listing requirement that the par value of shares be NT\$10 or \$0.3 per share and in order to increase the number of outstanding ordinary shares to be listed on the Taiwan Stock Exchange. In particular, we increased our authorized share capital from \$50,000 (divided into 500,000,000 shares of par value \$0.0001 each) to \$300,000,000 (divided into 3,000,000,000,000 shares of par value \$0.0001 each) and distributed 5,999 bonus shares for each share of par value \$0.0001 held by shareholders of record as of August 7, 2009. These were followed by a consolidation of every 3,000 shares of par value \$0.0001 each into one ordinary share of par value \$0.3 each. As a result, the number of ordinary shares outstanding was doubled and each of our ordinary shares had a par value of \$0.3.

In connection with the above changes, we also changed our ADS ratio effective August 10, 2009 from one ADS representing one ordinary share to one ADS representing two ordinary shares. Such change in ADS ratio was intended to adjust for the net dilutive effect due to the bonus shares distribution and the shares consolidation so that each ADS would represent the same percentage ownership in our share capital immediately before and after the above changes. The number of ADSs also remained the same immediately before and after the above changes.

As of February 28, 2019, 344,290,306 of our shares were outstanding. We believe that, of such shares, 216,312,656 shares in the form of ADSs were held by approximately 44,847 holders as of February 28, 2019.

The following table sets forth information known to us with respect to the beneficial ownership of our shares as of February 28, 2019, the most recent practicable date, by (i) each shareholder known by us to beneficially own more than 5% of our shares and (ii) all directors and executive officers as a group.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned	
Dr. Biing-Seng Wu ⁽¹⁾	71,789,206	20.9	%
Whei-Lan Teng ⁽²⁾	21,135,720	6.14	%
All directors and executive officers as a group ⁽³⁾	80,567,441	23.4	%

Dr. Biing-Seng Wu directly owns 315,322 ordinary shares. Dr. Biing-Seng Wu beneficially owns 51,009,690 ordinary shares and 20,039,838 ordinary shares through Sanfair Asia Investments Ltd. and Chi-Duan Investment Co., Ltd., respectively, both of which are investment companies controlled by Dr. Biing-Seng Wu. Additionally, Dr. Biing-Seng Wu directly owns 212,178 ADSs purchased in the open market according to his share purchase plan announced on November 30, 2018. Accordingly, Dr. Biing-Seng Wu may be deemed to beneficially own an aggregate of 71,789,206 ordinary shares, representing approximately 20.9% of the outstanding ordinary shares.

Whei-Lan Teng directly owns 1,335,548 ordinary shares. Whei-Lan Teng beneficially owns 2,643,782 ordinary shares through Renmar Finance Limited, which is an investment company controlled by Whei-Lan Teng. In addition, Whei-Lan Teng, may be attributed beneficial ownership of 17,156,390 ordinary shares held in trust by Corenmar Investment Limited for the benefit of her children. Whei-Lan Teng therefore may be deemed to have shared power to vote or dispose of 21,135,720 ordinary shares. Accordingly, Whei-Lan Teng may be deemed to beneficially own an aggregate of 21,135,720 ordinary shares, representing approximately 6.14% of the outstanding ordinary shares.

⁽³⁾ Numbers of shares beneficially owned by all directors and executive officers as a group already include an aggregate of 71,789,206 ordinary shares beneficially owned by Dr. Biing-Seng Wu.

According to the Schedule 13G/A filed with the SEC on February 13, 2019, FMR LLC, together with its affiliates, beneficially owned 9,005,721 of our shares, representing 2.616% of our shares as of December 31, 2018, some or all of which may include shares represented by our ADS. The beneficially ownership was 9.99% of our shares as of December 31, 2017 from Schedule 13G filed with the SEC on February 13, 2018. We do not have further information with respect to any changes in FMR LLC's beneficial ownership of our shares subsequent to December 31, 2018.

None of our major shareholders has voting rights different from those of other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

7.B. Related Party Transactions

Viewsil Technology Limited (VST)

VST is a subsidiary of our equity method investee, Viewsil Microelectronics (Kunshan) Limited. In 2017, we purchased raw materials and components from VST amounting to \$0.5 million. As of December 31, 2017, the related payable resulting from the aforementioned transaction had been full paid. In 2018, we purchased mask from VST for our research activities for a fee of \$1.6 million. As of December 31, 2018, the related payable resulting from the aforementioned transactions were \$1.6 million. Additionally, as of December 31, 2017 and 2018, we made an interest free loan of \$2.8 million and \$2.8 million, respectively, to VST for short-term funding needs. The loan is repayable on demand and the Company expects it will be repaid in full during 2019. We may consider providing further future loans to VST.

Viewsil Microelectronics (Kunshan)Limited (Viewsil)

Viewsil is an equity method investee of the Company. In 2017 and 2018, Viewsil provided technical service on a new source driver chip and integrated circuit module for the Company's research activities for a fee of \$2.2 million and \$2.2 million, respectively, which was charged to research and development expense. As of December 31, 2017 and 2018, the related payables were \$2.2 million and \$2.2 million, respectively.

Emza Visual Sense Ltd. (Emza)

Emza is an equity method investee of the Company, and becoming as a subsidiary of the Company from June 28, 2018. We made an interest free loan of \$0.5 million to Emza for short-term funding needs in 2017. The loan is repayable on demand.

7.C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A. Consolidated Statements and Other Financial Information

8.A.1. See “Item 18. Financial Statements” for our audited consolidated financial statements.

8.A.2. See “Item 18. Financial Statements” for our audited consolidated financial statements, which cover the last two financial years.

8.A.3. See page F-2 for the report of our independent registered public accounting firm.

8.A.4. Not applicable.

8.A.5. Not applicable.

8.A.6. See Note 28 to our audited consolidated financial statements included in “Item 18. Financial Statements.”

8.A.7. *Litigation*

We may be subject to legal proceedings, investigations and claims relating to the conduct of our business from time to time. We may also initiate legal proceedings in order to protect our contractual and property rights. However, as of the date of this annual report, we are not currently a party to, nor are we aware of, any legal proceeding, investigation or claim which, in the opinion of our management, is likely to have a material adverse effect on our business, financial condition or results of operations.

8.A.8. *Dividends and Dividend Policy*

Subject to the Cayman Islands Companies Law, we may declare dividends in any currency, but no dividend may be declared in excess of the amount recommended by our board of directors. Whether our board of directors recommends any dividends and the form, frequency and amount of dividends, if any, will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors as the board of directors may deem relevant.

On June 27, 2008, we paid a cash dividend in the amount of \$66.8 million, or the equivalent of \$0.350 per ADS. In 2009, we paid a cash dividend on June 29, 2009 in the amount of \$55.5 million, or the equivalent of \$0.300 per ADS, and distributed a stock dividend on August 10, 2009 of 5,999 ordinary shares of par value \$0.0001 for each ordinary share of par value \$0.0001 held by shareholders of record as of August 7, 2009. On August 13, 2010, we paid a cash dividend in the amount of \$44.1 million, or the equivalent of \$0.250 per ADS. On July 20, 2011, we paid a cash dividend in the amount of \$21.2 million, or the equivalent of \$0.120 per ADS. On July 25, 2012, we paid a cash dividend in the amount of \$10.7 million, or the equivalent of \$0.063 per ADS. On July 31, 2013, we paid a cash dividend in the amount of \$42.4 million, or the equivalent of \$0.250 per ADS. On July 23, 2014, we paid a cash dividend in the amount of \$46.0 million, or the equivalent of \$0.270 per ADS. On July 8, 2015, we paid a cash dividend in the amount of \$51.4 million, or the equivalent of \$0.300 per ADS. On August 3, 2016, we paid a cash dividend in the amount of \$22.3 million, or the equivalent of \$0.130 per ADS. On August 14, 2017, we paid a cash dividend in the amount of \$41.3 million, or the equivalent of \$0.240 per ADS. On July 31, 2018, we paid a cash dividend in the amount of \$17.2 million, or the equivalent of \$0.10 per ADS. For more information on the stock dividend distribution, see “Item 7.A. Major Shareholders and Related Party Transactions—Major Shareholders.” The dividends for any of these years should not be considered representative of the dividends that would be paid in any future periods or of our dividend policy.

Our ability to pay cash or stock dividends will depend, at least partially, upon the amount of funds received by us from our direct and indirect subsidiaries, which must comply with the laws and regulations of their respective countries and respective articles of association. We receive cash from Himax Taiwan through intercompany borrowings. Himax Taiwan has not paid us cash dividends in the past. In accordance with amended ROC Company Act and regulations and Himax Taiwan's amended articles of incorporation, Himax Taiwan is permitted to distribute dividends after allowances have been made for:

- payment of taxes;
- recovery of prior years' deficits, if any;
- legal reserve (in an amount equal to 10% of annual profits after having deducted the above items until such time as its legal reserve equals the amount of its total paid-in capital);
- special reserve based on relevant laws or regulations, or retained earnings, if necessary; and
- dividends for preferred shares, if any.

Furthermore, if Himax Taiwan does not generate any profits for any year as determined in accordance with generally accepted accounting principles in Taiwan, it generally may not distribute dividends for that year.

Any dividend we declare will be paid to the holders of ADSs, subject to the terms of the deposit agreement, to the same extent as holders of our ordinary shares, to the extent permitted by applicable laws and regulations, less the fees and expenses payable under the deposit agreement. Any dividend we declare will be distributed by the depository bank to the holders of our ADSs. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

8.B. Significant Changes

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

ITEM 9. THE OFFER AND LISTING

9.A. Offer and Listing Details

Our ADSs have been quoted on the NASDAQ Global Select Market under the symbol “HIMX” since March 31, 2006.

9.B. Plan of Distribution

Not applicable.

9.C. Markets

The principal trading market for our shares is the NASDAQ Global Select Market, on which our shares are traded in the form of ADSs.

9.D. Selling Shareholders

Not applicable.

9.E. Dilution

Not applicable.

9.F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A. Share Capital

Not applicable.

10.B. Memorandum and Articles of Association

Our shareholders previously adopted the Amended and Restated Memorandum of Association on September 26, 2005 by a special resolution passed by the sole shareholder of our company and the Amended and Restated Articles of Association at an extraordinary shareholder meeting held on October 25, 2005, both of which were filed as an exhibit to our registration statement on Form F-1 (file no. 333-132372) with the SEC on March 13, 2006.

At our annual general meeting on August 6, 2009, our shareholders adopted the Second Amended and Restated Memorandum and Articles of Association, which became effective on August 10, 2009 and were filed as exhibits to our current report on Form 6-K with the SEC on July 13, 2009. These were adopted primarily in connection with our proposed Taiwan listing to meet the Taiwan Stock Exchange's primary listing requirement concerning protection of material shareholders' rights under the ROC's Company Act and Securities Exchange Act. At the same time, our shareholders also adopted the Third Amended and Restated Memorandum and Articles of Association, which were filed as an exhibit to our annual report on Form 20-F for the fiscal year ended December 31, 2009 with the SEC on June 3, 2010 and are substantially the same as the Amended and Restated Memorandum and Articles of Association of our company except that our authorized share capital is stated to be \$300,000,000 divided into 1,000,000,000 shares of nominal or par value of \$0.3 each, on the condition that it shall become effective if the application made by our company to list its ordinary shares on the Taiwan Stock Exchange is rejected or aborted. On May 20, 2010, the Third Amended and Restated Memorandum and Articles of Association became effective as a result of the termination of our primary listing application to the Taiwan Stock Exchange.

We incorporate by reference into this annual report the description of our Amended and Restated Memorandum and Articles of Association (except for provisions relating to our authorized share capital) contained in our F-1 registration statement (File No. 333-132372) filed with the SEC on March 13, 2006. Such description sets forth a summary of certain provisions of our memorandum and articles of association as currently in effect, which is qualified in its entirety by reference to the full text of the Third Amended and Restated Memorandum and Articles of Association. As of the date of this annual report, our authorized share capital is \$300,000,000 divided into 1,000,000,000 shares of nominal or par value of \$0.3 each.

10.C. Material Contracts

We are not currently, and have not been in the last two years, party to any material contract, other than contracts entered into the ordinary course of business.

10.D. Exchange Controls

We have extracted from publicly available documents the information presented in this section. The information below may be applicable because our wholly owned operating subsidiary, Himax Taiwan, is incorporated in the ROC. Please note that citizens of the PRC and entities organized in the PRC are subject to special ROC laws, rules and regulations, which are not discussed in this section.

The ROC's Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated to handle foreign exchange transactions by the Central Bank of the ROC. There is an annual limit on the amount of currency a Taiwanese entity may convert into, or out of, NT dollars other than for trade purposes. Current regulations favor trade-related foreign exchange transactions.

With regard to inward and outward remittances, approval by the Central Bank of the ROC is generally required for any conversion exceeding, in aggregate in each calendar year, \$50 million (or its equivalent) for companies and \$5 million (or its equivalent) for Taiwanese and resident foreign individuals. A requirement is also imposed on all private enterprises to report all medium- and long-term foreign debt with the Central Bank of the ROC.

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

10.E. Taxation

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation, and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of, the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

We have, pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, obtained an undertaking from the Governor-in-Council that:

(a) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income or gains or appreciations shall apply to us or our operations;

(b) the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on our ordinary shares, debentures or other obligations.

The undertaking that we have obtained is for a period of 20 years from May 3, 2005.

United States Federal Income Taxation

The following is a description of material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of ordinary shares or ADSs, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person's decision to hold the securities. This discussion applies only to a U.S. Holder that holds ordinary shares or ADSs as capital assets for U.S. federal income tax purposes. This discussion does not address any aspect of the "Medicare contributions tax" on "net investment income." In addition, it does not describe all of the tax consequences that may be relevant in light of the U.S. Holder's particular circumstances, including alternative minimum tax consequences and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;

- dealers or traders in securities who use a mark-to-market method of tax accounting;

- persons holding ordinary shares or ADSs as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the ordinary shares or ADSs;

- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;

- entities classified as partnerships for U.S. federal income tax purposes;

- tax-exempt entities, including “individual retirement accounts” or “Roth IRAs”;

- persons that own or are deemed to own ten percent or more of our voting stock; or

- persons holding ordinary shares or ADSs in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes owns ordinary shares or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding ordinary shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of the ordinary shares or ADSs.

This discussion is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based in part on representations by the depository and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms. You should consult your tax adviser concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of ordinary shares or ADSs in your particular circumstances.

As used herein, a “U.S. Holder” is a person that is, for U.S. federal tax purposes, a beneficial owner of ordinary shares or ADSs and is: (i) a citizen or resident of the United States; (ii) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder of ADSs will be treated for U.S. federal income tax purposes as the owner of the underlying ordinary shares represented by those ADSs. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying ordinary shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom American depository shares are released before delivery of shares to the depository (“pre-release”) may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of American depository shares. Such actions would also be inconsistent with the claiming of the preferred rates of tax, described below, applicable to dividends received by certain non-corporate U.S. holders. Accordingly, the availability of the preferential tax rates for dividends received by certain non-corporate U.S. Holders, described below, could be affected by actions taken by parties to whom ADSs are pre-released.

This discussion assumes that we are not, and will not become, a passive foreign investment company (as discussed below).

Taxation of Distributions

Distributions received by U.S. Holders with respect to the ordinary shares or ADSs, other than certain *pro rata* distributions of ordinary shares, will constitute foreign-source dividend income for U.S. federal income tax purposes to the extent paid out of our current or accumulated earnings and profits, as determined in accordance with U.S. federal income tax principles. We do not maintain records of earnings and profits in accordance with U.S. federal income tax principles, and therefore it is expected that distributions will generally be reported to U.S. Holders as dividends. Dividends will be included in a U.S. Holder’s income on the date of the U.S. Holder’s (or in the case of ADSs, the depository’s) receipt of the dividends. Subject to applicable limitations and the discussion above regarding

concerns expressed by the U.S. Treasury, certain dividends paid by qualified foreign corporations to certain non-corporate holders may be taxable at preferential tax rates applicable to long-term capital gains. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on a securities market in the United States, such as the NASDAQ Global Select Market, where our ADSs are traded. Our ordinary shares are not traded on a securities market in the United States. Non-corporate U.S. Holders of our ordinary shares or ADSs should consult their tax advisers regarding their eligibility for taxation at such preferential rates and whether they are subject to any special rules that limit their ability to be taxed at such preferential rates. Corporate U.S. Holders will not be entitled to claim the dividends-received deduction with respect to dividends paid by us.

Sale and Other Disposition of Ordinary Shares or ADSs

A U.S. Holder will generally recognize U.S.-source capital gain or loss for U.S. federal income tax purposes on the sale or other disposition of ordinary shares or ADSs, which will be long-term capital gain or loss if the ordinary shares or ADSs were held for more than one year. Long-term capital gains of certain non-corporate U.S. Holders may be taxable at preferential rates. The amount of gain or loss will be equal to the difference between the amount realized on the sale or other disposition and the U.S. Holder's tax basis in the ordinary shares or ADSs. The deductibility of capital losses is subject to limitations.

Passive Foreign Investment Company Rules

We believe that we were not a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes for our taxable year ended December 31, 2018.

In general, a non-U.S. company will be a PFIC for U.S. federal income tax purposes for any taxable year in which (i) 75% or more of its gross income consists of passive income (such as dividends, interest, rents and royalties) or (ii) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income (including cash). If a corporation owns at least 25% (by value) of the stock of another corporation, the corporation will be treated, for purposes of the PFIC tests, as owning its proportionate share of the 25%-owned subsidiary's assets and receiving its proportionate share of the 25%-owned subsidiary's income. As PFIC status depends upon the composition of our income and assets and the value of our assets from time to time (and the value of our assets may be determined, in part, based on the market price of our shares and ADSs, which may fluctuate considerably from time to time given that market prices of certain technology companies historically have been volatile), there can be no assurance that we will not be a PFIC for any taxable year.

If we were a PFIC for any taxable year during which a U.S. Holder held ordinary shares or ADSs, certain adverse U.S. federal income tax rules would apply on a sale or other disposition (including a pledge) of ordinary shares or ADSs by the U.S. Holder. In general, under those rules, gain recognized by the U.S. Holder on a sale or other disposition of ordinary shares or ADSs would be allocated ratably over the U.S. Holder's holding period for the ordinary shares or ADSs. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the tax attributable to such allocated amounts. Similar rules would apply to any distribution in respect of ordinary shares or ADSs to the extent in excess of 125% of the average of the annual distributions on ordinary shares or ADSs received by the U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter. Certain elections may be available that would result in alternative treatments (such as a mark-to-market treatment of the ADSs). U.S. Holders should consult their tax advisers to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in their particular circumstances.

If we were a PFIC in a taxable year in which we pay a dividend or in the prior taxable year, the preferential tax rates discussed above with respect to dividends received by certain non-corporate U.S. Holders would not apply.

In addition, if U.S. Holder owns ordinary shares or ADSs during any year in which we are a PFIC, the U.S. Holder may be required to file certain information reports, containing such information as the U.S. Treasury may require.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless the U.S. Holder is an exempt recipient or, in the case of backup withholding, the U.S. Holder provides a correct

taxpayer identification number and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

10.F. Dividends and Paying Agents

Not applicable.

10.G. Statement by Experts

Not applicable.

10.H. Documents on Display

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

10.I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. Our exposure to interest rate risk for changes in interest rates is primarily the interest income generated by our cash deposited with banks. In addition, we are exposed to interest rate risks related to bank borrowings.

Foreign Exchange Risk. The U.S. dollar is our reporting currency. The U.S. dollar is also the functional currency for the majority of our operations. In 2018, more than 99% of our sales and cost of revenues were denominated in U.S. dollars. However, in December 2018, approximately 60% of our operating expenses were denominated in NT dollars, with a small percentage denominated in Japanese Yen, Korean Won and Chinese Renminbi, and the majority of the remainder denominated in U.S. dollars. We anticipate that we will continue to conduct substantially all of our sales in U.S. dollars. We do not believe that we have a material currency risk with regard to the NT dollar. We believe the majority of any potential adverse foreign currency exchange impacts on our operating assets may be offset by a potential favorable foreign currency exchange impact on our operating liabilities. From time to time we have engaged in, and may continue to engage in, forward contracts to hedge against our foreign currency exposure.

As of December 31, 2018, no foreign currency exchange contracts are outstanding.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

12.A. Debt Securities

Not applicable.

12.B. Warrants and Rights

Not applicable.

12.C. Other Securities

Not applicable.

