
IQE
IQE PLC | FINANCIAL REPORT AND ANNUAL ACCOUNTS 2015

Enabling 21st century technologies

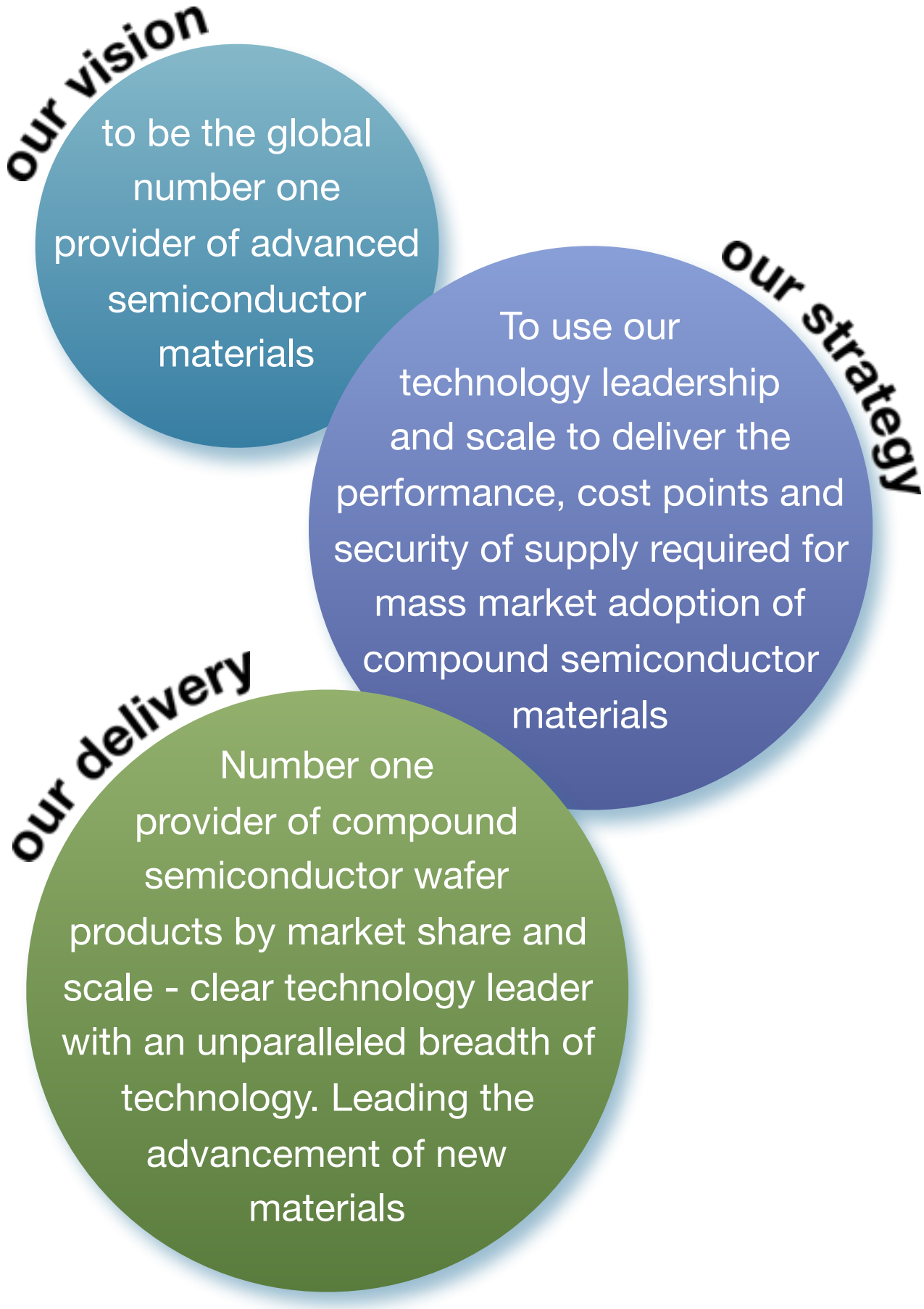
Five year summary

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Revenue	114,024	112,011	126,774	87,961	75,318
EBITDA (see below)	29,001	27,009	24,920	16,437	13,955
Operating profit					
- Adjusted*	18,977	17,618	14,556	9,202	8,657
- Reported	21,166	7,167	7,346	7,014	7,373
Profit after tax					
- Adjusted*	18,086	16,701	14,202	8,401	9,727
- Reported	20,149	1,996	6,126	6,631	8,443
Net cash flow from operations					
- Before exceptional cash flows	22,575	19,614	16,173	4,679	10,823
- Reported	20,971	14,861	12,762	4,109	10,823
Free cash flow**					
- Before exceptional cash flows	12,114	11,446	5,389	(1,569)	(8,585)
- Reported	10,510	6,693	1,978	(2,139)	(8,585)
Net debt	(23,223)	(31,251)	(34,351)	(15,483)	(3,921)
Equity shareholders' funds	144,601	119,056	110,498	90,189	72,750
Basic EPS – adjusted*	2.68p	2.51p	2.09p	1.47p	1.86p
Basic EPS – unadjusted	3.00p	0.25p	0.93p	1.16p	1.62p
Diluted EPS – adjusted*	2.60p	2.42p	2.00p	1.40p	1.74p
Diluted EPS – unadjusted	2.90p	0.24p	0.89p	1.10p	1.51p

* The adjusted performance measures are reconciled in note 4 on page 69.

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

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Profit after tax	20,149	1,996	6,126	6,631	8,443
Tax	(773)	3,247	(934)	(503)	(1,551)
Interest	1,790	1,924	2,154	886	481
Share based payments	2,001	1,458	1,415	1,360	1,284
Profit & loss on disposal	(5,187)	15	-	-	-
Exceptional items	(211)	7,877	5,065	570	-
Depreciation	6,192	6,590	8,503	5,998	4,175
Amortisation of intangible assets	5,040	3,902	2,591	1,495	1,123
EBITDA	**29,001**	**27,009**	**24,920**	**16,437**	**13,955**


our vision
to be the global number one provider of advanced semiconductor materials
our strategy
To use our 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 of compound semiconductor wafer products by market share and scale - clear technology leader with an unparalleled breadth of technology. Leading the advancement of new materials

Inside this report

Message from the Chairman

It is my great pleasure to introduce our 2015 Annual Report.

I am immensely proud of the excellent reputation IQE has established as a world leading innovator and supplier of advanced semiconductor products. Our standing as the global leader within our industry has led to consistent and robust business and financial performance through some tough economic times.

Our proven track-record in providing the key enabling technologies for today's wireless products, coupled with our innovative product portfolio spanning a wide range of new and emerging applications, should give investors the confidence that IQE is uniquely positioned to provide excellent long-term shareholder returns.

It is through our commitment to innovation in advanced semiconductor technologies that IQE is helping to shape the future that will transform the way we live, work and play.

IQE is the world's leading manufacturer and supplier of Compound Semiconductor wafers.

Most people don't realise when they're accessing the internet on their smartphone or tablet the communications networks and mobile technology they are using would not be possible without compound semiconductors manufactured and supplied by IQE.

The world of semiconductor technology is one of the most dynamic, advanced and fast-moving industries in the world. Our technologies feature in many of the world's most exciting products, from the latest smartphones, to the future connected-world through the Internet of Things (IoT) and from advanced healthcare technologies through to electrically powered, connected and driverless vehicles.

Enhancing core market leadership in Wireless and expanding diversification activity

During the past three years, IQE has successfully formed industry specific business units dedicated to each of our primary markets: wireless, photonics, Infrared, CPV, power and CMOS++ (advanced electronics) and we are well poised to strengthen our position to significantly grow our business in these markets over the coming years.

The wireless market, which accounts for approximately 70% of our sales, remains our key market in which IQE's global market share is more than 50%. Although subject to short term inventory cycles, the wireless communications market continues to represent an exciting long term growth prospect by the proliferation of wireless communication, and the need for continual improvement in chip performance.

The importance of maintaining and expanding a comprehensive Intellectual Property (IP) portfolio cannot be over stated, even in established markets such as our wireless business, where continuous improvements in technological performance are the key elements in achieving competitive advantage for IQE, our customers and handset manufacturers alike.

Our photonics business, which enables a diverse range of end applications, from data communications and advanced optical-fibres, to sensors in consumer and industrial applications, continues to demonstrate strong performance and represents our fastest growing business segment.

This business unit is being propelled by our technology leadership in advance lasers (VCSELs), and has already begun the transition from development and pilot revenues into high volume manufacturing following a number of key contract wins.

Guided by our vision that compound semiconductor technology is at the very heart of the next wave of the electronics revolution, we continue to push the limits of materials technology, constantly improving the quality of existing products whilst developing new and enhanced capabilities.

Collaboration and Innovation is IQE's lifeblood.

2015 has been a pivotal year for IQE with formation of the Compound Semiconductor Centre (CSC), a joint venture between IQE and Cardiff University, one of Britain's leading research universities. The CSC represents a key milestone in bringing industry and academia together towards a shared vision to create a major new compound semiconductor cluster for next-generation technologies.

