



IQE PLC | FINANCIAL REPORT AND ANNUAL ACCOUNTS 2013

Five year financial summary

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Revenue	126,774	87,961	75,318	72,650	52,652
EBITDA (see below)	24,920	16,437	13,955	13,115	8,051
Operating profit					
- Adjusted*	14,556	9,202	8,657	8,510	3,942
- Reported	7,346	7,014	7,373	7,208	3,044
Profit after tax					
- Adjusted*	14,202	8,401	9,727	8,808	2,956
- Reported	6,126	6,631	8,443	7,506	2,058
Net cash flow from operations					
- Before exceptional cash flows	16,173	4,679	10,823	10,250	8,139
- Reported	12,762	4,109	10,823	10,250	7,712
Free cash flow**					
- Before exceptional cash flows	5,389	(1,569)	(8,585)	3,315	3,906
- Reported	1,978	(2,139)	(8,585)	3,315	3,479
Net (debt) / funds	(34,351)	(15,483)	(3,921)	7,021	(14,931)
Equity shareholders' funds	110,498	90,189	72,750	62,274	29,837
Basic EPS – adjusted*	2.09p	1.47p	1.86p	1.91p	0.68p
Basic EPS – unadjusted	0.93p	1.16p	1.62p	1.63p	0.47p
Diluted EPS – adjusted*	2.00p	1.40p	1.74p	1.76p	0.64p
Diluted EPS – unadjusted	0.89p	1.10p	1.51p	1.50p	0.44p

* The adjusted performance measures are reconciled in notes 4 and 10.

** Free cash flow is defined as net cash flow before acquisitions, financing and net interest paid.

EBITDA has been calculated as follows:

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Profit after tax	6,126	6,631	8,443	7,506	2,058
Tax	(934)	(503)	(1,551)	(1,172)	-
Interest	2,154	886	481	874	986
Share based payments	1,415	1,360	1,284	1,302	898
Exceptional items	5,065	570	-	-	-
Depreciation	8,503	5,998	4,175	3,619	3,372
Amortisation of intangible assets	2,591	1,495	1,123	986	737
EBITDA	24,920	16,437	13,955	13,115	8,051



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Enabling advanced technologies



Chairman's statement

“Compound semiconductor technology will be at the heart of the next wave of the electronics revolution.”



It is my pleasure to introduce IQE's Annual Report for 2013.

The year started on an exciting note with the acquisition in January of the epitaxial business of Kopin Inc, a NASDAQ listed competitor in the wireless market. This followed the acquisition of RFMD's epitaxial division in mid 2012.

These transactions consolidated our market leadership, strengthened our technology capabilities, broadened our customer base, and are enabling us to access significant synergies, including enhanced economies of scale and cost reductions.

The Group has already seen the benefit of these synergies during 2013, and further efficiencies and cost reductions are evident in 2014. IQE's goal is to realise at least £7m of cost savings per annum, and this remains on track with savings forecast in H2 2014 of £3.5m.

The performance of the acquired businesses during 2013 stands testament that their integration into the IQE group has been seamless. By way of example, the former Kopin sites delivered consistent near perfect scorecards to a major customer during 2013, and received a highly prestigious Supplier of the Year award.

Both through acquisition and organically, we have built the foundations for a very exciting future. We have created a world class platform for the development and supply of advanced semiconductor materials evidenced by:

- a global footprint spanning US, Europe and Asia;
- an unparalleled portfolio of advanced semiconductor materials technology;
- a highly talented, committed and experienced team;
- proven credibility and reputation;
- a secure multi-site, dual-platform supply;
- scale and cost leadership; and
- the largest capacity in the industry.

The wireless market, which accounts for approximately 85% of our sales, will remain a key market for us. Despite the recent softening in smartphone growth, this market still enjoys strong long term prospects driven by the proliferation of wireless communication, and the need for continual improvement in chip performance. Wireless chips will need to evolve continually to meet the challenge of the exponential growth in data traffic, whilst bandwidth becomes increasingly more fragmented and trends to higher frequency. Our materials will be the key enablers underpinning this evolution.

But our ambition far exceeds our global leadership in wireless communication. We have shared with you previously our vision that compound semiconductor technology will be at the heart of the next wave of the electronics revolution.

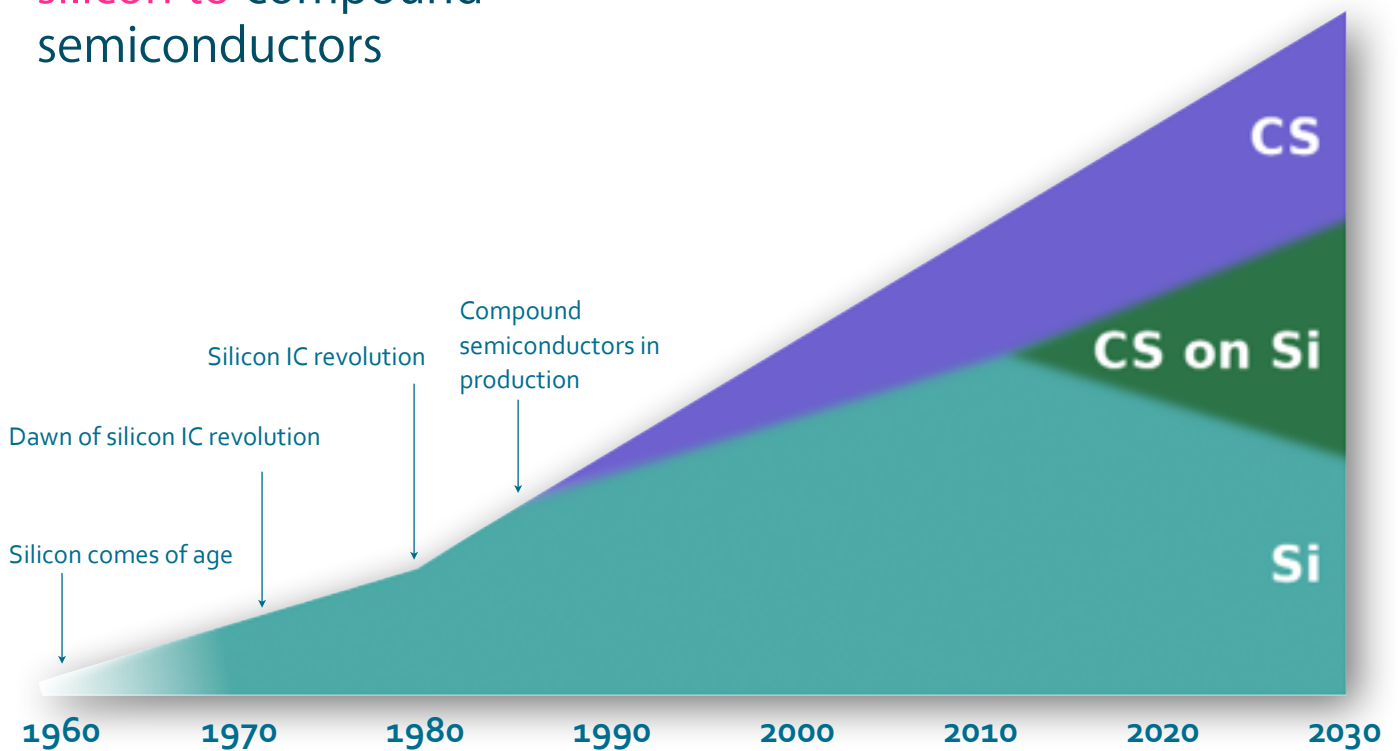
We are beginning to see this happen, and are continuing to strengthen our position in these emerging markets. We will leverage the platform that we have built to realise these opportunities. This will enable us to deliver continued strong growth, and to diversify our revenues further over the coming years.

In anticipation of this, we have already begun shaping our organisation to meet the challenges and opportunities of this exciting future. For example, we have formed industry specific business units dedicated to each of our primary markets: wireless, photonics, InfraRed, CPV (advanced solar), power switching, LEDs and advanced electronics. This has involved a number of new appointments, which has added additional experience to an already strong team.

On that note, I would like to take this opportunity to thank all the management and staff of IQE for their commitment and dedication without which our current success and future plans would be impossible. We have a great team doing outstanding work.

Finally, of course, I would also like to thank you, my fellow shareholders, for your continued belief in and support of IQE.

Expectations of technology continues to drive demand for faster, smaller and more power efficient devices and circuits. Due to the fundamental laws of physics, these devices and circuits will inevitably transition from silicon to compound semiconductors



"Compound III-V transistors could begin to replace traditional silicon technology around 2015"

Senior Intel Executive

The evolution of semiconductors

The importance of materials throughout history

From the stone age, iron age, and bronze age, through to the industrial revolution, the space race, the electronics revolution and the digital revolution, the evolution of mankind has been enabled by innovations in material science.

The elements

Every material in the universe is made from one or more of the fundamental elements. It is the properties of these elements which has enabled the evolution of mankind. There are 118 elements of which around 100 are naturally occurring. These are recorded in the periodic table where they are arranged in groups according to their properties.

The evolution of semiconductors

Semiconductors are a remarkable combination of elements that have the ability to both conduct and insulate electric current. It is these phenomena that have enabled the electronics revolution that has transformed our lives from the early 1960s through to the present day.

Silicon has been the backbone of the electronics revolution from the 1960s by virtue of the continuous miniaturization of the electronic circuits. This concept, which was expressed by one of the founders of Intel, Gordon Moore, has become known as "Moore's Law".

Impressive as the impact of silicon has been on our lives, it has very basic properties in the context of the broader family of semiconducting materials. This is why human innovation has turned to the advanced properties of other semiconducting compounds to enable the dawn of the digital revolution. It's mankind's ability to harness the advanced properties of the full range of semiconducting materials that will drive the digital revolution for generations to come. This is the world of advanced or "compound" semiconductors.

The early years of compound semiconductors

Whether you realise it or not, compound semiconductors have already revolutionised your life.

The early markets for compound semiconductors have been in laser, LED, and wireless applications. In other words, the advent of the internet, fibre optic communication and the smartphone revolution have been fundamentally dependent on compound semiconductor technologies.

The years ahead

The trends are clear, applications begin their lives based on silicon technology, but inevitably transition to compound semiconductors as human innovation demands more from materials.

But this is only the tip of the iceberg. Compound semiconductor technology will lie at the heart of human innovation for generations to come. We are at an exciting inflection point, and at a time when the rate of change has never been quicker and continues to gather pace.

"IQE is uniquely positioned to enable and exploit this opportunity by virtue of its unparalleled breadth of compound semiconductor technologies and its advanced silicon technologies."

The next quantum leap

Of course, the mass adoption of new technologies is more than just a function of what is possible.

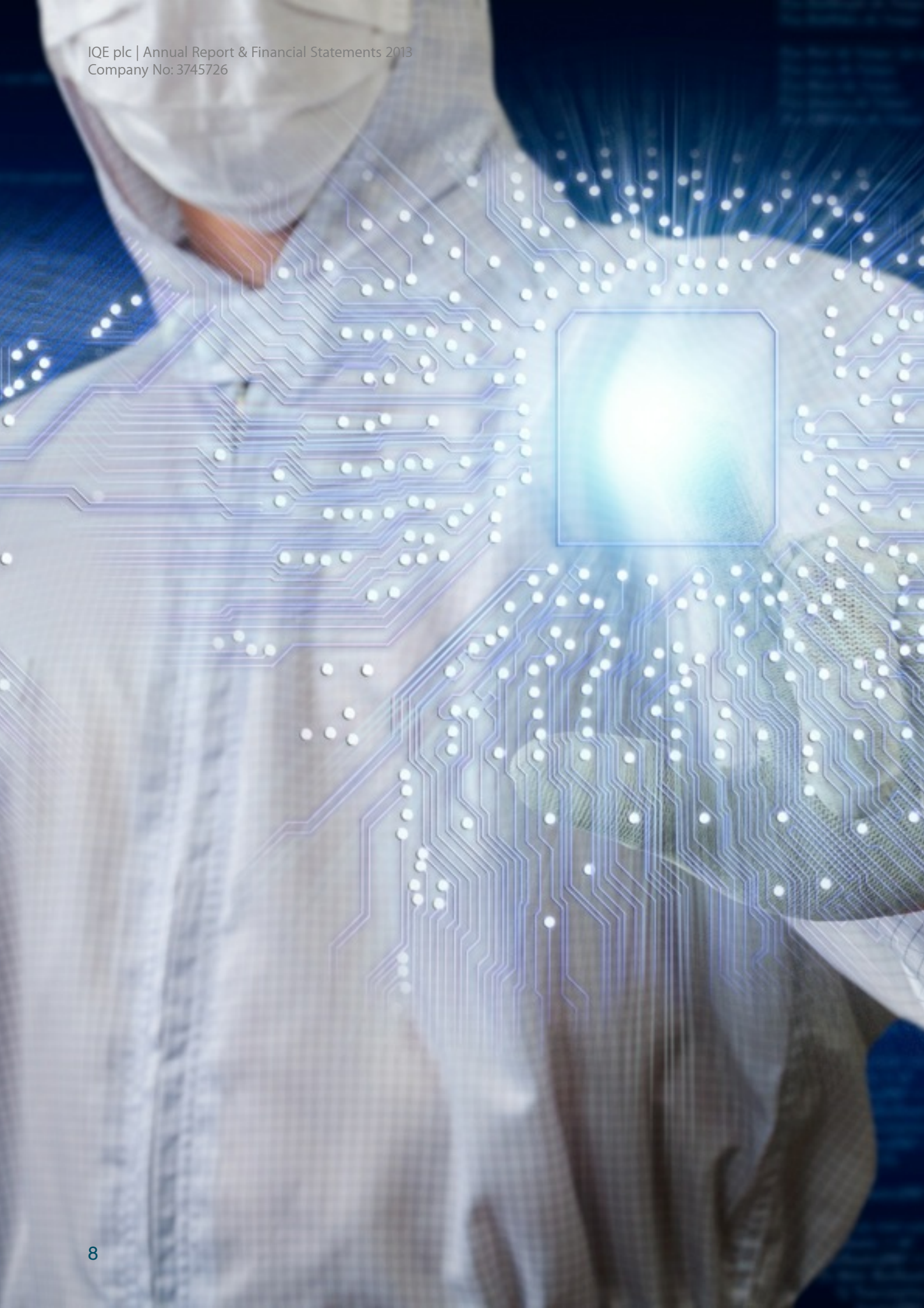
Rather, it is a function of cost versus performance.

Compound semiconductors will continue to gather momentum in their own right as the industry continues to increase scale which is enabling technology to advance and costs to reduce.

But, the next quantum leap in technology will be achieved by combining the advanced properties of compound semi-conductors with the scale and cost advantages of the mature silicon industry.

IQE is uniquely positioned to both enable and exploit this opportunity by virtue of its unparalleled breadth of compound semi-conductor technologies and its advanced silicon technologies.

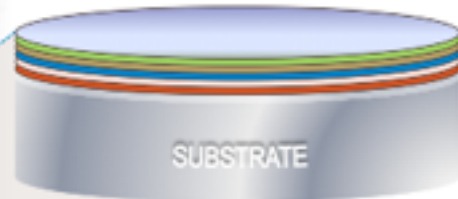
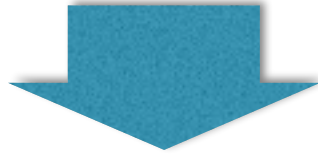
This is why we are the technology partner for governments and "Blue Chips" alike in developing "compound semiconductors on silicon."



What we do



Atomically engineered epitaxial layers of compound semiconductor materials



Epitaxy is the key enabling technology necessary for the efficient manufacture of compound semiconductors

The supply chain

IQE designs and manufactures advanced semiconductor materials. Our finished products are compound semiconductor wafers (also called "epiwafers").

Our products are bespoke. We manufacture to the exact technical specifications required by our customers.

Our customers fabricate our wafers into the "chips" that form the critical components for a wide range of wireless communication and photonic devices.

Our core IP is "Epitaxy"

IQE manufactures epiwafers using a nano technology called "Epitaxy".

Epitaxy is a form of atomic engineering that requires high specification cleanrooms, sophisticated production tools and high levels of intellectual property.

Essentially, we grow atomically thin films of crystals on a substrate. The substrate is simply a physical and electric template required in order to handle our finished product. It's the combination of layers produced by IQE that gives the epifafer its properties. The films are grown atomic layer by atomic layer.



IQE:
 Materials specialists
We make advanced semiconductor wafers in high spec cleanrooms using sophisticated tools and extensive IP

Our customers:
 Chip specialists
Our customers fabricate our wafers into chips

OEMs:
 System specialists
OEMs utilise these chips to make devices and systems

extensive IP
 sophisticated tools and
 cleanroom environm



Our vision

To be the global number one provider of advanced semiconductor materials.

Our strategy

To use technology leadership and scale to deliver the performance, cost points and security of supply required for mass market adoption of compound semiconductor materials.

Our delivery

Number one provider to the wireless market by market share and scale and clear technology leader with an unparalleled breadth of technology. Leading the advancement of new materials technologies.

Our competitive advantage

Global footprint

IQE's operations span the US, Asia and Europe. This allows IQE to be positioned close to its customers and build strong relationships.

Breadth of technology

As one of the pioneers of compound semiconductor technology, IQE has developed an unparalleled and comprehensive breadth of technology and advanced production platforms.

Technology leadership

Through organic development and through acquisition, IQE has established clear technology leadership and created a virtuous circle which continues to attract the brightest and best talent.

Cost leadership

In the electronics industry, cost leadership is achieved through advanced technology and scale. IQE has developed leadership in both.

Security of supply

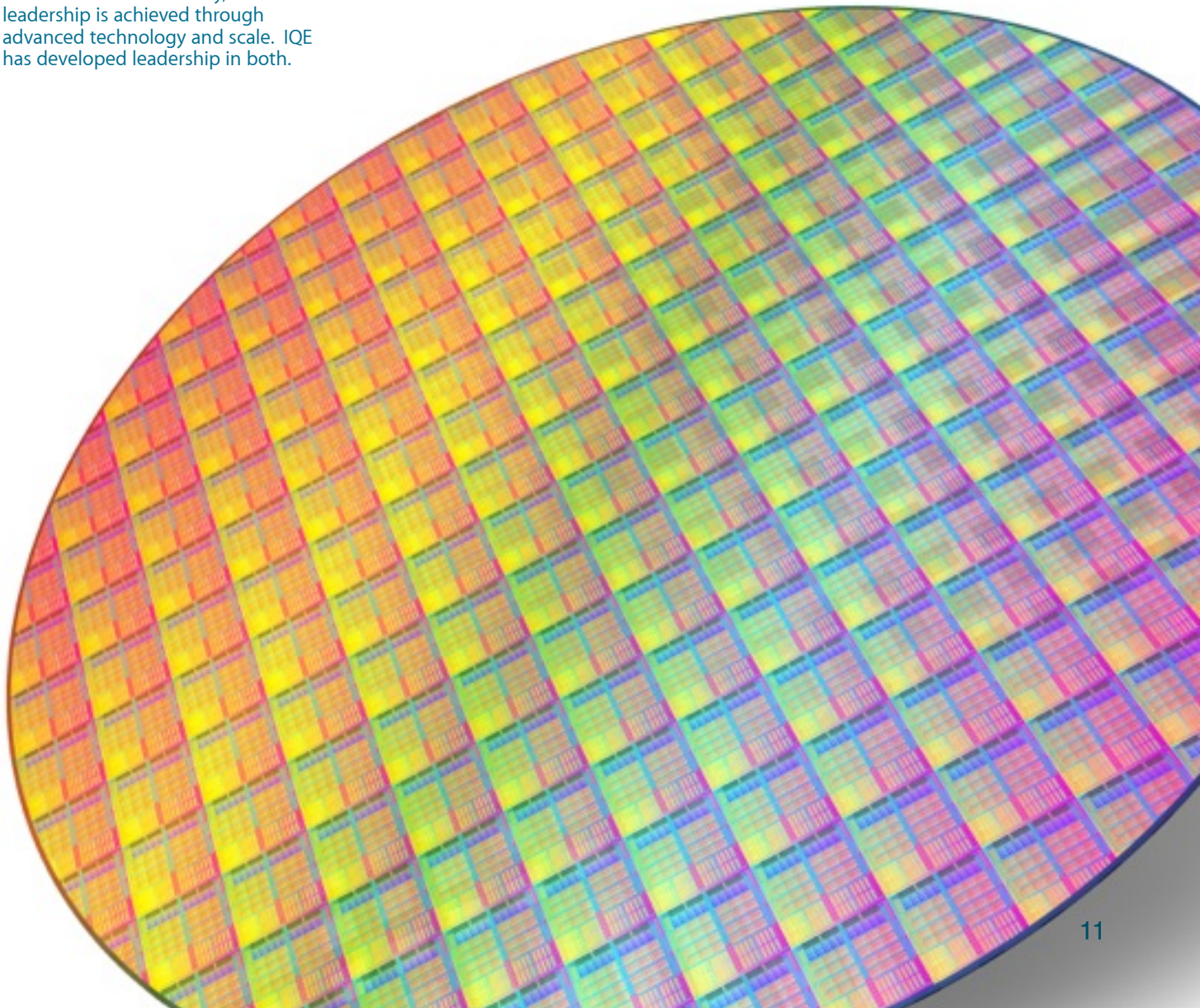
Confidence in a secure supply is critical to the supply chains in which IQE operates. IQE offers its customers identical supply from multiple locations for all its core technologies, allowing it to be a primary and trusted supplier to its customers.

Our risk mitigation strategy

IQE's strategy is to be the most significant supplier to all of the major wireless chip companies in order to mitigate against the impact of swings in market share between the chip companies.