12.D. American Depositary Shares

Fees and Charges Payable by ADS Holders

Persons depositing or withdrawing shares or ADS holders must pay:

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

\$.05 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for the issuance of ADSs

\$.05 (or less) per ADS per calendar year

Registration or transfer fees

Expenses of the depositary

Taxes and other governmental charges that the depositary or custodian have to pay on any ADS or share underlying an ADS, e.g., stock transfer taxes, stamp duty or withholding taxes, As necessary

Any charges incurred by the depositary or its agents for servicing the deposited securities, As necessary

For:

Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property

Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates

Any cash distribution to ADS holders

Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS holders

Depositary services

Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement) converting foreign currency to U.S. dollars

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or charging the book-entry system accounts of participants acting for them. The depositary may collect any of its fees by deduction from any cash distribution payable to ADS holders that are obligated to pay those fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the depositary may make payments to us to reimburse and/or share revenue from the fees collected from ADS holders, or waive fees and expenses for services provided, generally relating to costs and expenses arising out of establishment and maintenance of the ADS program. In performing its duties under the deposit agreement, the depositary may use brokers, dealers or other service providers that are affiliates of the depositary and that may earn or share fees or commissions.

Fees and Other Payments from the Depositary to Us

In 2018, we received payments of \$0.6 million netting of 30% withholding tax from the depositary relating to the ADR program, which was intended to cover certain of our expenses incurred in relation to the ADR program for the year, including:

- legal, audit and other fees incurred in connection with preparation of Form 20-F and annual reports and ongoing SEC compliance and listing requirements;

- director and officer insurance;

- stock exchange listing fees;

- non-deal roadshow expenses;

- costs incurred by financial printer and share certificate printer;

- postage for communications to ADR holders;

· costs of retaining third-party public relations, investor relations and/or corporate communications advisory firms in the U.S.; and

· costs incurred in connection with participation in retail investor shows and capital markets days.

Appointment of New Depositary Bank

On July 14, 2017, we appointed JPMorgan Chase Bank, N.A. as our new American depositary receipt bank. Effective the same day, our ADR program was officially transferred to JPMorgan Chase Bank, N.A. and the contract is to last for ten years.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

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

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, have concluded that based on the evaluation of these controls and procedures required by Rule 13a-15(b) of the Exchange Act, our disclosure controls and procedures are effective.

Management's Report on Internal Control over Financial Reporting

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

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

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

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

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

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

Management, with the participation of our chief executive and chief financial officers, assessed the effectiveness of our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) as of December 31, 2018 based on the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, our management believes that our internal control over financial reporting was effective as of December 31, 2018.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Himax Technologies, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Himax Technologies, Inc.'s and subsidiaries (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statements of financial position of the Company as of January 1, 2017, December 31, 2017 and 2018, the related consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2018, and the related notes (collectively, the "consolidated financial statements") and our report dated March 28, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and

testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG
Hsinchu, Taiwan
March 28, 2019

Changes in Internal Control over Financial Reporting

We adopted IFRS issued by IASB. The adoption of IFRS required the implementation of new accounting policies and processes. Based on our evaluation, there is no material change to the Company's internal control over financial reporting and related disclosures during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

ITEM 16. [RESERVED]

16.A. Audit Committee Financial Expert

Our board of directors has determined that Yuan-Chuan Horng is an audit committee financial expert, as that term is defined in Item 16A(b) of Form 20-F, and is independent for the purposes of Rule 5605(a)(2) of the Nasdaq Rules and Rule 10A-3 of the Exchange Act.

16.B. Code of Ethics

Our board of directors has adopted a code of business conduct and ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller and any other persons who perform similar functions for us. We will provide a copy of our code of business conduct and ethics without charge upon written request to:

Himax Technologies, Inc.

Human Resources Department

No. 26, Zih Lian Road, Tree Valley Park

Sinshih District, Tainan City 74148

Taiwan, Republic of China

16.C. Principal Accountant Fees and Services

KPMG, our independent registered public accounting firm, began serving as our independent auditor upon the formation of our company in 2001.

Our audit committee is responsible for the oversight of KPMG’s work. The policy of our audit committee is to pre-approve all audit and non-audit services provided by KPMG, including audit services, audit-related services, tax services and other services.

We paid the following fees for professional services to KPMG for the years ended December 31, 2017 and 2018.

Services	Year ended December 31,	
	2017	2018
Audit Fees ⁽¹⁾	\$ 839,000	\$ 811,000
All Other Fees ⁽²⁾	32,000	25,000
Total	\$ 871,000	\$ 836,000

Note: (1) Audit Fees. This category includes the audit of our annual financial statements and internal control over financial reporting, quarterly review procedures, services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years. This category also includes statutory audits required by the Tax Bureau of the ROC.

(2) All Other Fees. This category consists of fees in relation to transfer pricing reports and audit of conflict mineral report.

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

Not applicable.

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

On November 1, 2007, our board of directors authorized a share buyback program allowing us to repurchase up to \$40.0 million of our ADSs in the open market or through privately negotiated transactions. We concluded this share buyback program in the first quarter of 2008 and repurchased a total of approximately \$33.1 million of our ADSs (equivalent to approximately 7.7 million ADSs) from the open market.

On November 14, 2008, our board of directors authorized another share buyback program allowing us to repurchase up to \$50.0 million of our ADSs in the open market or through privately negotiated transactions. We concluded this share buyback program in the third quarter of 2010 and repurchased a total of approximately \$50.0 million of our ADSs (approximately 19.3 million ADSs) under this program from the open market.

In April 2011, the Companies Law of the Cayman Islands was amended to permit treasury shares if so approved by the board of directors and to the extent that the articles do not prohibit treasury shares. Therefore, we would hold the treasury shares for future employees awards.

On June 20, 2011, our board of directors authorized another share buyback program allowing us to repurchase up to \$25.0 million of our ADSs in the open market or through privately negotiated transactions. As of February 28, 2019, we had repurchased a total of approximately \$13.4 million of our ADSs (approximately 9.5 million ADSs) under this program from the open market.

The following table sets forth information regarding transactions completed under the 2011 share buyback programs for each of the specified periods.

Period	(a) Total Number of ADSs Purchased	(b) Average Price Paid per ADS	(c) Total Number of ADSs Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of ADSs That May Yet Be Purchased Under the Plans or Programs
2011 Share Buyback Program:				
January 3, 2012 to January 31, 2012	2,451,652	\$ 1.31	6,218,862	\$ 17,185,592
February 1, 2012 to February 27, 2012	1,873,787	\$ 1.61	8,092,649	\$ 14,172,391

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March 6, 2012 to March 30, 2012	186,345	\$ 1.75	8,278,994	\$ 13,847,214
April 3, 2012 to April 25, 2012	120,968	\$ 1.96	8,399,962	\$ 13,610,673
May 7, 2012 to May 31, 2012	83,839	\$ 1.99	8,483,801	\$ 13,444,651
June 1, 2012 to June 28, 2012	399,340	\$ 1.86	8,883,141	\$ 12,703,233
July 12, 2012 to July 31, 2012	169,188	\$ 1.55	9,052,329	\$ 12,442,204
August 1, 2012 to August 29, 2012	45,416	\$ 1.72	9,097,745	\$ 12,364,315
September 4, 2012 to September 26, 2012	48,276	\$ 1.92	9,146,021	\$ 12,272,014
October 1, 2012 to October 25, 2012	228,759	\$ 1.94	9,374,780	\$ 11,830,123
November 1, 2012 to November 13, 2012	113,876	\$ 1.94	9,488,656	\$ 11,609,979

16.F. Change in Registrant's Certifying Accountant

Not applicable.

16.G. Corporate Governance

The Nasdaq Rules provide that foreign private issuers may follow home country practice in lieu of the corporate governance requirements of the NASDAQ Stock Market LLC, subject to certain exceptions and requirements and except to the extent that such exemptions would be contrary to U.S. federal securities laws and regulations. The significant differences between our corporate governance practices and those followed by U.S. companies under the Nasdaq Rules are summarized as follows:

We follow home country practice that permits our independent directors not to hold regularly scheduled meetings at which only independent directors are present in lieu of complying with Rule 5605(b)(2).

16.H. Mine Safety Disclosure

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

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

- (a) Report of Independent Registered Public Accounting Firm.
- (b) Consolidated Statements of Financial Position as of January 1, 2017, December 31, 2017 and 2018.
- (c) Consolidated Statements of Profit or Loss for the years ended December 31, 2017 and 2018.
- (d) Consolidated Statements of Other Comprehensive Income for the years ended December 31, 2017 and 2018.
- (e) Consolidated Statements of Changes in Equity for the years ended December 31, 2017 and 2018.
- (f) Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2018.
- (g) Notes to the Consolidated Financial Statements.

ITEM 19. EXHIBITS

Exhibit Number	Description of Document
<u>1.1</u>	<u>Third Amended and Restated Memorandum and Articles of Association of the Registrant, as currently in effect. (Incorporated by reference to Exhibit 1.1 from our Annual Report on Form 20-F (file no. 000-51847) filed with the Securities and Exchange Commission on June 3, 2010.)</u>
<u>2.1</u>	<u>Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3).</u>
<u>2.2</u>	<u>Registrant's Specimen Certificate for Ordinary Shares. (Incorporated by reference to Exhibit 4.2 from our Registration Statement on Form F-1 (file no. 333-132372) filed with the Securities and Exchange Commission on March 13, 2006.)</u>
<u>2.3</u>	<u>Form of Deposit Agreement among the Registrant, JPMorgan Chase Bank, N.A., as depositary, and holders of the American depositary receipts. (Incorporated by reference to Exhibit (a) to the Registrant's Registration Statement on Form F-6 (file no. 333-219169) filed with the Securities and Exchange Commission on July 6, 2017.)</u>
<u>4.1</u>	<u>Himax Technologies, Inc. 2011 Long-Term Incentive</u>

	<u>Plan Amended and Restated as of August 31st day, 2016. (Incorporated herein by reference to Exhibit 99.4 to the Registrant's report of foreign private issuer on Form 6-k filed on July 12, 2016.)</u>
4.2*	<u>Agreement and Plan of Merger dated November 8, 2010 among Himax Display, Inc., Spatial Photonics, Inc. and Wen Hsieh. (Incorporated herein by reference to Exhibit 4.3 from our Annual Report on Form 20-F (file no. 000-51847) filed with the Securities and Exchange Commission on May 20, 2011.)</u>
8.1	<u>List of Subsidiaries.</u>
12.1	<u>Certification of Jordan Wu, President and Chief Executive Officer of Himax Technologies, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
12.2	<u>Certification of Jackie Chang, Chief Financial Officer of Himax Technologies, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
13.1	<u>Certification pursuant to 18 USC, Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
15.1	<u>Consent of KPMG, Independent Registered Public Accounting Firm.</u>

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

*Confidential treatment has been requested for portions of this exhibit.

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

HIMAX TECHNOLOGIES, INC.

By: /s/ Jordan Wu

Name: Jordan Wu

Title: President and Chief Executive Officer

Date: March 28, 2019

HIMAX TECHNOLOGIES, INC.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Financial Statements

January 1, 2017, December 31, 2017 and 2018

**(With Report of Independent Registered
Public Accounting Firm Thereon)**

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Himax Technologies, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Himax Technologies, Inc. and subsidiaries (the “Company”) as of January 1, 2017, December 31, 2017 and 2018, the related consolidated statements of profit or loss, other comprehensive income, changes in equity, and cash flows for the years ended December 31, 2017 and 2018, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 1, 2017, December 31, 2017 and 2018, and the results of its operations and its cash flows for the years ended December 31, 2017 and 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 28, 2019 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of

material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2001.

/s/ KPMG

Hsinchu, Taiwan

March 28, 2019

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Consolidated Statements of Financial Position****January 1, 2017, December 31, 2017 and 2018****(in thousands of US dollars)**

	Note	January 1, 2017	December 31, 2017	December 31, 2018
Assets				
Current assets:				
Cash and cash equivalents	6, 22	\$ 184,452	138,023	106,437
Financial assets at amortized cost	7, 22	5,140	10,358	11,229
Financial assets at fair value through profit or loss	8, 22	5,017	521	-
Accounts receivable, net	11, 22	192,534	188,774	189,279
Inventories	12	149,748	135,200	162,561
Income taxes receivable	22	43	53	72
Restricted deposit	17, 22, 26	138,200	147,000	164,326
Other receivable from related parties	22, 25	7,150	3,250	2,780
Other current assets	22	17,152	39,442	17,731
Total current assets		699,436	662,621	654,415
Financial assets at fair value through profit or loss	8, 22	10,562	1,600	9,768
Financial assets at fair value through other comprehensive income	9, 22	1,680	1,522	791
Equity method investments	13	2,362	10,739	4,064
Property, plant and equipment, net	15, 28, 29	47,309	84,575	111,067
Deferred tax assets	5, 21	7,256	7,713	13,904
Goodwill		28,138	28,138	28,138
Other intangible assets, net	5, 14, 29	3,781	2,899	10,778
Restricted deposit	22, 26	124	470	130
Other non-current assets	18, 22	1,573	2,916	3,623
		102,785	140,572	182,263
Total assets		\$ 802,221	803,193	836,678

The accompanying notes are an integral part of these consolidated financial statements.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Consolidated Statements of Financial Position (Continued)****January 1, 2017, December 31, 2017 and 2018****(in thousands of US dollars)**

	Note	January 1, 2017	December 31, 2017	December 31, 2018
Liabilities and Equity				
Current liabilities:				
Short-term borrowings	17, 22, 26	\$ 138,000	147,000	184,000
Financial liability at amortized cost	10, 22	-	4,837	5,071
Accounts payable	22	142,269	139,933	150,500
Accounts payable to related party	22, 25	576	-	-
Income taxes payable	21	14,674	7,285	6,007
Other payable to related party	22, 25	-	2,200	3,797
Other current liabilities	5, 16, 22	31,257	42,471	41,780
Total current liabilities		326,776	343,726	391,155
Financial liability at amortized cost	10, 22	4,524	-	-
Net defined benefit liabilities	18	1,064	1,152	151
Deferred tax liabilities	5, 21	1,281	111	1,759
Other non-current liabilities	22	1,438	4,616	1,326
Total liabilities		335,083	349,605	394,391
Equity				
Ordinary shares	20	107,010	107,010	107,010
Additional paid-in capital	20	103,473	104,427	104,749
Treasury shares		(9,020)	(8,878)	(8,819)
Accumulated other comprehensive income	20	(1,554)	(446)	(549)
Retained earnings		266,811	253,210	244,157
Equity attributable to owners of Himax Technologies, Inc.		466,720	455,323	446,548
Noncontrolling interests	20	418	(1,735)	(4,261)
Total equity		467,138	453,588	442,287
Total liabilities and equity		\$ 802,221	803,193	836,678

The accompanying notes are an integral part of these consolidated financial statements.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Consolidated Statements of Profit or Loss****For the years ended December 31, 2017 and 2018****(in thousands of US dollars, except per share data)**

	Note	2017	2018
Revenues	28	\$685,167	723,605
Costs and expenses:			
Cost of revenues	12,18,19,29	518,142	554,690
Research and development	18,19,25,29	117,662	123,037
General and administrative	5,18,19,29	20,461	21,823
Expected credit loss	11	155	290
Sales and marketing	18, 19, 29	20,388	20,380
Total costs and expenses		676,808	720,220
Operating income		8,359	3,385
Non operating income (loss):			
Interest income		2,225	2,429
Changes in fair value of financial assets at fair value through profit or loss		23,226	2,036
Foreign currency exchange losses, net		(1,659)	(369)
Finance costs		(878)	(1,232)
Share of losses of associates	13	(1,200)	(1,095)
Other income	5	19	1,866
		21,733	3,635
Profit before income taxes		30,092	7,020
Income tax expense	21	4,554	994
Profit for the year		25,538	6,026
Loss attributable to noncontrolling interests		2,142	2,543
Profit attributable to Himax Technologies, Inc. stockholders		\$27,680	8,569
Basic earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	4(q)	\$0.08	0.02
Diluted earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	4(q)	\$0.08	0.02

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Basic earnings per ADS attributable to Himax Technologies, Inc. stockholders	4(q)	\$0.16	0.05
Diluted earnings per ADS attributable to Himax Technologies, Inc. stockholders	4(q)	\$0.16	0.05

The accompanying notes are an integral part of these consolidated financial statements.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Consolidated Statements of Other Comprehensive Income****For the years ended December 31, 2017 and 2018****(in thousands of US dollars)**

	Note	2017	2018
Profit for the year		\$25,538	6,026
Other comprehensive income:			
Items that will not be reclassified to profit or loss:	18, 20, 21	(81)	431
Remeasurements of defined benefit pension plans		(96)	1,302
Unrealized loss on financial assets at fair value through other comprehensive income		-	(702)
Income tax related to items that will not be reclassified subsequently		15	(169)
Items that may be reclassified subsequently to profit or loss:		1,184	(336)
Unrealized gains on financial assets at fair value through profit or loss		322	-
Foreign operations - foreign currency translation differences		862	(336)
Income tax related to items that may be reclassified subsequently		-	-
Other comprehensive income for the year, net of tax		1,103	95
Total comprehensive income for the year		26,641	6,121
Total comprehensive income attributable to noncontrolling interests		2,147	2,538
Total comprehensive income attributable to Himax Technologies, Inc. stockholders		\$28,788	8,659

The accompanying notes are an integral part of these consolidated financial statements.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Consolidated Statements of Changes in Equity****For the years ended December 31, 2017 and 2018****(in thousands of US dollars and shares, except per share data)**

	Attributable to owners of Himax Technologies, Inc.									
	Ordinary shares		Additional paid-in capital	Treasury shares		Accumulated other Comprehensive income	Retained earnings	Total	Noncontrolling interests	Total Equity
	Shares	Amount		Shares	Amount					
Balance at January 1, 2017	356,700	\$ 107,010	103,473	(12,693)	(9,020)	(1,554)	266,811	466,720	418	467,138
Profit (loss) for the year	-	-	-	-	-	-	27,680	27,680	(2,142)	25,538
Other comprehensive income	-	-	-	-	-	1,108	-	1,108	(5)	1,103
Total comprehensive income for the year	-	-	-	-	-	1,108	27,680	28,788	(2,147)	26,641
Contributions by and distributions to owners										
Declaration of cash dividends, \$0.12 per share	-	-	-	-	-	-	(41,281)	(41,281)	-	(41,281)
Share-based compensation expenses	-	-	945	-	-	-	-	945	52	997
Restricted stock vested	-	-	(142)	201	142	-	-	-	-	-
	-	-	803	201	142	-	(41,281)	(40,336)	52	(40,284)
Changes in ownership interests										
Dilution gain of equity method investment	-	-	26	-	-	-	-	26	-	26
	-	-	130	-	-	-	-	130	(25)	105

New shares issued by subsidiary										
Sale (purchase) of subsidiary shares to (from) noncontrolling interests	-	-	(5)	-	-	-	-	(5)	(33)	(38)
	-	-	151	-	-	-	-	151	(58)	93
Balance at December 31, 2017	356,700	\$107,010	104,427	(12,492)	(8,878)	(446)	253,210	455,323	(1,735)	453,588

The accompanying notes are an integral part of these consolidated financial statements.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Consolidated Statements of Changes in Equity (Continued)****For the years ended December 31, 2017 and 2018****(in thousands of US dollars and shares, except per share data)**

	Attributable to owners of Himax Technologies, Inc.									
	Ordinary shares		Additional paid-in capital	Treasury shares		Accumulated other Comprehensive income	Retained earnings	Total	Noncontrolling interests	Total Equity
	Shares	Amount		Shares	Amount					
Effect of adopting IFRS 9	-	-	-	-	-	(193)	193	-	-	-
Profit (loss) for the year	-	-	-	-	-	-	8,569	8,569	(2,543)	6,026
Other comprehensive income	-	-	-	-	-	90	-	90	5	95
Total comprehensive income for the year	-	-	-	-	-	(103)	8,762	8,659	(2,538)	6,121
Contributions by and distributions to owners										
Declaration of cash dividends, \$0.05 per share	-	-	-	-	-	-	(17,210)	(17,210)	-	(17,210)
Share-based compensation expenses	-	-	386	-	-	-	-	386	22	408
Restricted stock vested	-	-	(59)	83	59	-	-	-	-	-
	-	-	327	83	59	-	(17,210)	(16,824)	22	(16,802)
Changes in ownership interests										
New shares issued by subsidiary	-	-	21	-	-	-	-	21	(10)	11
	-	-	(26)	-	-	-	(605)	(631)	-	(631)

Dilution gain of
equity method
investment

	-	-	(5)	-	-	-	(605)	(610)	(10)	(620
Balance at December 31, 2018	356,700	\$107,010	104,749	(12,409)	(8,819)	(549)	244,157	446,548	(4,261)	442,			

The accompanying notes are an integral part of these consolidated financial statements.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2018
(in thousands of US dollars)