Today we are building upon our expertise and our technology to create a unique global capability for new and emerging 21st century technologies, focusing on important materials such as gallium nitride (GaN) for next generation wireless, power and photonics applications.

Our vision of creating a technology cluster was endorsed at the start of 2016 when UK Chancellor, George Osborne formally announced the establishment of a Compound Semiconductor Applications Catapult, a hub of excellence for applied research. The Catapult centre will be located in South Wales, forming part of a UK network of Catapults in disciplines ranging from high-value manufacturing to space applications. IQE, along with Cardiff University, will form a key resource to the new Catapult.

Hot on the heels of the Catapult announcement, in March 2016, the UK government signed a Cardiff Capital Region (CCR) City Deal which includes significant investment in technology and innovation aimed at bringing long term prosperity to South Wales.

At the same time as announcing the Cardiff City Deal, the UK Chancellor also agreed to open negotiations on a City Deal for the Swansea Bay Region.

IQE has actively supported both Cardiff and Swansea City Deal bids, both of which open excellent opportunities for investment in new and emerging technologies that utilise compound semiconductors.

Unparalleled industry reputation.

I opened my introduction with a comment about IQE's enviable reputation.

Our position in the supply chain does not provide us with the status of being a household name. However, it never ceases to amaze me at the high-esteem held for IQE within our industry and across our supply chains which include a number of major multinational blue-chip companies.

Whilst we are unable to quote our customers, the feedback from major international events is testament to the professionalism, expertise and integrity of our teams. I would like to thank all the management and staff of IQE for the success of 2015. Their commitment and dedication continue to be the foundation of our achievements.

Finally, and as always, I would also like to express my sincere thanks to you, my fellow shareholders, for your continued belief in and support of IQE.

CEO's review

The focus of everyone at IQE, is on growing the business through our technical leadership. We have a solid and growing customer base, we are diversifying our product portfolio and our service offering and we are enhancing our technology capabilities through acquiring and developing new and innovative intellectual property (IP) and in so doing, we will create shareholder value for the long-term.

IQE's core business is the manufacture and supply of compound semiconductor wafer products. Our wafers are similar to silicon wafers that are used to make the silicon chips that have transformed our world over the last five decades. Compound semiconductors offer far superior performance operating at speeds more than 100 times faster than silicon, and with a wide range of photonics and power efficient properties that make compound semiconductors the material of choice for today's ever increasing demands on technology.

Our products help to create a smarter, more advanced and more connected world that, every day, enriches people's lives in many ways. We have a passion and a drive for innovation that constantly challenges conventional and incumbent technologies to achieve the higher performance levels demanded across multiple markets such as communications, healthcare, aerospace, automotive, safety & security, the Internet of Things and efficient energy generation and usage.

Our strategy is clear: to use our technology leadership and scale to deliver the performance, cost points and security of supply required for mass market adoption of compound semiconductor materials in a demanding, highly technical, leading edge industry sector.

2015 saw continued momentum in our business with the reinforcement of the three primary strands of our strategy: we further sharpened our strategic diversification in our markets by improving operational performance, we exploited our global presence and world leading technology platforms by entering into two joint venture arrangements, in Singapore and the UK, and we maintained our technology leadership by developing a broad IP portfolio through both internal development and strategic transactions.

Diversifying our end markets

Wireless products continue to represent a key part of IQE's core business but revenue has declined ahead of the next wave of innovation in smartphone and related communications hardware.

In the short term, we expect the market for wireless materials to grow at a rate of approximately 5%. IQE's business is well underpinned with a major contract win (c.$55m) announced in January 2016, and recent market share gains following new product qualifications.

As in 2014, we delivered increasing underlying profitability and earnings, as well as strengthening our balance sheet as a result of lower deferred consideration and net debt. We should not lose sight of the fact that the wireless sector remains a major part of the Group's future business, and will only be enhanced with the adoption of numerous photonics devices in next generation handsets.

We anticipate significant upside potential to this growth in the medium term due to: innovation in smartphone hardware, including the adoptions of advanced sensors; the adoption of GaN on Silicon technology for base stations; the transition to 5G communications, which will require more advanced materials; and the combination of silicon with compound semiconductors using cREO for other wireless communication chips.

IQE has made solid progress in its other markets, in line with our strategic plan.

The Group's revenues continue to diversify as its photonics sales grow rapidly. The growth in the photonics business follows on from strong long-term engagement by IQE with its customer base in the development of new and innovative products. The increasing number and quality of customer product development programmes is a positive lead indicator which is providing a high level of confidence over the growth outlook for photonics. A mix of applications contributed to this growth, particularly data centre connectivity, fibre-optic communications and a broad range of sensor products.

Other Group business units also performed well, achieving a number of key technical and commercial milestones which is moving the Group ever closer toward new product launches in high volume, high growth, power control and energy markets.

Infrared

IQE is already the global market leader in the manufacture and supply of indium antimonide and gallium antimonide engineered materials that enable high resolution Infrared systems, with an estimated market share of around 80%.

Whilst key markets are currently limited to defence programmes, there are likely to be major future opportunities in commercial markets in areas such as gesture recognition, 3D imaging and sensing applications for autonomous and driverless vehicles.

Power and energy

IQE has built an enviable position with a number of key players in the rapidly growing gallium nitride (GaN) markets. In addition to establishing relationships with leading players in the power RF GaN markets for base-stations, IQE has also been working closely with industrial partners, academics and government agencies on developing a product pipeline for GaN power device technologies for a range of markets from alternative energy sources to commercial and aerospace applications.

Notably, such programmes include active participation in initiatives such as the US government funded programme to develop GaN on silicon power switching technology for grid applications.

IQE's materials development is at an advanced stage, with new product launches expected over the coming months.

Exploiting our global presence and world leading technology

IQE's management and expert teams firmly believe that Compound Semiconductor technology will play a significant role in the future of 21st century technologies. To capitalise on the opportunities ahead, the Group entered into two joint venture arrangements during 2015: one in Singapore and the other in the United Kingdom. The joint ventures will help provide a focal point for effective collaboration between industry, academia and government agencies for the development and commercialisation of next generation technologies.

The Compound Semiconductor Development Centre (CSDC)

Based in Singapore, the CSDC is jointly owned by IQE, WIN Semiconductor and Singapore's National Technology University (NTU), bringing together local management teams with key academics. Its purpose is to accelerate the development of compound semiconductor technologies in Asia as well as to provide an effective incubator for bringing new innovations to market. It represents a highly innovative approach to making the most of the skills and talent that exist in Singapore.

As part of its contribution to this joint venture, IQE provided facilities, equipment and IP to the CSDC.

The Compound Semiconductor Centre (CSC)

In the UK, The CSC was established as a Joint Venture between IQE and Cardiff University. This is a key step in creating the World's first Compound Semiconductor Cluster.

IQE's vision is to build a cluster into one of global significance and scale, leading to widespread economic benefits for the region, and providing a broad range of compound semiconductor capabilities to support the rapid growth in 21st century technologies, both in Europe and across the rest of the World.

The CSC will work closely alongside other industry, academic and government initiatives such as Cardiff University's Institute for Compound Semiconductors, also announced during 2015, as well as the UK government's investment in a dedicated Compound Semiconductor Applications Catapult announced by the UK Chancellor, George Osborne, at the start of 2016. Both of these investments provide a strong endorsement for the future growth of our industry sector and the strength already established in IQE's supply chain.

These JVs are commercial entities seeking to develop and commercialise new products, to which IQE has first manufacturing rights. IQE's equity share in each JV is ~50%, and it jointly controls these JVs with its JV partners.

The license revenue earned and recognised by IQE reflects only its share (~50%) of the gross income (ie is stated after the elimination of unrealised gains). Given that the JVs are related parties, the licence fees were determined with independent validation.

These license fees are primarily upfront fees, although there is a recurring element. This is consistent with the Group's strategy to monetise its IP through production and licensing where appropriate. The Group is also exploring further opportunities to license IP to third parties. By its nature this income is inherently lumpy. In Q1 of 2016 the group has earned further upfront license income with JVs of approximately £2m.

Both the CSDC and the CSC clearly highlight IQE's dominant position in technology leadership, and form strong relationships within which IQE's technologies will be embedded.

Also in 2015, IQE was announced as a key partner in a new consortium to establish the United States' first Integrated Photonics Institute for Manufacturing Innovation (IP-IMI), created as part of President Obama's National Network for Manufacturing Innovation (NNMI). The consortium, known as the American Institute for Manufacturing Integrated Photonics (AIM Photonics), comprises 55 leading industrial partners and is led by the Research Foundation of the State University of New York (SUNY). IQE's role in the consortium is to provide advanced epitaxy services to the Institute partners. Inclusion as a key partner in this new US Manufacturing Institute is testament to IQE's reputation as a global world leader in compound semiconductor materials, a key enabling technology (KET) for photonics.

Increasing our IP portfolio

The technology business continues to strengthen with a notable licensing agreement with Silex Systems Limited's subsidiary, Translucent Inc. to acquire Translucent Inc.'s Unique cREO™ Technology. The cREO™ technology offers a unique approach to the manufacture of a wide range of innovative Compound Semiconductor on Silicon products, including gallium nitride (GaN) on silicon (Si) for the burgeoning Power switching and RF technologies markets. This is a great opportunity for IQE to take the unique cREO™ technology to market and thereby create a significant new platform to drive our business into several new large volume areas.