The completion of the acquisitions of the former RFMD and Kopin epi businesses in June 2012 and January 2013 mark the delivery of this strategy.

IQE's unique sales proposition provides differentiation and competitive advantage



Global leader

global presence



North America

Bethlehem, PA

Greensboro, NC

Somerset, NJ

Spokane, WA

Taunton, MA

Europe

Bath, UK

Cardiff, UK

Cardiff, UK

Milton Keynes, UK

Asia

Singapore

Taiwan

Our business model

Outsourcing pioneer

In the early days of the industrial revolution it became absolutely necessary for manufacturers to be vertically integrated since there were no alternative sources of specialised goods and services.

Only towards the middle of the twentieth century did specialisation become a competitive advantage.

However, in new and emerging technologies, the early adopters were in a similar position to their industrial revolution forefathers in that the development of new processes and technologies required the early pioneers to establish all key parts of their supply chain.

Specialisation within the silicon industry

Early silicon chip manufacturers found it necessary to set up complete vertically integrated supply chains to source each part of the production process from raw materials through to final packaged product.

As silicon technology matured, the industry saw the emergence of businesses specialising in different parts of the process to the extent that there now exist a large number of fabless companies who outsource the entire production process to large specialists such as *TSMC Ltd* and *Global Foundries*.

Pioneering specialisation within the compound semiconductor industry

The compound semiconductor industry shares similar attributes with the silicon chip industry. Some of the processes such as epitaxy require large scale investment, complex infrastructure support in the form of cleanrooms, environmental controls and most importantly, highly specialised skills and expertise.

In 1988, IQE became the first compound semiconductor materials company to recognise the potential value in offering specialised outsourcing of compound semiconductor wafers and has witnessed an increasing trend towards this model over its twenty-five year history.

By specialising in the complex epitaxy process, IQE offers its customers economies of scale, access to leading technology and the ability to do what they do best: design and refine their products.

The high level of investment means that IQE's business is highly operationally geared which facilitates significant scope for profitability once sales contribution exceed fixed costs.

The last decade has demonstrated an unprecedented number of key industry suppliers selecting outsourcing as a key business advantage.

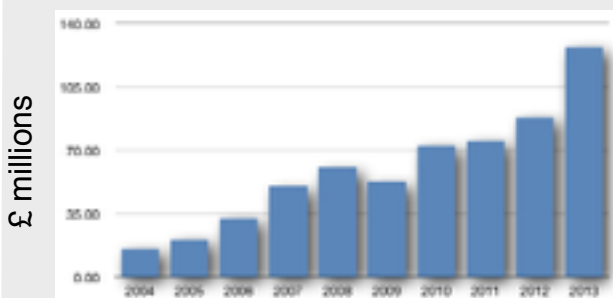
Track record of 26% sales CAGR over 10 years

High operational gearing to transform revenues into profitability

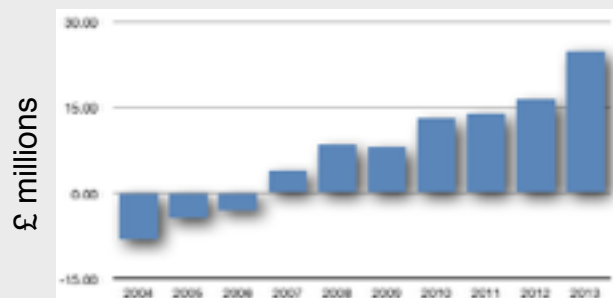
Operational and financial resilience

Strong position in high-growth markets provide strong outlook

Revenues 2004 - 2013



EBITDA 2004 - 2013



One Focus

Multiple Markets

IQE Wireless

High performance wireless applications including smartphones, tablets, PCs, base stations and WiFi

IQE Photonics

Lasers and optical sensors for data communications, data storage, imaging and gesture recognition

IQE Infrared

Infrared materials for advanced sensing applications including night vision, thermal imaging and security

IQE Solar

High efficiency concentrated photovoltaic (CPV) solar cells for utility-scale energy generation

IQE Power

Power control applications including energy efficient power supplies, electric vehicles and LED lighting

IQE CMOS++

Advanced compound semiconductor on silicon technologies for integration of CS and CMOS applications

Our markets

Overview

The key advantages of compound semiconductors over silicon are :

Compound semiconductors are much more efficient at emitting and receiving radio waves

Compound semiconductors are much more efficient at emitting and detecting light

Compound semiconductors operate at much higher speeds and lower power consumption

It is these advanced properties which determine the top-level markets for our materials:

- ◆ Wireless
- ◆ Photonics
- ◆ Electronics

Wireless

Accounted for 85% of the group's sales in 2013.

The wireless market covers electronic devices that communicate wirelessly.

This includes but is not limited to mobile phones, smartphones, mobile networks, WiFi, smart metering, satellite navigation, and a plethora of connected devices.

Photonics

Accounted for 14% of the group's sales in 2013.

The photonics market covers applications that either emit or detect light.

We segment the photonics market into:

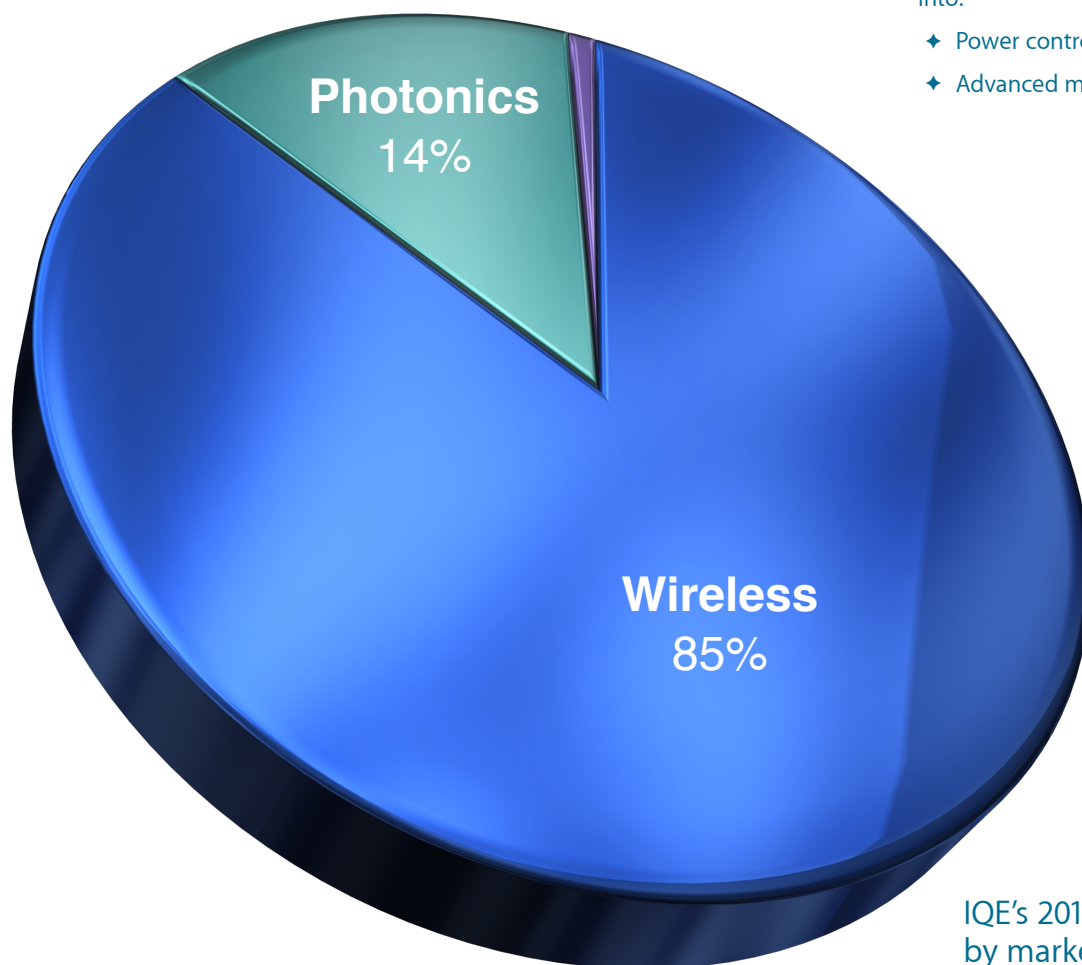
- ◆ Emitters and detectors
- ◆ Infrared
- ◆ Solar (CPV)
- ◆ Lighting

Electronics

The electronics market combines the advanced properties of compound semiconductors with the low cost of silicon.

We segment the electronics market into:

- ◆ Power control
- ◆ Advanced materials



IQE's 2013 revenues
by market sector

Wireless

The wireless communications market has grown rapidly in recent years reflecting the increasing adoption of wireless technology, coupled with the need for an increased compound semiconductor content to support greater sophistication of mobile devices.

Nevertheless, the well publicised softening in smartphone market in 2013 dampened our second half. New smartphone launches no longer attract the same 'feeding frenzy' that has been the hallmark of recent years. This reflects that, in the absence of major advances in smartphone features or functionality, replacement cycles have slowed. Whilst no-one can reliably predict when new handset innovations will reignite the smartphone frenzy, the overall wireless market is expected to continue to grow due to the global roll out of 4G and LTE, the evolution of wifi, and the proliferation of new wireless devices including wearable technology and the 'internet of things'.

Our short term demand profiles are further affected by inventory build and depletion cycles at the wireless chip companies, and further downstream. These appear to have become more pronounced as the OEMs require greater inventories to ensure that customer demand is satisfied and potential sales are not missed in this tighter market. This was a significant factor during 2013, as evidenced at the top 3 wireless chip companies, who reduced their inventory levels by 9% in aggregate between June 2013 and December 2013 (Source : Edison Research).

Nevertheless, smartphone shipments are expected to continue to grow in the coming years, and reach 1.7 billion units by 2017 (Source: IDC). This will be driven by new features, apps, social networking, entertainment and location based services. To put this in perspective, more than 1.8 billion mobile handsets sold in 2013, of which smartphone shipments, that contain significantly more compound semiconductor materials, exceeded the one billion were smartphones for the first time in 2013.

High-speed connectivity and added functionality drive the requirement for the advanced properties offered by compound semiconductor epiwafers. The global roll-out of wireless broadband networks such as 4G/LTE devices increasingly rely on higher levels of compound semiconductor content with 5G expected to demand a quantum leap in speed, power and efficiency.

The migration to new WiFi standards is another major driver for RF components.

The new 802.11ac WiFi standard operates at 5GHz rather than the 2.6GHz currently used. The higher frequency which will greatly increase the range and reliability of WiFi networks, will further raise the demand for compound semiconductor based RF devices.

Growth in the compound semiconductor content in smartphones will be driven by the need for more radio frequency functionality and greater complexity in wireless circuitry but will be partly mitigated by improved efficiencies and a drive towards reduced component footprints.





Photonics

Photonics represents applications which emit and detect light. We segment this market into emitters and detectors, infra-red, solar and lighting.

Emitters and detectors

This encompasses a wide range of applications including optical interconnects, laser projectors, optical storage, cosmetic applications, gesture recognition, finger navigation and a wide range of other sensing applications.

Optical interconnects

Currently, wired data transmission in the home, the office and in data centres is largely undertaken using copper cables. However, data traffic is growing at an explosive rate due to technologies such as high definition imaging, video streaming, "Big Data" and cloud computing. This phenomenon is necessitating a switch from copper wires to optical communication. This is a natural evolution which mirrors the transformation that has already taken place in the telecoms infrastructure.

Optical interconnects offer significantly higher-speed data transfers over much longer distances than their copper counterparts, and are much more efficient. Data centres are becoming one of the first adopters, where optical technology now offers both higher performance and lower overall operating cost compared with copper. This is an example of one of the key markets targeted by Philips Electronics, who entered into a high volume supply agreement with IQE during the fourth quarter of 2013.

In addition, this technology is also set to replace existing cable standards such as USB and HDMI, as these traditional copper cables struggle to meet the increasing demands for data transfer.

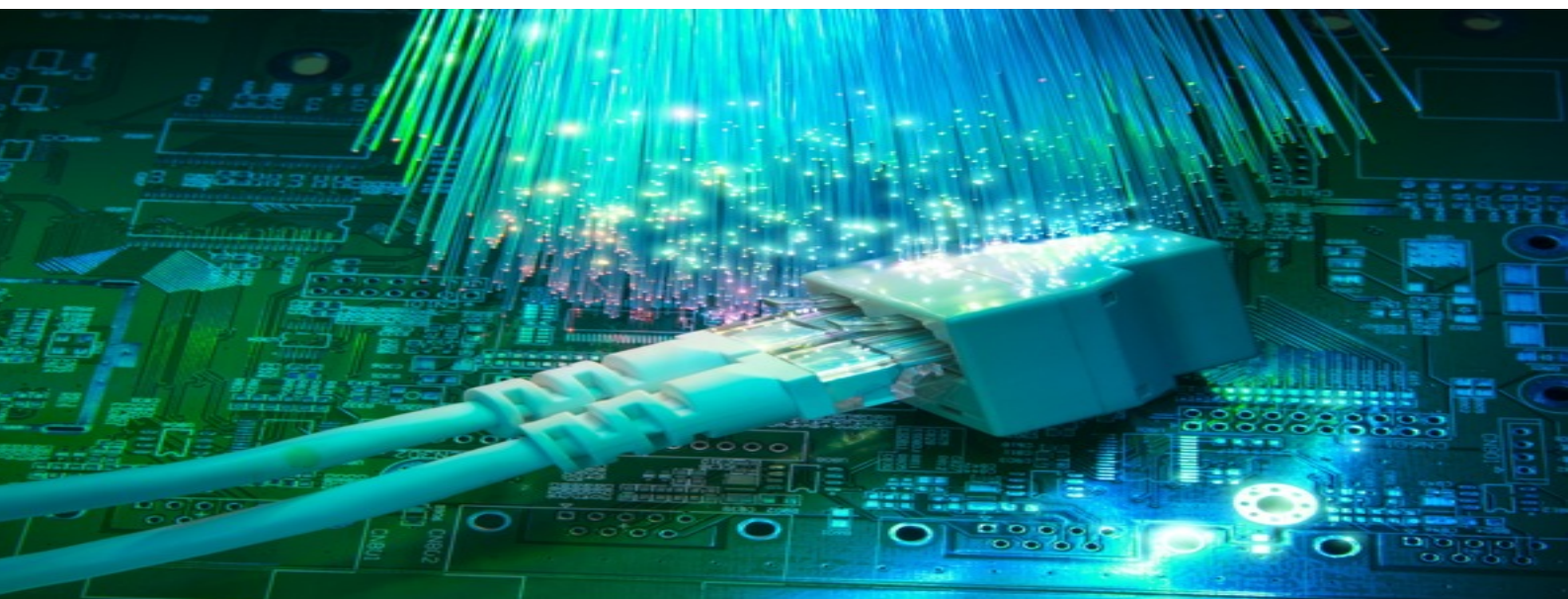
Compound semiconductor technology that enables optical interconnects include Vertical Cavity Surface Emitting Lasers (VCSELs). VCSELs are an advanced laser technology geared to mass production and low cost. IQE is the market and technology leader for VCSEL products, with world record data speeds in excess of 64 GBs recently demonstrated.

Laser projectors

Conventional projection technologies utilise incandescent or halogen lamps as their light sources. Such devices are power hungry, physically bulky, have relatively short lifetimes and require focusing optics which can limit the image quality and flexibility.

The emergence of lasers in each of the primary colours (red, green and blue) enables a low cost, high quality laser projection solution which can be miniaturized and does not require focusing optics. This technology is called pico projection.

Early pico projector technologies utilise LEDs for the light source but the next generation of devices is incorporating miniature laser projection units.



High speed, heat assisted magnetic recording (HAMR)

VCSEL devices have been successfully deployed in dramatically increasing data storage densities in magnet storage devices by enabling targeted heating of the storage medium ahead of writing data.

HAMR technology is expected to enable magnetic storage of hundreds of Terabytes per square inch.

Cosmetic applications

There are exciting new applications of compound semiconductor technology in the billion dollar cosmetics market. We are working with a number of customers to develop advanced laser technology for cosmetic applications such as laser hair removal, wrinkle treatment, skin rejuvenation, acne and psoriasis treatments to name just a few.



Gesture recognition

Gesture recognition represents the ability of electronic devices to recognise hand and body gestures and movements in order to control any device. The advanced properties of compound semiconductor epiwafers are a key component in gesture recognition devices which made their debut with the launch of Microsoft's Kinect gaming console.

The potential applications for this technology extend far beyond gaming, from medical applications, disability aids, remote controls, to sign language recognition, and more. In fact, the use of this technology is only limited by human imagination, and has far reaching implications for how we will interface with technology in the near future.

Industry is at an early stage of identifying and harnessing the full power that this technology offers, which extends far beyond just gesture recognition. For example, this is also the underlying hardware technology in Google's "Project Tango".



Infrared

IQE is the clear market leader in advanced gallium antimonide and indium antimonide substrates for use in a range of infrared and heat sensing applications.

The sensitivity of current heat sensors enable a monochrome image so that applications such as night vision devices can only see in tones of green and black, whereas the new antimonide materials allow greater sensitivity so that different shades and colours can be distinguished, effectively producing full colour night vision images.

The improved sensitivity is useful for search and rescue operations and the full colour night vision capability has major military potential in terms of enabling effective identification of personnel and equipment in low or zero visibility conditions.

IQE is actively engaged in a number of collaborative programmes with leading industry players and government agencies in the development and supply of infrared materials based on antimonide (Sb) materials.

Solid state lighting (LEDs)

Light emitting diodes (LEDs) are a high performance, low cost, green alternative to incandescent light bulbs.

Global concerns about climate change and the Earth's dwindling natural resources continues to be a priority for governments worldwide. Significant new policies and legislation continue to be introduced in the direction of renewable and highly efficient energy devices.

Already, many continents have introduced wide-ranging legislation to progressively ban incandescent lighting. Alternative low energy, compact fluorescent lighting is unpopular because of perceptions of low quality lighting and on-going issues with heavy metal content including mercury.

Solid state lighting is widely viewed as the only credible solution to replace the incandescent light bulb. Efficient energy consumption will remain a key driver in the development and adoption of this technology, but the critical success factor is reducing cost and improving the ambience of these units.

High quality gallium nitride on silicon (GaN on Si) provides the route map to achieving this, which will revolutionise residential and commercial lighting around the planet over the coming years.

Solid state lighting will become the standard source of light.

High quality gallium nitride provides the route map to achieving this.

Solar (CPV)

Solar cells utilising compound semiconductors (called CPV or Concentrated PhotoVoltaics) provide the most efficient solution by using multiple layers of finely tuned materials to absorb sunlight across a wider range of wavelengths.

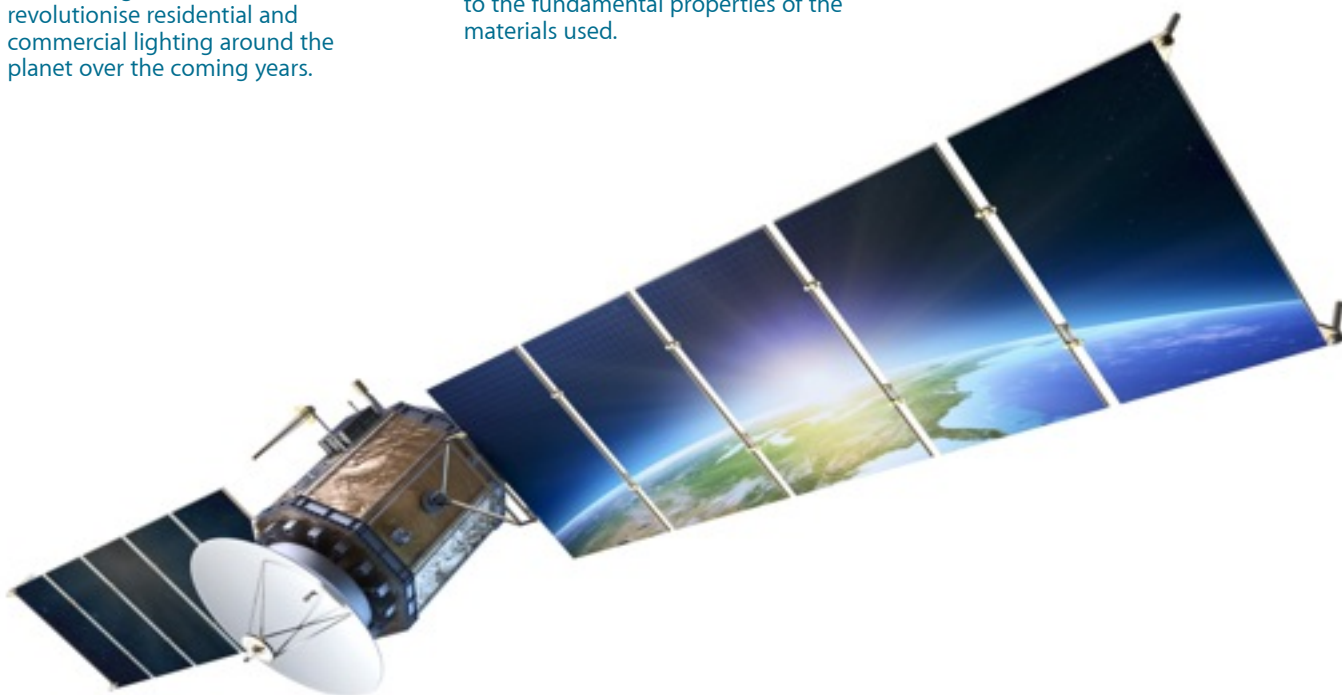
As a result the efficiency of this material is already in excess of 44%, with a roadmap to increase this to beyond 50%.