	2017	2018
Cash flows from operating activities:		
Profit for the year	\$25,538	6,026
Adjustments for:		
Depreciation and amortization	16,680	20,327
Expected credit loss recognized on accounts receivable	155	290
Share-based compensation expenses	997	408
Gain on disposals of property, plant and equipment, net	(26)	-
Gain on re-measurement of the pre-existing relationships in a business combination	-	(1,662)
Changes in fair value of financial assets at fair value through profit or loss	(23,226)	(2,036)
Interest income	(2,225)	(2,429)
Finance costs	878	1,232
Income tax expense	4,554	994
Share of losses of associates	1,200	1,095
Inventories write downs	12,298	17,724
Foreign currency exchange losses of financial assets	-	294
	36,823	42,263
Changes in:		
Accounts receivable	(1,665)	(794)
Inventories	2,250	(45,085)
Other current assets	969	(1,511)
Accounts payable	(2,336)	10,567
Accounts payable to related party	(576)	-
Other payable to related party	2,200	1,597
Net defined benefit liabilities	(9)	(128)
Other current liabilities	5,424	753
Other non-current liabilities	(604)	(458)
Cash generated from operating activities	42,476	7,204
Interest received	2,165	2,361
Interest paid	(565)	(877)
Income tax paid	(14,683)	(4,679)
Net cash provided by operating activities	29,393	4,009

The accompanying notes are an integral part of these consolidated financial statements.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Consolidated Statements of Cash Flows (Continued)****For the years ended December 31, 2017 and 2018****(in thousands of US dollars)**

	2017	2018
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	\$(39,292)	(49,672)
Proceeds from disposal of property, plant and equipment	115	1
Acquisitions of intangible assets	(526)	(925)
Acquisitions of financial assets at amortized cost	(5,572)	(4,766)
Proceeds from disposal of financial assets at amortized cost	744	3,514
Acquisitions of financial assets at fair value through profit or loss	(41,523)	(26,277)
Proceeds from disposals of financial assets at fair value through profit or loss	56,375	48,764
Acquisition of business	-	(700)
Acquisition of a subsidiary, net of cash acquired	-	(3,301)
Proceeds from capital reduction of investment	132	55
Acquisitions of equity method investments	(9,175)	(2,093)
Decrease (increase) in refundable deposits	(120)	87
Releases (pledges) of restricted deposit	(146)	14
Cash paid for loan made to related parties	(3,250)	(780)
Cash received from loan made to related party	7,150	-
Income tax paid for disposal of financial assets at fair value through profit or loss	-	(2,187)
Net cash used in investing activities	(35,088)	(38,266)
Cash flows from financing activities:		
Payments of cash dividends	(41,281)	(17,210)
Proceeds from issuance of new shares by subsidiaries	105	11
Proceeds from disposal of subsidiary shares to noncontrolling interests by Himax Imaging, Inc.	4	-
Acquisitions of noncontrolling interests	(42)	-
Pledge of restricted deposit	(9,000)	(17,000)
Proceeds from short-term borrowings	151,161	131,000
Repayments of short-term borrowings	(142,161)	(94,000)
Net cash provided by (used in) financing activities	(41,214)	2,801
Effect of foreign currency exchange rate changes on cash and cash equivalents	480	(130)
Net decrease in cash and cash equivalents	(46,429)	(31,586)
Cash and cash equivalents at beginning of year	184,452	138,023
Cash and cash equivalents at end of year	\$ 138,023	106,437

The accompanying notes are an integral part of these consolidated financial statements.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2018

Note 1. Reporting entity

Himax Technologies Limited, an exempted company with limited liability under the Cayman Islands Companies Law, was incorporated on April 26, 2005 and changed the name to “Himax Technologies, Inc.” on September 26, 2005. Since March 2006, Himax Technologies, Inc.’s ordinary shares have been quoted on the NASDAQ Global Select Market under the symbol “HIMX” in the form of ADSs and two ordinary shares represent one ADS with effect from August 10, 2009.

The registered office in the Cayman Islands is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal executive office is located at No. 26, Zih Lian Road, Sinshih District, Tainan City 74148, Taiwan, Republic of China.

The principal operating activities of Himax Technologies, Inc. and subsidiaries (collectively, the Company) are described in Note 4(b).

Note 2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These are the Company’s first consolidated financial statements prepared in accordance with IFRS and *IFRS 1 First-time Adoption of International Financial Reporting Standards* has been applied.

Since these are the Company's first audited consolidated financial statements prepared in accordance with IFRS, pursuant to the transitional relief granted by the U.S. Securities and Exchange Commission in respect of the first-time adoption of IFRS, the Company has only provided financial statements and financial information for the financial years ended December 31, 2017 and 2018.

The Company's consolidated financial statements were previously prepared in accordance with U.S. generally accepted accounting principles ("US GAAP") which differs in some areas from IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 31.

The consolidated financial statements were authorized for issuance by the Board of Directors on March 28, 2019.

(b)Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

1. Financial assets at fair value through profit or loss;

2. Financial assets at fair value through other comprehensive income;

3. The defined benefit liability (asset) is recognized as the fair value of the plan assets less the present value of the defined benefit obligation.

Note 3. Application of new and revised IFRS as issued by the IASB

The accompanying consolidated financial statements are the first IFRS annual consolidated financial statements prepared for the year ended December 31, 2018. Prior to 2018, the Company prepared and reported its consolidated financial statements in accordance with US GAAP. The Company's date of transition to IFRS is January 1, 2017, and the effect of the transition to IFRS is disclosed in Note 31.

New and revised standards, amendments and interpretations in issue but not yet effective

New, Amended or Revised Standards and Interpretations	Effective Date Announced by IASB
Annual Improvements to IFRS 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019

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Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

Except for the impacts discussed below, as of the date of the consolidated financial statements were authorized for issue, the Company continues assessing other possible impacts that application of the abovementioned amendments will have on the Company’s financial position and financial performance and will disclose these other impacts when the assessment is completed.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

1)IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 “Leases” and a number of related interpretations.

Upon initial application of IFRS 16, the Company will elect to apply the guidance of IFRS 16, in determining whether contracts are, or contain, a lease, only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

Upon initial application of IFRS 16, if the Company is a lessee, it will recognize right-of-use assets and lease liabilities for all leases on the consolidated statement of financial position except for leases of low-value assets and short-term leases, which the Company may elect to apply the accounting method like the accounting for operating lease under IAS 17. On the consolidated statement of profit or loss, the Company will present the depreciation expense charged on the right-of-use asset and interest expense accrued on the lease liability under cost of revenue/operating expenses and finance costs, respectively; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

The Company expects to recognize the lease contract of lessees in line with IFRS 16. However, the Company intends not to restate the financial statements of prior period (referred herein as the “modified retrospective approach”). On January 1, 2019, it is expected that right-of-use asset and lease liability will be both increased by \$5,899 thousand.

2)IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Company expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change. The Company has assessed there will be no significant impact on the consolidated financial statements.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

Note 4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2017 for the purposes of the transition to IFRS, unless otherwise indicated.

The accounting policies have been applied consistently by consolidated entities.

(a) Basis of Consolidation

The accompanying consolidated financial statements include the accounts and operations of Himax Technologies, Inc. and its majority owned subsidiaries and entities that it has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) List of Subsidiaries in the Consolidated Financial Statements

Following is general information about Himax Technologies, Inc.'s subsidiaries:

Investor	Subsidiary	Main activities	Jurisdiction of Incorporation	Percentage of Ownership				
				January 1, 2017	December 31, 2017	December 31, 2018		
Himax Technologies, Inc.	Himax Technologies Limited ("Himax	IC design and sales	ROC	100.00%	100.00	%	100.00	%

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Himax Technologies, Inc.	Taiwan") Himax Technologies Korea Ltd.	IC design and sales	South Korea	100.00%	100.00	%	100.00	%
Himax Technologies, Inc.	Himax Technologies Japan Ltd.	Sales	Japan	100.00%	100.00	%	100.00	%
Himax Technologies, Inc.	Himax Semiconductor, Inc. ⁽¹⁾	IC design and sales	ROC	100.00%	100.00	%	-	
Himax Technologies, Inc.	Himax Semiconductor (Hong Kong) Limited	Investments	Hong Kong	100.00%	100.00	%	100.00	%
Himax Technologies Limited	Himax Technologies (Samoa), Inc.	Investments	Samoa	100.00%	100.00	%	100.00	%
Himax Technologies (Samoa), Inc.	Himax Technologies (Suzhou) Co., Ltd.	Sales and technical support	PRC	100.00%	100.00	%	100.00	%
Himax Technologies (Samoa), Inc.	Himax Technologies (Shenzhen) Co., Ltd.	Sales and technical support	PRC	100.00%	100.00	%	100.00	%

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Investor	Subsidiary	Main activities	Jurisdiction of Incorporation	Percentage of Ownership					
				January 1, 2017	December 31, 2017	December 31, 2018	January 1, 2017	December 31, 2017	December 31, 2018
Himax Technologies Limited	Himax Display, Inc.	LCOS and MEMS design, manufacturing and sales	ROC	82.55 %	82.72 %	82.70 %			
Himax Display, Inc.	Integrated Microdisplays Limited	LCOS design	Hong Kong	82.55 %	82.72 %	82.70 %			
Himax Display, Inc.	Himax Display (USA) Inc.	LCOS and MEMS design, sales and technical support	Delaware, USA	82.55 %	82.72 %	82.70 %			
Himax Technologies Limited	Himax Analogic, Inc.	IC design and sales	ROC	98.62 %	98.62 %	98.62 %			
Himax Technologies, Inc.	Himax Imaging, Inc.	Investments	Cayman Islands	100.00 %	100.00 %	100.00 %			
Himax Technologies Limited	Himax Imaging, Ltd. (“Imaging Taiwan”)	IC design and sales	ROC	93.84 %	93.72 %	93.70 %			
Himax Imaging, Ltd.	Himax Imaging Corp.	IC design	California, USA	93.84 %	93.72 %	93.70 %			
Himax Technologies Limited	Himax Media Solutions, Inc.	TFT-LCD television, monitor chipset operations, ASIC service and IP licensing	ROC	99.21 %	99.22 %	99.22 %			
Himax Technologies Limited	Harvest Investment Limited	Investments	ROC	100.00 %	100.00 %	100.00 %			
Himax Technologies Limited	Liqxtal Technology Inc.	LC Lens design and sales	ROC	64.00 %	64.00 %	64.00 %			
				-	100.00 %	100.00 %			

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Himax Technologies Limited	Himax IGI Precision Ltd. ⁽²⁾	3D micro and nano structure mastering and prototype replication	Delaware, USA						
Himax Technologies Limited	Emza Visual Sense Ltd. ⁽³⁾	Visual sensors and efficient machine vision algorithm	Israel	-	45.10	%	100.00	%	

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

Note 1: For management purpose, Himax Semiconductor Inc. was merged into Himax Technologies Limited on July 2, 2018.

Note 2: Himax IGI Precision Ltd. was newly incorporated on December 14, 2017, which is wholly owned by Himax Technologies Limited.

Note 3: Emza Visual Sense Ltd. was wholly acquired by Himax Technologies Limited and becomes a subsidiary of the Company from June 28, 2018.

Principal Activities

The Company is a fabless semiconductor solution provider dedicated to display imaging processing technologies. The Company is a worldwide market leader in display driver ICs and timing controllers used in TVs, laptops, monitors, mobile phones, tablets, digital cameras, car navigation, virtual reality (VR) devices and many other consumer electronics devices. Additionally, the Company designs and provides controllers for touch sensor displays, in-cell Touch and Display Driver Integration (TDDI) single-chip solutions, LED driver ICs, power management ICs, scaler products for monitors and projectors, tailor-made video processing IC solutions, silicon IPs and LCOS micro-displays for augmented reality (AR) devices and heads-up displays (HUD) for automotive. The Company also offers digital camera solutions, including CMOS image sensors and Wafer Level Optics (WLO) for AR devices, 3D sensing and machine vision, which are used in a wide variety of applications such as mobile phone, tablet, laptop, TV, PC camera, automobile, security, medical devices and Internet of Things.

(c) Foreign Currency

The reporting currency of the Company is the United States dollar (USD). The functional currency for the Company and its major operating subsidiaries is the USD. Accordingly, the assets and liabilities of subsidiaries whose functional currency is other than the USD are included in the consolidation by translating the assets and liabilities into the reporting currency (the USD) at the exchange rates applicable at the end of the reporting period. Equity accounts are translated at historical rates. The statements of income and cash flows are translated at the average exchange rates at the date of transaction. Translation gains or losses are accumulated as a separate component of equity in accumulated other comprehensive income.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

(d) Classification of Current and Noncurrent Assets and Liabilities

Current assets are assets held for trading purposes and assets expected to be converted to cash, sold or consumed within one year from the end of the reporting period. Current liabilities are obligations incurred for trading purposes and obligations expected to be settled within one year from the end of the reporting period. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

(e) Cash and Cash Equivalents

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

(f) Financial Instruments

The Company elected to relieve from the retrospective application of the requirements in respect of the recognition of such “Day 1” gains or losses on IFRS 9 “Financial Instruments”. Therefore, in the opening statement of financial position, the amount of financial instrument was the same as the carrying amount under US GAAP and just reclassified to appropriate classification under IFRS 9.

The Company shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the Company becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting.

1. Financial Assets

(i) Classification of financial assets

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are classified into the following categories: measured at amortized cost, measured at fair value through other comprehensive income (FVTOCI) and measured at fair value through profit or loss (FVTPL). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. When, and only when, the Company changes its business model for managing financial assets it shall reclassify all affected financial assets.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

i. Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as measured at fair value through profit or loss:

- (i) the asset held within a business model whose objective is to hold assets to collect contractual cash flows; and
- (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

ii. Financial assets measured at fair value through other comprehensive income (FVTOCI)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

Equity investments at FVTOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI. When an investment is derecognized, the cumulative gain or loss in equity will not be reclassified to profit or loss, instead, is reclassified to retained earnings.

iii. Financial assets measured at fair value through profit or loss (FVTPL)

All financial assets not classified as measured at amortized cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss.

Such financial assets are initially recognized at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in profit or loss.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

(ii) Impairment of financial assets

The Company recognizes loss allowances for expected credit loss on financial assets measured at amortized cost (including accounts receivable) and contract assets.

The loss allowance for accounts receivable and contract assets are measured at an amount equal to lifetime expected credit losses. For financial assets at amortized cost and contract assets, when the credit risk on the financial instrument has not increased significantly since initial recognition, a loss allowance is recognized at an amount equal to expected credit loss resulting from possible default events of a financial instrument within 12 months after the reporting date. If, on the other hand, there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to expected credit loss resulting from all possible default events over the expected life of a financial instrument.

When determining whether the credit risk of a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant. This includes both qualitative and quantitative information and analysis, based on the Company's historical experience and credit assessment as well as forward-looking information.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

(iii) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the

financial asset to another entity.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

2. Financial Liabilities

(i) Classification of financial liability

The Company classifies all financial liabilities as measured at amortized cost, except for financial liabilities measured at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.

(ii) Derecognition of financial liability

The Company removes a financial liability from its statement of financial position when, and only when, it is extinguished—when the obligation specified in the contract is discharged or cancelled or expires.

On derecognition of a financial liability at amortized cost in its entirety, the difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in profit or loss.

(g) Inventories

Inventories primarily consist of raw materials, work-in-process and finished goods awaiting final assembly and test and are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. For work-in-process and manufactured inventories, cost consists of the cost of raw materials (primarily fabricated wafer and processed tape), direct labor and an appropriate proportion of production overheads. Net realizable value for raw materials is based on replacement cost. Net realizable value for finished goods and work in process is calculated based on the estimated selling price less all estimated costs of completion and necessary selling costs.

(h) Equity Method Investments

Equity investments in entities where the Company has the ability to exercise significant influence over the operating and financial policy decisions of the investee but does not have a controlling financial interest in the investee, are accounted for using the equity method. The Company's share of the net income or net loss of an investee is recognized in earnings from the date the significant influence commences until the date that significant influence ceases. The difference between the cost of an investment and the amount of underlying equity in net assets of an investee at investment date is allocated to related assets which are amortized over their useful lives. Any unallocated difference is treated as investor-level goodwill and is not amortized.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

The Company discontinues the use of the equity method from the date when the Company ceases to have significant influence over an associate, and then measures the retained interests at fair value at that date. The difference between the carrying amount of the investment at the date the equity method was discontinued and the fair value of the retained interests along with any proceeds from disposing of a part of the interest in the associate is recognized in profit or loss. When the Company discontinues the use of the equity method, the Company shall account for all amounts previously recognized in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

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

(i) Property, Plant and Equipment

Property, plant and equipment consists primarily of land purchased as the site of the Company's headquarters, building and machinery and equipment used in the design and development of products, and is stated at cost less accumulated depreciation and any accumulated impairment loss. Depreciation on building and machinery and equipment commences when the asset is ready for its intended use. Except for the following paragraph, depreciation is primarily calculated on the straight-line method over the estimated useful lives of related assets which range as follows: building 25 years, building improvements 4 to 16 years, machinery 4 to 6 years, research and development equipment 2 to 6 years, office furniture and equipment 3 to 8 years, others 2 to 10 years. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of the asset. Software is amortized on a straight-line basis over the estimated useful lives ranging from 2 to 10 years. Land is not depreciated.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

During the year 2017, certain new machinery and equipment have been acquired for specific project. The depreciation on these new assets is calculated on Fixed-Percentage-on-Declining-Base Method basis over the estimated useful lives of 3 years. The Company thinks that method would most closely reflect the expected pattern of consumption of the future economic benefits embodied in those assets.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(j) Goodwill

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

Goodwill from acquisition of Himax Semiconductor, Inc. (formerly Wisepal Technologies, Inc.) in 2007 amounting \$26,846 thousand has been assigned to Driver IC cash generating unit (“CGU”) and goodwill from acquisition of Himax Display (USA) Inc. in 2012 amounting \$1,292 thousand has been assigned to WLO CGU because these CGUs are expected to benefit from the synergies of the business combinations.

Goodwill is not amortized and instead is reviewed for impairment at least annually, or more frequently when there is an indication that the CGU may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Company’s CGU or groups of CGU that are expected to benefit from the synergies of the combination. If the recoverable amount of a cash-generating unit is less than its carrying amount, the difference is allocated first to reduce the carrying amount of any goodwill allocated to such CGU and then to the other assets of the CGU pro rata based on the carrying amount of each asset in the CGU. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use which was calculated based on the cash flow forecast from the financial budgets covering the future five-year period with the terminal growth rate. The annual discount rate was 11.87%, 10.76% and 10.71% in its test of Goodwill impairment for Driver IC CGU as of January 1, 2017, December 31, 2017 and December 31, 2018, respectively, based on industry weighted average cost of capital. The annual discount rate for WLO CGU was 13.68%, 12.17% and 12.70% as of January 1, 2017, December 31, 2017 and December 31, 2018, respectively. The terminal growth rate,

based on following 5 years average Taiwan economic growth rate published by International Monetary Fund, was 2.44%, 2.24% and 2.08% also used in the test for both CGUs as of January 1, 2017, December 31, 2017 and December 31, 2018, respectively. The key assumptions abovementioned represents the management's forecast of the future for the related industry by considering the history information from internal and external sources.

On January 1, 2017, the Company's date of transition to IFRS, there is no impairment loss recognized on Goodwill after the impairment test. For the years ended December 31, 2017 and 2018, the Company did not recognize any impairment loss on goodwill.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

(k) Other Intangible Assets

Acquired intangible assets include patents, intellectual property and developed technology acquired in a business combination. These intangible assets are amortized on a straight-line basis over the following estimated useful lives: patents 15 years, intellectual property 10 years and technology 7 years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(l) Impairment of Non-Financial Assets

The Company's long-term non-financial assets, which consist of property, plant and equipment and intangible assets, are reviewed at the reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. When an impairment loss subsequently reverses, the carrying amount of the asset or a CGU is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(m) Revenue Recognition

Effective January 1, 2018, the Company adopted IFRS 15, Revenue with contract customers retrospectively with practical expedient and transitional exemption. The date of initial application of IFRS 15 is the beginning of the first IFRS reporting period. The Company is not required to restate contracts that were begin and end within the same annual reporting period. There is no significant impact on the Company's financial results in applying the practical expedient.

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, using a five-step model framework to determine the method, timing and amount of revenue recognized. The Company generates revenue primarily from sale of goods or services. Revenue from contracts with customers is disaggregated by primarily geographical market and major products.

Under IFRS 15, the Company identifies the contract with the customers and recognizes revenue when performance obligations are satisfied.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

Revenue is measured based on the consideration that the Company expects to be entitled in the transfer of goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Customers obtain control of the product when the goods are delivered and accepted by customers. Invoices are generated at that point in time.

The Company recognizes revenue from product sales is measured at the amount that is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Revenue is reduced for estimated rebates and other similar allowances.

Trade receivable is recognized when the Company is entitled for unconditional right to receive payment upon delivery of goods to customers. The consideration received in advance from the customer but without delivery of goods is recognized as a contract liability, for which revenue is recognized when the control over the goods is transferred to the customer.

The Company expects that the length of time when the Company transfers the goods or services to the customer and when the customer pays for those goods or services will be less than one year. Therefore, the amount of consideration is not adjusted for the time value of money.