The two joint venture initiatives in Singapore and Cardiff are also creating next generation IP which will support continued economic growth and prosperity and IQE has licensed additional IP during 2015.

The Group is continuing to develop a broad IP portfolio through both internal development, and selective transactions.

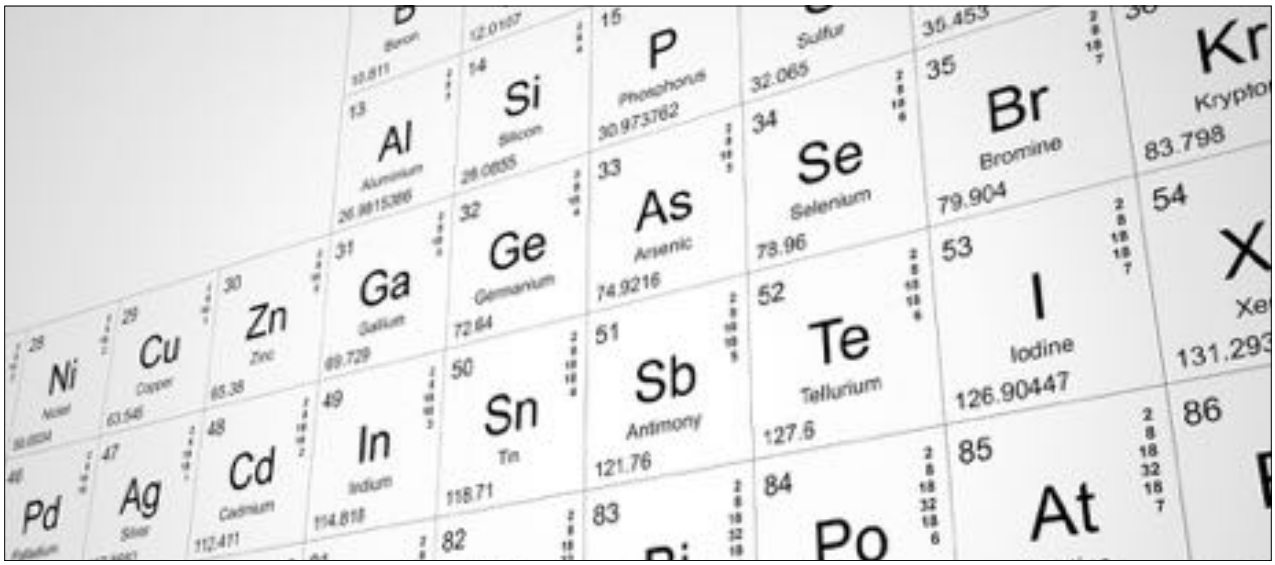
A bright future

It is widely acknowledged that compound semiconductor technologies will play a pivotal role in meeting global societal challenges of the 21st century, and are expected to be the next engine of growth, transforming the way we live and work over the coming decades in the same way that silicon has changed the world over the last five decades. The Internet of Things (IoT), big data, sustainable energy, electric and driverless vehicles, personalised healthcare and advanced communications, educational and entertainment technologies will all be enabled by compound semiconductors.

IQE has established a leading global technical and commercial leadership position, and this is just the beginning of the compound semiconductors momentum.

Dr A W Nelson
CEO and President
22 March 2016

A brief history of compound semiconductors



The elements

Everything in the universe is made of 118 known elements. The periodic table, first published in 1869 by Dmitri Mendeleev, shows the elements arranged in groups or columns according to their properties.

In terms of electrical properties, the elements up to and including those in group III are in general, known as metals and tend to be good conductors of electricity, whilst those from group V and above are generally non-metals and tend to be poor conductors of electricity.

Between the metals and non-metals, (and generally in group IV), are elements whose electrical properties are somewhere between conducting and non-conducting (insulating). These elements, which include silicon and germanium, are known as semiconductors.

The behaviour of semiconducting elements was discovered during the 19th century and it later became known through experimentation that their electrical properties could be altered by adding very small amounts of different impurities and that by placing together two pieces of material with different impurities, an electrical current could be controlled by allowing it to flow in one direction but not the other.

The semiconductor age is born

It was in 1947 that William Shockley, John Bardeen and Walter Brattain, working at Bell Labs, built the World's first transistor using the element germanium.

During the two decades that followed, the ability to control electrical currents using semiconductors allowed engineers to develop a range of new electronic technologies.

The evolution of silicon

Whilst germanium is a very efficient semiconductor material, the ready availability of silicon (basically sand) made for a compelling low-cost alternative and hence a new industry was born that has, for the last five-decades, transformed our lives in so many ways.

Silicon has been the backbone of the electronics revolution from the 1960s, largely by virtue of continuous miniaturisation which has led to an exponential increase in technological performance - a concept notably observed by one of the founders of Intel, Gordon Moore, and known as "Moore's Law".

Bring on the compound semiconductors

Impressive as the impact of silicon has been on our lives, it has a very basic and limited set of properties that restricts its application in many new and emerging technology areas that demand ultra-high performance levels along with sensing and other capabilities.

By atomically engineering crystal structures that combine elements either side of those in group IV of the periodic table (eg groups III and V), a set of new semiconductor materials has emerged whose enhanced properties offer significant performance improvements over those of silicon alone.

These compound semiconductors enable high speed processing in excess of 100 times that of silicon, as well as an array of other properties including the ability to emit and sense light, all the way from the infrared, through the visible and into the ultra-violet part of the spectrum.

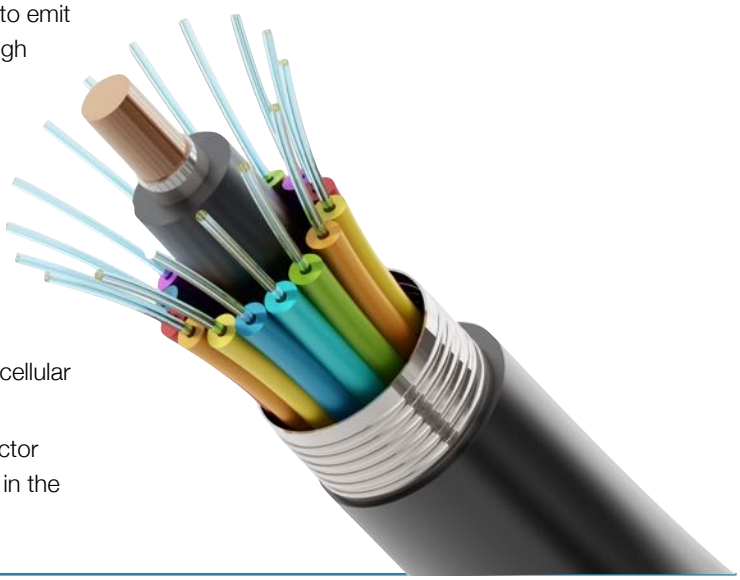
Compound semiconductors have already complimented silicon in areas such as wireless communications, where chips made from material combinations such as gallium and arsenic (gallium arsenide, or GaAs) are found in virtually every smartphone where they enable high speed, high efficiency wireless communications in cellular and WiFi networks.

Other properties offered by compound semiconductor materials include the ability to emit and sense light in the form of general lighting (LEDs) and communications (lasers and receivers for fibre-optics).

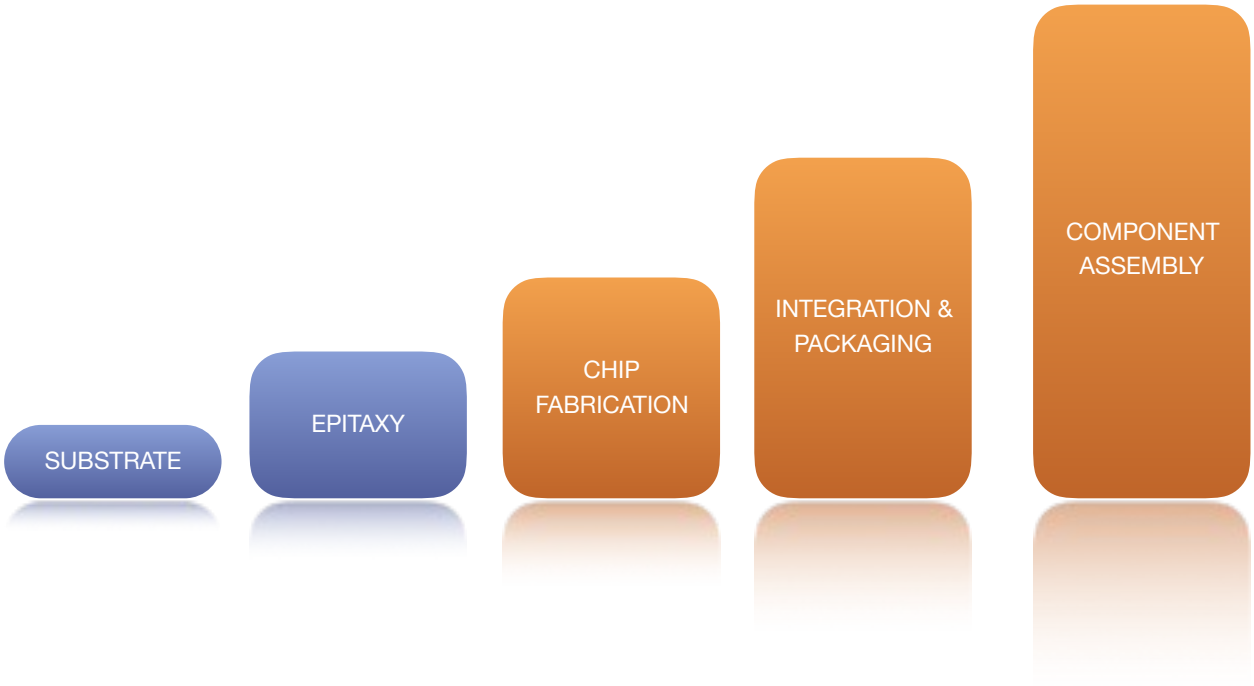
The photonic and power efficiency properties offered by compound semiconductors that could not be achieved with silicon alone, will enable technologies essential in areas such as safety and security systems, healthcare technologies, aerospace and automotive applications including electrically powered and autonomous vehicles.