This compares with 12 to 18% efficiency from silicon solar panels, while thin film technology is typically around 10 to 15% efficient. There is very little scope to improve the efficiency of these technologies due to the fundamental properties of the materials used.

A further advantage of compound semiconductors is their tolerance of higher temperatures. This means the cost of CPV systems is also reduced by using lenses which intensify sunlight and thereby reduce the amount of semiconductor required.

CPV has now reached price parity with fossil fuels and other alternative energy sources in high sunlight regions ("high DNI regions") and is considered to be at an inflection point, with industry analysts forecasting significant adoption of this technology. Specifically, in a forecast published in late 2013, industry analyst IHS has estimated that the addressable market for this technology will reach approximately 5GW in the next 2-3 years. To put this in context, 1 GW represents approximately \$150m of revenue for IQE, at a margin consistent with our existing business.

The key milestone for adoption of volume production is the demonstration of a robust supply chain. IQE has now qualified and demonstrated high volume capability, and is supporting its main customer, Solar Junction, on finalizing a complementary high volume chip fabrication capability. We expect this to be completed over the coming months.



Electronics

Power

Gallium nitride (GaN) is a compound semiconductor that offers a diverse range of RF, photonic and electronic properties.

Of particular interest is the material's ability to cope with high voltages, high temperature, and high power which makes it an ideal candidate for power control systems which are growing in demand driven by alternative energy sources such as solar, wind and wave power, and also the adoption of electric vehicles.

It is estimated that more than 10% of all electricity is ultimately lost due to conversion inefficiencies, as energy is switched from generation, to grid, and through to consumption. The scale of this loss exceeds the world's entire supply of renewable energy generation.

The transformers that we use for our electronic devices, such as laptop power supplies, provide a vivid example of this phenomenon by the virtue of the heat energy they generate as electricity is lost.

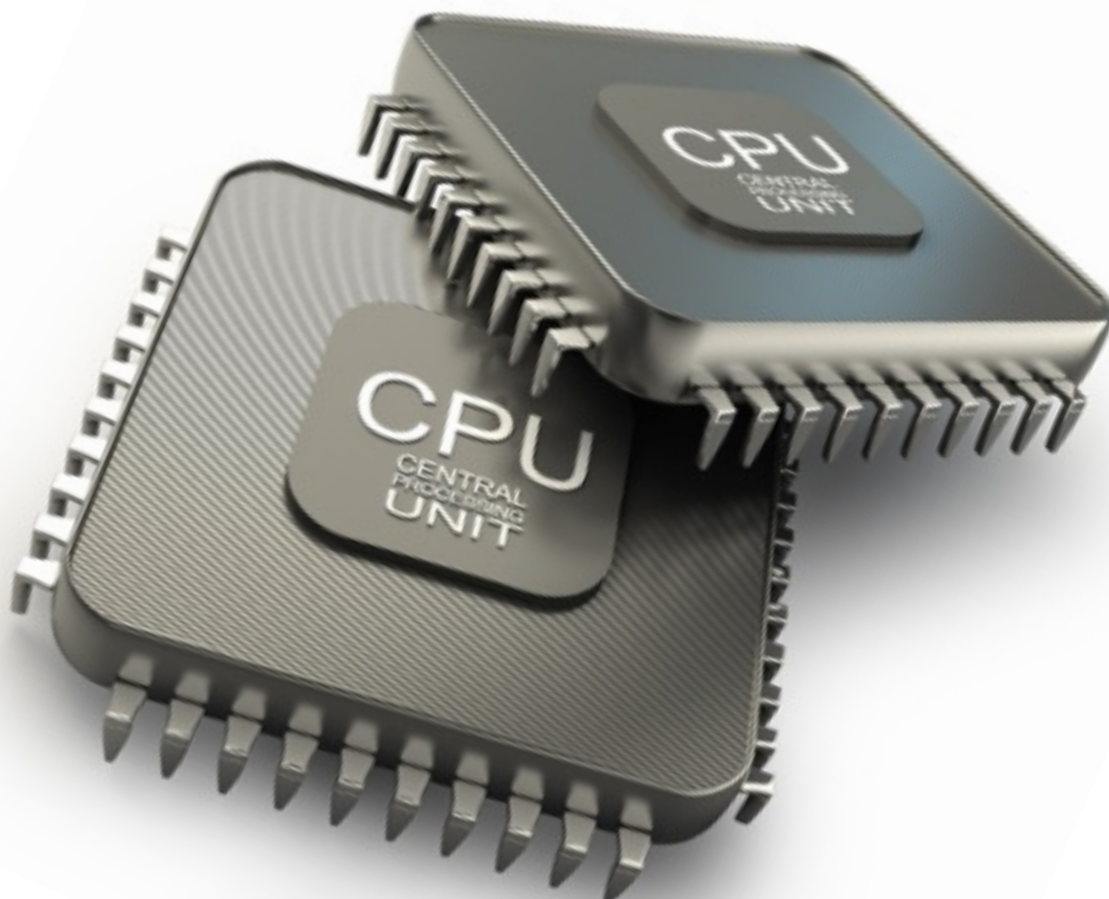
GaN offers performance and efficiency which are orders of magnitude better than the silicon technology which dominates power switching technology today. Indeed, this technology has the potential to eliminate up to 90% the energy lost through switching.

Advanced technologies

IQE has developed a powerful range of advanced, engineered wafers such as germanium-on-insulator (GeOI), germanium-on-silicon (GeOSi) and silicon-on-sapphire (SOS), which offer a high performance and low cost solution for next generation microprocessors, ultra-high speed/high density flash memory and MEMS devices such as motion sensors.

IQE has established a powerful position in these advanced technologies, working with some of the biggest names in the industry, which is reflected in a number of joint patents awarded in conjunction with Intel for the production of compound semiconductor materials on silicon substrates.

We believe that the intellectual property that we are developing in this field has the potential to revolutionise the semi-conductor world, and in doing so create significant long term value to IQE stakeholders.



The relationship between GaAs and Si

The relationship between gallium arsenide (GaAs) and Silicon in wireless communication

The first mobile phones in the 1980's used communication chips made from silicon. As mobile communication evolved, higher levels of performance was demanded of these communication chips, which necessitated the use of gallium arsenide (GaAs). In the many years since, there has been speculation periodically, that Silicon would recapture this market. Driven by unsubstantiated claims, rather than technology innovation, this speculation intensified in early 2013.

In reality, the wireless communications revolution would not have been possible without GaAs technology. Indeed, even the current silicon technology is unable to meet the higher levels of today's performance requirements.

But that does not mean that there is no place for silicon in the wireless market.

So what does this mean for the future?

We believe that for the near future, both technologies will continue to address these different markets segments with some areas of overlap. In the longer term, the disruptive technology will be a hybrid between compound semiconductors and silicon. This hybrid offers the performance advantages of compound semiconductors with the large scale production infrastructure of silicon. We are already beginning to see this hybrid technology making inroads in adjacent electronics markets. Through its investment and innovation, IQE is continuing to position itself at the heart of this emerging technology revolution.

Material Properties

Silicon has limited properties as a semiconductor material. The shortcomings in the wireless communication properties of silicon can be stretched (to a point) by using very complex circuit design. But the level of complexity necessary is significantly more expensive to develop, and has much longer design cycles. In contrast, because of the advanced wireless communication properties of GaAs the circuits considerably less complex, and hence are considerably cheaper and quicker to design. GaAs can inherently operate at much higher frequencies than silicon.

Characteristics

The volume of global data traffic will continue to grow at an exponential rate for the foreseeable future. At the same time, the radio frequencies (bandwidth) available for radio communication are becoming significantly more complex (fragmented) eg 2G – single band; 3G – 5 bands; 4G/LTE – over 40 bands. In addition, wireless communication is trending to higher frequencies in order to pack more information into radio signals. These characteristics necessitate wireless chips becoming increasingly more complex.

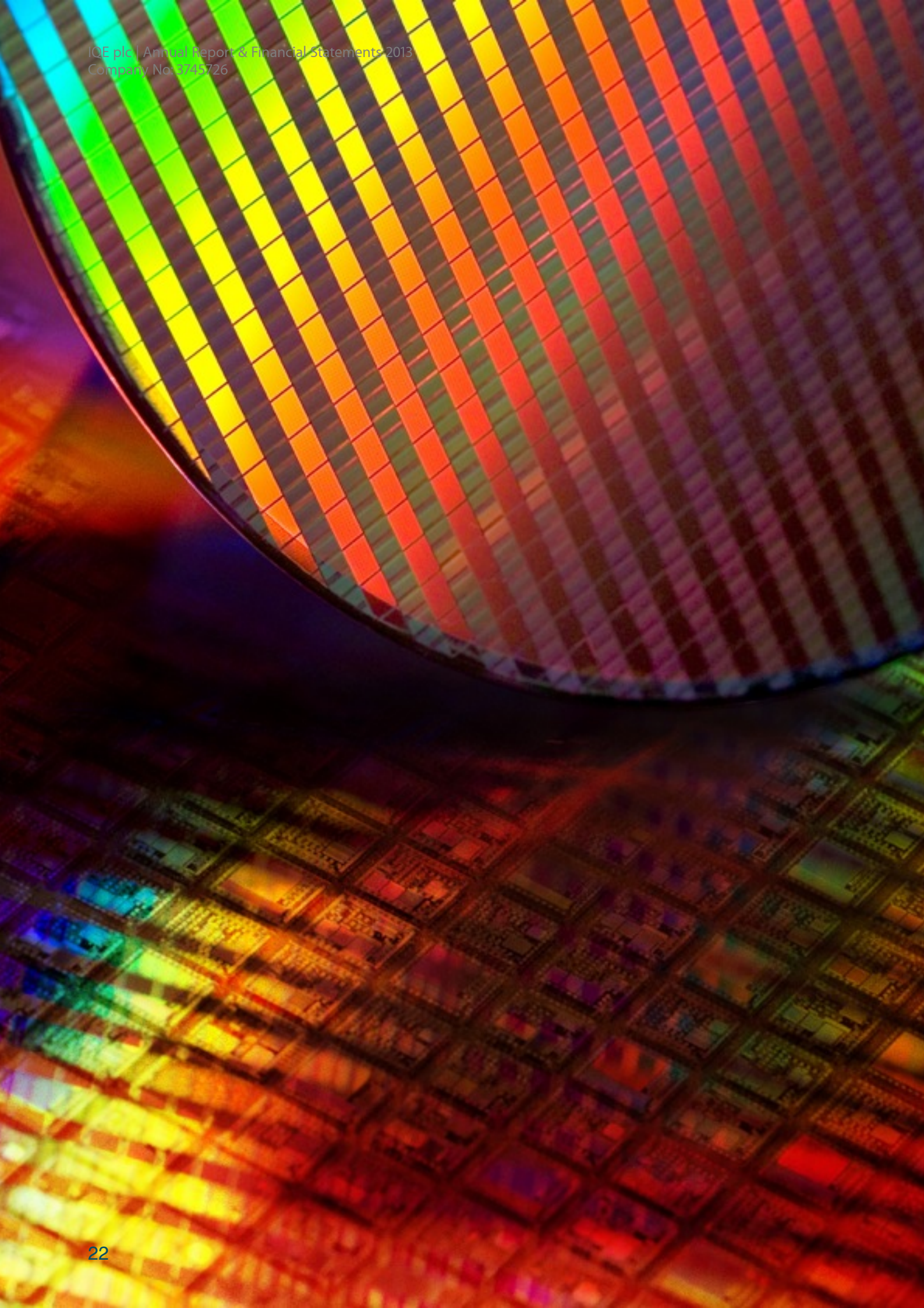
The relationship between GaAs and Silicon in wireless communication is best explained by comparing the properties of these materials, the characteristics of wireless communication, the markets requirements and the economics models of these materials

Market requirements

The increasing complexity of wireless communication necessitate bespoke radio solutions at the leading edge. For example, the communication chips in an iPhone not only vary between territories, but between different carriers within the same territory. A 'one size fits all' approach simply does not work. In addition, the continuing shift to higher frequencies goes beyond the capabilities of silicon, and necessitates the use of GaAs. Furthermore, time-to-market is critical and can make the difference between success and failure, so the handset OEMs are demanding rapid design iterations.

Economic models

Chip designers use the technology which can deliver the threshold performance at the lowest cost. Threshold performance continues to increase. Silicon technology is cost competitive where the high design costs can be defrayed over larger volume. In contrast higher performance GaAs enables more complex 3G, 4G and LTE solutions and is cost effective. Clearly, there is a middle ground where the material chosen will depend on the individual architecture adopted.



Our strategy

Industry Positioning

IQE has been at the forefront of the compound semiconductor industry for over 25 years, and has developed an unparalleled depth and breadth of technology within its industry.

The Group leverages its technology leadership and scale to deliver the performance, cost points and security of supply to support increasing mass market adoption across a significant number of high volume market verticals.

IQE is currently global leader in the supply of advanced wireless materials, and has aims to replicate this success in its other primary markets: photonics, infrared, advanced solar (CPV), LED, power switching and advanced electronics.

The Group has established the platform for delivering this strategy :

- Global footprint spanning US, Europe and Asia
- Breadth and depth of advanced semiconductor materials technology
- Talented, committed and experienced team
- Proven credibility and reputation
- Secure multi-site supply
- Scale and cost leadership
- Largest capacity in the industry

These opportunities support both continued strong growth and the diversification of revenues over the coming years.

Risk Mitigation Strategy

The Wireless chip market, to which IQE supplies the core wafer technology, is dominated by a relatively small number of large chip manufacturers. These in turn supply very large end market customers such as Apple and Samsung.

Large supply contracts, major platform design wins and the demand for a fast and flexible supply chain mean that big shifts in market share between chip suppliers is commonplace.

IQE has implemented a strategy to mitigate against being overly dependent on a limited number of chip manufacturers by establishing strong supply relationships with all major chip companies, thereby ensuring IQE will always be part of the supply chain, regardless of who wins the large contracts.

The January 2013 acquisition of the epitaxial business of Kopin Inc, a NASDAQ listed competitor in the wireless market, marked the completion of this strategy. Kopin's major long standing customer was Skyworks Inc., the largest of the wireless chip and front end solution companies by a significant margin. This move followed the mid-2012 acquisition of RFMD's epitaxial division by IQE. RFMD is the second largest supplier into the wireless solutions market.

These deals consolidated IQE's market leadership, strengthened its technology portfolio, broadened its customer base, and are enabling it to access significant synergies, including enhanced economies of scale and cost reductions.

IQE is now the clear global leader in the provision of wafers to the wireless chip industry, with an estimated market share of between 50%-60%. The wireless market, which accounts for approximately 85% of the Group's sales, remains a key market for the Group.

Market Diversification Strategy

In 2013, IQE embarked on the re-organisation of the Group into business units dedicated to each of its primary markets: wireless, photonics, InfraRed, CPV (advanced solar), power switching, LEDs and advanced electronics. This has involved a number of key hires, adding depth and breadth to the team.

The Group has made strong progress in its diversification strategy, delivering on a number of key milestones in 2013 including :

- Qualification of CPV materials with SJC on IQE's high volume production platform. This included transfer of technology, qualification of wafers through SJC chip process, first qualifications with customers, and strong progress in qualifying a high capacity outsource supply chain through a major chip foundry in conjunction with IQE
- Major contract announced with Philips for VCSEL applications across multiple end market applications
- New 150mm VCSEL product launched for high volume, price sensitive applications
- Achievement of VCSEL speed performance and energy efficiency world records announced
- Development of Silicon Photonics technology announced
- World's first 150mm InSb product launched for infrared applications
- Award winning 150mm GaN HEMT epi wafers on SiC launched for high power RF applications
- 200mm GaN on Si (SMART-LEES)
- Licensing and supply agreement with MACOM

Current trading and outlook

The Group's global leadership in wireless, its solid platform for expansion and its strong pipeline of high growth opportunities in other markets positions it well to continue its growth profile over the coming years.

The current financial year has started in line with expectations, including the destocking flagged by wireless customers during the last quarter of 2013.

The outlook for 2014 remains very positive, with excellent prospects driven by the Group's diversification strategy, and the Board remains confident of achieving full year earnings expectations and strong cash flow.



Operational highlights

Integration of wireless acquisitions

The acquisition of Kopin Wireless was completed during mid January 2013, and followed the acquisition of RFMD's epitaxial division in mid 2012. The performance of these acquired businesses during 2013 stands testament that their integration into the IQE group has been seamless. Operational delivery has been excellent throughout, including near perfect customer feedback, scorecards, and recognition (including customer awards).

These acquired operations are now integral parts of IQE's Wireless Business unit, and are engaged fully on all fronts including strategic, operational and technical aspects, and through activities which include planning, execution and performance improvement. This has been possible thanks to a high level of trust and co-operation between the sites, and has included sharing of best practice and technology.

Reshaping the group to meet emerging markets

Wireless accounts for approximately 85% of our sales. It is, and will remain a key market for us. But our aspirations far exceed global leadership in wireless communication. Compound semiconductors lie at the heart of a wave of next generation technologies which is opening new markets for us. This gives us a clear means to deliver strong growth over the coming years, and to diversify revenues. This strategy is beginning to bear fruit, as evidenced by the Philips contract announced in the fourth quarter of 2013.

In anticipation of this we have already begun to reshape our organisation to meet the challenges and opportunities of this exciting future. For example, we are organising the group into business units dedicated to each of our primary markets : wireless, photonics, InfraRed, CPV (advanced solar), power switching, LEDs and advanced electronics. This has also involved a number of new appointments, which has added additional depth and breadth to an already strong team.

Synergies

The acquisitions in 2012 and 2013 consolidated our market place, strengthened our technology leadership, broadened our customer base and are enabling significant synergies, including enhanced economies of scale and cost reductions.

We have already started to see the benefit of these synergies during 2013, and are seeing further efficiencies and cost reductions in 2014.

Productionising CPV material

We made significant progress during 2013 towards productionising and commercialising our Advanced Solar (CPV) technology. This included qualifying our CPV material with Solar Junction during the third quarter of 2013. The significance of this is that we have demonstrated our capability to deliver leading edge solar material from our high volume production platform.

Solar Junction is in the process of addressing the final steps towards commercial production, namely demonstrating high volume chip fabrication and completing qualifications with the systems companies. These remain on track to complete over the coming months.

VCSEL

VCSEL is the key enabling technology behind a number of high growth photonics markets including data communications, data centres, sensing applications, gesture recognition, health, cosmetics, illumination and heating applications.

IQE has developed technology leadership, and is the market leader for outsourced VCSEL materials. Over the past year, the group has demonstrated major new technical milestones at record speeds, efficiencies and temperatures.

Our technology leadership and reputation for operational excellence has helped secure major new high volume supply contracts, including a contract with Philips electronics during the fourth quarter of 2013.

Gallium Nitride (GaN)

Gallium nitride on Silicon (GaN on Si) is a technology which is driving a technology shift in the multi-billion dollar power switching and LED markets.

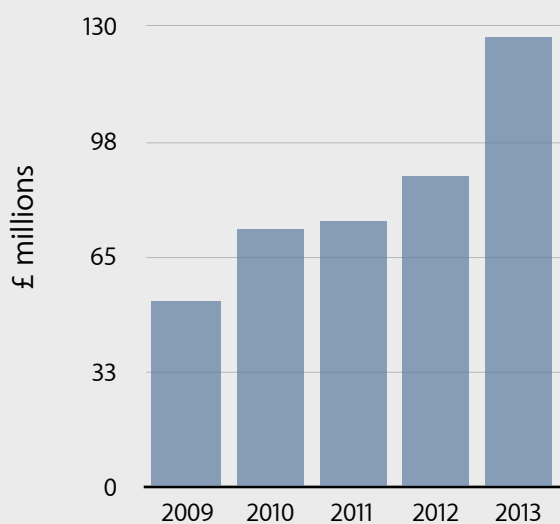
IQE has achieved several major technology breakthroughs over the past 12 months, including the demonstration of high quality 150mm and 200mm GaN on Si. Our technology leadership was instrumental in IQE securing a key role in President Obama's Clean Energy Manufacturing Innovation Institute as part of the US governments Manufacturing Innovation Initiatives (NNMI) to improve the competitiveness of US manufacturing.

IQE has also announced a close working relationship with MACOM in the form of a new licensing and supply agreement for 200mm GaN on Si, initially challenging silicon LDMOS in base station applications.

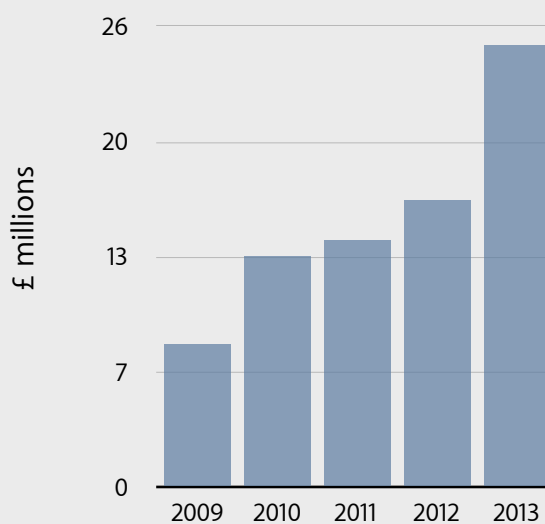
Gallium nitride on Silicon Carbide (GaN on SiC) is similarly driving a technology shift in a number of high power radio applications such as radar, CATV and base stations. In the second quarter of 2013 IQE launched a high quality 150mm GaN on SiC material. This large diameter material is enabling the supply chain to improve efficiency and reduce cost to accelerate the adoption of this material.