(n)Employee Benefits

1.Short-term employee benefits

Short-term employee benefits are expensed unless another policy allows or requires it to be capitalized. Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for service rendered by employees.

2. Share-based payment arrangements

The cost of employee services received in exchange for share-based compensation is measured based on the grant-date fair value of the share-based instruments issued. The cost of employee services is equal to the grant-date fair value of shares issued to employees and is recognized in earnings with a corresponding increase in equity over the service period by graded vesting. Compensation cost also considers the number of awards management believes will eventually vest. As a result, compensation cost is reduced by the estimated forfeitures. The estimate is adjusted each period to reflect the current estimate of forfeitures, and finally, the actual number of awards that vest.

3. Defined contribution plans

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

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

4. Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans is calculated separately for each benefit plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. For defined benefit retirement benefit plans, the cost of providing benefit is recognized based on actuarial calculations. Defined benefit costs (including service cost, net interest and rereasurement) under the defined benefit retirement benefit plans are determined using the Projected Unit Credit Method. Service cost (including current service cost), and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in profit or loss in the period they occur. Rereasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Rereasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

All actuarial gains and losses at January 1, 2017, the date of transition to IFRS, were recognized in retained earnings. The Company recognizes all actuarial gains and losses arising subsequently from defined benefit plans in other comprehensive income.

(o) Income Taxes

Income tax expense comprises current and deferred taxes. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

1. Current tax

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

substantively enacted tax rate at the reporting date.

2. Deferred tax

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases, and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

(p) Business Combinations

The Company elected to take the optional exemption under IFRS 1 for business combinations before the date of transition to IFRS. Therefore, in the opening statement of financial position, the amount of goodwill generated from past business combinations was the same as the carrying amount of goodwill under US GAAP as of January 1, 2017.

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Non-controlling interests are initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of contingent consideration are recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date, and the resulting gain or loss is recognized in profit or loss.

(q) Earnings Per Ordinary Share

Basic earnings per ordinary share is computed using profit or loss attributable to the shareholders and weighted average number of ordinary shares outstanding during the period. Diluted earnings per ordinary share is computed using the weighted average number of ordinary and diluted ordinary equivalent shares outstanding during the period.

Ordinary equivalent shares are ordinary shares that are contingently issuable upon the vesting of unvested restricted share units (RSUs) granted to employees.

Basic and diluted earnings per ordinary share have been calculated as follows:

	Year Ended December 31,	
	2017	2018
Profits attributable to Himax Technologies, Inc. stockholders (in thousands)	\$ 27,680	8,569
Denominator for basic earnings per ordinary share:		
Weighted average number of ordinary shares outstanding (in thousands)	344,849	345,020
Basic earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	\$ 0.08	0.02
Basic earnings per ADS attributable to Himax Technologies, Inc. stockholders ⁽¹⁾	\$ 0.16	0.05

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Contingently issuable ordinary shares underlying the unvested RSUs granted to employees are included in the calculation of diluted earnings per ordinary share based on treasury stock method.

	Year Ended December 31,	
	2017	2018
Profits attributable to Himax Technologies, Inc. stockholders (in thousands)	\$ 27,680	8,569
Denominator for diluted earnings per ordinary share:		
Weighted average number of ordinary shares outstanding (in thousands)	344,849	345,020
Unvested RSUs (in thousands)	54	49
	344,903	345,069
Diluted earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	\$ 0.08	0.02
Diluted earnings per ADS attributable to Himax Technologies, Inc. stockholders ⁽¹⁾	\$ 0.16	0.05

Note 1: As the Company's ordinary shares have been quoted on the NASDAQ Global Select Market under the symbol "HIMX" in the form of ADSs and two ordinary shares represent one ADS with effect from August 10, 2009. The number of ADS equivalent outstanding is determined by dividing the number of ordinary shares by two. Therefore, the weighted average number of ADS equivalent outstanding used in basic earnings per ADS for 2017 and 2018 is 172,425 thousand and 172,510 thousand, respectively. Additionally, the weighted average number of ADS equivalent outstanding used in diluted earnings per ADS for 2017 and 2018 is 172,452 thousand and 172,534 thousand, respectively. The earnings per ADS is presented solely for the convenience of the reader and does not represent a measure under IFRS.

(r) Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are reviewed regularly by the Company's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Company's CODM has been identified as the Chief Executive Officer, who regularly reviews operating results to make decisions about allocating resources and assessing performance for the Company. Management has determined that the Company has two operating segments: Driver IC and Non-driver products.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

The CODM assesses the performance of the operating segments based on segment sales and segment profit and loss. There are no intersegment sales in the segment revenues reported to the CODM. Segment profit and loss is determined on a basis that is consistent with how the Company reports operating income (loss) in its consolidated statements of operations. Segment profit (loss) excludes income taxes and items in non-operating income (loss).

The Company does not report segment asset information to the Company's CODM. Consequently, no asset information by segment is presented.

(s) Noncontrolling Interests

Noncontrolling interests are classified in the consolidated statements of profit or loss as part of profit (loss) for the period and the accumulated amount of noncontrolling interests as part of equity in the consolidated statements of financial position. If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interests are re-measured with the gain or loss reported in net earnings.

(t) Use of Judgments and Estimates

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

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

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

1. Valuation of inventory

Inventories are stated at the lower of cost or net realizable value, and the Company uses judgment and estimate to determine the net realizable value of inventory at the end of each reporting period.

Due to the rapid technological changes, the Company estimates the net realizable value of inventory for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon.

2. Impairment of non-financial assets other than goodwill

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

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

3. Recognition of deferred tax assets

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

4. Impairment of goodwill

The assessment of impairment of goodwill requires the Company to make subjective judgment to determine the identified CGU, allocate the goodwill to relevant CGU and estimate the recoverable amount of relevant CGU. In the process of estimating the recoverable amount of relevant CGU, the Company is required to make subjective judgments in determining the discounted rate, the terminal growth rate, the independent cash flows, useful lives, expected future revenue and expenses related to the CGU.

Note 5. Acquisition

(a) Acquisition of nano 3D mastering related business

On February 21, 2018, the Company, through Himax IGI Precision Ltd., completed the acquisition of nano 3D mastering related business with total cash consideration approximating \$1,400 thousand, and half of which, \$700 thousand, will be paid after one year.

The advanced nano 3D manufacturing masters are primarily used in imprinting or stamping replication process to fabricate devices such as diffractive optical element (DOE), diffuser, collimator lens and micro lens array. The acquisition brings the Company the very upstream master tooling capability to supplement its world leading wafer level optics (WLO) technology, which is critical in its efforts to offer 3D sensing total solutions.

Acquired assets were valued at estimates of their current fair values. Property, plant and equipment, other intangible asset and prepaid maintenance acquired were \$700 thousand, \$400 thousand and \$300 thousand, respectively.

(b) Acquisition of Emza Visual Sense Ltd.

Emza Visual Sense Ltd. (“Emza”) was purchased in April 2017 with an original investment amount of \$2,230 thousand together with an additional investment amount of \$270 thousand through conversion of equal amount of debts which occurred in 2016. On June 28, 2018, the Company completed the acquisition of all the outstanding common shares of Emza with total cash consideration approximating \$6,371 thousand, including \$400 thousand holdback that will be paid after one year. The Company’s previously held equity interests in Emza was re-measured at fair value, which was determined with the assistance of an independent appraiser using the equity value allocation method at acquisition date. The re-measurement gain on the previously held equity interests in Emza was \$1,662 thousand which is included in “other income, net” in the consolidated statements of profit or loss.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Emza is an Israeli company dedicated to the development of visual sensors that include proprietary machine-vision algorithms and specific architectures that enable always-on visual sensing capabilities, achieving improvement in power consumption, price and form factor. This acquisition would allow the Company to fully leverage the synergy into producing visual sensors that integrate camera, hardware and algorithms and operate at unprecedented power, cost and size.

The results of Emza's operations have been included in the Company's consolidated financial statements since that date. The amounts of Emza's revenues and losses included in the consolidated statements of profit or loss from the acquisition date to the period ended December 31, 2018 were \$72 thousand and \$2,858 thousand, respectively. If the acquisition had occurred on January 1, 2018, management estimates that consolidated revenue would have been \$723,605 thousand (unaudited), and consolidated profit for the year would have been \$7,291 thousand (unaudited). In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2018.

The Company incurred acquisition-related costs of \$195 thousand on legal fees and due diligence costs. These costs have been included in "general and administrative expenses" in the consolidated statements of profit or loss.

The following table summarizes the amounts of estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

	Fair value (in thousands)
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	\$ 170
Current assets, other than cash	335
Property, plant and equipment	27
Deferred tax assets	1,445

Other intangible assets	8,545	
Other current liabilities	(2,706)
Deferred tax liabilities	(1,445)
Total identifiable net assets acquired	\$ 6,371	

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Acquired tangible assets were valued at estimates of their current fair values. The valuation of acquired intangible assets consisting of the core and developed technology \$6,282 thousand and trademark \$1,800 thousand were determined based on management's estimates and consultation with an independent appraiser. The multi-period excess earnings method was used in applying the income approach to determine the fair value of acquired intangible assets. Significant assumptions inherent in the valuation method for acquired intangible assets are employed and included, but are not limited to, prospective financial information, terminal value, and discount rates. When performing the multi-period excess earnings method for acquired intangible assets, the Company incorporates the use of projected financial information and a discount rate that are developed using market participant based assumptions. The cash-flow projections are based on seven-year financial forecasts developed by management that include revenue projections, capital spending trends, and investment in working capital to support anticipated revenue growth, which are regularly reviewed by management. The selected discount rate considers the risk and nature of the comparative companies and the rates of return market participants would require to investing their capital in reporting units.

The acquired intangible assets, the core and developed technology, will be amortized based on a weighted-average useful life of approximately 7 years. However, the acquired trademark is intangible asset with an indefinite useful life.

Note 6. Cash and Cash Equivalents

	January 1, <u>2017</u>	December 31, <u>2017</u>	December 31, <u>2018</u>
	(in thousands)		
Cash, demand deposits and checking accounts	\$ 171,397	115,464	98,400
Time deposits with less than three months maturity date	13,055	22,559	8,037
	\$ 184,452	138,023	106,437

Refer to Note 22 and Note 23 for the disclosure of credit risk, currency risk and sensitivity analysis of the financial assets and liabilities of the Company.

As of January 1, 2017, December 31, 2017 and 2018, no cash and cash equivalents were pledged with banks as collaterals.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Note 7. Financial Assets at Amortized Cost

	January 1, <u>2017</u>	December 31, <u>2017</u>	December 31, <u>2018</u>
	(in thousands)		
Time deposit with original maturities more than three months	\$5,140	10,358	11,229

The financial assets at amortized cost are in China Yuan (CNY) and US dollar denominated time deposits with original maturities of more than three months and the expected holding period as of January 1, 2017, December 31, 2017 and 2018 is due in one year or less.

As of January 1, 2017, December 31, 2017 and 2018, no financial assets at amortized cost were pledged with banks as collaterals.

Note 8. Financial Assets at Fair Value Through Profit or Loss

Following is a summary of financial assets at fair value through profit or loss as of January 1, 2017, December 31, 2017 and 2018:

	January 1, <u>2017</u>	December 31, <u>2017</u>	December 31, <u>2018</u>
	(in thousands)		
Money market fund	\$5,017	521	-
Equity securities-unlisted company	10,562	1,600	9,768

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	\$15,579	2,121	9,768
Current	\$5,017	521	-
Non-current	10,562	1,600	9,768
	\$15,579	2,121	9,768

The Company sold one equity security in December 2017 for proceeds of \$32,000 thousand, of which \$10,000 thousand received in December 2017 and the balance of \$22,000 thousand is booked as “Other current assets” as of December 31, 2017 and was received in January 2018. The Company recognized a gain on sale of securities of \$23,038 thousand and withholding tax of \$2,304 thousand for the year ended December 31, 2017, which is included in “Changes in fair value of financial assets at fair value through profit or loss” and “Income taxes payable”, respectively. The withholding tax payable was paid in 2018.

As of January 1, 2017, December 31, 2017 and 2018, no financial assets at fair value through profit or loss were pledged with banks as collaterals.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

Note 9. Financial Assets at Fair Value Through Other Comprehensive Income

The equity securities are held for long-term strategies and therefore are accounted for as FVTOCI. Capital reduction from equity security investments designated as at FVTOCI recognized for the years ended December 31, 2017 and 2018, were \$132 thousand and \$55 thousand, respectively, all related to investments held at the end of the reporting period.

As of January 1, 2017, December 31, 2017 and 2018, no financial assets at fair value through other comprehensive income were pledged with banks as collaterals.

Note 10. Financial Liability at Amortized Cost

During 2013, Himax Display, Inc., a consolidated subsidiary of the Company, issued redeemable convertible preferred shares to a non-controlling shareholder. The noncontrolling shareholder may, solely at its option, convert the preferred shares at any time into ordinary shares of Himax Display, Inc. on a one to one basis. Additionally, Himax Display, Inc. provided the noncontrolling shareholder with a liquidation preference, redemption feature and a warrant to purchase additional preferred shares of Himax Display, Inc., within one year from the original investment closing date. The warrant expired in October 2014.

The redeemable convertible preferred shares of Himax Display, Inc. are presented as financial liability at amortized cost on the Company's consolidated statements of financial position and subsequently measured using effective interest method. The interest related to financial liability at amortized cost were \$313 thousand and \$234 thousand for the years ended December 31, 2017 and 2018, respectively.

Note 11. Accounts Receivable, net

	January 1, <u>2017</u>	December 31, <u>2017</u>	December 31, <u>2018</u>
	(in thousands)		
Accounts receivable	\$193,929	188,774	189,569
Less: Allowance for doubtful accounts	(1,395)	-	-
Less: Loss allowance	-	-	(290)
	\$192,534	188,774	189,279

As of December 31, 2018, the Company measures the loss allowance for accounts receivable using the simplified approach under IFRS 9 with the lifetime expected credit losses. To measure the expected credit losses, accounts receivable have been grouped based on the days past due, as well as incorporated forward looking information, including relevant industry information. Analysis of expected credit losses as of December 31, 2018, which was measured based on the aforementioned method, was as follows:

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

	Carrying amount of accounts receivable (in thousands)	Weighted average loss rate	Loss allowance for lifetime expected credit	
Not past due	\$186,654	0.00	%	-
Past due within 30 days	2,622	0.00	%	-
Past due 31-60 days	3	0%-0.01	%	-
Past due 61-90 days	-	0%-6.29	%	-
Past due 91-120 days	-	0%-18.21	%	-
Past due over 121 days	-	100.00	%	-
	\$189,279			-

In addition, the Company recognized a loss allowance amounting to \$290 thousand as of December 31, 2018 for accounts receivable with gross carrying amount of \$290 thousand, due to there was objective evidence indicating that it could not reasonably be expected those receivables would be able to be recovered.

As of January 1, 2017 and December 31, 2017, the Company measured the allowance for doubtful accounts for accounts receivable based on a review of collectability of accounts receivable. Aging analysis of accounts receivable, which were past due but not impaired, as of January 1, 2017 and December 31, 2017, was as follows:

	January 1, 2017 (in thousands)	December 31, 2017
Not past due	\$188,414	186,681
Past due within 30 days	3,875	1,506
Past due 31-60 days	347	396

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Past due 61-90 days	-	-
Past due 91-120 days	-	1
Past due over 121 days	1,293	190
	\$193,929	188,774

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

The activity in the loss allowance is as follows:

Loss Allowance

Period	Balance at Beginning of year (in thousands)	Charges to earnings	Amounts utilized / write-offs	Balance at end of year
Year 2017	\$1,395	155	(1,550)	-
Year 2018	\$-	290	-	290

Note 12. Inventories

	January 1, 2017 (in thousands)	December 31, 2017	December 31, 2018
Finished goods	\$54,357	46,365	41,557
Work in process	57,076	54,084	77,159
Raw materials	38,273	34,220	43,028
Supplies	42	531	817
	\$149,748	135,200	162,561

The amounts of inventories that were charged to cost of revenues were \$505,844 thousand and \$536,966 thousand, respectively, and the charges for inventories written down to net realizable value amounted to \$12,298 thousand and

\$17,724 thousand for the years ended December 31, 2017 and 2018, respectively, which were also included in cost of revenues.

As of January 1, 2017, December 31, 2017 and 2018, none of the Company's inventories was pledged as collateral.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Note 13. Equity Method Investments

Associates consisted of the following:

Name of Associate	Principal Activities	Place of Incorporation and operation	January 1, 2017		December 31, 2017		December 31, 2018	
			Carrying amount	Holding %	Carrying amount	Holding %	Carrying amount	Holding %
Emza Visual Sense Ltd.	Development of visual sensors and efficient machine vision algorithm	Israel	\$ -	-	1,802	45.10	-	-
Ganzin Technology Corp.	Eye tracking chip and module E-paper manufacturing and sales	Taipei, Taiwan	-	-	95	28.93	1,473	49.32
Iris Optronics Co., Ltd.	Artificial intelligence chip design	Tainan, Taiwan	44	2.06	30	2.06	44	1.55
Kneron Inc.	IC design and sales	California, USA	-	-	6,598	27.65	-	-
Viewsil Microelectronics (Kunshan) Limited		Kunshan, China	2,318	49.00	2,214	49.00	2,547	49.00
			\$ 2,362		10,739		4,064	

In April 2018, the Company assessed its relationships with Kneron Inc. and determined that it is no longer able to exercise significant influence over Kneron Inc. Therefore, the Company reclassified its investment in Kneron Inc. as financial assets at fair value through profit or loss. The difference between the fair value of the investment and carrying amount accounted for under the equity method as at the date of the reclassification was recognized in profit

or loss. In total, a gain of \$2,094 thousand was recognized under changes in fair value of financial assets at fair value through profit or loss in the consolidated statement of profit or loss for the year ended December 31, 2018.

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

	For the year ended December 31,	
	2017	2018
	(in thousands)	
The Company's share of losses of associates	\$ (1,200)	(1,095)
The Company's share of other comprehensive income (loss) of associates	\$ 106	(68)
The Company's share of total comprehensive income (loss) of associates	\$ (1,094)	(1,163)

As of January 1, 2017, December 31, 2017 and 2018, none of the Company's equity method investments was pledged as collateral.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Note 14. Other Intangible Assets

	Technology	Software	Others	Total
	(in thousands)			
Cost				
Balance at January 1, 2017	\$6,889	6,373	100	13,362
Additions	-	526	-	526
Disposals	-	(2,640)	-	(2,640)
Effect of exchange rate changes	-	9	-	9
Balance at December 31, 2017	6,889	4,268	100	11,257
Acquisitions through business combinations	6,282	-	2,663	8,945
Additions	-	925	-	925
Transfer from property, plant and equipment	-	9	-	9
Disposals	-	-	-	-
Effect of exchange rate changes	-	(8)	(13)	(21)
Balance at December 31, 2018	\$13,171	5,194	2,750	21,115
Accumulated Amortization				
Balance at January 1, 2017	\$3,771	5,762	48	9,581
Amortization for the year	985	417	6	1,408
Disposals	-	(2,640)	-	(2,640)
Effect of exchange rate changes	-	9	-	9
Balance at December 31, 2017	4,756	3,548	54	8,358
Amortization for the year	1,433	469	78	1,980
Transfer from property, plant and equipment	-	7	-	7
Disposals	-	-	-	-
Effect of exchange rate changes	-	(7)	(1)	(8)
Balance at December 31, 2018	\$6,189	4,017	131	10,337
Carrying amounts				
At January 1, 2017	\$3,118	611	52	3,781
At December 31, 2017	\$2,133	720	46	2,899
At December 31, 2018	\$6,982	1,177	2,619	10,778

Others in other intangible assets includes the acquired trademark \$1,800 thousand with an indefinite useful life.