It is our ability to harness the advanced properties of the full range of semiconducting materials that will drive the digital revolution for generations to come.

Welcome to the world of advanced, compound semiconductors.



Our core technology - making wafers



Epitaxy

IQE's core business is the manufacture of compound semiconductor wafers or "epiwafers" using a process called epitaxy.

The epitaxial growth process is a nanotechnology whereby complex atomic structures are produced under strictly controlled conditions. The end product is a pure, crystaline semiconductor wafer (substrate) upon which complex structures comprising many individual atomic layers are grown.

These epitaxial layers uniquely define the wireless, photonic and electronic performance of our epiwafers which are then processed by our customers to produce the "chips" that are found in virtually all of today's technology devices and gadgets.

Epitaxy is the first key stage in the process of manufacturing the critical components in a wide range of devices from mobile handsets to solar cells and LEDs, and it requires high specification cleanrooms, sophisticated production tools and high levels of intellectual property.

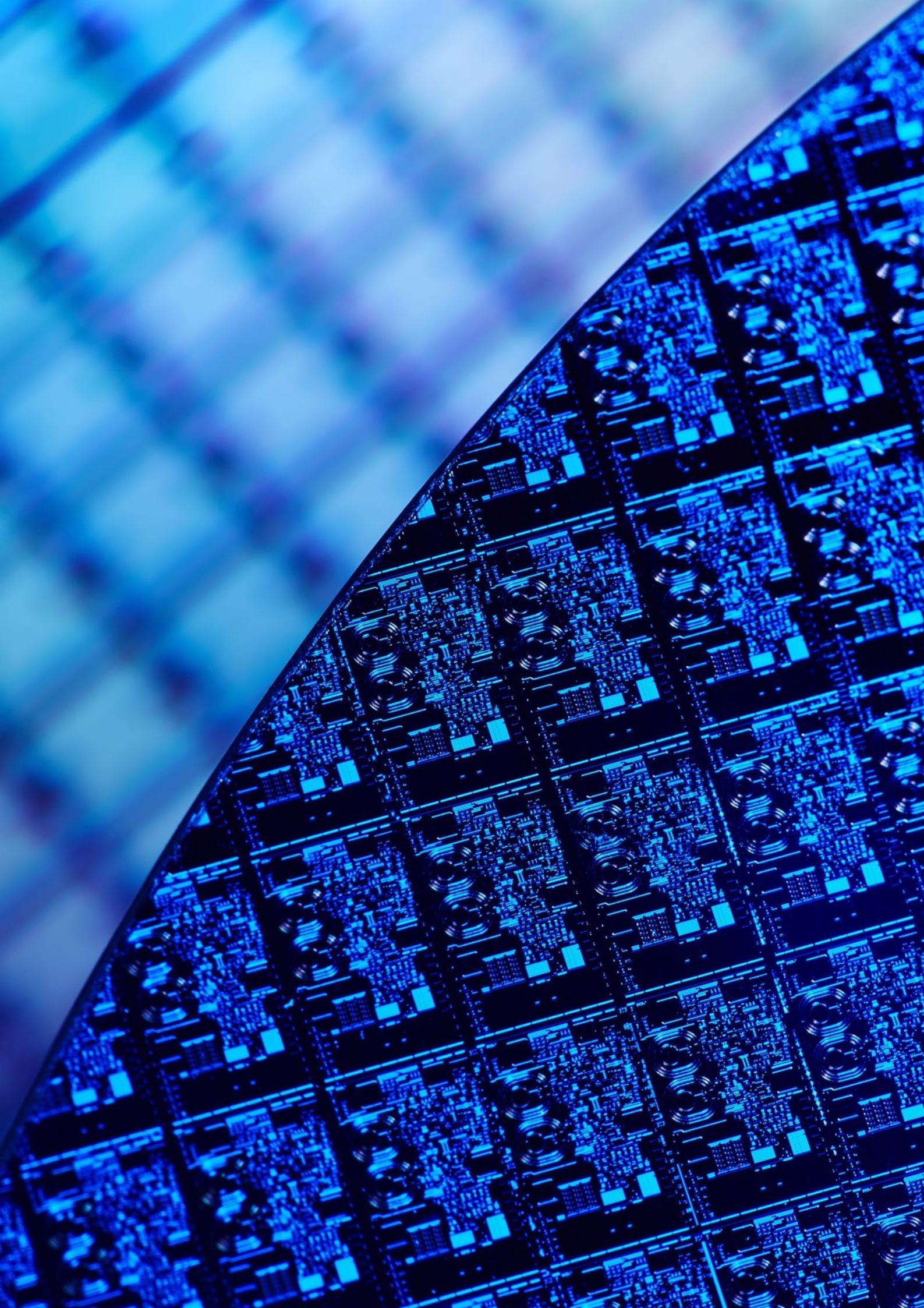
IQE produces atomically engineered layers of crystalline materials containing a variety of semiconductor materials such as gallium, arsenic, aluminium, indium and phosphorous.

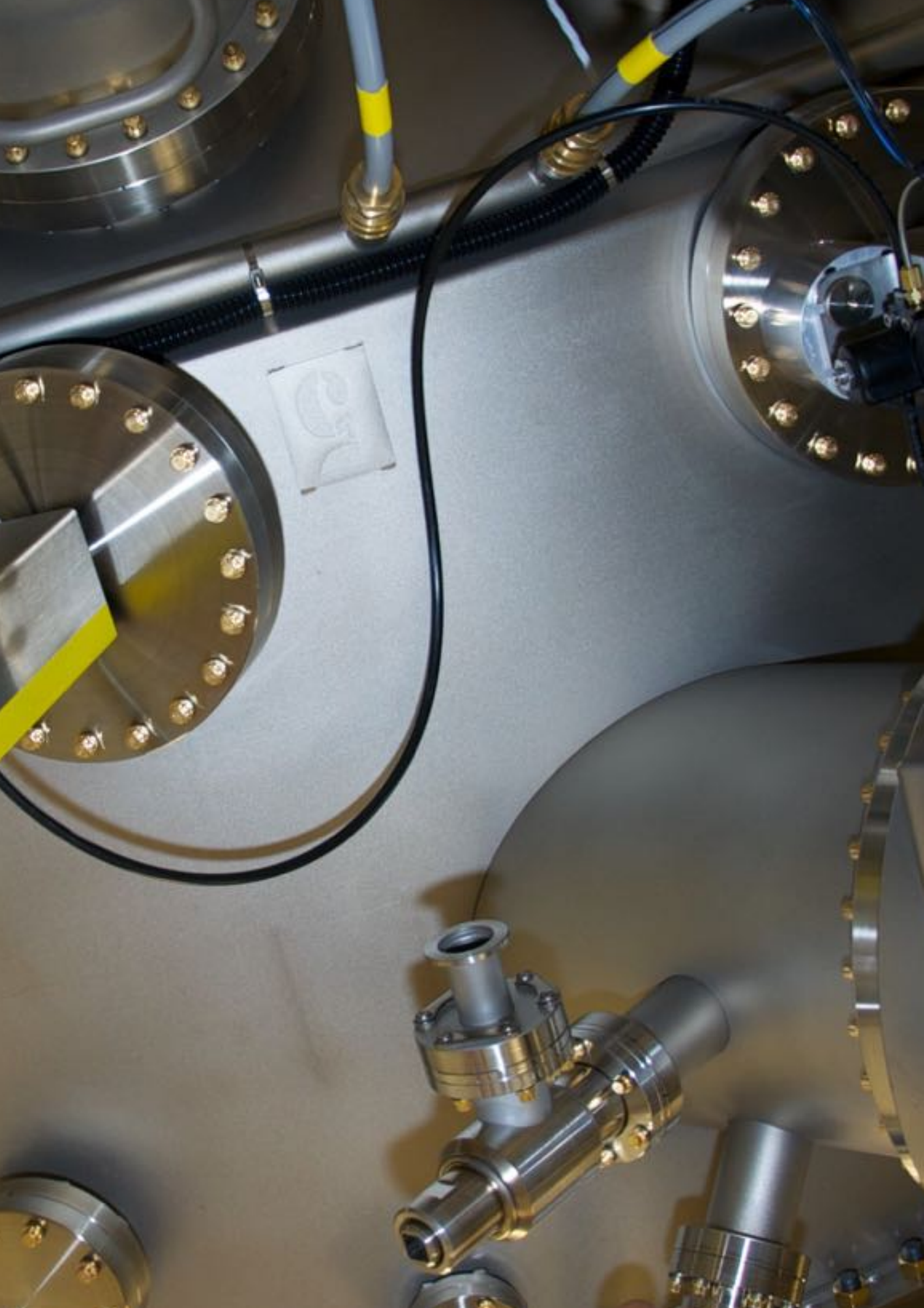
The layers are grown onto a crystal substrate or wafer and the finished product containing the wafer and its atomically modified surface is known as an epiwafer.