Financial highlights

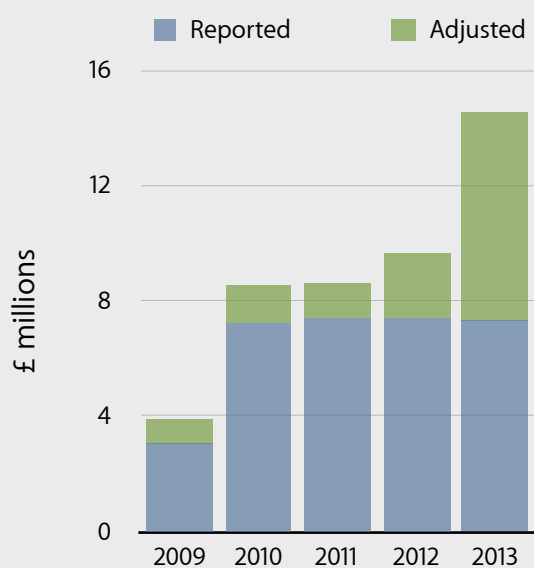
Revenues



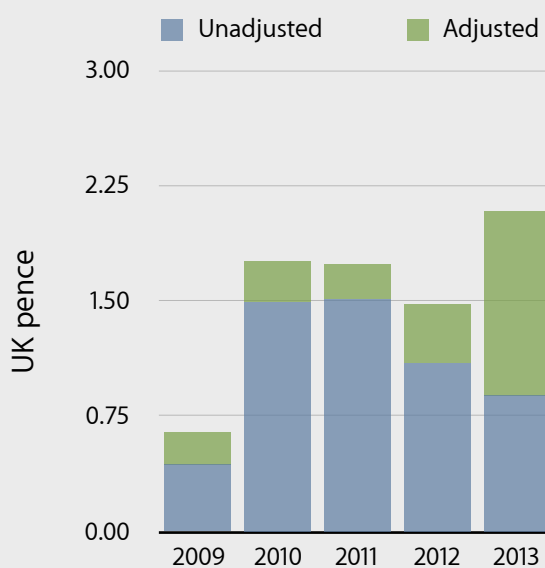
EBITDA



Operating profit



EPS



Financial Review

Overview

The Group delivered record full year sales and profits which included the benefit of recent acquisitions. This was achieved despite a softening in the smartphone market and foreign currency headwinds during the second half of 2013 as sterling appreciated 3% against the US dollar.

The Group's underlying financial performance includes a number of adjusted profit measures that eliminate the impact of non-cash charges (largely relating to share based payments and acquisition accounting) and exceptional items as detailed in note 4.

Revenues grew 44% year on year from £88.0m to £126.8m driven by increased sales volumes which have in part been as a result of the recent acquisitions. Kopin Wireless, which was acquired on 16 January 2013, contributed revenues of £30.9m.

Strong margins, cost reductions and acquisition synergies helped improve profitability in the second half of 2013. This enabled the Group to generate a full year adjusted fully diluted EPS of 2.00p, up 43% from 1.40p in 2012. Diluted EPS was 0.89p, down 19% from 1.10p in 2012.

Gross profit

Adjusted gross margin increased by 43% from £19.5m to £27.9m, largely driven by increased sales. Reported gross profit increased by 25% from £18.5m to £23.1m. As a percentage of sales, adjusted gross margins were broadly consistent year on year at 22%. Reported gross margins declined from 21% to 18% reflecting the increase in non-cash charges and exceptional items as detailed in note 4.

SG&A

Adjusted selling, general and administration expenses (SG&A) increased by £3.1m (30%) from £10.3m to £13.4m, which largely reflects the SG&A costs of the acquired businesses.

Reported SG&A increased by £4.1m (36%) from £11.5m to £15.6m.

Other income and expense

Other income and expense reflects a £3.0m non-cash profit arising from a reduction in the estimated remaining deferred consideration (to be settled via trade discount) in respect of a previous acquisition, less a £3.2m provision for the impairment of the investment in Solar Junction. See note 26 for further details.

Operating profit

Adjusted operating profit increased by 59% from £9.2m to £14.6m. Reported operating profit increased by 5% from £7.0m to £7.3m.

EBITDA

Group EBITDA was up 52% from £16.4m to £24.9m.

Interest

Interest costs of £2.2m (2012: £0.9m) include £0.6m (2012: £0.3m) of non cash interest charges relating to the discounting of long term balances arising on acquisition.

Pre tax profit

Adjusted pre tax profit increased by 51% from £8.6m to £13.0m. Reported pre tax profit decreased by 15% from £6.1m to £5.2m.

Tax credits

The income tax credit of £0.9m (2012: credit £0.5m) reflects UK R&D tax credits of £0.7m (2012: £0.5m), overseas tax charges of £0.6m (2012: nil), and deferred tax credits of £0.8m (2012: nil). The deferred tax credit represents a £6.5m credit relating to the recognition of tax losses, less a £5.7m charge primarily relating to the reduction in deferred consideration. The Group has sufficient tax losses available to shield future tax payable of up to £36.7m.

Profit after tax

Adjusted profit after tax increased by 62% from £8.4m to £13.6m, which included a £1.4m contribution from the acquired business. Reported retained profit decreased by 8% from £6.6m to £6.1m.

Dividends

The Board will not be recommending the payment of a dividend.

Cash generated

Cash generated from operations increased £8.7m (up 212%) from £4.1m to £12.8m.

Cash invested

Capital expenditure reduced from £11.6m to £5.2m, reflecting the return to more normal levels of maintenance expenditure after the significant investment programme completed in 2012.

Investment in product development of £4.3m was broadly consistent with the prior year (£4.0m), and reflects ongoing development in new products to access new and emerging markets.

Details of the acquisition of Kopin Wireless are set out in note 18. The initial consideration for the acquisition of (£36.5m) is reflected in the cash generated from new equity issued and increased borrowings (£36.7m).

Net Debt

Net Debt at the year end was £34.4m (2012: £15.5m), reflecting £25m of debt to part fund the Kopin Wireless acquisition.

Post balance sheet events

Post year end the Group sold its minority equity interest in Solar Junction Corporation. Details are provided in note 26.

Innovation, research and development

R&D activity

Technology leadership lies at the heart of IQE's strategy. This is supported by a culture of innovation and constant improvement.

We are engaged in a number of research and development programmes in collaboration with customers, academia, research organizations and government agencies. These programmes are funded through a combination of internal cash generation, customer funding, and government support.

Development programmes are geared towards next generation applications as well as process improvements leading to greater throughput, higher-quality products, better manufacturing yield, increased production uptime and new product development.

Whilst many R&D programmes are subject to non-disclosure agreements and confidentiality, there are some programmes in the public domain, examples of which include:

- Multi junction CPV solar cells
- Integration of III-V with Si
- Graphene for RF electronics
- Sb-based materials
- QD VCSELs (EU VISIT program)
- Dilute nitrides for lasers and SWIR detectors
- Mixed nitride-antimonide-based detectors
- High power InP-based quantum cascade lasers

A list of technical publications is available within the research pages of the IQE website at www.iqep.com.

Industry events

IQE actively participates in major industry events and frequently chairs, hosts and presents technical papers at international conferences.

Government

Many governments worldwide are recognizing the importance of Key Enabling Technologies (KETs) in driving economic growth. Indeed, the European Governments economic growth strategy ("Horizon 2020") has identified six such KETs which it believes will drive the economic growth of Europe over the remainder of this decade. Under Horizon 2020, European funding will be channeled towards supporting the commercialization of KETs, including pilot line production. IQE's products are well aligned with these KETs. During 2013, Dr Drew Nelson was appointed to the High Level Group, which is advising the European Commission on the implementation of this strategy.

With over 25 years of experience, IQE is widely recognised by government departments and agencies as world experts in advanced materials. Indeed, IQE has developed strong relationships with government agencies across the US, Europe and Asia, and is actively involved in several high profile government funded programmes. By way of example, IQE was selected as a key partner in the Clean Energy Manufacturing Innovation Institute announced by President Obama in January 2014.

Open Innovation

In recognition of IQE's reputation for quality, innovation, research and development, the Group's corporate headquarters in Cardiff, UK, has been selected by the Welsh Government to head up an Open Innovation initiative.

The aim of IQE's open innovation programme: 'OpenIQE' is to help boost regional economies by collaborating with industry and academia to identify supply chain opportunities within Wales and across Europe.



Further details about IQE's open innovation programme can be found on a dedicated website:

www.openiqe.com.

Our commitment

Corporate social responsibility

The IQE Group actively promotes a philosophy of corporate social responsibility across all of its operations and engages in a number of local, national and international initiatives working with a wide range of third party organisations and authorities in areas such as ethical employment policies, educational and community work.

Every effort will be made by all Group companies to ensure best business practice is followed by:

- Respecting the need for confidentiality across our global customer base by ensuring that any references to customer's names, products or services are not disclosed to third parties without the customer's consent;
- Being open and honest about our products and services and communicating with customers all appropriate information they need to make informed decisions;
- Ensuring that any issues or problems are dealt with efficiently, with fairness and in a timely manner;
- Working closely with customers and potential customers to help us improve the value of the products and services we offer them;
- Ensuring that we benchmark and evaluate what we do in order to constantly improve products and services in the marketplace;
- Communicating with all stakeholders as and when appropriate, effectively and transparently subject to ensuring confidential information is not compromised;
- Identifying and selecting suppliers using fair and reasonable methodologies;
- Identifying and using suppliers who operate to ethical business standards;
- Identifying and using local suppliers wherever possible;

- Working closely with suppliers to help us improve the value of the products and services we offer customers to the benefit of the supply chain;
- Ensuring that our terms and conditions are fair and reasonable;
- Ensuring employment practices throughout the Group are fair and in full compliance with employment legislation;
- Working with and supporting local and national charities;
- Encouraging volunteer work in community activities;
- Supporting local academic establishments; and
- Participating in voluntary business advisory services via professional bodies.

Each of the Group's subsidiaries is responsible for communicating and applying group policies within their businesses taking account of local legislation and potential risks.

The group also actively engages with a number of industry groups, educational bodies and charities to promote science and technology and to help contribute to community causes.

Each of the Group's subsidiaries is responsible for communicating and applying group policies within their businesses taking account of local legislation and potential risks.

As an AIM listed company, IQE is not eligible to participate in the London Stock Exchange FTSE4Good programme, but nevertheless maintains standards and applies the principles of this index. The group also actively engages with a number of industry groups, educational bodies and charities to promote science and technology and to help contribute to community causes.

Business conduct and ethics

Our Code of Conduct requires our employees to carry on their business activities in a respectful manner and to avoid bringing IQE's reputation into disrepute. This includes complying with the laws and regulations in the countries in which we operate and do business.

Our Code of Conduct also requires staff to uphold high standards of ethics throughout the group. Our policy and controls are designed to prevent bribery, and contain whistle blowing provisions which enable any employee to raise concerns about a potential breach of policy or malpractice.

Quality

IQE's reputation for quality and excellence in products and service is second to none. A philosophy of total quality is integrated throughout the group's operations and each of the group's manufacturing facilities worldwide is independently accredited to the international standard for Quality Management: ISO9001:2008.

IQE's ongoing commitment to provide the highest quality of service ensures customer satisfaction covering the entire customer relationship experience, from order inception through to delivery and after-sales support.

IQE's quality assurance program includes wafer evaluation using the most advanced measurement techniques applied specifically to its customers' structures, thereby ensuring consistent delivery of the highest-quality products. Rigorous data logging and documentation of all manufacturing processes and procedures maintain a system of full product traceability. IQE's thorough materials characterization processes ensure excellent repeatability and reproducibility.

Customers strongly value the trust and confidence they have established with IQE as a "pure play" supplier with whom they share their most confidential and proprietary device design information. The IQE strategy is to consolidate and maintain its position as the pre-eminent supplier of epiwafers rather than vertically integrate into device or component manufacturing. This philosophy protects customer interests to the fullest and facilitates excellent supply chain relationships.

Employing its extensive wafer production experience, IQE continually maintains its technological leadership through the development and implementation of new growth and characterization technologies and new materials solutions. IQE is actively involved in partnerships with its suppliers of crystal growth and characterization equipment to develop the next generations of epitaxy and metrology equipment with specific focus on increasing production efficiencies, reducing epiwafer costs, and maintaining its technological leadership.

The environment

IQE is fully committed to creating business growth whilst ensuring that the impact on the environment is minimised and that all activities are conducted safely by appropriately trained and qualified employees. The group works closely with all key stakeholders to ensure that its global facilities, and those activities over which it has influence through its supply chain, operate in a way that is ethical and in accordance with best practice.

Policies relating to quality and environmental standards are available on the company's website at www.iqep.com along with access to third party accreditation certificates.



Risks and risk management

Raw materials

The primary raw materials used in IQE's processes are not scarce and are in general sourced from multiple continents.

In some cases, materials may have uses in multiple industries and as such, may be prone to temporary fluctuations in supply and demand where there are surges in usage.

One such example is Indium which is in relatively abundant supply. Indium is used in small quantities in the manufacture of flat panel displays. A sudden surge in demand for flat panels had a short term impact on global indium pricing but such impacts are normally short-lived and their affect on IQE usually negligible.

Natural disasters

IQE operates multiple global manufacturing facilities which customers see as key mitigation against the impact of natural disasters.

However, the impact of such disasters on other parts of the supply chain cannot be ruled out but such macro-economic factors would have a much wider impact on the global economy.

Supply chain risk mitigation

Approximately 85% of the groups sales are concentrated in the wireless communications market, where we supply advanced semiconductor materials to the companies (RF chip companies) that make the wireless communication chips used in smartphone, tablets, and other wireless devices.

The top 12 RF chip companies account for the vast majority of all advanced communication chip made globally. IQE's strategy is embed itself as a significant supplier of advanced semiconductor materials with all of the major RF chip companies in order to reduce the potential impact of swings in market share between these companies.

This risk mitigation strategy for wireless products was significantly enhanced following the acquisitions in 2012 and 2013, which brought significant supply relationships with two of the worlds largest RF chip companies. Following these acquisitions, it is estimated that IQE has in excess of 50% market share globally.

Process improvements

IQE's strategy is to focus on high-growth technology markets such as the wireless sector where growth in smartphone units sold is accompanied by greater demand for higher performance materials such as those supplied by IQE.

Constant improvement and innovation throughout the supply chain can reduce the area of advanced semiconductor required, for example by shrinking chip size or improving production yields. Whilst such improvements can be a drag on demand, the resulting cost reduction can greatly assist even faster adoption of wireless technology in new devices and applications thereby stimulating overall growth.

Alternative technologies

There are many examples in history where innovation has lead to new technologies which disrupt demand for well established incumbent technologies.

The Board believes that this represents much more of an opportunity than a threat for IQE's business, where compound semiconductors are seen as the disruptive technology. Indeed, as expectations and demand for higher performance and greater efficiencies continue to increase, this creates new market opportunities for compound semiconductors.

There has been much commentary in the UK about the threat that silicon will replace compound semiconductor technology in mobile communication. The Board believes that this is contrary to both the underlying technology trends, and the fundamental properties of these respective materials. Indeed, it is widely expected that the next disruptive technology in the semiconductor industry will be the combination of compound semiconductor and silicon technologies, which will enable true 'System on Chip' integration. IQE concurs with this view and is positioning itself to play a significant role in this transformation.

As a world leader in advanced semiconductor materials, IQE is actively engaged on a number of collaborative activities in areas of research and development including materials such as graphene.

Board of directors



Drew Nelson OBE (59)

President and Chief Executive Officer

Dr Drew Nelson has over 30 years experience in the semiconductor industry in a variety of research and managerial positions. Following a PhD in Semiconductor Physics, he joined BT Research Laboratories in 1981, leading the group responsible for the development of advanced optoelectronic devices for optical fibre communications. He subsequently managed the technology transfer from BT to Agilent for mass production. He co-founded EPI in 1988 (which became IQE in 1999) and was appointed Chief Executive Officer of IQE Plc in April 1999. Dr Nelson has held several Non-Executive Directorship appointments, and served on several Government and Industry bodies. He received an OBE in 2001 for services to the Electronics Industry. He is currently a member of the High Level Group appointed by the EC to oversee the implementation of Key Enabling Technologies (KETs) throughout Europe.

Current directorships: PhotonStar LED Group plc.



Phillip Rasmussen (43)

Group Finance Director and Company Secretary

Phillip Rasmussen qualified as a Chartered Accountant with Coopers and Lybrand, a predecessor firm of PwC. During his career with PwC he spent two years in Toronto, Canada and gained significant experience of working with and advising a broad range of companies in a variety of sectors, including multinational main market and AIM listed companies. Before joining IQE, Mr Rasmussen was Director of Transaction Services with PwC in Bristol and worked with IQE on two major acquisitions during 2006. He was appointed to the Board of IQE Plc in March 2007 and appointed as Company Secretary in January 2009.

Current directorships: none



Howard Williams (59)

Operations Director

Dr Howard Williams has held a number of positions within both Manufacturing and Service industry sectors, with roles ranging from Engineering Management to General Management. He was a member of the founding team of EPI in 1988 and was appointed Operations Director for EPI in 1996. He was appointed General Manager of IQE Inc in 2002 and General Manager of IQE (Europe) Limited in 2003. He was subsequently appointed Chief Operations Officer in 2004 and was appointed to the Board of IQE Plc as Operations Director in December 2004.

Current directorships: none

Godfrey Ainsworth (58)

Chairman, Non-Executive Director, Chairman of the Audit Committee

Dr Godfrey Ainsworth qualified as a Chartered Accountant and was employed by Coopers & Lybrand before becoming an audit partner and then corporate finance partner with Spicer & Oppenheim. He founded Gambit Corporate Finance in 1992, a practice specialising in the provision of corporate finance services where he was Managing Partner until his retirement from the firm on 30 November 2009. He has held several Non-Executive Directorship appointments, including assignments for 3i plc and the Welsh Development Agency. He has provided advice to IQE (formerly EPI) since its inception and was appointed to the Board in 1997. He was appointed to the Board of IQE Plc in April 1999, and was appointed chairman in February 2002.

Current directorships: *Omniport Holdings Limited, Seren Photonics Limited, Mesuro Limited, Cardiff Partnership Fund*



Simon J Gibson OBE (56)

Non-Executive Director, Chairman of the Remuneration Committee

Simon is Chief Executive of Wesley Clover Corporation. Wesley Clover is an investment vehicle and holding company. He has broad management experience in high-technology industries in both North America and Europe. Before joining Wesley Clover, he was co-founder, President and CEO of Ubiquity Software Corporation. Ubiquity was acquired by Avaya Inc in 2007. Prior to Ubiquity he held senior management roles at Newbridge Networks and Mitel.

He is the Chairman and founder of the Alacrity Foundation, a graduate entrepreneurship program which operates in the UK and Canada. The Foundation provides young people with post graduate education, opportunity alignment and access to capital; with the objective of creating a new companies. He was appointed to the Board of IQE in January 2002.

Current Directorships: *Wesley Clover Wales Limited, Celtic Manor Resort Limited, Alacrity Foundation*



David Grant (66)

Senior Independent Director

Dr David Grant has a background in engineering and technology and was appointed to the Board of IQE Plc in September 2012. He was Vice-Chancellor of Cardiff University from 2001 to 2012. Previously he held leadership positions in a number of international businesses including United Technologies Corp., Dowty Group plc and GEC plc. He has been a Vice-President of the IET, and was a Vice-President of the Royal Academy of Engineering from 2007 to 2012. He was awarded the IEE's Mensforth Gold Medal in 1996 and in 1997 he was made a CBE for his contribution to the UK's Foresight Programme. He has a PhD in Engineering Science from the University of Durham.

Current directorships: *Renishaw plc, DSTI, STEMNET*



Corporate governance report

Although not required to, the directors have decided to provide corporate governance disclosures similar to those that would be required of a fully listed company.

The Board recognises that it is accountable to the group's shareholders for the standard of governance and therefore seeks to maintain high standards in its management of the affairs of the group, seeing it as a fundamental part of discharging its stewardship responsibilities. Accordingly, both the Board and the Audit Committee continue to keep under review the group's whole system of internal control, which comprises not only financial controls but also operational controls, compliance and risk management.

Throughout the year ended 31 December 2013, the company has continued to apply the principles of best practice governance adopting the spirit of the UK Corporate Governance guidance.

The Board of Directors

The management of the group is directed by the Board of directors, which is responsible for ensuring the development and implementation of the group's overall strategy. The Board of directors comprises the non-executive Chairman Dr G H H Ainsworth, the Chief Executive Dr A W Nelson, two executive directors and two non-executive directors. There is a clear division of responsibility between the non-executive Chairman, who is responsible for the running of the Board, and the Chief Executive, who is responsible for the running of the group in accordance with the authority delegated by the Board. This ensures that there is a balance of power and authority such that no one individual has unfettered powers of decision.

The fees of the non-executive directors are paid in cash. The Board considers that the non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The terms and conditions of appointment of the non-executive directors are available for inspection upon request to the Company Secretary.

Dr David Grant is recognised as the senior independent non-executive director to whom concerns by staff of any suspected impropriety can be conveyed in private and investigated as required by the Code of Best Practice.

Under the Company's Articles of Association each of the directors is required ordinarily to retire by rotation once every three years.