Other intangible assets were amortized on a straight-line basis over their estimated useful lives as follows:

Technology	7 years
Software	2-10 years
Others (except for trademark)	7-15 years

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

Note 15. Property, Plant and Equipment

	Land	Building and improvements	Machinery and equipment	Research and development equipment	Office furniture and equipment	Others	Prepayments for purchase of equipment and construction in progress	Total
	(in thousands)							
<u>Cost</u>								
Balance at January 1, 2017	\$ 14,328	22,821	42,907	32,590	11,402	27,268	1,924	153,240
Additions	-	898	12,484	9,236	663	2,137	27,013	52,431
Transfers	-	1,225	887	(569)	-	-	(1,543)	-
Disposals	-	-	(1,208)	(1,065)	(271)	(459)	-	(3,003)
Effect of exchange rate changes	-	-	-	-	93	211	-	304
Balance at December 31, 2017	14,328	24,944	55,070	40,192	11,887	29,157	27,394	202,972
Acquisitions through business combinations	-	-	700	-	27	-	-	727
Additions	-	4,268	14,520	6,084	1,352	3,879	14,045	44,148
Transfers	-	2,759	684	96	-	-	(3,548)	(9)
Disposals	-	-	(506)	(415)	(232)	(570)	-	(1,723)
Effect of exchange rate changes	-	-	-	-	(70)	(86)	-	(156)
Balance at December 31, 2018	\$ 14,328	31,971	70,468	45,957	12,964	32,380	37,891	245,959
Accumulated Depreciation								

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Balance at January 1, 2017	\$ -	13,313	35,323	27,466	9,700	20,129	-	105,931
Depreciation for the year	-	1,411	5,656	3,438	813	3,954	-	15,272
Transfers	-	-	392	(392)	-	-	-	-
Disposals	-	-	(1,208)	(1,065)	(271)	(459)	-	(3,003)
Effect of exchange rate changes	-	-	-	-	75	122	-	197
Balance at December 31, 2017	-	14,724	40,163	29,447	10,317	23,746	-	118,397
Depreciation for the year	-	1,326	7,891	5,087	710	3,333	-	18,347
Transfers	-	-	-	(7)	-	-	-	(7)
Disposals	-	-	(506)	(415)	(232)	(569)	-	(1,722)
Effect of exchange rate changes	-	-	-	-	(58)	(65)	-	(123)
Balance at December 31, 2018	\$ -	16,050	47,548	34,112	10,737	26,445	-	134,892

Carrying amounts

At January 1, 2017	\$ 14,328	9,508	7,584	5,124	1,702	7,139	1,924	47,309
At December 31, 2017	\$ 14,328	10,220	14,907	10,745	1,570	5,411	27,394	84,575
At December 31, 2018	\$ 14,328	15,921	22,920	11,845	2,227	5,935	37,891	111,067

Others in property, plant and equipment includes mold equipment, leasehold improvements and other equipment.

During the years ended December 31, 2017 and 2018, the Company acquired certain property, plant and equipment with amounts of \$14,381 thousand and \$5,115 thousand, respectively, of which were acquired through non-cash transactions and reflected under payable for purchase of building and equipment.

The above items of property, plant and equipment, except certain machinery and equipment for specific project depreciated on Fixed-Percentage-on-Declining-Base Method basis mentioned in Note 4(i), are depreciated on a straight-line basis over their estimated useful lives as follows:

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Buildings	25 years
Building improvements	4-16 years
Machinery	4-6 years
Research and development equipment	2-6 years
Office furniture and equipment	3-8 years
Others	2-15 years

For the years ended December 31, 2017 and 2018, the Company did not recognize any impairment loss on property, plant and equipment.

Note 16. Other Current Liabilities

	January 1, 2017	December 31, 2017	December 31, 2018
	(in thousands)		
Accrued payroll and related expenses	\$6,958	9,461	10,009
Accrued mask, mold fees and other expenses for RD	7,503	8,816	9,935
Payable for purchases of building and equipment	1,615	10,726	5,611
Accrued software maintenance	891	1,004	1,921
Allowance for sales discounts	1,536	1,203	494
Accrued insurance, welfare expenses, professional fee	12,754	11,261	13,810
	\$31,257	42,471	41,780

The activity in the sales discounts is as follows:

Allowance for sales discounts

Period	Balance at beginning of year (in thousands)	Charges to earnings	Amounts utilized	Balance at end of year
Year 2017	\$1,536	8,720	(9,053)	1,203
Year 2018	\$1,203	1,855	(2,564)	494

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Note 17. Short-Term Borrowings

	January 1, 2017 (in thousands)	December 31, 2017	December 31, 2018
Unsecured borrowings	\$-	-	20,000
Secured borrowings	\$138,000	147,000	164,000
Unused credit lines	\$285,511	238,695	247,295
Interest rate	0.32%~0.55%	0.35%~0.58%	0.35%~2.96%

As of January 1, 2017, December 31, 2017 and 2018, cash and time deposits totaling \$138,000 thousand, \$147,000 thousand and \$164,000 thousand are pledged as collateral, respectively.

As of December 31, 2018, unused credit lines will expire between January 2019 and November 2019. Among the unused credit lines, \$30,163 thousand will expire before the end of March 2019, and \$136,000 thousand belonging to the parent company needs to be secured with equal amount of cash and time deposits when borrowing money from banks.

The reconciliation of liabilities to cash flows arising from financing activities was as follows:

	January 1, 2017 (in thousands)	Cash flows	December 31, 2017	Cash flows	December 31, 2018
Short-term borrowings	\$138,000	9,000	147,000	37,000	184,000

Note 18. Employee benefits

1. Defined benefit plans

Pursuant to the ROC Labor Standards Law, the Company has established a defined benefit pension plan covering full-time employees in the ROC that provides retirement benefits to retiring employees based on years of service and the average salary for the six-month period before the employee's retirement.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Reconciliations of defined benefit obligation at present value and plan asset at fair value are as follows:

	January 1, 2017 (in thousands)	December 31, 2017	December 31, 2018
Present value of the defined benefit obligations	\$3,954	4,460	3,184
Fair value of plan assets	(2,992)	(3,410)	(3,565)
	\$962	1,050	(381)
Net defined benefit liabilities	1,064	1,152	151
Prepaid pension costs	(102)	(102)	(532)
	\$962	1,050	(381)

(i) Plan assets

The Company contributes an amount equal to 2% of wages and salaries paid every month to the Fund (required by law). The Fund is administered by a pension fund monitoring committee (the "Committee") and is deposited in the Committee's name in the Bank of Taiwan. Under the ROC Labor Standards Law, the minimum return on the plan assets should not be lower than the average interest rate on two-year time deposits published by the local banks. As of December 31, 2018, the Funds deposited in the Committee's name in the Bank of Taiwan amounted to \$3,565 thousand.

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

Year ended December 31,
2017 2018
(in thousands)

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Balance at beginning of year	\$ 3,954		4,460
Service costs	15		20
Interest expense	67		76
Remeasurements loss (gain):			
Actuarial loss (gain) arising from:			
-Changes in demographic assumptions	46		47
-Experience adjustment	(144	)	10
-Change in financial assumptions	175		(1,217)
Effect of changes in exchange rates	347		(212)
Balance at end of year	\$ 4,460		3,184

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

(iii) Movements in the fair value of plan assets

	Year ended December 31,	
	2017	2018
	(in thousands)	
Balance at beginning of year	\$ 2,992	3,410
Interest income	48	57
Remeasurements gain (loss):		
-Return on plan assets excluding interest income	(21)	81
Contributions paid by the employer	132	132
Effect of changes in exchange rate	259	(115)
Balance at end of year	\$ 3,410	3,565

(iv) Expenses recognized in profit or loss

	Year ended December 31,	
	2017	2018
	(in thousands)	
Current service costs	\$ 15	20
Interest expense	19	19
	\$ 34	39
Cost of revenues	\$ 9	14
Research and development	17	18
General and administrative	5	4
Sales and marketing	3	3
	\$ 34	39

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

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Year ended December 31,
2017 2018
(in thousands)

Balance at beginning of year	\$ 1,181	1,262
Recognized during the period	81	(1,133)
Balance at end of year	\$ 1,262	129

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

(vi) Actuarial assumptions

The principal actuarial assumptions were as follows:

	January 1, 2017		December 31, 2017		December 31, 2018	
Discount rate	1.80	%	1.60	%	1.22%-1.24	%
Rate of increase in compensation levels	5.00	%	5.00	%	3.00	%

The Company expects to make contribution of \$123 thousand to the defined benefit plans in the next year starting from January 1, 2019.

As at December 31, 2018, the weighted average duration of the defined benefits obligation was between 20 years to 21 years.

(vii) Sensitivity analysis

Reasonably possible changes at January 1, 2017, December 31, 2017 and 2018 to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

January 1, 2017		December 31, 2017		December 31, 2018	
+0.5%	-0.5%	+ 0.5%	- 0.5%	+ 0.5%	-0.5%
(in thousands)		(in thousands)		(in thousands)	

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Discount rate	(305)	438	(427)	479	(284)	317
Rate of increase in compensation levels	422	(380)	460	(416)	310	(281)

2. Defined contribution plans

Beginning July 1, 2005, pursuant to the newly effective ROC Labor Pension Act, the Company is required to make a monthly contribution for full-time employees in the ROC that elected to participate in the Defined Contribution Plan at a rate no less than 6% of the employee's monthly wages to the employees' individual pension fund accounts at the ROC Bureau of Labor Insurance. Expenses recognized in 2017 and 2018, based on the contribution called for were \$3,367 thousand and \$3,527 thousand, respectively.

The Company established a defined contribution plan in the United States that qualifies under Section 401(k) of the Internal Revenue Code. This plan covers substantially all employees who meet the service requirement. The Company's contribution to the plan may be made at the discretion of the board of directors. As now, no contributions have been made by the Company to the plan.

All PRC employees participate in employee social security plans, including pension and other welfare benefits, which are organized and administered by governmental authorities. The Company has no other substantial commitments to employees. The premiums and welfare benefit contributions that should be borne by the Company are calculated in accordance with relevant PRC regulations, and are paid to the labor and social welfare authorities. Expenses recognized based on this plan were \$1,523 thousand and \$1,655 thousand for the years ended December 31, 2017 and 2018, respectively.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Other foreign subsidiaries recognized pension expenses of \$178 thousand and \$253 thousand for the years ended December 31, 2017 and 2018, respectively, for the defined contribution plans based on their respective local government regulations.

Note 19. Share-Based Compensation

The amounts of share-based compensation expenses included in applicable costs of sales and expense categories and related tax effects are summarized as follows:

	Year ended December 31,	
	2017	2018
	(in thousands)	
Cost of revenues	\$ 204	90
Research and development	5,222	3,165
General and administrative	723	387
Sales and marketing	995	544
Total compensation recognized in income	\$ 7,144	4,186
Income tax benefit	\$ 1,525	894

(a) Long-term Incentive Plan

On September 7, 2011, the Company's shareholders approved a long-term incentive plan. The plan was amended and restated by extending its duration to September 6, 2019, which was approved by the Company's shareholders at the annual general meeting held on August 31, 2016. The plan permits the grants of options or RSUs to the Company's employees, directors and service providers where each unit of RSU represents two ordinary shares of the Company.

On September 26, 2014, the Company's compensation committee made grants of 1,219,791 RSUs to the Company's employees. The vesting schedule for the RSUs is as follows: 82.57% of the RSUs grant vested immediately on the grant date which was settled by cash amounting to \$9,337 thousand, a subsequent 5.81% will vest on each of September 30, 2015, 2016 and 2017 which will be settled by the Company's ordinary shares, subject to certain forfeiture events.

On September 25, 2015, the Company's compensation committee made grants of 597,596 RSUs to the Company's employees. The vesting schedule for the RSUs is as follows: 94.15% of the RSUs grant vested immediately on the grant date which was settled by cash amounting to \$4,456 thousand, a subsequent 1.95% will vest on each of September 30, 2016, 2017 and 2018 which will be settled by the Company's ordinary shares, subject to certain forfeiture events.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

On September 28, 2016, the Company's compensation committee made grants of 1,208,785 RSUs to the Company's employees. The vesting schedule for the RSUs is as follows: 91.93% of the RSUs grant vested immediately on the grant date which was settled by cash amounting to \$9,223 thousand, a subsequent 2.69% will vest on each of September 30, 2017, 2018 and 2019 which will be settled by the Company's ordinary shares, subject to certain forfeiture events.

On September 29, 2017, the Company's compensation committee made grants of 580,235 RSUs to the Company's employees. The vesting schedule for the RSUs is as follows: 96.91% of the RSUs grant vested immediately on the grant date which was settled by cash amounting to \$6,147 thousand, a subsequent 1.03% will vest on each of September 30, 2018, 2019 and 2020 which will be settled by the Company's ordinary shares, subject to certain forfeiture events.

On September 26, 2018, the Company's compensation committee made grants of 676,273 RSUs to the Company's employees. The vesting schedule for the RSUs is as follows: 97.15% of the RSUs grant vested immediately on the grant date which was settled by cash amounting to \$3,778 thousand, a subsequent 0.95% will vest on each of September 30, 2019, 2020 and 2021 which will be settled by the Company's ordinary shares, subject to certain forfeiture events.

The amount of compensation expense from the long-term incentive plan was determined based on the estimated fair value and the market price of ADS (one ADS represents two ordinary shares) underlying the RSUs granted on the date of grant, which were \$9.27 per ADS, \$7.92 per ADS, \$8.30 per ADS, \$10.93 per ADS and \$5.76 per ADS on September 26, 2014, September 25, 2015, September 28, 2016, September 29, 2017 and September 26, 2018, respectively.

RSUs activity under the long-term incentive plan during the periods indicated is as follows:

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	Number of Underlying Shares for RSUs	Weighted Average Grant Date Fair Value
Balance at January 1, 2017	182,488	\$ 8.60
Granted	580,235	10.93
Vested	(662,368)	) 10.62
Forfeited	(7,755)	) 8.77
Balance at December 31, 2017	92,600	8.77
Granted	676,273	5.76
Vested	(698,427)	) 5.92
Forfeited	(10,108)	) 8.55
Balance at December 31, 2018	60,338	7.98

As of December 31, 2018, the total compensation cost related to the unvested RSUs not yet recognized was \$294 thousand. The weighted-average period over which it is expected to be recognized is 1.58 years.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

In 2017 and 2018, the Company settled RSUs release with shares buyback of 200,074 shares and 82,814 shares, respectively.

The allocation of compensation expenses and related tax effects from the RSUs granted to employees under the long-term incentive plan are summarized as follows:

	Year ended December 31,	
	2017	2018
	(in thousands)	
Cost of revenues	\$ 112	56
Research and development	5,097	3,104
General and administrative	686	373
Sales and marketing	980	538
Total compensation from RSUs	\$ 6,875	4,071
Income tax benefit	\$ 1,525	894

(b)Employee stock options

On January 1, 2016, board of directors of Himax Imaging, Inc. approved a plan to grant stock options, the 2016 plan, to certain employees. The 2016 plan authorizes grants to purchase up to 1,760,000 shares of Imaging Taiwan' issued ordinary shares held by Himax Imaging, Inc. The exercise price was NT\$30 (US\$0.9139). Himax Taiwan (i) obtained all Imaging Taiwan' issued ordinary shares previously held by Himax Imaging, Inc. in March, 2017, in a re-organization of entities under common control, whereby Himax Taiwan assumed the obligation to sell Imaging Taiwan' ordinary shares once employees exercised the options for the 2016 plan.

The 2016 plan has four years contractual life and three years vesting period. Based on the vesting schedule, 50% of the options vest one and half years after the date of grant and 50% of the options vest three years after the date of grant. Because the exercise price of the options are higher than the estimated fair value of Imaging Taiwan shares at

the date of grant, the calculated value of each option award estimated using the Black-Scholes option-pricing model was nil.

The calculated value of option award is estimated on the date of grant using the Black-Scholes option-pricing model that used the weighted average assumptions in the following table. Himax Imaging, Inc. uses the simplified method to estimate the expected term of the options as it does not have sufficient historical share option exercise experience and the exercise data relating to employees of other companies is not easily obtainable. Since Imaging Taiwan' shares are not publicly traded and its shares are rarely traded privately, expected volatility is computed based on the average historical volatility of similar entities with publicly traded shares. The risk-free rates for the expected term of the option are based on the interest rates of 2 years and 5 years ROC central government bond at the time of grant.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

	2016
	plan
Valuation assumptions:	
Expected dividend yield	0 %
Expected volatility	38.04 %
Expected term (years)	3.125
Risk-free interest rate	0.50 %

Stock option activity during the periods indicated is as follows:

	<u>Number of shares</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual term</u>
Balance at January 1, 2017	616,000	\$ 0.9139	3.0
Granted	-	-	
Exercised	-	-	
Forfeited	(35,000)	0.9139	
Balance at December 31, 2017	581,000	0.9139	2.0
Granted	-	-	
Exercised	-	-	
Forfeited	(35,000)	0.9139	
Balance at December 31, 2018	546,000	0.9139	1.0
Exercisable at December 31, 2018	285,500	0.9139	

On January 1, 2016, board of directors of Imaging Taiwan approved a plan to grant stock options, the 2016 plan, to (ii)certain employees. This plan authorizes grants to purchase up to 2,040,000 shares of Imaging Taiwan' authorized but unissued ordinary shares. The exercise price was NT\$30 (US\$0.9139).

The 2016 plan has four years contractual life and three years vesting period. Based on the vesting schedule, 50% of the options vest one and half years after the date of grant and 50% of the options vest three years after the date of grant. Because the exercise price of the options are higher than the estimated fair value of Imaging Taiwan shares at the date of grant, the calculated value of each option award estimated using the Black-Scholes option-pricing model was nil.

The calculated value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that used the weighted average assumptions in the following table. Imaging Taiwan uses the simplified method to estimate the expected term of the options as it does not have sufficient historical share option exercise experience and the exercise data relating to employees of other companies is not easily obtainable. Since Imaging Taiwan' shares are not publicly traded and its shares are rarely traded privately, expected volatility is computed based on the average historical volatility of similar entities with publicly traded shares. The risk-free rates for the expected term of the options are based on the interest rates of 2 years and 5 years ROC central government bond at the time of grant.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

	2016
	plan
Valuation assumptions:	
Expected dividend yield	0 %
Expected volatility	38.04 %
Expected term (years)	3.125
Risk-free interest rate	0.50 %

Stock option activity during the periods indicated is as follows:

	<u>Number of shares</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual term</u>
Balance at January 1, 2017	1,797,000	\$ 0.9139	3.0
Granted	-	-	
Exercised	(115,000)	0.9139	
Forfeited	(173,000)	0.9139	
Balance at December 31, 2017	1,509,000	0.9139	2.0
Granted	-	-	
Exercised	-	-	
Forfeited	(150,000)	0.9139	
Balance at December 31, 2018	1,359,000	0.9139	1.0
Exercisable at December 31, 2018	645,000	0.9139	

On October 6, 2015, board of directors of Himax Display, Inc. approved a plan to grant stock options, the 2015 (iii) plan, to certain employees. This plan authorizes grants to purchase up to 2,528,000 shares of Himax Display, Inc.' authorized but unissued ordinary shares. The exercise price was NT\$65 (US\$1.986).

The 2015 plan has four years contractual life and three years vesting period. Based on the vesting schedule, 50% of the options vest one and half years after the date of grant and 50% of the options vest three years after the date of grant. The Company recognized compensation expenses of \$269 thousand and \$115 thousand in 2017 and 2018, respectively. Such compensation expense was recorded as cost of revenues, sales and marketing expenses, general and administrative expenses and research and development expenses in the consolidated statements of profit or loss. There was no income tax benefit realized in the consolidated statements of profit or loss for employee stock options for the years ended December 31, 2017 and 2018.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

The calculated value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that used the weighted average assumptions in the following table. Himax Display, Inc. uses the simplified method to estimate the expected term of the options as it does not have sufficient historical share option exercise experience and the exercise data relating to employees of other companies is not easily obtainable. Since Himax Display, Inc.'s shares are not publicly traded and its shares are rarely traded privately, expected volatility is computed based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the options is based on the interest rates of 2 years and 5 years ROC central government bond at the time of grant.

	2015 plan	
Valuation assumptions:		
Expected dividend yield	0	%
Expected volatility	33.52	%
Expected term (years)	3.125	
Risk-free interest rate	0.65	%

Stock option activity during the periods indicated is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term
Balance at January 1, 2017	1,993,000	\$ 1.986	2.75
Granted	-	-	
Exercised	-	-	
Forfeited	(50,000)	1.986	
Balance at December 31, 2017	1,943,000	1.986	1.75

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Granted	-	-	
Exercised	-	-	
Forfeited	(32,000)	1.986	
Balance at December 31, 2018	1,911,000	1.986	0.75
Exercisable at December 31, 2018	1,911,000	1.986	

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

Note 20. Equity

(a) Ordinary Shares

The Company's authorized ordinary shares, with par value of \$0.3 per share, were 1,000,000,000 shares at January 1, 2017, December 31, 2017 and 2018.

The Company's issued and fully paid ordinary shares, with par value of \$0.3 per share, were 356,699,482 shares at January 1, 2017, December 31, 2017 and 2018. The outstanding ordinary shares were 344,007,418 shares, 344,207,492 shares and 344,290,306 shares at January 1, 2017, December 31, 2017 and 2018, respectively. 12,692,064 treasury shares, 12,491,990 treasury shares and 12,409,176 treasury shares were held by the Company as of January 1, 2017, December 31, 2017 and 2018, respectively.

The Company's ordinary shares have been quoted on the NASDAQ Global Select Market under the symbol "HIMX" in the form of ADSs and two ordinary shares represent one ADS with effect from August 10, 2009.