It is the number of layers, their atomic composition and the order in which they are grown that determines the precise physical, electronic and optical properties of the material.

An epiwafer can include hundreds of individual layers, each of which may be as thin as two or three atoms.

IQE's intellectual property (IP) or know-how is the science and technology behind the materials and the way in which the atomic structures can be manufactured to yield the wide range of wireless, photonic and electronic properties that are essential in today's electronically enabled age.





Epitaxy

Epitaxy > ˈɛpɪtaksi

noun

In crystallography, the natural or artificial growth of crystals on a crystalline substrate that determines their orientation.

Epitaxy is a process for depositing layers in a highly controlled way to form precisely defined crystalline structures that have specific atomic arrangements.

The layers deposited using an epitaxial deposition process are designed to produce highly specific electrical, optical and mechanical properties.

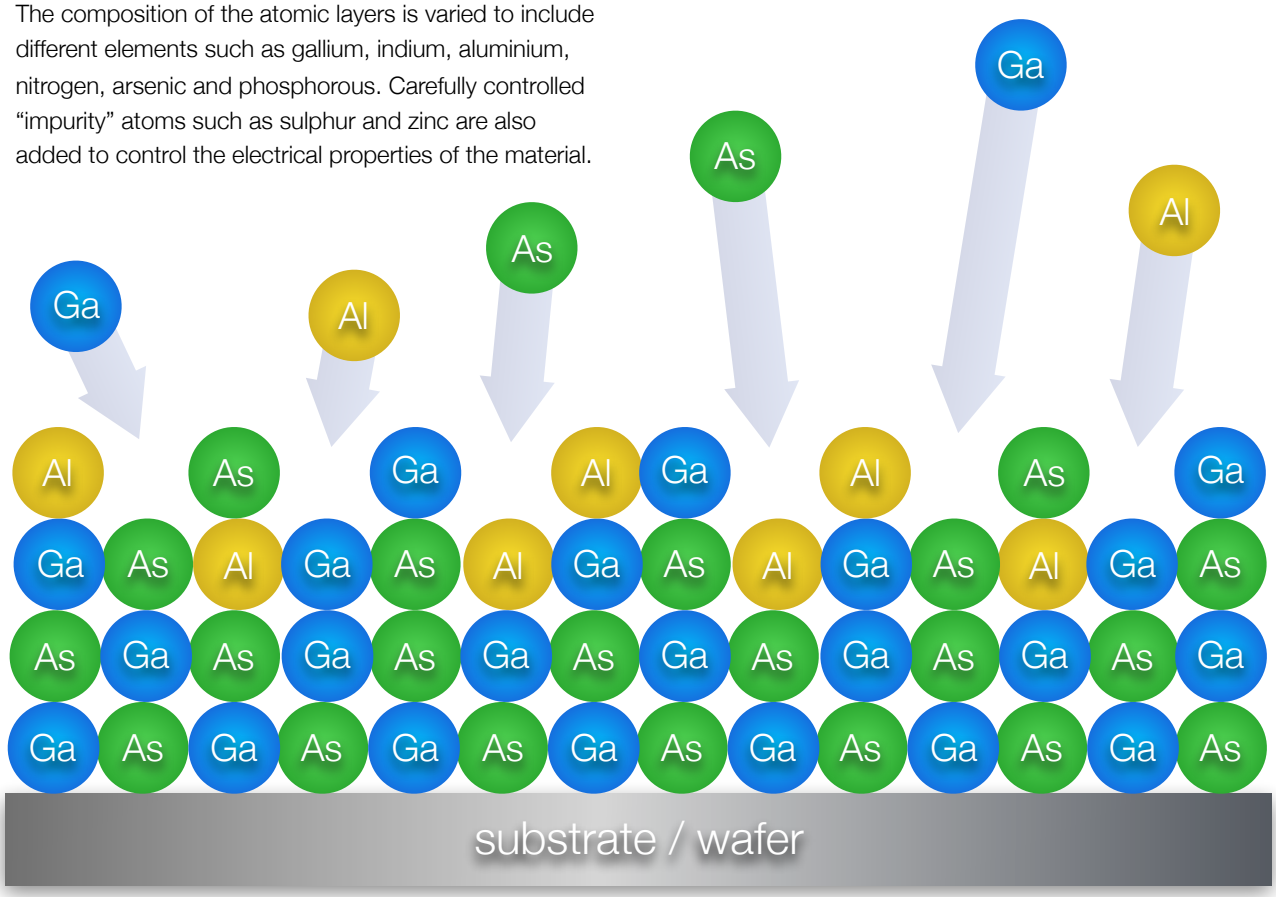
Layers of atoms are arranged on a crystalline substrate of gallium arsenide (GaAs) or indium phosphide (InP).

The composition of the atomic layers is varied to include different elements such as gallium, indium, aluminium, nitrogen, arsenic and phosphorous. Carefully controlled "impurity" atoms such as sulphur and zinc are also added to control the electrical properties of the material.

The stage is set

Change is a constant in our world. The inexorable drive for electronic devices to continue to achieve higher levels of functionality, speed, performance and efficiency will unquestionably necessitate the increasing use of more sophisticated semiconductor materials. These advanced semiconductors are enabling a range of new mass market applications such as gesture recognition and short range optical communication, and at the same time disrupting some existing large markets such as solar energy and power switching. We expect that this rate of change will continue to accelerate.

We have established a global manufacturing platform and a breadth of IP relating to the design and manufacture of advanced materials that is second to none. We have been unwavering in our vision and have developed a robust strategy which gives us confidence over the growth prospects of the business and our ability to create shareholder value.

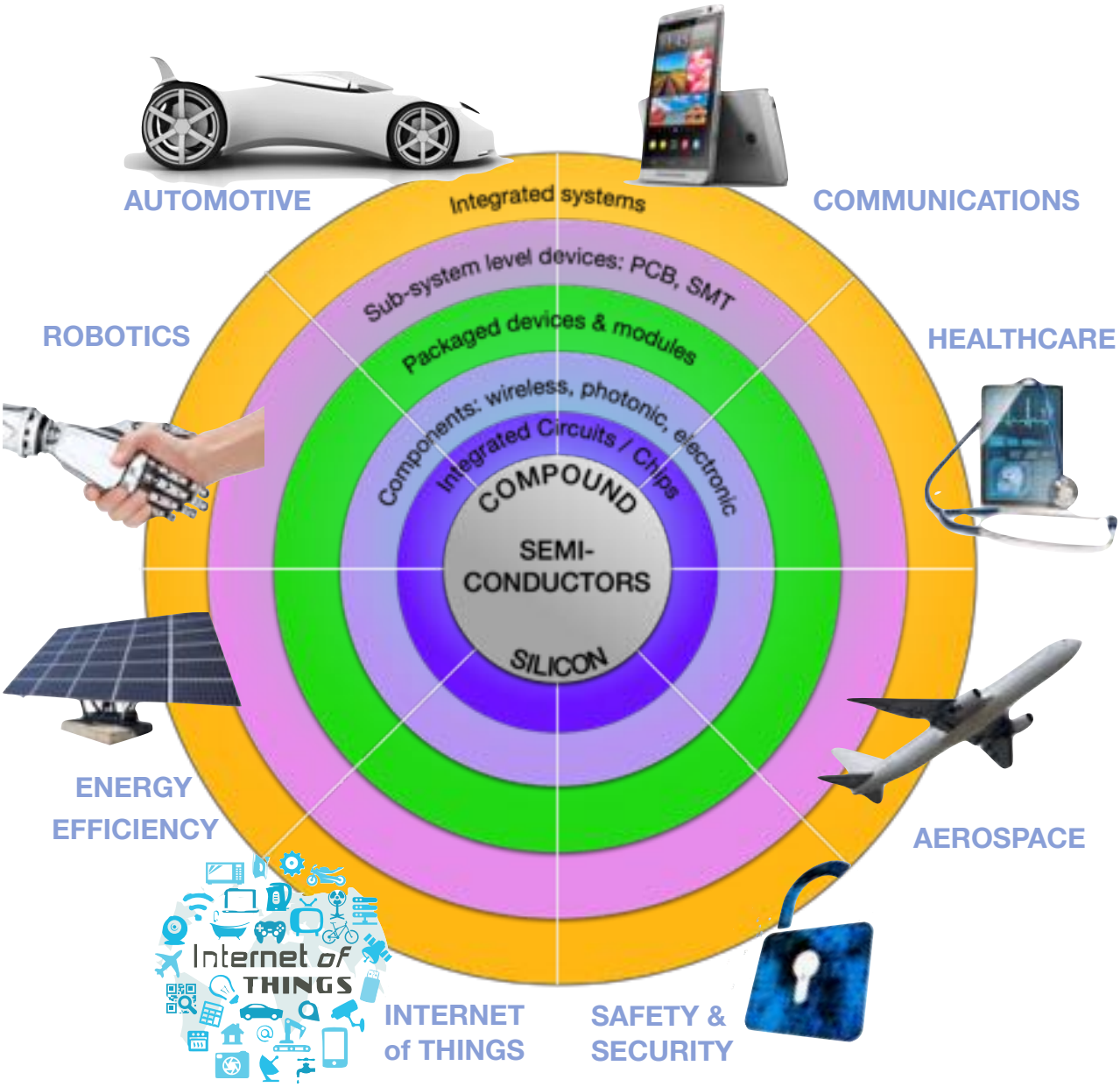


Ubiquitously enabling new and emerging technologies

The unsung heroes

Semiconductors in the form of both silicon and compound semiconductors, form the heart of many of today's technologies. Without semiconductors, many devices and applications that we rely on simply would not exist, yet these atomically engineered materials go largely unnoticed amongst the end user brands with which we are so familiar.