The Board held regular meetings during the year. The Board has a formal schedule of matters referred to it for decision, which includes the approval of interim and annual results, the annual budget, acquisitions and disposals, major items of capital expenditure, share capital issues, governance issues and executive appointments. The Board is provided with appropriate strategic and financial information prior to each meeting together with monthly reports to enable it to monitor the performance of the group. The Chief Executive reviews the performance of the executive directors on an annual basis.

All directors have direct access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed, and are allowed to take independent professional advice if necessary at the company's expense.

Board committees

The Board has delegated specific responsibilities to the following committees:

(a) Executive Committee

The executive committee consists of the executive directors under the chairmanship of Dr A W Nelson and is responsible for the development of strategy, annual budgets and operating plans linked to the management and control of the day-to-day operations of the group. The executive committee is also responsible for monitoring key research and development programmes and for ensuring that the Board policies are carried out on a group-wide basis.

(b) Audit Committee

The Audit Committee consists of the non-executive directors, Dr G H H Ainsworth, S J Gibson and Dr D Grant. The committee meets at least twice a year under the chairmanship of Dr G H H Ainsworth.

The Audit Committee has specific written terms of reference which deal with its authority and responsibilities and these are available for inspection upon request to the Company Secretary. Its duties include monitoring internal controls throughout the group, approving the group's accounting policies, and reviewing the group's interim results and full year financial statements before submission to the full Board. The Audit Committee also reviews and approves the scope and content of the group's annual risk assessment programme and the annual audit, and monitors the independence of the external auditors.

The Group has an Internal Audit function, with a scope of evaluating and testing the group's financial control procedures. The Internal Audit function reports directly to the Chairman of the Audit Committee, and liaises with the external auditors as appropriate.

The Finance Director, other financial management and the external auditors attend meetings of the Audit Committee by invitation. The committee also holds separate meetings with the external auditors, as appropriate.

(c) Remuneration and Nominations Committees

The Remuneration Committee consists of the non-executive directors, S J Gibson, Dr G H H Ainsworth and Dr D Grant. The committee meets at least twice a year under the chairmanship of S J Gibson. The Chief Executive attends meetings of the remuneration committee by invitation to respond to questions raised by the committee, but he is excluded from any matter concerning the details of his own remuneration.

The Remuneration Committee has specific terms of reference which deal with its authority and duties and these are available for inspection upon request to the Company Secretary. The Remuneration Committee is responsible for setting salaries, incentives and other benefit arrangements of executive directors and senior executives and overseeing the group's employee share schemes.

The group's policy on directors' remuneration has been in line with the Code provisions throughout the year, full details of which are given in the remuneration report. Members of the Remuneration Committee do not participate in decisions concerning their own remuneration.

The Board has not established a separate nominations committee and has delegated responsibility for nominations to the Remuneration Committee. There are currently no plans for further appointments to the Board.

Attendance at meetings

The number of meetings held during 2013 by the Board, the Audit Committee and the Remuneration Committee are as shown below. The number of meetings attended by the executive and non-executive directors is also shown below:

	Board	Audit Committee	Remuneration Committee
Number of meetings held in 2013	7	3	2
Number of meetings attended in 2013:			
Executive			
Dr A W Nelson	7	-	2
P J Rasmussen	7	3	-
Dr H R Williams	7	-	-
Non-executive			
Dr G H H Ainsworth	7	3	2
S J Gibson	7	3	2
Dr D Grant	7	3	2

In addition to the formal meetings listed above, there were a number of meetings conducted by telephone and electronic media for circumstances requiring Board, Audit Committee or Remuneration Committee approvals.

Internal control

The Board acknowledges its responsibility for the group's system of internal control, the effectiveness of which has been reviewed by the Audit Committee during the year and reported on to the Board. The review has taken account of any material developments up to the date of the signing of the financial statements.

The processes to identify and manage key risks to the success of the group are an integral part of the internal control environment. Such processes are on-going, are regularly reviewed and improved as necessary, and are in accordance with the internal control guidelines for directors. They include strategic planning, the appointment of senior executives, the monitoring on a regular basis of performance, control of capital expenditure and significant revenue investment, and the setting of high standards for health, safety and environmental performance. These processes have been in place throughout the financial year and up to the date of approval of the financial statements.

The effectiveness of the control systems and procedures is monitored regularly through management self-assessment and review by internal audit. In addition, recognition is given to the external audit findings, which inform the Audit Committee's views of areas of increased risk.

The system of internal control comprises those controls established in order to provide assurance that the assets of the group are safeguarded against unauthorised use or disposal and to ensure the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. Any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss, as it is designed to manage rather than to eliminate the risk of failing to achieve the business objectives of the group.

The key procedures that the directors have established with a view to providing effective internal control are as follows:

- a clearly defined organisational structure and limits of authority;
- corporate policies and procedures for financial reporting and control, project appraisal, human resources, quality control, health and safety, information security and corporate governance;
- the preparation of annual budgets and regular forecasts which require approval from both the group executive committee and the Board;
- the monitoring of performance against budget and forecasts and the reporting of any variances in a timely manner to the Board;
- regular review and self-assessment of the risks to which the group is exposed, taking steps to monitor and mitigate these wherever possible including, where appropriate, taking out insurance cover;
- approval by the Audit Committee of audit plans and, on behalf of the Board, receipt of reports on the group's accounting and financial reporting practices and its internal controls together with reports from the external auditors as part of their normal audit work; and
- an internal audit function, which is mandated to evaluate and test the Group's financial control procedures, reporting directly to the Chairman of the Audit Committee.

Shareholder relations

The Chief Executive and the Finance Director meet on a regular basis with representatives of institutional shareholders to discuss their views and to ensure that the strategies and objectives of the group are well understood. The Chief Executive keeps the Board fully informed of the views of institutional shareholders. Issues discussed with institutional shareholders include the group's performance and the impact of any major transactions. The Chairman has met with individual shareholders on an ad hoc basis.

The company also has a manager responsible for investor relations and operates a web site, which provides details of the group's facilities and products and includes a separate investor relations section on which financial data and other significant announcements are published. The web site can be found at www.iqep.com. The group's annual report and financial statements, interim reports and other documentation is available online and by mail where requested.

The Annual General Meeting allows shareholders to raise questions with the Board, although shareholder enquiries and questions are also addressed throughout the year. In accordance with the recommendation of the Hampel Code, the company will advise shareholders attending the Annual General Meeting of the number of proxy votes lodged for each resolution in the categories 'For' and 'Against', together with the numbers 'at the Chairman's discretion' and abstentions. These will be advised after the resolutions have been dealt with on a show of hands.

Audit and related services

The Board is aware of the importance of maintaining the independence of the group auditors, and does not contract for additional services from them which would compromise their audit independence. Additional services are also subject to appropriate market testing.

The Audit Committee keeps under review the nature and extent of audit and non-audit services provided to the group by the auditors in accordance with a policy which it established in 2004. Under this policy, the award to the group's auditors of audit-related services, tax consulting services or other non-audit related services in excess of £10,000 must first be approved by the Chairman of the Audit Committee.

In addition, the group's auditors will be required to make a formal report to the Audit Committee annually on the safeguards that are in place to maintain their independence and the internal safeguards in place to ensure their objectivity.

The nature of the services provided by the auditors and the amounts paid to them are as detailed below:

	Total 2013 £'000	Total 2012 £'000
PricewaterhouseCoopers LLP (group auditors)		
Fees payable to company's auditor and its associates for the audit of parent company and consolidated financial statements	18	18
Fees payable to company's auditor and its associates for other services:		
- The audit of company's subsidiaries	93	67
- Audit-related assurance services	13	15
- Due diligence	2	53
- Tax compliance service	-	-
Ernst and Young (auditors of MBE Technology Pte Limited)		
- Subsidiary company's audit	17	18
- Tax services	-	7
Total	143	178

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2013.

Activities

The principal activity of the group during the year was the development, manufacture and sale of advanced semiconductor materials. The principal activity of the company is that of a holding company for the group, the provision of services to subsidiary companies, and the research, development and provision of engineering consultancy services to the compound semiconductor industry.

Business review

A review of the group's trading during the year and its position at the year end is provided on pages 15 to 22. The review includes key performance indicators as detailed in the Five Year Financial Summary. Non financial KPIs are commercially sensitive and are therefore not disclosed. The principal risks and uncertainties facing the group are set out on pages 31 and 39. The future outlook for the Group is set out on page 24.

On the 15th January 2013 the group completed the acquisition of the epitaxial business of Kopin Inc; details

of the transaction are disclosed in note 18 together with the RFMD acquisition made last year. These recent transactions provided the Group with the ability to access significant synergies which are in the process of being realised.

Post year end, the Group sold its minority equity interest in Solar Junction Corporation. Details are provided in the post balance sheet events note 26.

Dividends

The directors do not recommend the payment of a dividend (2012: £nil).

Directors

The directors in office at 31 December 2013 and throughout the year and their beneficial interests in the company's issued ordinary share capital and share options are set out in the remuneration report.

Research and development

The group incurred costs in respect of research and development during the year of £5,627,000 (2012: £4,185,000) of which £4,702,000 (2012: £4,042,000) has been capitalised in accordance with IAS 38 ("Intangible assets"). The remaining research and development costs totalling £925,000 (2012: £143,000) have been charged to the income statement.

Payment terms

The group seeks to agree favourable credit terms with its suppliers where possible, and adhere to the agreed terms. The group's average number of days' purchases outstanding in respect of trade creditors at 31 December 2013 was 88 days (2012: 85 days).

Substantial interests in shares

As at 14 March 2014, the company had been notified pursuant to the Companies Act of the following substantial interests in the shares of the company as defined by the Listing Rules in addition to those disclosed for the directors:

T Rowe Price Inc	10.58%
AXA Framlington Investment Management	9.11%
Hargreaves Lansdown.....	6.52%
Barclays Stock Brokers Limited	6.47%
T D Direct Investing	4.76%
Herald Investment Management Limited	4.59%
Nelson A W Dr	4.53%
M&G Investment Management.....	3.55%
Four Capital Partners.....	3.31%

Shareholder analysis by Argus Vickers

Employment policies

It is the group's policy that there should be no discrimination in considering applications for employment including those from disabled persons. All employees, including the disabled, are given equal opportunities in terms of career development and promotion. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

The group remains committed to its policy of keeping employees fully informed about all matters which concern them. Formal communications are used to achieve this objective, including intranet, e-mail and notice board announcements. Employee involvement takes different forms in each subsidiary, ranging from formal committee meetings to less formal discussion groups. Schemes have been implemented to ensure that employees are properly rewarded for performance and loyalty.

Going concern

The directors, after making enquiries, have considered the future prospects of the group and have a reasonable expectation that it will have adequate resources to continue operating for the foreseeable future and therefore the going concern basis has been adopted in preparing these financial statements.

Principal risks and uncertainties

In addition to the risks and risk management section on page 31, the Board considers that the principal risks and uncertainties facing the group are:

Competition

IQE's business model involves building close working relationships with its customers and often involves forming multilevel partnerships from the product design stages through to pilot and volume production. Such arrangements can lead to long qualification timescales but once a product range and relationship is established, it can also create significant barriers to entry for competitors.

In some cases, customers seek second source supply arrangements to meet their own business continuity planning policies. As such, there is a risk that market share may be eroded. The Board believes that IQE's strategy to provide multiple site capabilities for all leading product lines provides an effective mitigation against this risk.

Technological change

Any technology based company faces a threat from technology change that has not been anticipated. IQE actively engages with customers, educational institutions and government agencies on a range of research and development (R&D) programmes. The company's involvement in R&D activities coupled with its broad range of products and process technologies helps ensure a forward looking approach that positions IQE as a driver of technological change.

Supply chain

Changes in the supply chain such as scarcity of key raw materials could impact the business. IQE builds close relationships with its key suppliers in order to keep well informed about potential supply issues. The raw materials which sustain IQE's products are not scarce resources.

Retention of key employees

The Board recognises that the retention and development of its workforce is critical to its long term success as a leading technology group. IQE's people are the heart of the business and in order to promote the development and retention of its staff IQE offers career progression, personal development and a range of benefits and incentives to its staff. This is reflected in low staff turnover, with many employees who have been with the company since it was formed over twenty years ago.

In addition, IQE operates a highly effective, robust, and fully documented quality management system across all of its operations. These systems ensure that all key data and procedures are fully documented, reflecting IQE's "learning organisation" philosophy. These rigorous systems provide IQE and its customers with a high level of confidence in terms of process reproducibility and product traceability, and minimise the potential impact of losing key personnel.

Treasury

IQE operates a central treasury function which acts in accordance with specific board policies. Speculative transactions are not permitted. The significant treasury policies relate to Interest rates, foreign currency and liquidity, details are provided below.

Interest rate risk

The Board is aware of the risks associated with changes in interest rates and does not speculate on future changes in interest rates or currencies.

The group's policy is to regularly review its exposure to interest rate risk, and in particular the mix between fixed and floating rate facilities. The percentage of borrowings on fixed rate terms at 31 December 2013 was 10% (2012: 29%). Floating rate liabilities are primarily indexed to LIBOR. The group did not enter into any interest rate swap instruments during 2013. This remains under regular review.

As a guide to the sensitivity of the group's results to movements in interest rates, a 50 basis point (0.5%) movement in interest rates would have impacted the 2013 annual interest charge by approximately £180,000 (2012: £50,000).

Currency risk

(a) Cash flow risk

The group's presentational currency is sterling. However, the majority of sales are denominated in US dollars. Therefore, the group's cash flows are affected by fluctuations in the rate of exchange between Sterling and the US dollar.

This exposure is managed by a natural currency hedge because a significant portion of the group's cost base is also denominated in US dollars. In particular, the majority of the group's raw materials are purchased in US dollars, and a significant portion of labour and overheads are also denominated in US dollars.

To a lesser extent, the group also generates sales in other currencies including Yen and Euros which are also partially hedged where possible by purchases of some raw materials in these currencies.

Taking into account the extent of the natural hedge within the business model, management periodically use forward exchange contracts to mitigate the impact of the residual foreign currency exposure. As at 31 December 2013 there were no contracts in place.

(b) Fair value risk

The group has operations in the UK, North America and Asia. Translation exposures that arise on converting the results of overseas subsidiaries are not hedged. Net assets held in foreign currencies are hedged wherever practical by matching borrowings in the same currency.

As a guide to the sensitivity of the group's results to movements in foreign currency exchange rates, a one cent movement in the US dollar to Sterling rate would impact annual earnings by approximately £300,000 (2012: £200,000).

Liquidity risk

Prudent liquidity risk management requires maintaining sufficient cash and cash equivalents and the availability of funding through committed credit facilities.

Management utilises detailed rolling cash flow forecasts as part of its cash management. This includes weekly forecasts for the next quarter and monthly forecasts for the next 12 months.

Credit risk

The majority of the group's revenues are derived from large multinational organisations. Therefore the credit risk is considered to be small.

Where the group assesses a potential credit risk, this is dealt with either by up-front payment prior to the shipment of goods or by other credit risk mitigation measures. As a result the group has historically had and continues to have a very low level of payment default.

Capital risk

The group's main objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The group defines total capital as equity in the consolidated balance sheet plus net debt or less net funds (note 24). Total capital at 31 December 2013 was £148,849,000 (2012: £106,079,000).

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. At 31 December 2013 the gearing ratio was 24% (2012: 15%).

All covenants in relation to the group's borrowing facilities have been complied with during the year.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the group's website, www.iqep.com. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

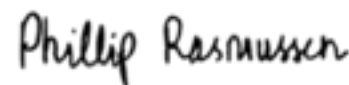
Provision of information to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. The directors have taken all the steps that ought to have been taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

A resolution to reappoint PricewaterhouseCoopers LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board.



Phillip Rasmussen

Finance Director & Company Secretary

26 March 2014

Remuneration report

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2007 which introduced new statutory requirements for the disclosure of directors' remuneration. Although not required to, the directors have decided to provide directors' remuneration disclosures similar to those that would be required of a fully listed company. In particular, the Remuneration Report describes how the Board has applied the principles of good governance relating to directors' remuneration adopting the spirit of the UK Corporate Governance guidance. A resolution to approve the report will be proposed at the forthcoming Annual General Meeting of the company.

The report has been divided into separate sections for unaudited and audited information.

Unaudited information

(a) Remuneration Committee

The Board considers itself ultimately responsible for the framework and cost of executive remuneration, but has delegated responsibility for determining the remuneration levels and conditions of service for executive directors and senior executives to the remuneration committee. The committee's approach is fully consistent with the company's overall philosophy that all employees should be competitively rewarded in order to attract and retain their valued skills in the business, as well as supporting corporate strategy by directly aligning executive management with the company's strategic business goals.

The remuneration committee is comprised exclusively of independent non-executive directors of the company who have no personal financial interest, other than as shareholders, in the matters to be decided. The members of the

committee throughout the year were Dr G H H Ainsworth and S J Gibson. The Chairman of the committee is S J Gibson.

The committee follows the principles of the UK Corporate Governance guidance, and is responsible for determining the company's policy on compensation of executive directors and the basis of their service agreements with due regard to the interests of shareholders. It also approves the allocation of share options to employees.

The committee operates under clear written terms of reference and has access to and takes independent professional advice as appropriate. The committee met twice during 2013 to review the performance of the executive directors and other senior executives, and set the scale and structure of their remuneration.

(b) Remuneration policy

In establishing its remuneration policy, the committee has given consideration to Schedule B of the Best Practices Provisions annexed to the Listing Rules of the Financial Conduct Authority. The remuneration packages for executive directors and senior executives, as determined by the committee, are intended to attract and retain high quality executives, induce loyalty and motivate them to achieve a high level of corporate performance in line with the best interests of shareholders, while not being excessive. The remuneration of the executive directors consists of annual salary, performance bonus, share options, taxable benefits in kind and pension contributions.

There is an annual review at which the committee approves the basic salary and profit sharing bonus scheme for each executive director. The committee receives input from the Chief Executive regarding recommended packages for executive directors and senior executives.

(c) Basic salary

Basic salary is determined by reference to individual responsibilities, performance and external market data.

(d) Performance bonus

Bonus payments are linked to the executive directors achieving internal annual plan targets in respect of profitability and other non-financial performance criteria. Bonuses were awarded to certain directors in respect of 2013 in accordance with this scheme.

(e) Taxable benefits in kind

The company reimbursed all fuel and maintenance costs in respect of the executive directors' private cars, and these costs are treated as taxable benefits in kind. Other taxable benefits comprise medical health and life insurance.

(f) Share incentive schemes

The company operates a number of share incentive schemes. The IQE Plc Share Option Scheme, as adopted on 26 May 2000 and amended by shareholders at the company's Annual General Meetings on 17 May 2002, 21 July 2008 and 22 July 2009, allows the company to grant options over up to 15% of the issued share

capital and those options are subject to performance conditions.

During the year, the committee approved the grant of 13,513,274 share options to staff (2012: 2,761,361 share options). During 2013, Directors were awarded nil cost options over 6,050,881 ordinary shares in the company (2012: 6,710,583).

As at 31 December 2013, 56,152,601 share options (2012: 38,693,514 share options) granted under the IQE Plc Share Option Scheme remain outstanding with exercise prices ranging from nil cost to 86p/option (2012: nil cost to 86p/option). No share options were exercised by directors during the year (2012: 14,935,129). None of directors share options lapsed during the year (2012: 2,251,349). The numbers and prices of share options at 31 December 2013 and 31 December 2012 were as follows:

Option price	2013 No. of options	2012 No. of options
Share options of nil cost to 10p/option	25,781,307	21,133,727
Share options in excess of 10p/option to 20p/option	24,901,338	14,234,831
Share options in excess of 20p/option to 30p/option	4,120,000	1,970,000
Share options in excess of 30p/option	1,349,956	1,354,956
Total	56,152,601	38,693,514

(g) Directors' interests in ordinary shares of IQE Plc

The interests in ordinary shares of IQE Plc of those directors holding office at 31 December 2013 were as follows:

Name of director	As at 1 January 2013	As at 31 December 2013
Executive:		
Dr A W Nelson	29,830,132	29,325,132
Dr H R Williams	1,672,430	1,672,430
P J Rasmussen	852,822	852,822
Non-Executive:		
Dr G H H Ainsworth	3,121,999	3,121,999
S J Gibson	301,855	301,855
Dr D Grant	-	215,000
Total	35,779,238	35,489,238

There have been no changes to the director's interests between the year end and the date the accounts were issued

(h) Pension arrangements

The executive directors are members of the group defined contribution pension schemes and their pension contributions are based on a percentage of basic annual salary. Their dependants are eligible for the payment of a lump sum in the event of death in service. There have been no changes in the terms of directors' pension entitlements during 2013, and there were no unfunded pension promises or similar arrangements for directors at 31 December 2013.

(i) Executive Directors' service contracts

It is the company's policy to appoint executive directors under service agreements which are terminable by either party giving between six and twelve months' notice. Each of the agreements contain post-termination restrictive covenants, which place limitations on solicitation of customers and employees of the group and on acting in competition with the business of the group. There are no predetermined provisions for compensation on termination within executive directors' service agreements. However, the company is against rewards for failure and believes that severance arrangements should be restricted to basic pay and consequential payments such as earned bonus. In circumstances where there is no conflict of interest, the company allows executive

directors to serve as non-executive directors elsewhere. In such circumstances the remuneration received is retained by the director.

(j) Non-Executive Directors' contracts

The non-executive directors have entered into service agreements with the company, and these are terminable by either party on three months' notice. Non-executive directors have specific terms of engagement, and their fees are determined by the Board within the limits set by the company's Articles of Association. Non-executive directors do not take part in discussions on their own remuneration. There were no changes to non-executive remuneration during 2013.