(b) Additional Paid-in Capital

Balance of additional paid-in capital as of January 1, 2017, December 31, 2017 and 2018 were as follows:

January 1, 2017	December 31, 2017	December 31, 2018
--------------------------------	------------------------------	------------------------------

	(in thousands)		
From ordinary shares	\$93,341	93,341	93,341
From treasury shares	4,041	4,784	5,080
From share-based compensation	6,091	6,151	6,182
From share of changes in equities of associates	-	151	146
	\$103,473	104,427	104,749

(c)

Earnings distribution

As a holding company, the major asset of the Company is the 100% ownership interest in Himax Taiwan. Dividends received from the Company's subsidiaries in Taiwan, if any, will be subjected to withholding tax under ROC law. The ability of the Company's subsidiaries to pay dividends, repay intercompany loans from the Company or make other distributions to the Company may be restricted by the availability of funds, the terms of various credit arrangements entered into by the Company's subsidiaries, as well as statutory and other legal restrictions. The Company's subsidiaries in Taiwan are generally not permitted to distribute dividends or to make any other distributions to shareholders for any year in which it did not have either earnings or retained earnings (excluding reserve). In addition, before distributing a dividend to shareholders following the end of a fiscal year, a Taiwan company must recover any past losses, pay all outstanding taxes and set aside 10% of its annual net income (less prior years' losses and outstanding taxes) as a legal reserve until the accumulated legal reserve equals its paid-in capital, and may set aside a special reserve.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

The accumulated legal and special reserve provided by Himax Taiwan as of December 31, 2017 and 2018 amounted to \$78,386 thousand and \$78,901 thousand, respectively.

(d) Accumulated other comprehensive income

Changes in accumulated other comprehensive income, net of tax, are as follows:

	Foreign currency translation	Unrealized gains (losses) on securities	Defined benefit pension plans	Accumulated other comprehensive income
	(in thousands)			
Beginning balance, January 1, 2017	\$(279)	(350)	(925)	(1,554)
Exchange differences arising on translation of foreign operations	862	-	-	862
Changes in fair value of financial assets	-	313	-	313
Remeasurement of defined benefit pension plans	-	-	(67)	(67)
Ending balance, December 31, 2017	583	(37)	(992)	(446)
Exchange differences arising on translation of foreign operations	(334)	-	-	(334)
Changes in fair value of financial assets	-	(869)	-	(869)
Remeasurement of defined benefit pension plans	-	-	1,100	1,100
Ending balance, December 31, 2018	\$249	(906)	108	(549)

(e) Noncontrolling interest

	Year ended December 31, 2017	2018
	(in thousands)	
Balance at the beginning of year	\$ 418	(1,735)

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Equity attributable to non-controlling interests			
Loss for the year	(2,142)	(2,543)
Changes in fair value of financial assets	9		(26)
Remeasurement of defined benefit pension plans	(14	)	33
Share-based compensation expenses	52		22
New shares issued by subsidiary	(25	)	(10)
Exchange differences arising on translation of foreign operations	-		(2)
Purchase of subsidiary shares from noncontrolling interests	(33)	-
Balance at the end of year	\$ (1,735)	(4,261)

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

Note 21. Income Taxes

The Company is incorporated in the Cayman Islands, a tax-free country; accordingly, pretax income generated by the group parent company is not subject to local income tax. Substantially all of the Company's taxable income is derived from the operations in the ROC and, therefore, substantially all of the Company's income tax expense attributable to income from continuing operations is incurred in the ROC. Other foreign subsidiary companies calculate income tax in accordance with local tax law and regulations.

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the statutory income tax rate from 17% to 20% and a decrease in the undistributed earning tax from 10% to 5% are effective from January 1, 2018. The 5% surtax is only to the extent such income is not distributed or set aside as legal reserve before the end of the following year. The surtax is recorded in the period the income is earned, and the reduction in the surtax liability is recognized in the period the distribution to shareholders or the setting aside of legal reserve is finalized in the following year.

In accordance with the ROC Statute for Upgrading Industries, Himax Taiwan's capital increase in June 2009 as well as Himax Semiconductor's capital increase in October 2009 related to the manufacturing of a newly designed TFT-LCD driver were approved by the government authorities for income tax exemptions as a result of investing in a newly emerging, important and strategic industry. Himax Taiwan's capital increase in November 2009 related to the electronic parts and components manufacturing was also approved by the government authorities for income tax exemptions. The incremental income derived from selling the above new product is tax-exempt for a period of five years.

The Company is entitled to the following income tax exemptions:

Date of investment	Tax exemption period
---------------------------	-----------------------------

Himax Taiwan:

June 5, 2009 January 1, 2014-December 31, 2018

November 12, 2009 January 1, 2014-December 31, 2018

Himax Semiconductor⁽¹⁾:

October 9, 2009 January 1, 2014-December 31, 2018

Note For management purpose, Himax Semiconductor Inc. was merged into Himax Technologies Limited on July 2,
1: 2018. As a result, the tax exemption was expired upon merge.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

(a) Income tax expense (benefit) recognized in profit or loss for the years ended December 31, 2017 and 2018 consists of the following:

	Year ended December 31,	
	2017	2018
	(in thousands)	
Current tax expense		
Current period	\$ 6,852	5,878
Adjustment for prior periods	(686)	(172)
	6,166	5,706
Deferred tax expense		
Origination and reversal of temporary differences	(955)	1,012
Investment tax credits and operating loss carryforward	(657)	(4,525)
Effect of tax rate changes	-	(1,199)
	(1,612)	(4,712)
Total income tax expense	\$ 4,554	994

(b) Income taxes expense (benefit) recognized directly in other comprehensive income for the years ended December 31, 2017 and 2018 consist of the following:

	Year ended December 31,	
	2017	2018
	(in thousands)	
Items that will not be reclassified to profit or loss:		
Remeasurements of defined benefit pension plans	\$ (15)	169

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Reconciliation of the expected income tax expense computed based on the ROC statutory income tax rate of 17% (c)in 2017 and 20% in 2018, compared with the actual income tax expense as reported in the consolidated statements of profit or loss for the years ended December 31, 2017 and 2018 are summarized as follows:

	Years ended December 31,			
	2017		2018	
	Rate	Amount (in thousands)	Rate	Amount (in thousands)
Profit before income taxes		\$ 30,092		7,020
Income tax expense calculated at the statutory rate	17.0 %	5,116	20.0 %	1,404
Tax on undistributed earnings	(3.9)%	(1,181)	(10.8)%	(755)
Tax-exempt income	(1.8)%	(548)	(16.2)%	(1,135)
Tax benefit resulting from setting aside legal reserve from prior year's income	(2.3)%	(686)	(0.8)%	(56)
Increase in tax credits	(13.1)%	(3,926)	(75.6)%	(5,306)
Effect of change of unrecognized deductible temporary differences, tax losses carryforwards, and investment tax credits	19.3 %	5,815	100.2 %	7,034
Net of non-taxable income and non-deductible expense	0.4 %	115	(2.1)%	(151)
Capital gain Tax	7.7 %	2,304	(1.6)%	(116)
Changes in unrecognized tax benefits related to prior year tax positions, net of its impact to tax-exempted income	(1.0)%	(298)	6.3 %	440
Foreign tax rate differential	(9.9)%	(2,988)	12.1 %	850
Variance from audits, amendments and examinations of prior years' income tax filings	1.5 %	456	(0.8)%	(58)
Effect of tax rate changes	-	-	(17.1)%	(1,199)
Others	1.2 %	375	0.6 %	42
Income tax expense		\$ 4,554		994
Effective tax rate	15.1 %		14.2 %	

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

(d) As of January 1, 2017, December 31, 2017 and 2018, the components of deferred tax assets and deferred tax liabilities were as follows:

	January 1, 2017	December 31, 2017	December 31, 2018
	(in thousands)		
Deferred tax assets:			
Inventory	\$5,190	4,581	5,996
Tax credit carryforwards	-	618	3,567
Allowance for sales discounts	434	575	685
Operating loss carryforward-statutory tax	551	590	2,166
Accrued compensated absences	221	446	553
Depreciation	348	367	481
Unrealized foreign exchange loss	-	-	8
Remeasurement of defined benefit plans	138	138	-
Others	374	398	448
	\$7,256	7,713	13,904
Deferred tax liabilities:			
Unrealized foreign exchange gain	\$(1,132)	(25) -
Acquired intangible assets	(104	) (86	) (1,645
Remeasurement of defined benefit plans	-	-	(114
Others	(45) -	-
	\$(1,281)	(111	) (1,759

As of December 31, 2018, the Company has not provided for income taxes on undistributed earnings of approximately \$605,687 thousand of its foreign subsidiaries since the Company has specific plans to reinvest these earnings indefinitely. A deferred tax liability will be recognized when the Company can no longer demonstrate that it plans to indefinitely reinvest these undistributed earnings. This amount becomes taxable when the ultimate parent company, Himax Technologies, Inc., executes other investments, share buybacks or shareholder dividends to be funded by cash distribution by its foreign subsidiaries. It is not practicable to estimate the amount of additional taxes that might be

payable on such undistributed earnings because of the complexities of the hypothetical calculation.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

(e) Changes in deferred tax assets and liabilities were as follows:

	January 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2017	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2018
	(in thousands)						
Inventory	\$5,190	(609)	-	4,581	1,415	-	5,996
Tax credit carryforwards	-	618	-	618	2,949	-	3,567
Allowance for sales discounts	434	141	-	575	110	-	685
Operating loss carryforward	551	39	-	590	1,576	-	2,166
Accrued compensated absences	221	225	-	446	107	-	553
Depreciation	348	19	-	367	114	-	481
Unrealized foreign exchange loss (gain)	(1,132)	1,107	-	(25)	33	-	8
Remeasurement of defined benefit plans	138	(15)	15	138	(83)	(169)	(114)
Acquired intangible assets	(104)	18	-	(86)	(1,559)	-	(1,645)
Others	329	69	-	398	50	-	448
Total	\$5,975	1,612	15	7,602	4,712	(169)	12,145

(f) Unrecognized Deferred Tax Assets

Gross amount of deferred tax assets have not been recognized in respect of the following items.

	January 1, 2017	December 31, 2017	December 31, 2018
	(in thousands)		
Unused tax credits	\$1,934	1,934	1,934

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Unused operating loss carryforwards-statutory tax	186,741	216,108	222,240
Unused operating loss carryforwards-undistributed earnings tax	146,947	179,301	198,639
Others	15,464	13,988	21,665
	\$351,086	411,331	444,478

As of December 31, 2018, the unused investment tax credits with its expiration year from 2020 to 2034 from US operations were \$1,560 thousand.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Tax loss carryforwards is utilized in accordance with the relevant jurisdictional tax laws and regulations. Net losses from foreign subsidiaries are approved by tax authorities in respective jurisdiction to offset future taxable profits. Under ROC Income Tax Acts, the tax loss carryforward in the preceding ten years is available to be deducted from tax income for Taiwan operations. The statutory losses would be deducted for undistributed earnings tax and were not subject to expiration for Taiwan operations.

As of December 31, 2018, the expiration period for abovementioned unrecognized deferred tax assets of unused operating loss carryforwards for statutory tax were as follows:

	Deductible amount (in thousands)	Unrecognized deferred tax assets	Expiration year
Taiwan operations	\$95,334	\$ 19,067	2019~2023
	106,216	21,243	2024~2028
Hong Kong operations	1,810	149	Indefinitely
US operations	10,666	2,832	2025~2038
Israel operations	8,214	1,889	Indefinitely
		\$ 45,180	

(g)

Assessments by the tax authorities

The Company's major taxing jurisdiction is Taiwan. Except for Himax Taiwan and Imaging Taiwan, which have been examined and assessed by the ROC tax authorities through 2015, all other Taiwan subsidiaries' income tax returns have been examined and assessed by the ROC tax authorities through 2016. The income tax returns of 2017 for all Taiwan subsidiaries are open to examination by the ROC tax authorities. Taiwanese entities are customarily examined by the tax authorities and it is possible that a future examination will result in a positive or negative adjustment to the Company's unrecognized tax benefits within the next 12 months; however, management is unable to estimate a range

of the tax benefits or detriment as of December 31, 2018.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Note 22. Financial Instruments

(a) Categories of financial instruments

(i) Financial assets

	January 1, 2017	December 31, 2017	December 31, 2018
	(in thousands)		
Financial assets measured at fair value through profit or loss	\$15,579	2,121	9,768
Financial assets measured at fair value through other comprehensive income	1,680	1,522	791
Measured at amortized cost:			
Cash and cash equivalents	184,452	138,023	106,437
Financial assets at amortized cost	5,140	10,358	11,229
Accounts receivable and other receivables (including related parties)	204,543	215,070	194,021
Restricted deposit (including current and noncurrent)	138,324	147,470	164,456
Refundable deposits	1,219	1,437	1,311
Subtotal	533,678	512,358	477,454
Total	\$550,937	516,001	488,013

(ii) Financial liabilities

	January 1, 2017	December 31, 2017	December 31, 2018
	(in thousands)		

Measured at amortized cost:

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Short-term borrowings	\$ 138,000	147,000	184,000
Financial liability at amortized cost	4,524	4,837	5,071
Accounts payables and other payables (including related party)	171,325	186,526	196,429
Guarantee deposits	1,203	604	154
Total	\$ 315,052	338,967	385,654

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018****(b) Liquidity risk**

The following, except for payables (including related parties) that are repayable within a year, are the contractual maturities of financial liabilities, including estimated interest payments of short-term borrowings.

(in thousands)	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
January 1, 2017						
Non-derivative financial liabilities						
Short-term borrowings	\$ 138,210	88,208	50,002	-	-	-
Financial liability at amortized cost	4,524	-	-	-	4,524	-
Guarantee deposits	1,203	1,203	-	-	-	-
	\$ 143,937	89,411	50,002	-	4,524	-
December 31, 2017						
Non-derivative financial liabilities						
Short-term borrowings	\$ 147,306	97,302	50,004	-	-	-
Financial liability at amortized cost	4,837	-	-	4,837	-	-
Guarantee deposits	604	604	-	-	-	-
	\$ 152,747	97,906	50,004	4,837	-	-
December 31, 2018						
Non-derivative financial liabilities						
Short-term borrowings	\$ 184,337	134,332	50,005	-	-	-
Financial liability at amortized cost	5,071	5,071	-	-	-	-
Guarantee deposits	154	154	-	-	-	-
	\$ 189,562	139,557	50,005	-	-	-

The Company does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

(c)

Currency risk

i. Exposure to foreign currency risk

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

(in thousands)	January 1, 2017			December 31, 2017			December 31, 2018		
	Foreign currency	Exchange rate	Functional currency	Foreign currency	Exchange rate	Functional currency	Foreign currency	Exchange rate	Functional currency
Financial assets									
Monetary items									
NTD	159,824	32.25	4,956	159,194	29.76	5,349	205,394	30.715	6,687
CNY	31,240	6.99	4,470	32,330	6.52	4,959	33,590	6.8681	4,891
Financial liabilities									
Monetary items									
NTD	943,995	32.25	29,271	780,899	29.76	26,240	922,148	30.715	30,023

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

ii. Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivable, accounts payable and other payable that are denominated in foreign currency.

Depreciation or appreciation of the USD by 10% against the New Taiwan Dollars (NTD) and CNY at December 31, 2017 and 2018, while all other variables were remained constant, would have increased or (decreased) the net profit before tax of \$1,593 thousand and \$1,845 thousand, respectively.

iii. Interest rate risk

The Company's short-term borrowings carried floating interest rates and fixed interest rates. The Company's exposure to changes in interest rates is mainly from floating-rate short-term borrowings. Any change in interest rates will cause the effective interest rates of short-term borrowings to change and thus cause the future cash flows to fluctuate over time.

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

For the Company's floating-rate debts, assuming all other variables were remained constant, an increase or a decrease in the interest rate by 0.25% would have resulted in a decrease or an increase in the net profit before tax for the years ended December 31, 2017 and 2018 by \$193 thousand and \$243 thousand, respectively.

(d) Fair value information

i. Financial instruments not measured at fair value

The Company considers that the carrying amounts of financial assets and financial liabilities measured at amortized cost approximate their fair values.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

ii. Financial instruments measured at fair value

(1) Fair value hierarchy

(in thousands)	January 1, 2017				Total
	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	
Financial assets measured at fair value through profit or loss					
Money market fund	\$5,017	5,017	-	-	5,017
Equity securities-unlisted company	10,562	-	-	10,562	10,562
Subtotal	15,579	5,017	-	10,562	15,579
Financial assets measured at fair value through other comprehensive income					
Equity securities-unlisted company	1,680	-	-	1,680	1,680
Total	\$17,259	5,017	-	12,242	17,259

(in thousands)	December 31, 2017				Total
	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	
Financial assets measured at fair value through profit or loss					
Money market fund	\$521	521	-	-	521
Equity securities-unlisted company	1,600	-	-	1,600	1,600
Subtotal	2,121	521	-	1,600	2,121
Financial assets measured at fair value through other comprehensive income					
Equity securities-unlisted company	1,522	-	-	1,522	1,522
Total	\$3,643	521	-	3,122	3,643

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

(in thousands)	December 31, 2018				
	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value through profit or loss					
Equity securities-unlisted company	\$9,768	-	-	9,768	9,768
Subtotal	9,768	-	-	9,768	9,768
Financial assets measured at fair value through other comprehensive income					
Equity securities-unlisted company	791	-	-	791	791
Total	\$10,559	-	-	10,559	10,559

(2) Valuation techniques and assumptions used in fair value measurement

The fair value of financial instruments traded in active markets is determined with reference to quoted market prices.

Money market funds with standard terms and conditions and traded in active markets. The fair value is based on quoted market prices.

Except for the abovementioned financial instruments traded in active markets, the fair value of other financial instruments are based on the valuation techniques. The fair value using valuation techniques refers to the current fair value of other financial instruments with similar conditions and characteristics, or using a discounted cash flow method, or other valuation techniques which include model calculating with observable market data at the reporting date.

The fair value of equity securities-unlisted company is determined by reference to market valuations for similar operating entities quoted in an active market based on the net assets value of investees. The significant unobservable input is primarily the liquidity discounts, 28% for 2018. The estimated fair value would increase (decrease) if the liquidity discount rate were lower (higher).

(3) Transfer between levels of the fair value hierarchy

There were no transfers between levels for the years ended December 31, 2017 and 2018.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

(4) Movement in financial assets included in Level 3 of fair value hierarchy

(in thousands)	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Total
January 1, 2017	\$ 10,562		1,680	12,242
Disposal-including capital reduction of investment	(8,962	)	(158	(9,120)
December 31, 2017	\$ 1,600		1,522	3,122

(in thousands)	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Total
January 1, 2018	\$ 1,600		1,522	3,122
Disposal-capital reduction of investment	-		(29	(29)
Reclassified from equity method investments	6,136		-	6,136
Recognized in other comprehensive income	-		(702	(702)
Recognized in profit or loss	2,032		-	2,032
December 31, 2018	\$ 9,768		791	10,559

Note 23. Financial Risk Management

(a) Overview

The Company is exposed to the following risks due to usage of financial instruments:

- (1) Credit risk
- (2) Liquidity risk
- (3) Market risk

Hereinafter discloses information about the Company's exposure to variable risks, and the goals, policies and procedures of the Company's risk measurement and risk management.

- (b) Risk management framework

Management of related divisions are appointed to review, control, trace and monitor the strategic risks, financial risks and operational risks faced by the Company. Management reports to executive officers the progress of risk controls from time to time and, if necessary, report to the board of directors, depending on the extent of impact of risks.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposures to credit risk are primarily from cash and cash equivalents, financial assets at amortized cost and accounts receivable.

The Company deposits its cash and cash equivalents with various reputable financial institutions. Financial assets at amortized cost are time deposits with original maturities of greater than three months. The Company has not experienced any material losses on deposits of the Company's cash and cash equivalents and financial assets at amortized cost. Management performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution. Management believes that there is a limited concentration of credit risk in cash and cash equivalent and financial assets at amortized cost.

The Company derived substantially all of its revenues from sales of display drivers that are incorporated into TFT-LCD panels. The TFT-LCD panel industry is intensely competitive and is vulnerable to cyclical market conditions and subject to price fluctuations. Management continuously evaluates and controls the credit quality, credit limit and financial strength of its customers to ensure any overdue receivables are taken necessary procedures.

The Company depends on two customers for majority of its revenues. The Company's sales to these two customers as a percentage of revenues are as follows:

	Year Ended December 31,			
	2017		2018	
Customer A and its affiliates	25.8	%	28.1	%
Customer B and its affiliates	15.5	%	12.6	%

The percentage of the Company's accounts receivable accounted by customers, those representing more than 10% of total accounts receivable balance, is summarized as follows:

	January 1, 2017		December 31, 2017		December 31, 2018	
Customer A and its affiliates	28.9	%	32.4	%	33.5	%
Customer B and its affiliates	19.1	%	15.4	%	12.9	%

Refer to Note 11 for aging analysis of accounts receivable and the movement in the allowance of doubtful accounts receivable.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

In addition, the Company has at times agreed to extend the payment terms for certain of its customers. Other customers have also requested extension of payment terms, and the Company may grant such requests for extension in the future. As a result, a default by any such customer, a prolonged delay in the payment of accounts receivable, or the extension of payment terms for the Company's customers could adversely affect the Company's cash flow, liquidity and operating results. Management performs ongoing credit evaluations of each customer and adjusts credit policy based upon payment history and the customer's credit worthiness, as determined by the review of their current credit information.