Semiconductors are a key enabling technology that feed into multiple supply chains feeding a wide range of market sectors including: aerospace, healthcare technologies, aerospace, safety & security, big data and the Internet of Things (IoT), energy efficiency (generation and consumption), robotics and automotive products.



Innovation through collaboration

Building a high-tech cluster

Intellectual property relating to advanced materials is playing an increasing role in the evolution of the semiconductor industry. It is widely accepted that advanced materials are needed to overcome the challenges and realise the opportunities facing the electronics industry. This is evident from recent M&A activity in the CS space, including the formation of a JV by Qualcomm and TDK (January 2016), the acquisitions by II-VI Inc of Epiworks (January 2016) and Anadigics (March 2016), and the pending acquisition by Sanan of GCS. The prices being paid in these deals is running into revenue multiples of 3x to 4x, reflecting that 'the heat is rising'.

IQE has been at the forefront of advanced semiconductor technology for over a quarter of a century. It has built a reputation within the CS industry for the breadth and depth of its materials technologies and capabilities. This is now becoming increasingly recognised outside the CS industry, where IQE is becoming recognised as the 'go to' advanced materials innovator and provider. Indeed, IQE is now engaged directly with a number of Tier 1 OEMs, bypassing the normal "materials-chip-OEM" model.

There are many examples in history that show collaboration is a powerful tool in accelerating innovation. The benefits are even greater when whole ecosystems "cluster" in the same location, breaking down the barriers created by geography and time zones. Indeed, Silicon Valley in California is a prime example of how the benefit of clustering can propel an industry to a global platform.

It is the benefits of collaboration and clustering that underpin IQE's strategic rationale for the joint venture partnerships it announced during 2015, and its highly successful Open Innovation programme (openiqe.com)

The silicon supply chain is no stranger to the benefits of clustering. Indeed, there are 4 clusters within Europe which are centred around the development and commercialisation of Silicon technology. These are strongholds of innovation and value creation, with over 800 companies and 150,000 employees.

IQE's vision is to be at the epicentre of the world's first compound semiconductor cluster, based in the UK. There has been significant progress in making this a reality over the past 12 months, and momentum continues to build :

- Cardiff University is investing c.£75m in the formation of the Institute of Compound Semiconductors as part of its £300m innovation campus;
- IQE and Cardiff University invested £24m in the formation of the Compound Semiconductor Centre
- In January 2016 George Osborne announced £50m funding for a Compound Semiconductor Catapult in Wales, which will leverage a further £100m funding from Innovate UK and Industry
- In March 2016, the Cardiff City Region Deal was announced which identifies the emerging CS cluster in Cardiff as one of its 5 headline goals.

This level of investment is recognition of the increasing significance of compound semiconductor technology in the electronics industry, and the UK's ambitions to build on its existing academic and industrial strengths to develop a world class end-to-end supply chain for compound semiconductor technologies in the UK.

Strategic report: our competitive advantage

Global footprint

IQE's operations span the US, Asia and Europe which reflects the geographical diversity of our customer base. This allows IQE to be positioned close to its customers and maintain strong, long-term relationships.

Breadth of technology

As a pioneer 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.

Intellectual property

IQE has and continues to develop a world leading intellectual property (IP) portfolio through a combination of innovative development programmes as well as by acquisition.

Our IP is becoming increasingly attractive to customers wishing to access IQE's vast technical experience and expertise to exploit new opportunities in new and emerging markets.

Our IP continues to add significant value to our product and service offering to both existing customers and the large number of new entrants to global technology markets.

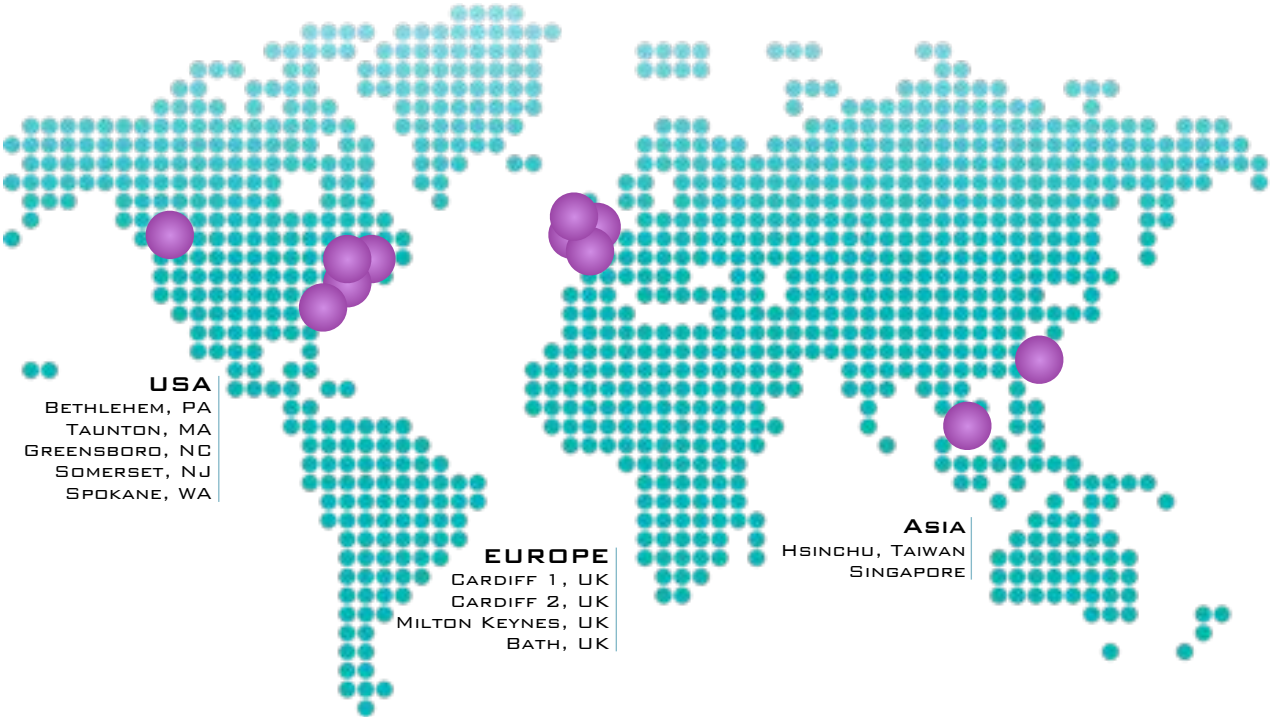
Cost leadership

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.

IQE locations



Strategic report: 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 20th 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 exceeds fixed costs.

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

Strategic report: our markets

Organisation

The Group has established six Business Units along market lines, to address its primary and emerging markets:

IQE Wireless
IQE Power
IQE Photonics
IQE Solar
IQE Infrared
IQE CMOS++

The emerging markets of Solar and Power control are not yet significant enough to be separated in our segmental reporting.

Wireless

Wireless sales accounted for 70% of the Group's sales in 2015 down from 80% in 2014. 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 other connected devices.

Photonics

Photonics sales accounted for 14% of the Group's sales in 2015 up from 11% in 2014. The photonics market covers applications that either emit or detect light. We segment the photonics market into:

- Emitters and detectors
- Solar (CPV)
- Lighting

Infrared

Infrared sales accounted for 8% of the Group's sales in 2015 and 2014. The Infrared market uses indium antimonide and gallium antimonide engineered materials that enable high resolution Infrared systems. Whilst key markets are currently limited to defence programmes, there are likely to be major future opportunities in commercial markets in areas such as sensing applications for autonomous and driverless vehicles.