The services of Dr G H H Ainsworth were paid in cash. £70,000 (2012: £70,000), was paid to Horton Corporate Finance for his fees and expenses for 2013. Dr G H H Ainsworth is a director of Horton Corporate Finance. VAT was charged on the invoices from Horton Corporate Finance and this was recovered by the company.

The services of S J Gibson were paid in cash. £35,000 (2012: £35,000), was paid to Fishstone Limited for his fees and expenses for 2013. S J Gibson is a shareholder in Fishstone Limited. VAT was charged on the invoices from Fishstone Limited and this was recovered by the company.

The services of Dr D Grant were paid in cash. £35,000 (2012: £12,000).

The non-executive directors receive no other pay or benefits, do not participate in the company's share schemes, and are not eligible for pension scheme membership. No non-executive director had any share options in the company at 31 December 2013 and it is not intended that share options will be issued to them in the future in accordance with Best Practice Guidelines issued by the Association of British Insurers.

(k) Share price performance

The IQE plc share price has been compared with the AIM market all-share index for the five year period 2009 to 2013 as this was considered to be the most representative market group.



Five year share price performance: IQE plc share price compared with AiM all share index, 2009 to 2013.

Audited information

(a) Aggregate directors' remuneration

The total amounts paid for directors' remuneration during 2013 were as follows:

(b) Directors emoluments

	2013 £'000	2012 £'000
Basic salaries	801	718
Bonuses	415	51
Non-executive fees	140	117
Subtotal salaries and fees	1,356	886
Car allowance	100	115
Benefits in kind	20	20
Money purchase pension contributions	83	49
Total	1,559	1,070

The aggregate emoluments paid to each director during 2013 were as follows:

Notes:

Name of director	Salary fees and bonuses	Car allowance	Benefits in kind	Pensions	2013 Total	2012 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Executive:						
Dr A W Nelson	444	44	9	-	497	322
Dr H R Williams	336	28	3	43	410	220
P J Rasmussen	436	28	8	40	512	226
A G Meldrum (resigned 21 September 2012)	-	-	-	-	-	185
Non-Executive:						
Dr G H H Ainsworth					70	70
S J Gibson					35	35
Dr D Grant (appointed 18 September 2012)					35	12
Total					1,559	1,070

Non of the executive directors exercised any share options during the year and therefore made no gain (2012: £3,493,661) on the exercise of share options. Dr Nelson made no gain during the year (2012: £1,570,762).

(c) Directors' interests in share options of IQE Plc

The interests in share options in IQE Plc of those directors who held office at 31 December 2013 were as follows:

Name of director	As at 1 January 2013	Options granted	Options exercised	Options Cancelled	As at 31 December 2013	Date(s) from which exercisable
Executive:						
Dr A W Nelson	4,932,574	3,013,612	-	-	7,946,186	1 Jan 2013 to 1 Jan 2016
Dr H R Williams	3,342,001	1,798,249	-	-	5,140,250	1 Jan 2013 to 1 Jan 2016
P J Rasmussen	2,928,227	1,333,560	-	-	4,261,787	1 Jan 2013 to 1 Jan 2016
Non-Executive:						
Dr G H H Ainsworth	-	-	-	-	-	
S J Gibson	-	-	-	-	-	
Dr D Grant	-	-	-	-	-	
Total	11,202,802	6,145,421	-	-	17,348,223	

The directors do not hold shares or share options in any group company other than IQE plc.

Name of director	As at 1 January 2012	Options granted	Options exercised	Options Cancelled	As at 31 December 2012	Date(s) from which exercisable
Executive:						
Dr A W Nelson	12,845,124	2,370,669	(10,283,219)	-	4,932,574	1 Jan 2012 to 1 Jan 2015
Dr H R Williams	5,386,433	1,499,656	(3,494,088)	(50,000)	3,342,001	1 Jan 2012 to 1 Jan 2015
P J Rasmussen	2,586,393	1,499,656	(1,157,822)	-	2,928,227	1 Jan 2012 to 1 Jan 2015
Non-Executive:						
Dr G H H Ainsworth	-	-	-	-	-	
S J Gibson	-	-	-	-	-	
Dr D Grant	-	-	-	-	-	
Total	20,817,950	5,369,981	(14,935,129)	(50,000)	11,202,802	

The highest and lowest mid-market share prices in respect of the shares of IQE Plc during 2013 were 36.5p/share and 18.00p/share respectively (2012: 33.25p/share and 18.72p/share respectively). The mid-market price of IQE plc shares closed at 23.50p/share as at 31 December 2013 (2012: 30.75p/share).

Approval

This report was approved by the Board of Directors on 26 March 2014 and signed on its behalf by:



S J Gibson, OBE

Remuneration Committee Chairman

Independent auditors' report to the members of IQE plc

Report on the financial statements

Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements and parent company financial statements (the "financial statements"), which are prepared by IQE plc, comprise:

- the group and parent company statement of financial position as at 31 December 2013;
- the group income statement and statement of comprehensive income for the year then ended;
- the group and parent company statement of cash flows for the year then ended;
- the group and parent company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Mark C Ellis (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Cardiff

26 March 2014

(a) The maintenance and integrity of the IQE plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial statements

Consolidated income statement for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Revenue	3	126,774	87,961
Cost of sales		(103,669)	(69,491)
Gross profit		23,105	18,470
Other income and expenses	4	(179)	-
Selling, general and administrative expenses		(15,580)	(11,456)
Operating profit	5	7,346	7,014
Finance costs	7	(2,154)	(886)
Adjusted profit before tax		13,010	8,585
Adjustments	4	(7,818)	(2,457)
Profit before tax		5,192	6,128
Income tax credit	8	934	503
Profit for the year		6,126	6,631
Profit attributable to:			
Equity shareholders		5,955	6,128
Non-controlling interest		171	503
		6,126	6,631
Adjusted earnings per share	10	2.09p	1.47p
Basic earnings per share	10	0.93p	1.16p
Adjusted diluted earnings per share	10	2.00p	1.40p
Diluted earnings per share	10	0.89p	1.10p

Consolidated statement of comprehensive income for the year ended 31 December 2013

	2013 £'000	2012 £'000
Profit for the year	6,126	6,631
Currency translation differences on foreign currency net investments*	(3,294)	(2,497)
Total comprehensive income for the year	2,832	4,134
Total comprehensive income attributable to:		
Equity shareholders	2,779	4,134
Non-controlling interest	53	-
	2,832	4,134

* This may be subsequently reclassified to the income statement when it becomes realised

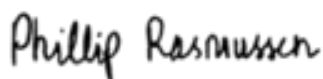
The notes on pages 56 to 84 form part of these financial statements.

Consolidated balance sheet as at 31 December 2013

	Note	2013 £'000	2012 £'000
Non-current assets:			
Intangible assets	11	75,859	54,165
Property, plant and equipment	12	71,840	62,320
Investments	13	-	3,205
Deferred tax asset	8	16,040	14,549
Total non-current assets		163,739	134,239
Current assets:			
Inventories	14	17,702	18,351
Trade and other receivables	15	22,907	19,186
Cash and cash equivalents		3,258	2,773
Total current assets		43,867	40,310
Total assets		207,606	174,549
Current liabilities:			
Borrowings	17	(4,804)	(2,428)
Trade and other payables	16	(31,114)	(31,709)
Total current liabilities		(35,918)	(34,137)
Non-current liabilities:			
Borrowings	17	(32,805)	(15,828)
Other payables	16	(26,632)	(34,386)
Total non-current liabilities		(59,437)	(50,214)
Total liabilities		(95,355)	(84,351)
Net assets		112,251	90,198
Equity attributable to shareholders:			
Share capital	19	6,475	5,882
Share premium		48,958	33,445
Retained earnings		48,704	42,749
Other reserves		6,361	8,122
		110,498	90,198
Non-controlling interest		1,753	-
Total equity		112,251	90,198

The notes on pages 56 to 84 form part of these financial statements.

These financial statements were approved by the Board of Directors on 26 March 2014. Signed on behalf of the Board of Directors



P J Rasmussen



Dr A W Nelson

Consolidated statement of changes in equity for the year ended 31 December 2013

	Share capital £'000	Share premium £'000	Retained earnings £'000	Exchange rate reserve £'000	Other reserves £'000	Non-controll intere £'000	Total equity £'000
Balance at 1 January 2013	5,882	33,445	42,749	2,775	5,347	-	90,198
Comprehensive income							
Profit for the year	-	-	5,955	-	-	171	6,126
Foreign exchange	-	-	-	(3,176)	-	(118)	(3,294)
Total comprehensive income	-	-	5,955	(3,176)	-	53	2,832
Transactions with owners							
Acquisition of Kopin Wireless	-	-	-	-	-	1,700	1,700
Employee share option scheme	-	-	-	-	1,415	-	1,415
Issues of ordinary shares	593	15,513	-	-	-	-	16,106
Total transactions with owners	593	15,513	-	-	1,415	1,700	19,221
Balance at 31 December 2013	6,475	48,958	48,704	(401)	6,762	1,753	112,251

	Share capital £'000	Share premium £'000	Retained earnings £'000	Exchange rate reserve £'000	Other reserves £'000	Non-controll intere £'000	Total equity £'000
Balance at 1 January 2012	5,251	22,122	36,118	5,272	3,987	-	72,750
Comprehensive income							
Profit for the year	-	-	6,631	-	-	-	6,631
Foreign exchange	-	-	-	(2,497)	-	-	(2,497)
Total comprehensive income	-	-	6,631	(2,497)	-	-	4,134
Transactions with owners							
Employee share option scheme	-	-	-	-	1,360	-	1,360
Issues of ordinary shares	631	11,323	-	-	-	-	11,954
Total transactions with owners	631	11,323	-	-	1,360	-	13,314
Balance at 31 December 2012	5,882	33,445	42,749	2,775	5,347	-	90,198

The notes on pages 56 to 84 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Cash flows from operating activities:			
Adjusted cash inflow from operations		16,173	4,679
Cash impact of adjustments		(3,411)	(570)
Cash inflow from operations	22	12,762	4,109
Net interest paid		(1,546)	(616)
Income tax received		(686)	1,284
Net cash generated from operating activities		10,530	4,777
Cash flows from investing activities:			
Acquisition deferred consideration		-	(7,043)
Acquisition of Kopin Wireless		(36,533)	-
Investment in Solar Junction Corporation	13	-	(3,205)
Capitalised development expenditure		(4,346)	(4,042)
Investment in other intangible fixed assets		(556)	(307)
Purchase of property, plant and equipment		(5,196)	(11,562)
Net cash used in investing activities		(46,631)	(26,159)
Cash flows from financing activities:			
Issues of ordinary share capital		16,106	11,445
Repayment of borrowings	23	(4,437)	(1,383)
Increase in borrowings	23	25,000	10,877
Net cash generated from financing activities		36,669	20,939
Net decrease in cash and cash equivalents		568	(443)
Cash and cash equivalents at 1 January	24	2,773	3,233
Exchange gains on cash and cash equivalents		(83)	(17)
Cash and cash equivalents at 31 December	24	3,258	2,773

The notes on pages 56 to 84 form part of these financial statements.

Parent company balance sheet for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Non-current assets:			
Investments	13	13,265	16,143
Fixed assets	12	43	-
Total non-current assets		13,308	16,143
Current assets:			
Trade and other receivables	15	99,342	56,392
Cash and cash equivalents		172	3,161
Total current assets		99,514	59,553
Total assets		112,822	75,696
Current liabilities:			
Trade and other payables	16	(1,054)	(684)
Borrowings	17	(2,400)	-
Total current liabilities		(3,454)	(684)
Non-current liabilities:			
Trade and other payables	16	(484)	(484)
Borrowings	17	(28,915)	(9,565)
Total non-current liabilities		(29,399)	(10,049)
Total liabilities		(32,853)	(10,733)
Net assets		79,969	64,963
Shareholders' equity:			
Share capital	19	6,475	5,882
Share premium		48,958	33,445
Retained earnings		17,588	20,103
Other reserves		6,948	5,533
Total equity		79,969	64,963

The notes on pages 56 to 84 form part of these financial statements.

These financial statements were approved by the Board of Directors on 26 March 2014. Signed on behalf of the Board of Directors

Phillip Rasmussen

P J Rasmussen

Dr A W Nelson

Dr A W Nelson

Parent company statement of changes in equity for the year ended 31 December 2013

	Share capital £'000	Share premium £'000	Retained earnings £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2012	5,251	22,122	18,129	4,173	49,675
Comprehensive income					
Profit for the year	-	-	1,974	-	1,974
Total comprehensive expense	-	-	1,974	-	1,974
Transactions with owners					
Share based payments	-	-	-	1,360	1,360
Share placing	438	9,546	-	-	9,984
Other issues of ordinary shares	193	1,777	-	-	1,970
Total transactions with owners	631	11,323	-	1,360	13,314
Balance at 31 December 2012	5,882	33,445	20,103	5,533	64,963
Comprehensive income					
Profit for the year	-	-	(2,515)	-	(2,515)
Total comprehensive income	-	-	(2,515)	-	(2,515)
Transactions with owners					
Share based payments	-	-	-	1,415	1,415
Share placing	569	15,336	-	-	15,905
Other issues of ordinary shares	24	177	-	-	201
Total transactions with owners	593	15,513	-	1,415	17,521
Balance at 31 December 2013	6,475	48,958	17,588	6,948	79,969

The notes on pages 56 to 84 form part of these financial statements.

Parent company cash flow statement for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Cash flows from operating activities:			
Cash outflow from operations	22	(40,759)	(10,717)
Interest received		-	2,845
Interest paid		(1,189)	-
Taxation		-	75
Net cash used in operating activities		(41,948)	(7,797)
Cash flows from investing activities:			
Investment in Solar Junction	13	-	(3,205)
Purchase of property, plant and equipment		(57)	-
Net cash used in investing activities		(57)	(3,205)
Cash flows from financing activities:			
Issues of ordinary share capital		16,106	11,445
Repayment of borrowings		(2,090)	-
Increase in borrowings		25,000	2,478
Net cash generated from financing activities		39,016	13,923
Net (decrease)/increase in cash and cash equivalents		(2,989)	2,921
Cash and cash equivalents at 1 January		3,161	240
Cash and cash equivalents at 31 December		172	3,161

The notes on pages 56 to 84 form part of these financial statements.

Notes to the financial statements

1. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented.

General Information

The company is a public limited company, which is listed on the Alternative Investment Market (AIM) and incorporated and domiciled in England and Wales. The address of its registered office is Pascal Close, St Mellons, Cardiff, CF3 0LW.

Basis of preparation

This financial information has been prepared on a going concern basis under the historical cost convention except where fair value measurement is required by IFRS, and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS, International Financial Reporting Standards ("IFRS") as adopted by the European Union and IFRIC interpretations. The application of these standards and interpretations necessitates the use of estimates and judgements. The main areas involving estimates are set out below in note 2.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2013 that have had a material impact on the group.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2013 and not early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been early adopted in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the group.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary undertakings. Subsidiaries are all entities over which the Group has the power to govern their financial and operating policies generally accompanying a shareholding of more than half of the voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of an acquisition is measured at the fair value of the consideration. The acquired identifiable assets, liabilities and contingent liabilities are recognised at their fair value at the date of acquisition.

Where the fair values of contingent deferred consideration, assets and liabilities acquired are initially recognised on a provisional basis, these are reassessed during the 12 month period following the date of the business combination. Adjustments to the fair values as at the date of acquisition within this 'measurement period' are recorded, with any net impact being added to or deducted from the goodwill recognised. Such adjustments are recognised in both the current period and restated comparative period balance sheets as if the final fair values had been used in the initial recognition of the acquisition.

Subsequent to the measurement period, any adjustments to the recorded fair value of contingent deferred consideration are taken through the income statement as an exceptional income or expense.

The group recognises any non-controlling interest on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred.

Intangible assets

a) Goodwill

Goodwill arising on an acquisition is recognised as an asset and initially measured at cost, being the excess of the fair value of the consideration over the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is not amortised. However, it is reviewed for potential impairment at least annually or more frequently if events or circumstances indicate a potential impairment. For the purpose of impairment testing, goodwill is allocated to each of the Cash Generating Units to which it relates. Any impairment identified is charged directly to Consolidated Income Statement. Subsequent reversals of impairment losses for goodwill are not recognised.

b) Patents trademarks and licences

Separately acquired patents, trademarks and licences are shown at historical cost. Patents, trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Patents, Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 10 to 15 years.

The carrying value of patents, trademarks and licences is reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement.

c) Development costs

Expenditure incurred that is directly attributable to the development of new or substantially improved products or processes is recognised as an intangible asset when the following criteria are met :

- the product or process is intended for use or sale;
- the development is technically feasible to complete;
- there is an ability to use or sell the product or process;
- it can be demonstrated how the product or process will generate probable future economic benefits;
- there are adequate technical, financial and other resources to complete the development; and
- the development expenditure can be reliably measured.

Directly attributable costs refers to the materials consumed; the directly attributable labour; and the incremental overheads incurred in the development activity. General operating costs, administration costs and selling costs do not form part of directly attributable costs.

All research and other development costs are expensed as incurred.

Capitalised development costs are amortised on a straight line basis over the period during which the economic benefits are expected to be received, which typically range between 2 and 5 years. The estimated remaining useful lives of development costs are reviewed at least on an annual basis.

The carrying value of capitalised development costs is reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement.

d) Software

Directly attributable costs incurred in the development of bespoke software for the group's own use are capitalised and amortised on a straight line basis over the expected useful life of the software, which typically range between 3 and 5 years.

The carrying value of capitalised software costs is reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement.

The costs of maintaining internally developed software, and annual license fees to utilise third party software, are expensed as incurred.

e) Other intangibles recognised on acquisition

Other intangible assets which form part of the identifiable net assets of an acquired business are recognised at their fair value and amortised on a systematic basis over their useful economic life which is up to 7 years.

This includes customer contracts, the fair value of which has been evaluated using the multi period excess earnings method "MEEM". The MEEM model valuation was cross checked to the cost of product development and qualification to which the contract relates.

The carrying value of other intangible assets is reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. Cost comprises all costs that are directly attributable to bringing the asset into working condition for its intended use. Depreciation is calculated to write down the cost of fixed assets to their residual values on a straight-line basis over the following estimated useful economic lives:

Freehold buildings	25 years
Leasehold improvements	5 to 27 years
Plant and machinery	5 to 15 years
Fixtures and fittings	4 to 5 years

No depreciation is provided on land or assets yet to be brought into use.

The assets residual values and useful economic lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The carrying value of property, plant and equipment is reviewed for potential impairment at least annually. Any impairment identified is immediately charged to the Consolidated Income Statement.

Impairment of non-current assets

Non-current assets are reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value (less disposal costs) and value in use.

Value in use is based on the present value of the future cash flows relating to the asset, discounted at the Group's weighted average cost of capital. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Cost comprises direct materials and, where applicable, direct labour costs and attributable overheads that have been incurred in bringing the inventories to their present location and condition based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Financial instruments

Financial assets and liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the financial instrument.

The financial assets held by the group are other equity investments, receivables and cash and cash equivalents. Receivables do not carry interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Cash and cash equivalent comprise cash in hand. Other equity investments are held at cost less provision for impairment.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Trade payables are stated at their nominal value and do not bear interest.

Equity instruments issued by the company are recorded at the proceeds received net of any direct issue costs.

Interest bearing loans are recorded at the proceeds received net of any direct issue costs. Finance charges are accounted for on an accrual basis using the effective interest method.

The group does not use derivative financial instruments for speculative purposes. The group uses forward currency contracts as appropriate to manage foreign exchange risk.

Detailed disclosures of the group's financial instruments are provided in notes 15 and 16.

Leases

Leases which transfer substantially all the risks and rewards of ownership of an asset are treated as a finance lease. Assets held under finance leases are capitalised at their fair value at the inception of the lease and depreciated over the estimated useful economic life of the asset or lease term if shorter. The finance charges are allocated to the Consolidated Income Statement in proportion to the capital amount outstanding.

All other leases are classified as operating leases. Operating lease rentals are charged to the Consolidated Income Statement in equal annual amounts over the lease term.

Revenue recognition

Revenue represents the amounts receivable for goods and services provided in the ordinary course of business net of value added tax and other sales related taxes. Revenue is recognised when the risks and rewards of the underlying sale have been transferred to the customer, which is on the delivery of the goods or services and acceptance by the customer.

Accrued income is recognised for sales where, at the balance sheet date, billing has not yet taken place but contractual terms dictate that the risks and rewards have been transferred to the customer and the customer is committed to payment. Billing is deferred to a contractually defined trigger point.

An acquisition was made during 2012, where the consideration is being settled through agreed contractual price discounts. Subsequent to the measurement period, any adjustments to the recorded fair value of contingent deferred consideration are taken through the income statement within other income as an exceptional income or expense. The revenues of products sold which are subject to this discount are recognised at full market value. On settlement of the transaction, the discount is applied to reduce the deferred consideration balance. Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors, who oversee the allocation of resources and the assessment of operating segment performance.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of components operating in other economic environments.

Pension costs

The group operates defined contribution pension schemes. Contributions are charged in the Consolidated Income Statement as they become payable in accordance with the rules of the scheme.

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount. Details of the exceptional items are included in note 4.

Foreign currencies

Items included in the financial statements of each subsidiary are measured using the currency of the primary economic environment in which the subsidiary operates ("the functional currency"). The consolidated financial statements are presented in sterling, which is the group's presentational currency.

Foreign currency transactions are translated into the subsidiaries functional currency at the rates of exchange ruling at the date of the transaction, or at the forward currency hedged rate where appropriate. Monetary assets and liabilities in foreign currencies are translated into the subsidiaries functional currency at the rates ruling at the balance sheet date. All exchange differences are taken to the income statement.