(d) Liquidity risk

The objective of liquidity risk management is to ensure the Company has sufficient liquidity to fund its business requirements associated with existing operations over the next 12 months. The Company manages its liquidity risk by maintaining adequate working capital and unused credit facilities.

At December 31, 2018, the Company's working capital together with existing unused credit facilities under its existing loan agreements will be sufficient to fulfill all of its contractual obligations. Therefore, management believes that there is no liquidity risk resulting from incapable of financing to fulfill the contractual obligations.

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(1) Currency risk

The Company is exposed to currency risk on operating activities that are denominated in a currency other than the respective functional currency of the Company, the USD. The currencies used in these transactions are the NTD and CNY.

(2) Interest rate risk

The Company is exposed to interest rate risk primarily related to its outstanding borrowings. The Company's short-term borrowings carried floating interest rates. To manage the interest rate risk, the Company periodically assesses the interest rates of bank loans and maintains good relationships with financial institutions to obtain lower financing costs. The Company also strengthens the management of working capital to reduce the dependence on bank loans as well as the risk arising from fluctuation of interest rates.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Note 24. Capital management

Through clear understanding and managing of significant changes in external environment, related industry characteristics, and corporate growth plan, the Company manages its capital structure in a manner to ensure it has sufficient financial resources to fund its working capital needs, capital expenditures, research and development activities, dividend payments and other business requirements associated with its existing operations over the next 12 months.

There were no changes in the Company's approach to capital management during the year ended December 31, 2018. Neither the Company nor its subsidiaries are subject to externally imposed capital managements.

	January 1, 2017	December 31, 2017	December 31, 2018
	(in thousands)		
Total liabilities	\$335,083	349,605	394,391
Less: cash and cash equivalents	184,452	138,023	106,437
	\$150,631	211,582	287,954
Equity attributable to owners of Himax Technologies, Inc.	\$466,720	455,323	446,548

Note 25. Related-party Transactions

(a) Name and relationship

Name of related parties	Relationship
Viewsil Microelectronics (Kunshan) Limited (Viewsil)	Equity method investee of the Company

Viewsil Technology Limited (VST)	The subsidiary of Viewsil
Emza Visual Sense Ltd. (Emza)	Equity method investee of the Company, becoming as a subsidiary of the Company from June 28, 2018

(b) Significant transactions with related parties

(i) Purchases and accounts payable

Purchases of raw materials and components from VST were \$522 thousand for the year ended December 31, 2017. As of December 31, 2017, the related payable resulting from the aforementioned transaction was nil.

The purchase prices and payment terms to related party were incomparable to that from third parties due to no similar transaction.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

(ii) The Company made an interest-free loan to VST and Emza for their short-term funding needs. The information is summarized as follows:

	January 1, 2017 (in thousands)	December 31, 2017	December 31, 2018
VST	\$7,150	2,750	2,780
Emza	-	500	-
	\$7,150	3,250	2,780

The loan is repayable on demand and the Company expects it will be repaid in full during 2019. The Company may consider providing further future loans to VST.

(iii) In 2017 and 2018, Viewsil provided technical service on new source driver chip and integrated circuit module for the Company's research activities for a fee of \$2,200 thousand and \$2,200 thousand, respectively, which was charged to research and development expense. As of December 31, 2017 and 2018, the related payables resulting from the aforementioned transactions were \$2,200 thousand and \$2,200 thousand, respectively.

(iv) In 2018, the Company purchased mask from VST for the Company's research activities for a fee of \$1,597 thousand. As of December 31, 2018, the related payables resulting from the aforementioned transactions were \$1,597 thousand.

(c) Compensation of key management personnel

For the years ended December 31, 2017 and 2018, the aggregate cash compensation that the Company paid to the independent directors was both \$135 thousand. The aggregate share-based compensation that the Company paid to the

independent directors was nil.

The compensation to key management personnel for the years ended December 31, 2017 and 2018 were as follows:

	Year ended December 31,	
	2017	2018
	(in thousands)	
Short-term employee benefits	\$ 829	855
Post-employment benefits	7	7
Share-based compensation	226	41
	\$ 1,062	903

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Note 26. Pledged assets

Pledged assets	Pledged to secure	January	December	December
		1,	31,	31,
		2017	2017	2018
		(in thousands)		
Restricted cash and time deposit ⁽¹⁾	Short-term borrowings	\$ 138,000	147,000	164,000
Restricted time deposits ⁽¹⁾	For government grants	200	-	326
Restricted time deposits ⁽¹⁾	For customs duties and government grants	124	470	130
		\$ 138,324	147,470	164,456

(1): The pledged assets are booked as restricted deposits and classified as current or noncurrent by its liquidity.

Note 27. Commitments and Contingencies

As of January 1, 2017, December 31, 2017 and 2018, the Company had entered into several contracts for the acquisition of land, equipment and computer software. Total contract prices amounted to \$5,153 thousand, \$60,573 thousand and \$75,824 thousand, respectively. As of January 1, 2017, December 31, 2017 and 2018, the remaining commitments were \$3,760 thousand, \$40,814 thousand and \$38,579 thousand, respectively.

(b) As of December 31, 2018, amount of outstanding letters of credit for the purchase of machinery and equipment was \$960 thousand.

The Company leases certain offices and buildings pursuant to operating lease arrangements with third parties. The lease arrangement will expire gradually from 2019 to 2024. As of December 31, 2017 and 2018, deposits paid (c) amounted to \$1,230 thousand and \$1,212 thousand, respectively, and were recorded as refundable deposit in the consolidated financial position.

As of December 31, 2018, future minimum lease payments under noncancelable operating leases are as follows:

Duration	Amount (in thousands)
January 1, 2019~December 31, 2019	\$ 2,361
January 1, 2020~December 31, 2020	1,601
January 1, 2021~December 31, 2021	386
January 1, 2022~December 31, 2022	298
January 1, 2023~December 31, 2023	182
January 1, 2024~December 31, 2024	46
	\$ 4,874

Rental expense for operating leases with third parties amounted to \$2,189 thousand and \$2,508 thousand in 2017 and 2018, respectively.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

The Company from time to time is subject to claims regarding the proprietary use of certain technologies. (d) Currently, management is not aware of any such claims that it believes could have a material adverse effect on the Company's financial position or results of operations.

Since Himax Taiwan is not a listed company, it will depend on Himax Technologies, Inc. to meet its equity financing requirements in the future. Any capital contribution by Himax Technologies, Inc. to Himax Taiwan may (e) require the approval of the relevant ROC authorities. The Company may not be able to obtain any such approval in the future in a timely manner, or at all. If Himax Taiwan is unable to receive the equity financing it requires, its ability to grow and fund its operations may be materially and adversely affected.

The Company has entered into several wafer fabrication or assembly and testing service arrangements with service providers. The Company may be obligated to make payments for purchase orders entered into pursuant to these (f) arrangements. Contractual obligations resulting from above arrangements approximate \$89,179 thousand, \$193,446 thousand and \$172,986 thousand as of January 1, 2017, December 31, 2017 and 2018, respectively.

The Company is involved in various claims arising in the ordinary course of business. In the opinion of (g) management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity. As of December 31, 2018, management is not aware of any pending litigation against the Company.

Note 28. Segment, Product and Geographic Information

The Company has two operating segments: Driver IC and Non-driver Products. The Driver IC segment generally is engaged in the design, research, development and sale of displays driver for large-sized TFT-LCD panels, which are used in televisions and desktop monitors, and displays driver for small- and medium-sized TFT-LCD panels, which are used in mobile handsets and consumer electronics products. The Non-driver segment primarily is engaged in the design, research, manufacturing and sale of non-driver products, such as timing controllers, 3D Sensing Solution, LCOS, CMOS Image Sensors and WLO.

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Year Ended December 31, 2017

		Non-driver	Consolidated
	Driver IC		
		products	Total
	(in thousands)		
Segment revenues	\$529,847	155,320	685,167
Segment operating income (loss)	\$43,021	(34,662)	8,359
Non operating income, net			21,733
Consolidated profits before income taxes			\$ 30,092

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

Year Ended December 31, 2017

Driver IC	Non-driver products	Consolidated Total
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(in thousands)

Significant noncash items:

Share Based Compensation	\$ 365	632	997
Depreciation and amortization	\$ 4,940	11,740	16,680

Year Ended December 31, 2018

Driver IC	Non-driver products	Consolidated Total
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(in thousands)

Segment revenues	\$586,258	137,347	723,605
Segment operating income (loss)	\$56,023	(52,638)	3,385
Non operating income, net			3,635
Consolidated profits before income taxes			\$ 7,020
Significant noncash items:			
Share Based Compensation	\$189	219	408
Depreciation and amortization	\$3,248	17,079	20,327

The following tables summarize information pertaining to the segment revenues from customers in different geographic region (based on customer's headquarter location):

For the year ended December 31, 2017

Driver IC	Non-driver products	Consolidated Total
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(in thousands)

China	\$ 353,505	67,703	421,208
Taiwan	146,302	30,649	176,951
Other Asia Pacific (Philippines, Korea and Japan)	30,040	37,739	67,779
Europe and America	-	19,229	19,229
	\$ 529,847	155,320	685,167

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

	For the year ended December 31, 2018		
		Non-driver	Consolidated
	Driver IC	products	Total
	(in thousands)		
China	\$ 419,249	61,143	480,392
Taiwan	136,526	31,596	168,122
Other Asia Pacific (Philippines, Korea and Japan)	30,483	41,811	72,294
Europe and America	-	2,797	2,797
	\$ 586,258	137,347	723,605

The following tables summarize information pertaining to the segment revenues from major product lines:

	For the year ended December 31, 2017		
		Non-driver	Consolidated
	Driver IC	products	Total
	(in thousands)		
Display drivers for large-size applications	\$ 224,798	-	224,798
Display drivers for mobile handsets applications	113,591	-	113,591
Display drivers for consumer electronics applications	191,458	-	191,458
Non-driver products	-	155,320	155,320
	\$ 529,847	155,320	685,167

	For the year ended December 31, 2018		
		Non-driver	Consolidated
	Driver IC	products	Total
	(in thousands)		

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Display drivers for large-size applications	\$ 260,540	-	260,540
Display drivers for mobile handsets applications	112,221	-	112,221
Display drivers for consumer electronics applications	213,497	-	213,497
Non-driver products	-	137,347	137,347
	\$ 586,258	137,347	723,605

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

The carrying values of the Company's tangible long-lived assets are located in the following countries:

	January 1, 2017	December 31, 2017	December 31, 2018
	(in thousands)		
Taiwan	\$46,445	83,730	109,732
U.S.	45	25	668
China	751	651	540
Korea	47	150	83
Israel	-	-	28
Japan	21	19	16
	\$47,309	84,575	111,067

Revenues from significant customers, those representing 10% or more of total revenue for the respective periods, are summarized as follows:

	Year ended December 31,	
	2017	2018
	(in thousands)	
Driver IC segment:		
Customer A and its affiliates	\$ 147,961	178,907
Customer B and its affiliates	102,493	87,927
	\$ 250,454	266,834
Non-driver products segment:		
Customer A and its affiliates	\$ 28,767	24,088
Customer B and its affiliates	3,887	2,917
	\$ 32,654	27,005

Accounts receivable from significant customers, those representing 10% or more of total accounts receivable for the respective dates, is summarized as follows:

	January 1, 2017	December 31, 2017	December 31, 2018
	(in thousands)		
Customer A and its affiliates	\$55,681	61,100	63,501
Customer B and its affiliates	36,849	29,008	24,462
	\$92,530	90,108	87,963

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018****Note 29. The Nature of Expenses**

(a) Depreciation of property, plant and equipment

	Year ended December 31,	
	2017	2018
	(in thousands)	
Recognized in cost of revenues	\$ 5,965	8,600
Recognized in operating expenses	9,307	9,747
	\$ 15,272	18,347

(b) Amortization of intangible assets

	Year ended December 31,	
	2017	2018
	(in thousands)	
Recognized in cost of revenues	\$ 2	3
Recognized in operating expenses	1,406	1,977
	\$ 1,408	1,980

(c) Employee benefits expense

	Year ended December 31,	
	2017	2018
	(in thousands)	
Salary	\$ 89,911	91,822
Labor and health insurance	5,841	6,054
Pension	5,102	5,474
Others	3,486	3,576

	\$ 104,340	106,926
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Employee benefits expense summarized by function

Recognized in cost of revenues	\$ 5,223	6,512
Recognized in operating expenses	99,117	100,414
	\$ 104,340	106,926

Note 30. Himax Technologies, Inc. (the Parent Company only)

As a holding company, dividends received from Himax Technologies, Inc.'s subsidiaries in Taiwan, if any, will be subjected to withholding tax under ROC law as well as statutory and other legal restrictions.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

The condensed separate financial information of Himax Technologies, Inc. is presented as follows:

Condensed Statements of Financial Position

	January 1, 2017	December 31, 2017	December 31, 2018
	(in thousands)		
Cash	\$759	1,362	813
Financial asset at amortized cost	4,399	4,881	4,819
Other receivable from related party	7,150	2,751	2,780
Other current assets	976	498	502
Financial asset at fair value through profit or loss	-	-	8,230
Investments in subsidiaries and affiliates	726,890	751,990	755,680
Total assets	\$740,174	761,482	772,824
Current liabilities	\$284	235	227
Short-term borrowings	119,000	147,000	164,000
Debt borrowing from a subsidiary	154,170	158,924	162,049
Total equity	466,720	455,323	446,548
Total liabilities and equity	\$740,174	761,482	772,824

Himax Technologies, Inc. had no guarantees as of January 1, 2017, December 31, 2017 and 2018.

Condensed Statements of Profit or Loss

	Year ended December 31,	
	2017	2018
	(in thousands)	
Revenues	\$ -	-
Costs and expenses	236	273
Operating loss	(236)	(273)
Interest income	170	200
Changes in fair value of financial assets at fair value through profit or loss	-	2,094
Foreign currency exchange losses, net	-	(257)
Finance costs	(2,322)	(3,491)
Share of profits of subsidiaries and affiliates	30,068	10,296
Profit before income taxes	27,680	8,569
Income tax expense	-	-
Profit for the year	\$ 27,680	8,569

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018****Condensed Statements of Other Comprehensive Income**

	Year Ended December 31,	
	2017	2018
Profit for the year	\$ 27,680	8,569
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Remeasurements of defined benefit pension plans	(67)	424
Unrealized loss on financial assets at fair value through other comprehensive income	(82)	1,269
Income tax related to items that will not be reclassified subsequently	-	(676)
Items that may be reclassified subsequently to profit or loss:		
Unrealized gains on financial assets at fair value through profit or loss	15	(169)
Foreign operations - foreign currency translation differences	1,175	(334)
Income tax related to items that may be reclassified subsequently	313	-
Other comprehensive income for the year, net of tax	862	(334)
Total comprehensive income for the year	-	-
	1,108	90
	\$ 28,788	8,659

Condensed Statements of Cash Flows

	Year ended December 31,	
	2017	2018
	(in thousands)	
Cash flows from operating activities:		
Profit for the year	\$ 27,680	8,569
Adjustments for:		
Changes in fair value of financial assets at fair value through profit or loss	-	(2,094)
Interest income	(170)	(200)
Finance costs	2,322	3,491
Share of profits of subsidiaries and affiliates	(30,068)	(10,296)

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Foreign currency exchange losses of financial assets	-	257
	(236)	(273)
Changes in:		
Other current assets	439	(2)
Other current liabilities	(1,746)	(2,734)
Cash generated from operating activities	(1,543)	(3,009)
Interest received	131	199
Interest paid	(547)	(766)
Net cash used in operating activities	(1,959)	(3,576)

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

	Year ended December 31,	
	2017	2018
	(in thousands)	
Cash flows from investing activities:		
Acquisitions of financial asset at amortized cost	(158)	(195)
Acquisitions of equity method investment	(6,850)	-
Proceeds from disposals of equity method investment	4,825	-
Proceeds from capital reduction of investment	8,000	-
Cash received from (paid for) loan made to related party	4,400	(29)
Net cash provided by (used in) investing activities	10,217	(224)
Cash flows from financing activities:		
Payments of cash dividends	(41,281)	(17,210)
Proceeds from short-term borrowings	151,000	91,000
Repayment of short-term borrowings	(123,000)	(74,000)
Proceeds from issue of RSUs from subsidiaries	872	336
Proceeds from debt from a subsidiary	166,025	154,281
Repayment of debt from a subsidiary	(161,271)	(151,156)
Net cash provided by (used in) financing activities	(7,655)	3,251
Net increase (decrease) in cash	603	(549)
Cash at beginning of year	759	1,362
Cash at end of year	\$ 1,362	813

Note 31. Explanation of transition to IFRS

As stated in Note 2(a), these are the Company's first consolidated financial statements prepared in accordance with IFRS. As the basis of the preparation, the Company not only follows the significant accounting policies stated in Note 4 but also applies IFRS 1.

IFRS 1 establishes the procedures for the Company's first consolidated financial statements prepared in accordance with IFRS. According to IFRS 1, the Company is required to determine the accounting policies under IFRS and retrospectively apply those accounting policies in its opening statement of financial position at the date of transition to

IFRS; except for optional exemptions and mandatory exceptions to such retrospective application provided under IFRS 1.

The main optional exemptions the Company adopted are summarized as follows:

- Business combinations. The Company elected not to apply IFRS 3, “Business Combinations,” retrospectively to business combinations that occurred before January 1, 2017. Therefore, in the opening statement of financial
- 1) position, the amount of goodwill generated from past business combinations was the same as the carrying amount of goodwill under US GAAP as of January 1, 2017.

 - 2) Employee benefits. The Company elected to recognize all cumulative actuarial gains and losses in retained earnings as of January 1, 2017.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

Financial instrument. The Company elected to relieve from the retrospective application of the requirements in respect of the recognition of such “Day 1” gains or losses on IFRS 9 “Financial Instruments”. Under the optional exemption, the criteria for the recognition of gains and losses subsequent to the initial recognition of a financial asset or liability need only be applied prospectively to transactions entered into. Therefore, in the opening statement of financial position, the amount of financial instrument was the same as the carrying amount under US GAAP and just reclassified to appropriate classifications under IFRS 9.

The accounting policies set out in Note 4 have been applied in the preparing of an opening IFRS statement of financial position at January 1, 2017, the transition date, the comparative information presented in these financial statements for the year ended December 31, 2017 and in preparation the financial statements for the year ended December 31, 2018.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with US GAAP (previous GAAP). An explanation of how the transition from previous GAAP to IFRS has affected the Company’s consolidated financial statements is set out in the following tables and the notes that accompany the tables.

HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

(1) Reconciliation of consolidated statement of financial position as of January 1, 2017

US GAAP Items	Amount	Effect of Transition to IFRS Recognition Presentation		IFRS Amount	Items	Note
		Difference	Difference			
Assets					Assets	
Current assets:					Current assets:	
Cash and cash equivalents	\$ 184,452	\$ -	\$ -	\$ 184,452	Cash and cash equivalents	
Investments in marketable securities available-for-sale	10,157	-	(10,157)	-	-	A-1
-	-	-	5,140	5,140	Financial assets at amortized cost	A-1
-	-	-	5,017	5,017	Financial assets at fair value through profit or loss	A-1
Accounts receivable, less allowance for doubtful accounts, sales returns and discounts	190,998	-	1,536	192,534	Accounts receivable, net	B
Inventories	149,748	-	-	149,748	Inventories	
Deferred tax assets	5,065	-	(5,065)	-	-	D
-	-	-	43	43	Income taxes receivable	
Restricted cash, cash equivalents and marketable securities	138,200	-	-	138,200	Restricted deposit	
Other receivables from related parties	7,150	-	-	7,150	Other receivable from related parties	
Prepaid expenses and other current assets	17,195	-	(43)	17,152	Other current assets	
Total current assets	702,965	-	(3,529)	699,436	Total current assets	
Investment in non-marketable equity securities	12,242	-	(12,242)	-	-	A-2
-	-	-	10,562	10,562	Financial assets at fair value through profit or loss	A-2
-	-	-	1,680	1,680		A-2

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					Financial assets at fair value through other comprehensive income	
Equity method investments	2,362	-	-	2,362	Equity method investments	
Property, plant and equipment, net	48,172	-	(863)	47,309	Property, plant and equipment, net	C
Deferred tax assets	1,050	(55)	6,261	7,256	Deferred tax assets	D,F
Goodwill	28,138	-	-	28,138	Goodwill	
Other intangible assets, net	3,170	-	611	3,781	Other intangible assets, net	C
Restricted marketable securities	124	-	-	124	Restricted deposit	
Other assets	1,411	(90)	252	1,573	Other non-current assets	C,F
	96,669	(145)	6,261	102,785		
Total assets	\$799,634	\$ (145)	\$ 2,732	\$802,221	Total assets	

(Continued)

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

US GAAP		Effect of Transition to IFRS		IFRS		
Items	Amount	Recognition Difference	Presentation Difference	Amount	Items	Note
Liabilities, Redeemable noncontrolling interest and Equity					Liabilities and Equity	
Current liabilities:					Current liabilities:	
Short-term debt	\$ 138,000	\$ -	\$ -	\$ 138,000	Short-term borrowings	
Accounts payable	142,269	-	-	142,269	Accounts payable	
Accounts payable to related party	576	-	-	576	Accounts payable to related party	
Income taxes payable	14,155	-	519	14,674	Income taxes payable	E
Deferred tax liabilities	25	-	(25)	-	-	D
Other accrued expenses and other current liabilities	29,721	-	1,536	31,257	Other current liabilities	B
Total current liabilities	324,746	-	2,030	326,776	Total current liabilities	
-	-	4,524	-	4,524	Financial liability at amortized cost	A-3
Income taxes payable	519	-	(519)	-	-	E
Accrued pension liabilities	1,064	-	-	1,064	Net defined benefit liabilities	
Deferred tax liabilities	60	-	1,221	1,281	Deferred tax liabilities	D
Other liabilities	1,438	-	-	1,438	Other non-current liabilities	
Total liabilities	327,827	4,524	2,732	335,083	Total liabilities	
Redeemable noncontrolling interest Equity	3,656	(3,656)	-	-	-	A-3
Himax Technologies, Inc. stockholders' equity:					Equity	
Ordinary shares	107,010	-	-	107,010	Ordinary shares	
Additional paid-in capital	106,350	(2,877)	-	103,473	Additional paid-in capital	G

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Treasury shares	(9,020)	-	-	(9,020)	Treasury shares	
Accumulated other comprehensive loss	(2,467)	913	-	(1,554)	Accumulated other comprehensive income	F
Unappropriated retained earnings	265,860	951	-	266,811	Retained earnings	A-3,F,G
Total Himax Technologies, Inc. stockholders' equity	467,733	(1,013)	-	466,720	Equity attributable to owners of Himax Technologies, Inc.	
Noncontrolling interests	418	-	-	418	Noncontrolling interests	
Total equity	468,151	(1,013)	-	467,138	Total equity	
Total liabilities, redeemable noncontrolling interest and equity	\$799,634	\$ (145)	\$ 2,732	\$802,221	Total liabilities and equity	

(Concluded)

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

(2) Reconciliation of consolidated statement of financial position as of December 31, 2017

US GAAP Items	Amount	Effect of Transition to IFRS Recognition Presentation		IFRS Amount	Items	Note
		Difference	Difference			
Assets					Assets	
Current assets:					Current assets:	
Cash and cash equivalents	\$ 138,023	\$ -	\$ -	\$ 138,023	Cash and cash equivalents	
Investments in marketable securities available-for-sale	10,879	-	(10,879)	-	-	A-1
-	-	-	10,358	10,358	Financial assets at amortized cost	A-1
-	-	-	521	521	Financial assets at fair value through profit or loss	A-1
Accounts receivable, less allowance for doubtful accounts, sales returns and discounts	187,571	-	1,203	188,774	Accounts receivable, net	B
Inventories	135,200	-	-	135,200	Inventories	
-	-	-	53	53	Income taxes receivable	
Restricted cash, cash equivalents and marketable securities	147,000	-	-	147,000	Restricted deposit	
Other receivables from related parties	3,250	-	-	3,250	Other receivable from related parties	
Prepaid expenses and other current assets	39,495	-	(53)	39,442	Other current assets	
Total current assets	661,418	-	1,203	662,621	Total current assets	
Investment in non-marketable equity securities	3,122	-	(3,122)	-	-	A-2
-	-	-	1,600	1,600	Financial assets at fair value through profit or loss	A-2
-	-	-	1,522	1,522		A-2

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					Financial assets at fair value through other comprehensive income	
Equity method investments	10,739	-	-	10,739	Equity method investments	
Property, plant and equipment, net	86,673	-	(2,098)	84,575	Property, plant and equipment, net	C
Deferred tax assets	7,688	(54)	79	7,713	Deferred tax assets	D,F
Goodwill	28,138	-	-	28,138	Goodwill	
Other intangible assets, net	2,179	-	720	2,899	Other intangible assets, net	C
Restricted marketable securities	470	-	-	470	Restricted deposit	
Other assets	1,628	(90)	1,378	2,916	Other non-current assets	C,F
	140,637	(144)	79	140,572		
Total assets	\$802,055	\$ (144)	\$ 1,282	\$803,193	Total assets	

(Continued)

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

US GAAP Items	Amount	Effect of Transition to IFRS		IFRS Amount	Items	Note
		Recognition Difference	Presentation Difference			
Liabilities, Redeemable noncontrolling interest and Equity					Liabilities and Equity	
Current liabilities:					Current liabilities:	
Short-term debt	\$ 147,000	\$ -	\$ -	\$ 147,000	Short-term borrowings	
–	-	4,837	-	4,837	Financial liability at amortized cost	A-3
Accounts payable	139,933	-	-	139,933	Accounts payable	
Income taxes payable	6,798	-	487	7,285	Income taxes payable	E
Other payable to related party	2,200	-	-	2,200	Other payable to related party	
Other accrued expenses and other current liabilities	41,268	-	1,203	42,471	Other current liabilities	B
Total current liabilities	337,199	4,837	1,690	343,726	Total current liabilities	
Income taxes payable	487	-	(487)	-	–	E
Accrued pension liabilities	1,152	-	-	1,152	Net defined benefit liabilities	
Deferred tax liabilities	32	-	79	111	Deferred tax liabilities	D
Other liabilities	4,616	-	-	4,616	Other non-current liabilities	
Total liabilities	343,486	4,837	1,282	349,605	Total liabilities	
Redeemable noncontrolling interest Equity	3,656	(3,656)	-	-	–	A-3
Himax Technologies, Inc. stockholders' equity:					Equity	
Ordinary shares	107,010	-	-	107,010	Ordinary shares	
Additional paid-in capital	107,400	(2,973)	-	104,427	Additional paid-in capital	G
Treasury shares	(8,878)	-	-	(8,878)	Treasury shares	

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Accumulated other comprehensive loss	(1,430)	984	-	(446)	Accumulated other comprehensive income	F
Unappropriated retained earnings	252,546	664	-	253,210	Retained earnings	A-3,F,G
Total Himax Technologies, Inc. stockholders' equity	456,648	(1,325)	-	455,323	Equity attributable to owners of Himax Technologies, Inc.	
Noncontrolling interests	(1,735)	-	-	(1,735)	Noncontrolling interests	
Total equity	454,913	(1,325)	-	453,588	Total equity	
Total liabilities, redeemable noncontrolling interest and equity	\$ 802,055	\$ (144)	\$ 1,282	\$ 803,193	Total liabilities and equity	

(Concluded)

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018**

(3) Reconciliation of consolidated statement of profit or loss for the year ended December 31, 2017

US GAAP Items	Amount	Effect of Transition to IFRS		IFRS Amount	Items	Note
		Recognition Difference	Presentation Difference			
Revenues	\$685,167	\$ -	\$ -	\$685,167	Revenues	
Costs and expenses:					Costs and expenses:	
Cost of revenues	518,142	-	-	518,142	Cost of revenues	
Research and development	117,757	(95)	-	117,662	Research and development	F,G
General and administrative	20,614	(153)	-	20,461	General and administrative	F,G
Bad debt expense	155	-	-	155	Expected credit loss	
Sales and marketing	20,349	39	-	20,388	Sales and marketing	F,G
Total costs and expenses	677,017	(209)	-	676,808	Total costs and expenses	
Operating income	8,150	209	-	8,359	Operating income	
Non operating income (loss):					Non operating income (loss):	
Interest income	2,225	-	-	2,225	Interest income	
Gain on sale of securities, net	23,226	-	-	23,226	Changes in fair value of financial assets at fair value through profit or loss	
Equity in losses of equity method investees	(1,200)	-	-	(1,200)	Share of losses of associates	
Foreign currency exchange losses, net	(1,517)	(142)	-	(1,659)	Foreign currency exchange losses, net	F
Interest expense	(565)	(313)	-	(878)	Finance costs	A-3
Other income, net	19	-	-	19	Other income	
Earnings before income taxes	22,188	(455)	-	21,733		
Income tax expense	30,338	(246)	-	30,092	Profit before income taxes	
Net income	4,520	34	-	4,554	Income tax expense	F
	25,818	(280)	-	25,538	Profit for the period	

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Net loss attributable to noncontrolling interests	2,149	(7)	-	2,142	Loss attributable to noncontrolling interests	F
Net income attributable to Himax Technologies, Inc. stockholders	\$27,967	\$	(287	)	\$ -	\$27,680	Profit attributable to Himax Technologies, Inc. stockholders
Basic earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	\$0.08				\$0.08	Basic earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	
Diluted earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	\$0.08				\$0.08	Diluted earnings per ordinary share attributable to Himax Technologies, Inc. stockholders	
Basic earnings per ADS attributable to Himax Technologies, Inc. stockholders	\$0.16				\$0.16	Basic earnings per ADS attributable to Himax Technologies, Inc. stockholders	
Diluted earnings per ADS attributable to Himax Technologies, Inc. stockholders	\$0.16				\$0.16	Diluted earnings per ADS attributable to Himax Technologies, Inc. stockholders	

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (Continued)****For the years ended December 31, 2017 and 2018****(4) Reconciliation of consolidated statement of other comprehensive income for the year ended December 31, 2017**

US GAAP		Effect of Transition to IFRS Recognition	IFRS		
Items	Amount	Difference	Presentation Difference	Amount	Items
Net income	\$25,818	\$ (280)	\$ -	\$25,538	Profit for the year
Other comprehensive income (loss):					Other comprehensive income:
				1,184	Items that may be reclassified subsequently to profit or loss:
Unrealized gains (losses) on securities, not subject to income tax:	322	-	-	322	Unrealized gains on financial assets at fair value through profit or loss and amortized cost
Unrealized holding gains (losses) on available-for-sale marketable securities arising during the period	510				
Reclassification adjustment for realized gains included in net income	(188)				
Foreign currency translation adjustments, net of income tax of nil	862	-	-	862	Foreign operations - foreign currency translation differences
Net unrecognized actuarial gain (loss), net of income tax	(150)	69	-	(81)	Items that will not be reclassified to profit or loss:
				(96)	Remeasurements of defined benefit pension plans
				15	Income tax related to items that will not be reclassified

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Comprehensive income	26,852	(211)	-	26,641	subsequently Total comprehensive income for the year
Comprehensive loss attributable to noncontrolling interests	2,152	(5	)	-	2,147	Total comprehensive income attributable to noncontrolling interests
Comprehensive income attributable to Himax Technologies, Inc. stockholders	\$29,004	\$ (216)	\$ -	\$28,788	Total comprehensive income attributable to Himax Technologies, Inc. stockholders

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

(4) Significant reconciliation differences in consolidated statement of cash flows for the year ended December 31, 2017

The Company prepared the statement of cash flows using the indirect method under US GAAP, in which the interest received, the interest paid and the income tax paid are not required to be disclosed separately; instead, the interest received, the interest paid and the income tax paid are included within the operating activities in the statement of cash flows. However, according to IAS No. 7, "Statement of Cash Flows" for the year ended December 31, 2017, the interest received of \$2,165 thousand, the interest paid of \$565 thousand and the income tax paid \$14,683 thousand should be disclosed separately based on their nature in the operating activities, respectively.

Except for the above differences, there are no other significant differences between US GAAP and IFRS in the consolidated statement of cash flows.

(5) Notes to the reconciliation of the main differences:

A) Financial instruments

Under US GAAP, investment securities consist of investments in marketable securities and investments in non-marketable equity securities. All of the Company's investments in marketable securities are classified as available-for-sale securities and are reported at fair value. Investments in non-marketable equity securities in which the Company does not have the ability to exercise significant influence over the operating and financial policies of the investee are stated at cost.

Under IFRS, IFRS 9 "Financial Instruments" includes guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It is effective for annual reporting periods beginning on January 1, 2018. The

Company elects to relieve the retrospective application of measurement of financial instrument under IFRS 9 and just to reclassify the classification of financial instruments under IFRS 9 as follows:

As of January 1, 2017, the Company had \$10,157 thousand reported as investments in marketable securities available-for-sale, which were time deposit with original maturities more than three months of \$5,140 thousand **A-1**) and money market fund of \$5,017 thousand under US GAAP, that were reclassified to financial assets at amortized cost and financial assets at fair value through profit or loss-current, at amounts of \$5,140 thousand and \$5,017 thousand, respectively, under IFRS.

As of December 31, 2017, the Company had \$10,879 thousand reported as investment in marketable securities available-for-sale, which were time deposit with original maturities more than three months of \$10,358 thousand and money market fund of \$521 thousand under US GAAP, that were reclassified to financial assets at amortized cost and financial assets at fair value through profit or loss-current, at amounts of \$10,358 thousand and \$521 thousand, respectively, under IFRS.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

As of January 1, 2017, the Company had \$12,242 thousand reported as investment in non-marketable equity securities under US GAAP, which were unlisted equity securities held for long-term strategies, that were A-2) reclassified to financial assets at fair value through profit or loss-noncurrent and financial assets at fair value through other comprehensive income at amounts of \$10,562 thousand and \$1,680 thousand, respectively, under IFRS.

As of December 31, 2017, the Company had \$3,122 thousand reported as investment in non-marketable equity securities under US GAAP, which were unlisted equity securities held for long-term strategies, that were reclassified to financial assets at fair value through profit or loss-noncurrent and financial assets at fair value through other comprehensive income at amounts of \$1,600 thousand and \$1,522 thousand, respectively, under IFRS.

Under US GAAP, the Company recognized redeemable convertible preferred shares which were issued to a non-controlling shareholder by Himax Display Inc., a consolidated subsidiary, as temporary equity. The A-3) redeemable convertible preferred shares were presented as redeemable noncontrolling interest and recognized at fair value.

Under IFRS, the Company recognized the above-mentioned redeemable convertible preferred shares as financial liability at amortized cost using effective interest method.

As of January 1, 2017, the Company had \$3,656 thousand reported as redeemable noncontrolling interest under US GAAP, that were reclassified to financial liability at amortized cost-noncurrent and recognized interest expense (finance costs) using effective interest method which decreased retained earnings by \$868 thousand. After the above adjustments, the Company had \$4,524 thousand reported as financial liability at amortized cost-noncurrent under IFRS.

As of December 31, 2017, the Company had \$3,656 thousand reported as redeemable noncontrolling interest under US GAAP, that were reclassified to financial liability at amortized cost-current and recognized interest expense

(finance costs) using effective interest method which decreased retained earnings by \$1,181 thousand. After the above adjustments, the Company had \$4,837 thousand reported as financial liability at amortized cost-current under IFRS.

For the year ended December 31, 2017, interest expense (finance costs) was adjusted for an increase of \$313 thousand.

B) Allowance of sales returns and discounts

Under US GAAP, allowance for sales returns and discounts were recognized as a reduction in revenue in the year the related revenue is recognized based on historical experience. The corresponding allowance for sales returns and discounts was presented as a reduction in accounts receivable.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

Under IFRS, the allowance for sales returns and discounts is a present obligation with uncertain timing and an amount that arises from past events and is therefore reclassified as provisions.

As of January 1, 2017 and December 31, 2017, the amounts reclassified from allowance for sales returns and discounts to provisions were \$1,536 thousand and \$1,203 thousand, respectively.

C) Property, plant and equipment, net

Under US GAAP, property, plant and equipment typically consist of long-lived tangible assets used to create and distribute an entity's products and including software.

Under IFRS, property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period. Certain software that is not an integral part of the related hardware and prepayment for equipment not shipped to the factory are reclassified out from property, plant and equipment under US GAAP and reclassified to other intangible assets, net and other non-current assets as they do not meet the definition of property, plant and equipment under IFRS.

As of January 1, 2017, property, plant and equipment, net of \$863 thousand were reclassified to other intangible assets, net and other non-current assets at amounts of \$611 thousand and \$252 thousand, respectively.

As of December 31, 2017, property, plant and equipment, net of \$2,098 thousand were reclassified to other intangible assets, net and other non-current assets at amounts of \$720 thousand and \$1,378 thousand, respectively.

D)

Deferred tax assets and liabilities

Under US GAAP, for a particular tax-paying component of an entity and within a particular tax jurisdiction, all current / non-current deferred tax liabilities and assets are offset and presented as a single amount.

Under IFRS, deferred tax liabilities and assets are offset only if the entity has a legally enforceable right to offset current tax liabilities and assets.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

As of January 1, 2017, the amounts reclassified from current deferred tax assets to noncurrent deferred tax assets was \$5,065 thousand.

As of January 1, 2017 and December 31, 2017, the amounts reclassified from deferred tax assets to deferred tax liabilities were \$1,196 thousand and \$79 thousand, respectively.

E) Income taxes payable

Under US GAAP, income taxes payable is classified as current if cash payment is expected within 12 months; if not, the amount is classified as noncurrent.

Under IFRS, income tax payables are classified as current unless an unconditional right to defer payment for a period greater than twelve months exists.

As of January 1, 2017 and December 31, 2017, the amounts reclassified from income taxes payable-noncurrent to income taxes payable-current were \$519 thousand and \$487 thousand, respectively.

F) Employee benefits

Under US GAAP, actuarial gains and losses arising in the period are recognized immediately in OCI and amortized from accumulated OCI into the profit or loss over the employees' remaining service period. The recognition of an asset in respect of a defined benefit plan is not restricted. Interest cost on the net defined liability is determined by applying the discount rate used to measure the defined benefit obligation and return on plan assets is determined by applying

the expected long-term rate of return on plan assets to the market related value of the plan assets.

Under IFRS, remeasurements of the net defined benefit liability (asset) are recognized in OCI and are not reclassified to profit or loss in a subsequent period. If the defined benefit plan is in surplus, then the amount of any net asset recognized is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan (the asset's ceiling). Net interest on the net defined benefit liability / asset is determined by applying the discount rate used to measure the defined benefit obligation.

As of January 1, 2017, net defined benefit assets included in other assets, deferred tax assets and remeasurements of the net defined benefit liability or asset related to components of accumulated other comprehensive income were adjusted for a decrease of \$90 thousand, \$55 thousand and an increase of \$913 thousand, respectively. Retained earnings was adjusted for a decrease of \$1,058 thousand as a result of the aforementioned adjustments.

As of December 31, 2017, net defined benefit assets included in other assets, deferred tax assets and remeasurements of the net defined benefit liability or asset related to components of accumulated other comprehensive income were adjusted for a decrease of \$90 thousand, \$54 thousand and an increase of \$984 thousand, respectively. Retained earnings was adjusted for a decrease of \$1,128 thousand as a result of the aforementioned adjustments.

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HIMAX TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017 and 2018

For the year ended December 31, 2017, research and development expense, general and administrative expense and sales and marketing expense for employee benefits were adjusted for a decrease of \$83 thousand, \$11 thousand and \$14 thousand, respectively, and in total operating expense decreased \$108 thousand. Besides, foreign currency exchanges loss, income tax expense and net loss attributable to noncontrolling interest for employee benefits were adjusted for an increase of \$142 thousand, \$34 thousand and a decrease of \$7 thousand, respectively.

G) Share-based compensation

For equity instruments vesting in tranches, US GAAP allows for the compensation expense to be recognized in a straight-line method. Under US GAAP, the Company recognized compensation expense by straight-line method and recognized excess tax benefits from share-based payments.

For these equity investments vesting in tranches, IFRS requires each tranche to be accounted for as its own award. Under IFRS, the Company recognized compensation expense separately for each tranche, and there is no requirement of recognizing excess tax benefits.

As of January 1, 2017, the Company reversed excess tax benefits from share-based payments and adjusted the difference for amortization method, which totally decreased additional paid-in capital of \$2,877 thousand and increased retained earnings by \$2,877 thousand.

As of December 31, 2017, the Company reversed excess tax benefits from share-based payments and adjusted the difference for amortization method, which in total decreased additional paid-in capital of \$2,973 thousand and increased retained earnings by \$2,973 thousand.

For the year ended December 31, 2017, research and development expense, general and administrative expense and sales and marketing expense for compensation expenses were adjusted for a decrease of \$12 thousand, \$142 thousand and an increase of \$53 thousand, respectively, and in total operating expense decreased \$101 thousand.

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