CMOS++

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

We segment the CMOS++ market into:

- Power control
- Advanced materials

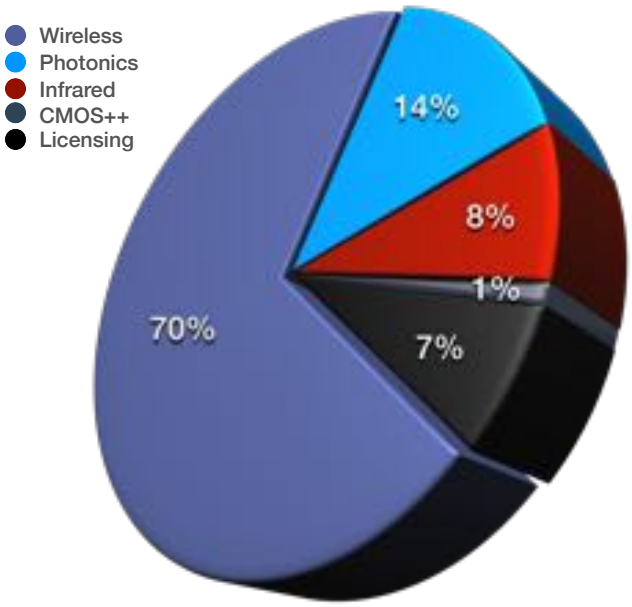
The key advantages of compound semiconductors are:

- Compound semiconductors are much more efficient at emitting and processing high-speed wireless signals
- Compound semiconductors are much more efficient at emitting and sensing 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.

Licence Income

Licensing income reflects a new revenue stream to commercialise our IP portfolio accounting for 7% of the Group's sales in 2015. IQE has developed a powerful IP portfolio which we are now able to monetise from both product sales and licensing of the IP. The IP licence income in 2015 includes a combination of upfront and recurring income.



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.

Whilst handset replacement cycles have slowed, innovations such as wearable devices are expected to reignite the desire to upgrade connected devices such as smartphones. Coupled with the widely held view that the Internet of Everything will see 50 billion connected devices by 2020, the overall wireless market is expected to continue to grow with the global roll out of LTE, 4G, 5G and the evolution of WiFi.

According to industry analyst, IDC, smartphone shipments reached 1.43 billion units in 2015, led by Samsung with a 24% market share (342.8 million units) and Apple with a 16% market share (231.5 million units).

Gartner estimated that smartphones represented 75% of the total of 1.91 billion handset sales in 2015, forecasting modest growth of 1.9% in 2016.

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 compound semiconductor content with 5G expected to demand a quantum leap in speed, power and efficiency with operating frequencies expected to operate above 60GHz compared with less than 3GHz protocols for existing 4G networks.

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

The 802.11ac WiFi standard operates at 5GHz rather than the 2.6GHz currently used. The higher frequency which greatly increases 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, the Internet of Things (IoT) 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 have become major consumers of electrical energy, rivalling traditional heavy industries in terms of the power requirements needed to keep large warehouses full of servers operating and cooled. It is therefore of little surprise that enterprises such as data centres are amongst the first adopters, where optical technology now offers both higher performance and lower overall operating cost compared with copper.

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 Gb/s already demonstrated.

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 are expected to appear in many new product launches over the coming years.

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. It is anticipated that many household appliances will be controlled by gesture.

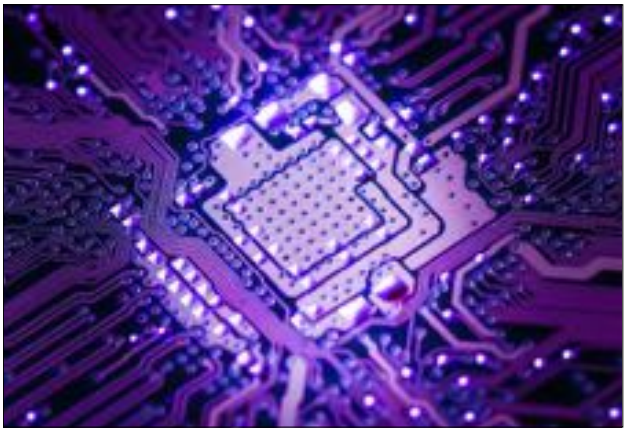
Precision focusing

The “time of flight” measurement used for gesture recognition applications is also being utilised in high-speed, precision focusing applications for a wide range of camera devices, including smartphones.

Laser projection

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 miniaturised and does not require focusing optics. This technology is called pico projection.



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 continue 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.

Solar

Solar cells utilising compound semiconductors (called CPV or Concentrated PhotoVoltaics) provide the highest efficiencies 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% which compares with typical efficiencies of around 18% from amorphous silicon solar panels, while thin film technology is typically around 10 to 15% efficient.

A further advantage of compound semiconductors is their tolerance of higher temperatures and robustness to cosmic radiation, which makes compound semiconductor based alternatives especially suitable for space power applications.

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 enables 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 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 factors are 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.

CMOS++

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's deal to acquire Translucent's unique 'cREO™' technology creates a significant new platform to drive our business into several new large volume areas. Translucent's cREO™ technology offers a unique approach to the manufacture of a wide range of innovative Compound Semiconductor on Silicon products, including gallium nitride (GaN) on silicon (Si) for the burgeoning Power switching and RF technologies markets. The technology is protected by a wide ranging IP portfolio.

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 our intellectual property in this field has the potential to revolutionise the semiconductor world, and in so doing will create significant long-term value to IQE shareholders.

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 globally, 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 power adapters that we use for our electronic devices, such as laptop power supplies, provide a vivid example of this phenomenon by virtue of the electrical energy that is lost in the form of heat generated through the conversion process.

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

Our power business has made strong progress through 2015, achieving several key technical milestones and building commercial partnerships.

Strategic report: our strategy

Industry positioning

IQE has been at the forefront of the compound semiconductor industry since 1988 and has developed an unparalleled depth and breadth of technology with in 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), 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

Strategic report: operational highlights

Operational highlights during 2015 included continued organisational development, improvements in operational efficiencies and market diversification.

Organisation development

The Group continued with its Organisational Development Programme. This has involved transferring production between sites to improve operational efficiency, enabling the Group to reduce its operating costs and achieve its cost reduction targets.

Improvements in operational efficiencies

Continuous improvement is an ongoing process across IQE's global operations, with numerous programmes under way at any given time.

A key feature of IQE's global footprint is the ability to develop and adopt best practice across multiple platforms, multiple products and multiple market sectors.

Market diversification

The Group has established six Business Units along market lines, to address its primary and emerging markets.

Each Business Unit has a clear product and customer focus, but continues to benefit from the production and technology synergies of the whole Group. Our manufacturing sites monitor production efficiencies, delivery performance and quality, aligned to the overall Group objectives.

Also, as part of its strategy for diversification, IQE has engaged with major industry players across multiple market sectors with the aim of establishing high-tech supply chains or "clusters" based on compound semiconductor technologies.

A key element in the formation of a compound semiconductor cluster was the establishment of the Compound Semiconductor Centre (CSC), a Joint Venture (JV) with Cardiff University.

The CSC was formed in August 2015 and IQE's contribution was equipment with a market value of £12m, which was matched by a £12m cash contribution from Cardiff University.

Strategic report: key development milestones

Intellectual property

IQE continues to develop a powerful Intellectual Property (IP) portfolio and works closely with a number of partners to develop and commercialise leading edge technologies.

However, largely due to the highly sensitive commercial nature of such developments, IQE enters into non-disclosure agreements (NDAs) with its partners to protect both its own and its customers' IP. The developments outlined here relate to programmes about which information is available in the public domain.

The Photonics Institute for Manufacturing Innovation (IP-IMI)

IQE has been announced as a key partner in a new consortium to establish the United States' first Integrated Photonics Institute for Manufacturing Innovation (IP-IMI).

Created as part of President Obama's National Network for Manufacturing Innovation (NNMI), the IP-IMI is designed to bring industry together with academia and government to advance the state-of-the-art in the design, manufacture, testing, assembly, and packaging of photonic integrated circuits.

The consortium, known as the American Institute for Manufacturing Integrated Photonics (AIM Photonics), comprises 55 leading industrial partners, including Intel, IBM, Infinera, HP, Honeywell and TI along with numerous other leading edge companies, universities and laboratories, and is led by the Research Foundation of the State University of New York (SUNY). IQE's role in the consortium is to provide advanced epitaxy services to the Institute partners.

The institute will provide central facilities through which academia, SMEs and large corporations can access latest technology for design and manufacture of photonics devices providing a route to commercialisation through high-value, high-volume manufacturing.

Exclusive Licence of the Unique 'cREO™' Technology

In September 2015, IQE signed a deal to take Translucent Inc's unique 'cREO™' technology to market. The deal provides a significant new platform to drive our business into several new large volume areas. Translucent's cREO™ technology offers a unique approach to the manufacture of a wide range of innovative Compound Semiconductor on Silicon products, including gallium nitride (GaN) on silicon (Si) for the burgeoning Power switching and RF technologies markets. It is protected by a wide ranging IP portfolio consisting of 74 granted patents, and 13 additional patent applications.

Gallium Nitride (GaN)

Gallium nitride on Silicon (GaN on Si) is driving a technology shift in the multi-billion dollar power switching and LED markets. IQE has continued to push the technology boundaries and is making rapid progress both technically and in developing commercial relationships in the supply chain.