The balance sheets of overseas subsidiaries are translated into sterling at the closing rates of exchange at the balance sheet date, whilst the income statements are translated into sterling at the average rate for the period. The resulting translation differences are taken directly to reserves.

Foreign exchange gains and losses on the retranslation of foreign currency borrowings that are used to finance overseas operations are accounted for on the 'net investment' basis and are recorded directly in reserves provided that the hedge is 'effective' as defined in IAS 39 "Financial Instruments : recognition and measurement".

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years.

Amounts receivable from tax authorities in relation to R&D tax relief claims are recognised as a credit within the group's tax charge. Where amounts are outstanding at the year end and have not been formally agreed, an appropriate estimate of the amount is included within other receivables.

Deferred tax is provided in full on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for taxation purposes. Deferred tax is calculated at the tax rates that have been enacted or substantially enacted at the balance sheet date. Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax liabilities are recognised for taxable temporary differences, unless specifically exempt.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Investment in subsidiaries

Investments in subsidiaries are held at cost of investment less provision for impairment in the parent company accounts.

Other equity investments

Other equity investments are held at cost less provision for impairment in both the parent company and group accounts on the basis that the Group (and Company) does not have the ability to exert significant influence or control over the strategic and operating activities of the other equity investments.

2. Critical accounting judgements and key sources of estimation uncertainty

The group's principal accounting policies are described in note 1. The application of these policies necessitates the use of estimates and judgements in a number of areas. Accordingly, the actual amounts may differ from these estimates. The main areas involving estimation are set out below:

(a) Impairment of intangible assets

Goodwill on the group's balance sheet is not subject to amortisation because it is assumed to have an indefinite useful life. In accordance with IAS 36 "Impairment of assets", the carrying value of goodwill is assessed at least annually for impairment. This assessment is based on cash flow forecasts. In light of these forecasts the Board has concluded that goodwill is not impaired.

The group capitalises the cost of developing new and substantially improved products and processes if there is a reasonable expectation of obtaining an appropriate economic return. This necessitates an assessment of the future technical viability and future commercial benefits of the product or process. The carrying value for each project is assessed for impairment on an on-going basis.

The key assumptions and judgements adopted in preparing the impairment review are set out in note 11.

(b) Impairment of receivables

Trade and other receivables are carried at the contractual amount due less any estimated provision for non-recovery. Provision is made based on a number of factors including the age of the receivable, previous collection experience and the financial circumstances of the counterparty.

(c) Inventory provisions

Inventories are carried at the lower of cost and net realisable value. Provision is made based on a number of factors including the age of inventories, the risk of obsolescence and the expected future usage.

(d) Acquisition fair values

An assessment of the fair value of the purchase consideration and net assets acquired was undertaken for the acquisition made during 2013. The basis of the key judgments made is set out in note 18. We have reassessed the fair value of the deferred contingent consideration in relation to the 2012 RFMD acquisition. This resulted in an exceptional release of £3.0m to other income as a result of lower forecast volumes.

(e) Deferred tax assets

Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. This necessitates an assessment of future trading forecasts for each relevant tax authority, capital expenditures and the utilisation of tax losses.

3. Segmental analysis

The board of directors considers that the wireless, photonics and electronics markets are the group's primary reporting segments. The board of directors assesses the performance of these operating segments based on their earnings before interest, tax, depreciation, amortisation, exceptional items and share based payments (EBITDA).

Further detail on the nature of the segments is provided in the Chief Executive's Review.

2013	Wireless £'000	Photonics £'000	Electronics £'000	Total £'000
Income statement				
Revenue	107,219	18,685	870	126,774
EBITDA	22,541	2,279	100	24,920
Exceptional items	(1,860)	(3,205)	-	(5,065)
Share based payments	(1,129)	(269)	(17)	(1,415)
Depreciation	(7,580)	(792)	(131)	(8,503)
Amortisation	(2,113)	(467)	(11)	(2,591)
Operating profit/(loss)	9,859	(2,454)	(59)	7,346
Finance costs				(2,154)
Tax				934
Profit after tax				6,126
Segment assets				
Operating assets	157,626	25,326	5,356	188,308
Deferred tax asset	13,258	2,727	55	16,040
Cash				3,258
Total assets				207,606
Segment liabilities				
Operating liabilities	(54,220)	(3,249)	(277)	(57,746)
Borrowings				(37,609)
Total liabilities				(95,355)
Other segmental information				
Capital expenditure - intangible assets	23,586	1,174	1,521	26,281
Capital expenditure - property, plant and equipment	18,088	1,849	46	19,983

Costs not directly attributable to a segment are allocated based on the proportion of revenue attributable to that segment. Finance costs are not allocated to the segments because treasury is managed centrally.

2012	Wireless £'000	Photonics £'000	Electronics £'000	Total £'000
Income statement				
Revenue	68,962	18,049	950	87,961
EBITDA	12,929	3,732	(224)	16,437
Exceptional items	(455)	(115)	-	(570)
Share based payments	(1,066)	(279)	(15)	(1,360)
Depreciation	(4,921)	(786)	(291)	(5,998)
Amortisation	(877)	(612)	(6)	(1,495)
Operating profit/(loss)	5,610	1,940	(536)	7,014
Finance costs				(886)
Tax				503
Profit after tax				6,631
Segment assets				
Operating assets	137,040	30,226	4,510	171,776
Cash				2,773
Total assets				174,549
Segment liabilities				
Operating liabilities	(60,738)	(5,077)	(280)	(66,095)
Borrowings				(18,256)
Total liabilities				(84,351)
Other segmental information				
Capital expenditure - intangible assets	22,213	2,558	998	25,769
Capital expenditure - property, plant and equipment	31,717	1,336	3	33,056

In the periods set out below, certain customers, all within the Wireless operating segment, accounted for greater than 10% of the Group's total revenues:

	2013 £'000	2013 % revenue	2012 £'000	2012 % revenue
Customer 1	40,480	32%	22,364	25%
Customer 2	23,899	19%	398	<1%
Customer 3	8,536	7%	12,849	15%

There are no customers in the photonics or electronics segments that accounted for greater than 10% of the Group's total revenues.

3. Segmental analysis continued

Geographical information

	2013 £'000	2012 £'000
Americas	105,211	64,967
United States of America	105,168	64,425
Rest of Americas	43	542
Europe, Middle East & Africa (EMEA)	5,959	5,721
France	155	503
Germany	917	1,391
Israel	1,156	1,042
United Kingdom	1,171	1,439
Rest of EMEA	2,560	1,346
Asia Pacific	15,604	17,273
People's Republic of China	442	865
Japan	5,324	6,006
Taiwan	8,461	9,074
Rest of Asia Pacific	1,377	1,328
Total revenue	126,774	87,961

Disclosure of group revenues by location of customer:

By location	Property, plant and equipment		Intangible assets	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
USA	49,450	45,647	56,252	36,013
Singapore	8,775	11,167	8,405	9,041
Taiwan	7,555	-	848	-
UK	6,060	5,506	10,354	9,111
	71,840	62,320	75,859	54,165

Disclosure of non-current assets by location of assets:

4. Adjusted profit measures

The Group's results are reported after a number of imputed non-cash charges (largely relating to acquisition accounting), and non-recurring items. Therefore, we have provided additional information to aid an understanding of the Group's performance.

	2013 £'000	2012 £'000
Acquisition related inventory fair value adjustment	1,475	-
Restructuring and reorganisation	2,415	-
Share based payments	944	989
Adjustments to gross profit	4,834	989
Release of contingent deferred consideration	(3,026)	-
Impairment of investments	3,205	-
Restructuring and reorganisation	996	-
Transaction costs	-	570
Amortisation of acquired intangibles	730	258
Share based payments	471	371
Adjustments to operating profit	7,210	2,188
Discounting of long term acquisition related balances	608	269
Adjustments to profit before tax	7,818	2,457
Deferred tax on adjustments	(330)	(687)
Adjustments to profit after tax	7,488	1,770
Represented by :		
Cash impact	3,411	570
Non-cash impact	4,077	1,200
	7,488	1,770

In fair valuing the assets of the acquired Kopin Wireless business, the inventories were recorded in the Group's accounts at their fair value. Therefore, the reported gross margin reflects a reduced profit on the sale (post acquisition) of the inventories acquired. The £1.5m adjustment above eliminates this fair value uplift so that the adjusted gross margin reflects the normal trading profit.

As previously highlighted, the group is restructuring and reorganisation its operations. During 2013, the Group incurred costs of £3.4m in connection with these programmes, which included redundancy costs, requalification costs and the duplication of overheads to support the transition of customers between production facilities.

The Group also generated a non-cash profit of £3.0m arising from a reduction in the estimated remaining deferred consideration (to be settled via trade discount) in respect of a previous acquisition. This has been classified as other income in the consolidated income statement.

Subsequent to the year end the Group disposed of its equity investment in Solar Junction Corporation. The consideration is deferred and contingent upon certain aspects of Solar Junction's future business development. Given the uncertainty in establishing IQE's potential share of this consideration, no accrual has been made for any future receipts and the £3.2m carrying value of the investment has been fully provided for at 31 December 2013, and classified within other income and expenses in the consolidated income statement.

The 2012 transaction costs of £0.6m related to one-off costs relating to the acquisition of Kopin Wireless in January 2013

The other items relate to non-cash items relating to acquisition accounting and share based payments.

The deferred tax credit of £0.3m (2012 : £0.7m) reflects the net deferred tax impact associated with these items. As noted in the Financial Review, the remaining underlying deferred tax credit of £0.8m relates to a credit of £6.5m relating to the recognition of tax losses, less a £5.7m charge primarily relating to the reduction in deferred consideration.

The cash impact of these items during 2013 was £3.4m relating to the restructuring and reorganisation costs (2012: £0.6m relating to the transaction costs).

4. Adjusted profit measures continued

	2013 £'000	2012 £'000
Adjusted gross margin	27,939	19,459
Reported gross margin	23,105	18,470
Adjusted sales, general and administrative expenses	(13,383)	(10,257)
Reported sales, general and administrative expenses	(15,580)	(11,456)
Adjusted operating profit	14,556	9,202
Reported operating profit	7,346	7,014
Adjusted profit before tax	13,010	8,585
Reported profit before tax	5,192	6,128
Adjusted profit after tax	13,614	8,401
Reported profit after tax	6,126	6,631

Earnings before interest, tax, depreciation, amortisation and exceptional items (EBITDA) have been calculated as follows:

	2013 £'000	2012 £'000
Profit attributable to equity shareholders	5,955	6,631
Minority interest	171	-
Tax	(934)	(503)
Share based payments	1,415	1,360
Finance costs	2,154	886
Depreciation of tangible fixed assets	8,503	5,998
Amortisation of intangible fixed assets	2,591	1,495
Acquisition related inventory fair value adjustment*	1,475	-
Transaction costs*	-	570
Impairment of investments*	3,205	-
Release of contingent deferred consideration*	(3,026)	-
Restructuring and re-organisation*	3,411	-
EBITDA	24,920	16,437

* Exceptional items impacting EBITDA include the following items: acquisition related inventory fair value adjustments, transaction costs, impairment of investments, wireless business unit re-organisation costs and the release of contingent deferred consideration

5. Operating profit

	2013 £'000	2012 £'000
The operating profit is stated after charging/(crediting):		
Depreciation of property, plant and equipment	8,503	5,998
Amortisation of non-current intangible assets	2,591	1,495
Services provided by auditors*	143	178
Operating lease rentals	3,109	2,511
Research and development	925	143
Exchange gains	(254)	(258)
Share based payments	1,415	1,360
Cost of inventories consumed	49,727	34,110
Exceptional items**	5,065	570

*A schedule of services provided by the group's auditors is disclosed in the Corporate Governance Report.

**A reconciliation of the exceptional items is provided in note 4.

6. Employee costs

	2013 £'000	2012 £'000
Employee costs (including directors' remuneration)		
Wages and salaries	26,521	18,593
Social security costs	2,437	2,051
Other pension costs	1,249	904
Charge for share based payments	1,415	1,360
	31,622	22,908

	2013 Number	2012 Number
Average number of employees (including directors)		
Cost of sales	494	389
Selling, general and administrative	125	90
	619	479

The aggregate directors' remuneration, directors' emoluments and directors' interests in share options of IQE plc are disclosed on pages 41 to 44 within the remuneration report and form part of the financial statements.

Key management within the group comprises the executive and non-executive directors, the business unit and group senior management and the site managers. Compensation to key management, including pensions of £171,000 (2012: £83,000), was £3,654,000 (2012: £2,132,000) and the charge for share-based payments was £317,000 (2012: £230,000).

7. Finance costs

	2013 £'000	2012 £'000
Bank and other loans	1,464	588
Finance lease interest	82	29
Discounting of long term acquisition related balances	608	269
	2,154	886

8. Taxation

Current tax credit	2013 £'000	2012 £'000
United Kingdom research and development tax credits receivable	750	501
Adjustments to overseas tax in respect of prior years	(428)	-
Overseas taxes (payable)/receivable	(171)	10
Total current tax credit	151	511
Deferred tax charge	783	(8)
Total tax credit	934	503

Factors affecting total tax credit

The tax credit assessed for the period is different from that resulting from applying the standard rate of corporation tax in the UK: 23.25% (2012: 24.5%). The differences are explained below:

	2013 £'000	2012 £'000
Profit on ordinary activities before taxation	5,192	6,128
Tax charge at 23.25% thereon (2012: 24.5%)	(1,207)	(1,501)
Effects of :		
Expenses not deductible for tax purposes	(40)	(63)
Overseas tax rate differences	(3,382)	375
Decrease/(Increase) in unrecognised tax losses	6,484	423
Other deferred tax movements	(1,198)	768
Impact on deferred tax as a result of changes in tax rates	(45)	-
Overseas adjustments in respect of prior years	(428)	-
United Kingdom research and development tax credits receivable	750	501
Total tax credit for the year	934	503

The Finance Act 2013, which was substantively enacted on 2 July 2013, included legislation to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. Accordingly, the closing UK deferred tax asset/liability in the financial statements has been recognised at 20%.

Deferred tax is measured at the tax rates that are expected to apply in the relevant territory in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been substantively enacted at the balance sheet date.

The majority of the deferred tax assets arise in the United States, these are provided at the effective United States Federal and State tax rates.

Deferred tax asset	2013 £'000	2012 £'000
At 1 January	14,549	1,876
Deferred tax credit/(expense) recognised in the year	783	(8)
Deferred tax assets recognised on acquisition (note 18)	625	13,187
Foreign exchange differences	83	(506)
At 31 December	16,040	14,549

The deferred income tax asset recognised at 31 December 2013 of £16,040,000 (2012: £14,549,000) relates mainly to timing differences on fair value adjustments in respect of the 2012 RFMD acquisition, as well as an element of tax losses carried forward and accelerated depreciation. These are recognised to the extent that the realisation of the related tax benefit through future taxable profits from the same trade is probable. The group currently benefits from a 0% tax rate on trading income arising in Singapore.

The net amount not recognised is an asset of £20,708,000 (2012: £25,036,000). Tax losses carried forward account for an asset of £25,078,000 (2012: £31,228,000). The remaining unrecognised amounts relating to a mix of temporary timing differences including accelerated depreciation and income tax deductions receivable on the exercise of employee share options. The asset would be recognised if sufficient profits from the same trade arise in future periods.

Company

There is an unrecognised deferred tax asset of £800,000 (2012: £814,000) which relates primarily to short term timing differences arising on share option charges.

9. Dividends

No dividend has been paid or proposed in 2013 (2012: £nil).

10. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of shares and 'in the money' share options in issue. Share options are classified as 'in the money' if their exercise price is lower than the average share price for the year. As required by IAS 33, this calculation assumes that the proceeds receivable from the exercise of 'in the money' options would be used to purchase shares in the open market in order to reduce the number of new shares that would need to be issued.

The directors also present an adjusted earnings per share measure which eliminates certain non-cash items in order to provide a more meaningful underlying profit measure. Specifically, the non-cash accounting charges eliminated are:

- financing charges relating to discounting of long term acquisition balances;
- amortisation of intangibles arising on acquisition;
- share based payments; and,
- exceptional items.

	2013 £'000	2012 £'000
Profit attributable to ordinary shareholders	5,955	6,631
Adjustments to profit after tax (note 4)	7,488	1,770*
Adjusted profit attributable to ordinary shareholders	13,443	8,401

* 2012 adjustments profit after tax has been represented to include the deferred tax impact of exceptional items consistent with 2013.

	2013 Number	2012 Number
Weighted average number of ordinary shares	642,239,979	571,972,538
Dilutive share options	30,127,305	29,715,163
Adjusted weighted average number of ordinary shares	672,367,284	601,687,701
Adjusted basic earnings per share	2.09p	1.47p
Basic earnings per share	0.93p	1.16p
Adjusted diluted earnings per share	2.00p	1.40p
Diluted earnings per share	0.89p	1.10p

11. Intangible assets

The Group	Goodwill £'000	Patents £'000	Development costs £'000	Software £'000	Acquisition intangibles* £'000	Total £'000
Cost						
At 1 January 2013	36,365	393	19,082	1,160	2,962	59,962
Additions	-	129	4,346	427	29	4,931
Acquisitions (note 18)	18,206	-	-	19	3,125	21,350
Foreign exchange	(1,710)	4	(261)	(11)	(175)	(2,153)
At 31 December 2013	52,861	526	23,167	1,595	5,941	84,090
Accumulated amortisation and impairment						
At 1 January 2013	-	56	5,135	360	246	5,797
Charge for the year	-	63	1,557	241	730	2,591
Foreign exchange	-	(1)	(114)	18	(60)	(157)
At 31 December 2013	-	118	6,578	619	916	8,231
Net book value						
At 31 December 2013	52,861	408	16,589	976	5,025	75,859
At 31 December 2012	36,365	337	13,947	800	2,716	54,165

The Group	Goodwill £'000	Patents £'000	Development costs £'000	Software £'000	Acquisition intangibles* £'000	Total £'000
Cost						
At 1 January 2012	19,823	305	16,098	942	-	37,168
Additions	-	88	4,042	219	17	4,366
NanoGaN adjustment (see below)	(478)	-	(600)	-	-	(1,078)
Acquisitions (note 18)	18,287	-	-	-	3,116	21,403
Foreign exchange	(1,267)	-	(458)	(1)	(171)	(1,897)
At 31 December 2012	36,365	393	19,082	1,160	2,962	59,962
Accumulated amortisation and impairment						
At 1 January 2012	-	26	4,092	344	-	4,462
Charge for the year	-	30	1,188	19	258	1,495
Foreign exchange	-	-	(145)	(3)	(12)	(160)
At 31 December 2012	-	56	5,135	360	246	5,797
Net book value						
At 31 December 2012	36,365	337	13,947	800	2,716	54,165
At 31 December 2011	19,823	279	12,006	598	-	32,706

* Acquisition intangibles relate to customer contract intangible assets

The amortisation charge of: £2,591,000 (2012: £1,495,000) has been charged to selling, general and administrative expenses in the Consolidated Income Statement.

The carrying value of deferred development costs continue to be supported by forecast cash flows.

The NanoGaN adjustment shown above relates to a reduction in the estimated deferred consideration payable.

11. Intangible assets continued

Impairment tests for goodwill

Goodwill is allocated to the group's cash generating units (CGUs) identified according to operating segment. An operating segment level summary of the goodwill allocation is presented below:

	2013 £'000	2012 £'000
Allocation of goodwill by operating segment		
Wireless	45,971	29,379
Photonics	6,890	6,986
Total Goodwill	52,861	36,365

Multiple production facilities are included in a single CGU reflecting that production can (and is) transferred between sites to suit capacity planning and operational efficiency.

The recoverable amount of all CGUs has been determined based on value in use calculations, using pre-tax cash flow projections for a five year period. The Board approved budget is used for the first year of the forecast. Beyond this the Board has used assumptions which are below expectations in order to allow for a "reasonably possible change" in considering the potential for any impairment, namely : revenue growth 3% pa (2012: 5% pa); margin erosion 1% pa (2012: 1% pa), cost inflation 3% (2012: 3% pa). A pre-tax discount rate of 11% (2012: 11%) has been used in these calculations, which management believe is appropriate for each CGU given that they have similar risk profiles and common funding.

Even on this prudent basis, there remains a significant level of headroom in the calculations. In addition, to test the sensitivity of the discount rate, if a 12.5% discount rate is used there is still no impairment of assets.

12. Property, plant and equipment

a) The Group	Land and buildings £'000	Short leasehold improve- ments £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 January 2013	6,298	23,654	2,449	128,607	161,008
Additions	-	264	262	4,605	5,131
Acquisitions (note 18)	1,637	3,188	1,037	8,991	14,853
Foreign exchange	(139)	(502)	(98)	(3,305)	(4,044)
At 31 December 2013	7,796	26,604	3,650	138,898	176,948
Accumulated depreciation					
At 1 January 2013	2,938	10,540	2,185	83,025	98,688
Charge for the year	194	1,501	311	6,497	8,503
Foreign exchange	(11)	(205)	(38)	(1,829)	(2,083)
At 31 December 2013	3,121	11,836	2,458	87,693	105,108
Net book value					
At 31 December 2013	4,675	14,768	1,192	51,205	71,840
At 31 December 2012	3,360	13,114	264	45,582	62,320

a) The Group	Land and buildings £'000	Short leasehold improve- ments £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 January 2012	6,393	11,284	2,398	112,248	132,323
Additions	15	225	107	12,709	13,056
Acquisitions (note 18)	-	13,032	-	6,968	20,000
Disposals	-	-	(2)	(228)	(230)
Foreign exchange	(110)	(887)	(54)	(3,090)	(4,141)
At 31 December 2012	6,298	23,654	2,449	128,607	161,008
Accumulated depreciation					
At 1 January 2012	2,802	9,955	2,133	80,085	94,975
Disposals	-	-	(2)	(228)	(230)
Charge for the year	151	799	104	4,944	5,998
Foreign exchange	(15)	(214)	(50)	(1,776)	(2,055)
At 31 December 2012	2,938	10,540	2,185	83,025	98,688
Net book value					
At 31 December 2012	3,360	13,114	264	45,582	62,320
At 31 December 2011	3,591	1,329	265	32,163	37,348

b) Capitalised finance leases

Plant and machinery includes the following amounts where the group is a lessee under a finance lease:

	2013 £'000	2012 £'000
Cost	2,557	2,576
Accumulated depreciation	(41)	(46)
Net book value	2,516	2,530

The group leases various plant and machinery assets under non-cancellable finance lease agreements. The lease terms are up to three years, and the ownership of the assets lie within the group.

c) The Company

	Fixtures and Fittings £'000
Cost	
At 1 January 2013	21
Additions	57
At 31 December 2013	78
Accumulated depreciation	
At 1 January 2013	21
Charge for the year	14
At 31 December 2013	35
Net book value	
At 31 December 2013	43
At 31 December 2012	-

13. Investments

a) Company

	Investments in subsidiaries £'000	Other equity investments £'000	Total £'000
Cost			
At 1 January 2013	83,376	3,205	86,581
Subsidiaries share based payments charge	327	-	327
At 31 December 2013	83,703	3,205	86,908
Provisions for impairment			
At 1 January 2013	70,438	-	70,438
Impairment charge (note 26)	-	3,205	3,205
At 31 December 2013	70,438	3,205	73,643
Net book value			
At 31 December 2013	13,265	-	13,265
At 31 December 2012	12,938	3,205	16,143

	Investments in subsidiaries £'000	Other equity investments £'000	Total £'000
Cost			
At 1 January 2012	84,125	-	84,125
Investment in Solar Junction Corporation	-	3,205	3,205
Adjustment to NanoGaN Limited deferred consideration (note 11)	(1,078)	-	(1,078)
Subsidiaries share based payments charge	329	-	329
At 31 December 2012	83,376	3,205	86,581
Provisions for impairment			
At 1 January 2012 and 31 December 2012	70,438	-	70,438
Net book value			
At 31 December 2012	12,938	3,205	16,143
At 31 December 2011	13,687	-	13,687

Details of principal subsidiaries are set out in note 25.

b) Group

The other equity investments of £3.2m in 2012 related to the equity investment in Solar Junction Corporation. A provision for impairment has been recorded in the year. Further details are included in the post balance sheet event note 26.

14. Inventories

	2013	2012
The Group	£'000	£'000
Raw materials and consumables	12,856	14,334
Work-in-progress and finished goods	4,846	4,017
	17,702	18,351

The directors are of the opinion that the replacement values of inventories are not materially different to the carrying values stated above. These carrying values are stated net of impairment provisions of £4,800,000 (2012: £1,781,000). £2,412,000 of inventories were written down and an expense recognised in the income statement.

15. Trade and other receivables

	2013	2013	2012	2012
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Trade receivables	9,312	-	9,870	-
Amounts owed by group undertakings	-	98,380	-	56,251
Other receivables and prepayments	13,595	962	9,316	141
	22,907	99,342	19,186	56,392

As at 31 December 2013, 91% (2012: 93%) of trade receivables were within terms. Of the other trade receivables, 58% (2012: 64%) were less than 30 days past due. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £121,000 (2012: £79,000). This allowance has been determined by reference to past default experience. Included in other receivables is accrued income of £10,269,000 (2012: £7,375,000).

The carrying values of trade and other receivables also represent their estimated fair values.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable as set out above. In terms of trade receivables, the terms of sale provide that the group has recourse to the products sold in the event of non-payment by a customer.

Trade receivables and accrued income are primarily denominated in US dollars, as are trade payables (note 16). The natural hedge between these financial instruments limits the exposure of the group to movements in foreign exchange rates. Based on the balances held at 31 December 2013 a 1 cent movement in the US dollar to Sterling rate would impact the net value of these instruments by £11,000 (2012: £11,000) (before the mitigating impact of cash flow hedges).

16. Trade and other payables

Current	2013	2013	2012	2012
	Group £'000	Company £'000	Group £'000	Company £'000
Trade payables	15,090	-	16,046	-
Amounts owed by group undertakings	-	446	-	-
Deferred consideration	9,000	-	10,000	-
Other taxation and social security	626	73	316	139
Accruals and deferred income	6,398	535	5,347	545
	31,114	1,054	31,709	684

Non-current	2013	2013	2012	2012
	Group £'000	Company £'000	Group £'000	Company £'000
Deferred consideration (note 18)	26,632	484	34,386	484

Within deferred consideration is £26.6m (2012: £43.9m) being the best estimate of the amount that will be settled through contractually agreed price discounts over the next four years. The fair value of contingent deferred consideration has been re-assessed during the year resulting in a reduction of £3.0m. This has been credited to the income statement within other income and expenses. The exceptional income has been excluded from our adjusted profit measure set out in note 4.

The carrying values of trade and other payables also represent their estimated fair values.

There is no foreign currency exchange contracts held at 31 December 2013 or 31 December 2012.

17. Borrowings

The Group	2013 £'000	2012 £'000
Non-current borrowings:		
Bank borrowings	31,902	14,094
Finance leases	903	1,734
	32,805	15,828
Current borrowings:		
Bank borrowings	4,002	1,687
Finance leases	802	741
	4,804	2,428
Total borrowings	37,609	18,256

a) Bank borrowings

	2013	2012
	£'000	£'000
Bank Borrowings fall due for repayment as follows:		
Within one year	4,002	1,687
Between one and five years	31,902	14,094
After five years	-	-
	35,904	15,781

The group's bank borrowings consist of a series of variable and fixed rate term loans, and a revolving credit facility. Bank loans are secured against the assets of the group.

The variable rate term loans, which had a principle outstanding at 31 December 2013 of £2.6m (2012 : £4.1m), and bear interest of between 2.0% to 2.95% over LIBOR. These loans are repayable by monthly instalment with remaining terms of up to 4 years.

The fixed rate term loans, which had a principle outstanding at 31 December 2013 of £2.0m (2012 : £2.1m), and bear interest of 5% until 2017 and is variable thereafter. These loans are repayable by monthly instalment with remaining terms of up to 20 years.

The acquisition facility, which had a principle outstanding at 31 December 2013 of £21.7 million, bears interest of between 2.5% to 2.95% over LIBOR. This loan is repayable by quarterly instalments with a remaining term of 4 years

The revolving credit facility is a multi-currency facility of up to £21 million, committed until 2016. It bears interest of between 1.75% to 1.95% over LIBOR. The balance drawn at 31 December 2013 was £9.9m (2012 : £9.6m).

The group's bank borrowings are subject to financial covenants. All covenants in relation to the group's borrowing facilities have been complied with during the year.

The carrying value of loans approximates to their fair value based on the net present value of future cash flows.

b) Finance leases

	2013	2012
	£'000	£'000
Gross finance lease liabilities – minimum lease payments:		
Within one year	851	813
Between one and five years	922	1,803
	1,773	2,616
Finance charges	(68)	(141)
Present value of finance lease liabilities	1,705	2,475
	2013	2012
	£'000	£'000
Present value of finance lease liabilities:		
Within one year	802	741
Between one and five years	903	1,734
	1,705	2,475

Lease liabilities are effectively secured as the rights to the leased asset reverts to the lessor in the event of default.

17. Borrowings continued

The company

The borrowings of the parent company comprise the bank loan of £31,315,000 (2012 £9,565,000) which is denominated in US Dollars.

	2013 £'000	2012 £'000
Bank borrowings fall due for repayment as follows:		
Within one year	2,400	-
Between one and five years	28,915	9,565
After five years	-	-
	31,315	9,565

18. Business combination

Kopin

On 15 January 2013, IQE plc completed the acquisition of Kopin Wireless, the compound semiconductor epiwafer manufacturing business of Kopin Corporation ("Kopin"), a NASDAQ listed entity.

The consideration for the acquisition was \$75m, of which \$60m was paid in cash on completion, and \$15m falls payable in January 2016. The deferred consideration is secured over the US assets acquired.

The assets acquired were the trade and assets of Kopin Wireless a US domiciled business, which operates from a long leasehold premises located in Massachusetts USA; and its 90% equity stake in its Taiwanese subsidiary (KTC), which operates from a freehold premises in Hsinchu Taiwan.

The upfront consideration of \$60m was financed by \$40m of acquisition finance provided by HSBC. The balance was financed from the proceeds of a placing of 56,900,961 new ordinary shares at 29p.

The fair value of the assets acquired is summarised as follows:

	Fair value £'000
Intangible assets	3,144
Property, plant and equipment	14,853
Working capital (including cash acquired)	11,122
Deferred tax asset	625
Total identifiable net asset	29,744
Non-controlling interest	(1,700)
Goodwill	18,206
Total	46,250
Consideration on completion	37,500
Deferred cash consideration	8,750
Total consideration	46,250

The fair value of the intangible assets represents the estimated fair value of the qualifications for customer contracts. The fair value has been determined based on the multi period excess earnings method "MEEM".

The fair value of the property plant and equipment has been estimated based on a market valuation or depreciated replacement cost basis as appropriate.

Inventory has been recognised at fair value which for raw materials this is the lower of cost at net realisable value and for finished goods is selling price less costs to sell less a sales margin.

Deferred tax has been recognised in respect of temporary timing differences between the accounting and tax treatments for the assets and liabilities recognised.

The Non-controlling interest has been valued on a proportionate share of the net assets of IQE Taiwan formally Kopin Taiwan Corporation.

Goodwill reflects items not separately recognisable under IFRS, and largely relates to the financial and operational synergies of the enlarged group including improved economies of scale and equipment utilisation. The goodwill on acquisition is \$29.1m of which \$27.1m is expected to be tax deductible.

The fair value of the consideration has been calculated by discounting the \$15m deferred consideration as it is payable on the 16 January 2016. The discount rate adopted was 2.3%. The discount rate has been determined based on a three year liability with similar characteristics.

Post-acquisition the acquired business contributed £30.9m of revenue and £1.4m of profit after tax to the consolidated income statement. If the transaction had completed at the beginning of the financial period the acquired business would have contributed £31.9m of revenue and £1.4m of profit after tax to the consolidated income statement.

19. Share capital

Group and Company	2013 Number of shares	2013 £'000	2012 Number of shares	2012 £'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	647,513,661	6,475	588,215,751	5,882

The movement in the number of ordinary shares during the year was:

	2013 Number	2012 Number
At 1 January	588,215,751	525,111,639
Employee share schemes	2,396,949	19,336,112
Placing	56,900,961	43,768,000
At 31 December	647,513,661	588,215,751

59,297,910 ordinary shares (2012: 63,104,112 ordinary shares) were issued during the year as follows:

	2013 Number of shares	2013 Consideration	2012 Number of shares	2012 Consideration
Employee share schemes	2,396,949	3.65p to 23.08p	19,336,112	Nil cost to 52.08p
Placing	56,900,961	29.00p	43,768,000	24.00p
	59,297,910		63,104,112	

19. Share capital continued

The group's objectives when managing capital are to safeguard the entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The group sets the amount of capital in proportion to risk. The group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the characteristic of the underlying assets. The group monitors capital by reviewing net debt against shareholders' funds. The position of these indicators and the movement during the period is shown in the Five Year Financial Summary.

20. Share based payments

The total amount charged to the income statement in 2013 in respect of share based payments was £1,415,000 (2012: £1,360,000).

Share option scheme

The IQE Plc Share Option Scheme was adopted on 26 May 2000 and amended by shareholders at the Annual General Meeting on 17 May 2002. Under the scheme, the Remuneration Committee can grant options over shares in the company to employees of the group.

Options are granted with a contractual life of ten years and with a fixed exercise price equal to the market value of the shares under option at the date of grant or as otherwise disclosed in the remuneration report. Options become exercisable between one and four years from the date of grant subject to continued employment and the achievement of performance conditions, including growth in EBITDA and earnings per share against various targets. The group has no legal or constructive obligation to repurchase or settle the options in cash.

Options are valued using the Black-Scholes option-pricing model and the total amount to be expensed is charged to income statement over the vesting period of the option. The principal assumptions used in the calculation of the fair value of share options are as follows:

Principal assumptions	2013	2012
Weighted average share price at grant date	25.73p	27.75p
Weighted average exercise price	13.16p	6.40p
Weighted average vesting period (years)	3	3
Option life (years)	10	10
Weighted average expected life (years)	3	3
Weighted average expected volatility factor	61%	61%
Weighted average risk free rate	0.64%	0.37%
Dividend yield	0%	0%

The expected volatility factor is based on historical share price volatility over the three years immediately preceding the grant of the option. The expected life is the average expected period to exercise. The risk free rate of return is the yield of zero-coupon UK government bonds of a term consistent with the assumed option life.

Performance conditions are incorporated into the calculation of fair value by estimating the proportion of share options that will vest and be exercised based on a combination of historical trends and future expected trading performance. These are reassessed at the end of each period for each tranche of unvested options.

The fair value of options granted during the year ended 31 December 2013 was £2,139,326 (2012: £1,521,920).

The movements on share options during the year were as follows:

	2013 Number of options	2013 Average exercise price (pence)	2012 Number of options	2012 Average exercise price (pence)
At 1 January	38,693,514	10.12	51,043,125	10.14
Granted	19,564,155	13.16	9,471,944	6.40
Exercised	(1,992,560)	10.07	(17,702,729)	8.88
Cancelled/lapsed	(112,508)	18.72	(4,118,826)	7.11
At 31 December	56,152,601	11.24	38,693,514	10.12

As at 31 December 2013, the total number of options held by employees was 56,152,601 (2012: 38,693,514) as follows:

Option price pence/share	Option period ending	2013 Number of options	2012 Number of options
5.63p - 10.17p	31 December 2014	973,922	1,234,318
6.87p - 10.25p	31 December 2015	610,539	704,856
10.40p - 19.42p	31 December 2016	1,640,388	1,850,638
0.00p - 19.42p	31 December 2017	5,254,470	5,380,791
16.10p - 16.10p	31 December 2018	233,278	247,029
0.00p - 17.07p	31 December 2019	7,620,931	8,619,521
0.00p - 45.58p	31 December 2020	6,819,449	6,879,449
9.15p - 50.25p	31 December 2021	5,928,249	6,060,154
0.00p - 28.17p	31 December 2022	7,294,981	7,716,758
0.00p - 86.20p	31 December 2023	19,776,394	-
At 31 December		56,152,601	38,693,514

21. Parent company profit and loss

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's (loss)/profit for the financial year amounted to (£2,515,000) (2012: profit £1,974,000).

22. Cash generated from operations

The Group	2013 £'000	2012 £'000
Profit before tax	5,192	6,128
Finance costs (note 4)	2,154	886
Depreciation of property, plant and equipment	8,503	5,998
Amortisation of intangible assets	2,591	1,495
Acquisition related inventory fair value adjustment	1,475	-
Impairment of investments	3,205	-
Release of contingent deferred consideration	(3,026)	-
Contingent deferred consideration (settled through contractual discounts)	(14,191)	(8,379)
Share based payments	1,415	1,360
Cash inflow from operations before changes in working capital	7,318	7,488
Decrease/(increase) in inventories	6,405	(3,030)
Decrease/(increase) in trade and other receivables	2,308	(5,924)
(Decrease)/Increase in trade and other payables	(3,269)	5,575
Cash inflow from operations	12,762	4,109

22. Cash generated from operations continued

	2013 £'000	2012 £'000
The Company		
Profit before tax	(2,574)	1,918
Finance costs	(4,024)	(2,845)
Foreign exchange	237	-
Impairment of investments	3,205	-
Depreciation	14	-
Share based payments	1,088	1,031
Cash inflow from operations before changes in working capital	(2,054)	104
Increase in trade and other receivables	(39,094)	(10,258)
Increase/(decrease) in trade and other payables	389	(563)
Cash outflow from operations	(40,759)	(10,717)

23. Reconciliation of net cash flow to movement in net debt

	2013 £'000	2012 £'000
Increase/(decrease) in cash in the year	568	(443)
Increase in borrowings	(25,000)	(10,877)
Repayment of borrowings	3,660	1,335
Repayment of leases	777	48
Net movement resulting from cash flows	(19,995)	(9,937)
Net debt at 1 January	(15,483)	(3,921)
Net movement resulting from cash flows	(19,995)	(9,937)
Non-cash movements (note 24)	1,127	(1,625)
Net debt at 31 December	(34,351)	(15,483)

24. Analysis of net debt

Cash and cash equivalents at 31 December 2013 comprised balances held in instant access bank accounts.

Non-cash movements include the new finance leases and foreign exchange movements on US dollar denominated borrowings.

	At 1 January 2013 £'000	Cash flow £'000	Other non-cash movements £'000	At 31 December 2013 £'000
Cash and cash equivalents	2,773	568	(83)	3,258
Bank borrowings due after one year	(14,094)	(22,433)	4,625	(31,902)
Bank borrowings due within one year	(1,687)	1,093	(3,408)	(4,002)
Finance leases due after one year	(1,734)	-	831	(903)
Finance leases due within one year	(741)	777	(838)	(802)
Total borrowings	(18,256)	(20,563)	1,210	(37,609)
Net debt	(15,483)	(19,995)	1,127	(34,351)

25. Principal subsidiary undertakings

Name of company	Class of capital	Proportion of shares held	Activity	Country of incorporation
IQE (Europe) Limited	Ordinary shares of £1	100%*	Manufacture of advanced semiconductor materials	UK
IQE Inc	Common stock of \$0.001	100%*	Manufacture of advanced semiconductor materials	USA
IQEK LLC	Limited liability company	100%	Manufacture of advanced semiconductor materials	USA
IQE Taiwan ROC	Ordinary shares of NT\$10	90%*	Manufacture of advanced semiconductor materials	Taiwan
IQE RF LLC	Limited liability company	100%*	Manufacture of advanced semiconductor materials	USA
IQE Silicon Compounds Ltd	Ordinary shares of £1	100%	Manufacture of silicon epitaxy	UK
MBE Technology Pte Ltd	Preferred shares of S\$1 Ordinary shares of S\$1	100% 100%	Manufacture of advanced semiconductor materials	Singapore
Wafer Technology Limited	Ordinary shares of £1	100%*	Manufacture of semiconductor compounds and ultra high purity materials	UK
NanoGaN Limited	Ordinary shares of £0.001	100%	Development of advanced semiconductor materials	UK
Galaxy Compound Semiconductors Inc	Common stock of \$0.00 par value	100%*	Manufacture of semiconductor compounds and ultra high purity materials	USA

* Indirect holding

The proportion of voting rights of subsidiaries held by the group is the same as the proportion of shares held.

All UK subsidiaries are exempt from the requirements to file audited accounts by virtue of section 479A of the Companies Act 2006. In adopting the exemption IQE plc has provided statutory guarantee to these subsidiaries in accordance with section 479C of the Companies Act 2006.

26. Post balance sheet event

Post year end the Group sold its minority equity interest in Solar Junction Corporation. The acquirer is a strategic investor with strong interests in accelerating the large scale adoption and commercialisation of Solar Junction's technology. IQE's long term wafer supply agreement will be unaffected by this transaction.

The consideration is deferred and contingent upon certain aspects of Solar Junction's future business development. Given the uncertainty in establishing IQE's potential share of this consideration, no accrual has been made for any future receipts and the £3.2m carrying value of the investment has been fully provided for at 31 December 2013.

27. Related party transactions

The group incurred professional fees and expenses during the year of £70,000 (2012: £70,000) payable to Horton Corporate Finance and £35,000 (2012: £35,000) payable to Fishstone Limited. Dr G H H Ainsworth, who is a director of IQE Plc, is a director of Horton Corporate Finance. S J Gibson, who is a director of IQE Plc, is also a director of Fishstone Limited. The group incurred professional fees and expenses during the year of £35,000 (2012: £12,000) payable to Dr D Grant. The total amount outstanding to these parties at the year-end was £35,000 (2012: £26,000).

During the year the group made purchases at arms length of £88,904 from Greenlux limited. Dr A W Nelson who is a Director of IQE plc is an equity shareholder of Greenlux Limited. No amounts were payable to Greenlux Limited at the end of the year.

28. Operating lease commitments

The group was committed at 31 December 2013 and 31 December 2012 to making the following aggregate payments in respect of non-cancellable operating leases:

	2013 £'000	2012 £'000
Due within one year	2,552	2,062
Due between two and five years	10,843	7,440
Due after five years	7,403	9,065
	20,798	18,567

29. Commitments

The group had no capital commitments at 31 December 2013 or 31 December 2012.

Officers and professional advisers

IQE plc is a public limited company incorporated in England and Wales.

Directors

Dr G H H Ainsworth BSc, Ph.D, FCA (Chairman, Non-Executive)
Dr A W Nelson OBE, BSc, Ph.D, FEng (President and Chief Executive Officer)
Mr S J Gibson OBE (Non-Executive)
Dr David Grant CBE, FEng, FLSW, CEng, FIET (Senior Independent Non-Executive Director)
Mr P J Rasmussen BSc, ACA (Finance Director and Company Secretary)
Dr H R Williams BSc, Ph.D, CEng, MIMechE, MCIBSE (Operations Director)

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