This includes supplying commercially ready 100mm gallium nitride (GaN) on silicon carbide (SiC) epiwafers that were used to produce record results for both high gain and high power density transistor devices, enabling for the first time, flexible monolithic microwave integrated circuit (MMIC) design for efficient high-voltage/high-power broadband operation at frequencies ranging from 0 to 40 GHz.

These results, achieved on our GaN on SiC epiwafers, demonstrate the ability of IQE to produce record-breaking, world leading results on commercial platforms that enable today's leading edge satellite communications and will be essential for enabling next generation wireless technologies.

Strategic report: financial review

Revenue

Revenues of £114.0m were up 2% on 2014 (£112.0m). Strong growth in photonics revenues (up 28% to £16.0m), and the generation of license income (£8.0m) as a new income stream, were partially offset by a reduction in wireless revenues (down 11% to £79.5m). Revenues in other markets were broadly flat year-on-year at £10.5m (2014: £10.4m).

The license income was earned from licenses to Joint Ventures (JVs). These JVs are commercial entities seeking to develop and commercialise new products, to which IQE has first manufacturing rights. IQE's equity share in each JV is ~50%, and it shares control of these JVs with its JV partners. The license revenue earned and recognised by IQE reflects only its share (~50%) of the gross income (ie is stated after the elimination of unrealised gains). Given that the JVs are related parties, the licence fees were determined with independent validation. These license fees are primarily upfront fees, although there is a recurring element. This is consistent with the Group's strategy to monetise its IP through production and licensing where appropriate. The Group is also exploring further opportunities to license IP to third parties. By its nature this income is inherently lumpy. In Q1 of 2016 the group has earned further upfront license income with JV's of approximately £2m.

The reduction in wireless revenues reflects the well publicised slowdown in the smartphone market during the second half of 2015, which was exacerbated by inventory adjustments through the supply chain.

Gross profit

Adjusted gross profit increased from £31.6m to £32.4m largely driven by the increase in revenue. Reported gross profit increased from £26.0m to £30.7m. As a percentage of sales, adjusted gross margins were stable at 28%, whereas reported gross margins increased from 23% to 27%.

Other income

Other income of £0.8m relates to a gain on the reduction of the estimated remaining balance of contingent deferred consideration payable in respect of a previous acquisition. The payments under this contingent deferred consideration arrangement cease during 2016. The prior year comparative was a £1.7m charge which related to provisions for onerous leases and the impairment of fixed assets, which were partially offset by a gain on release of contingent deferred consideration.

SG & A

Adjusted selling, general and administration expenses (SG&A) decreased from £13.9m to £13.5m, which includes the benefit of improved efficiencies. Reported SG&A decreased from £17.1m to £15.5m.

Operating profit

The profit on disposal of fixed assets of £5.2m primarily reflects a gain of £4.8m on the establishment of the UK JV, in which the Group contributed equipment in return for its 50% equity share (see note 4). In addition, other unrelated disposals of equipment realised a net gain of £0.4m.

Adjusted operating profit increased by 8% from £17.6m to £19.0m, reflecting higher sales and the margin benefit from license income. Reported operating profit increased 3x from £7.2m to £21.2m, which also reflects the restructuring charges included in 2014.

Interest

Interest costs reduced from £1.9m to £1.8m reflecting the reduction in borrowings, and a reduction in the imputed (non cash) interest charges relating to the discounting of long term balances.

Tax

There was a net tax credit of £0.5m in respect of the underlying profit, which was consistent with the prior year (2014: £0.5m credit). In addition, there was a £0.3m tax credit relating to the exceptional items, compared with a tax charge of £3.8m on exceptional items in 2014. The Group has sufficient tax losses available to shield future tax payable of circa £37.5m.

Profit after tax

Adjusted profit after tax increased by 8% from £16.7m to £18.1m, and reported profit after tax increased from £2.0m to £20.1m. The adjusted fully diluted earnings per share was 2.60p, up 7% from 2.42p in the prior year. Reported diluted earnings per share was 2.90p, up from 0.24p in 2014. The Board will not be recommending the payment of a dividend.

Cash flow

Cash inflow from operations, before exceptional items, increased 15% from £19.6m to £22.6m. After exceptional items, cash generated from operations increased 41% from £14.9m to £21.0m.

Strategic report: financial review (continued)

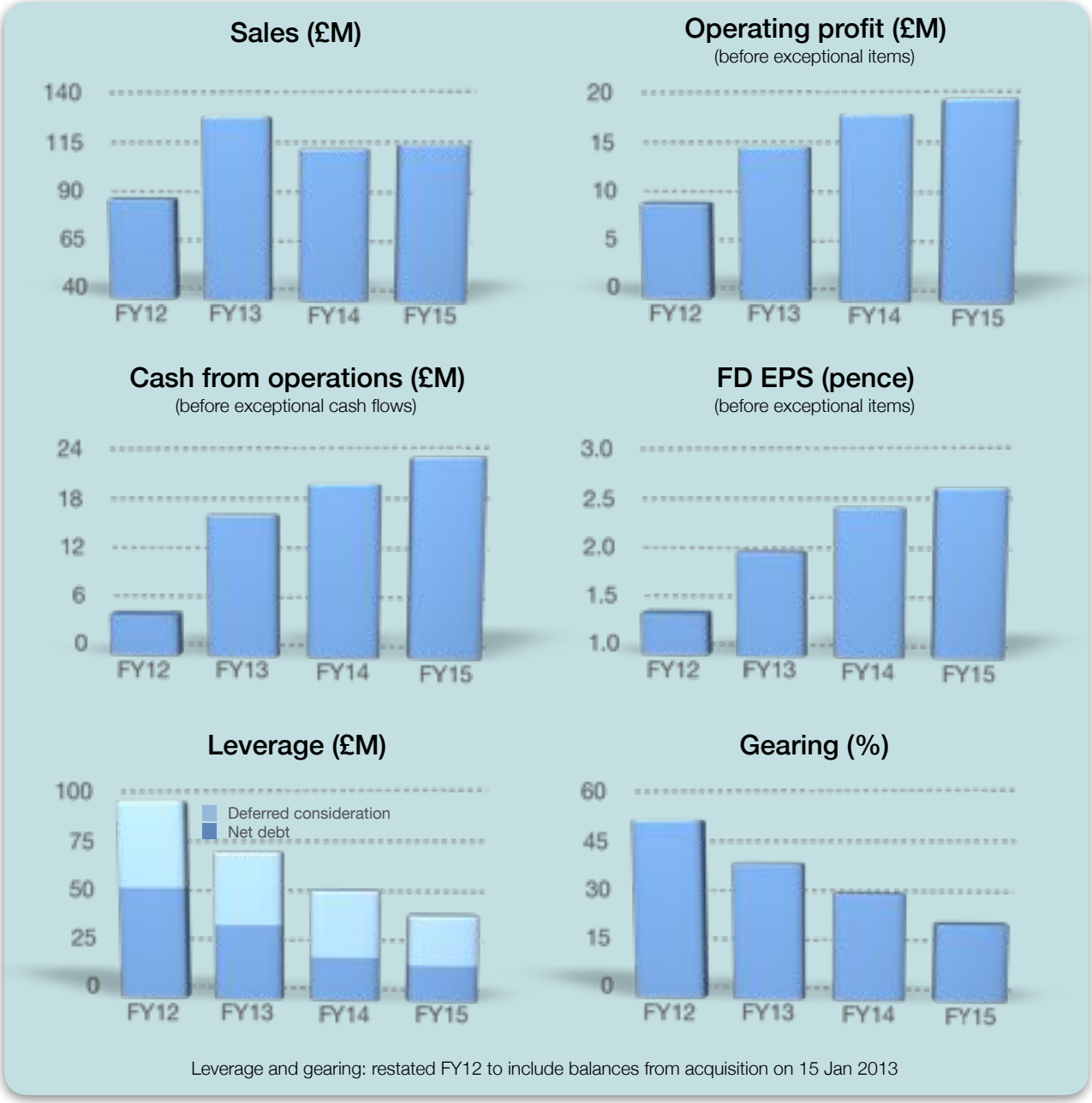
Capital investment

Cash investment was £10.0m up from £9.4m in the prior year. Investment in new product development of £5.0m was consistent with the prior year (£5.0m), whilst investment in other intangibles was slightly lower at £1.2m (2014: £1.3m). The investment in property, plant and equipment increased by £0.6m from £3.2m to £3.8m, which remains towards the lower end of the normal expected levels of maintenance capex.

Debt

Balance sheet leverage was down £11.6m from £51.9m to £40.3m, as gearing reduced from 30% to 22%. This reflects that deferred consideration relating to previous acquisitions reduced by £3.5m from £20.6m to £17.1m, and that net debt reduced by £8.1m from £31.3m to £23.2m. This continues the trend in strong cash generation whilst maintaining investment in new technologies.

Strategic report: KPIs and financial highlights (Dashboard)



Leverage and gearing: restated FY12 to include balances from acquisition on 15 Jan 2013

Strategic report: current trading and outlook

The Group's global leadership in wireless and its developing pipeline of high growth opportunities positions it well to continue its growth profile over the coming years.

The current financial year has started well and trading is in line with expectations. The outlook for the full year remains positive, with strong prospects reflecting increasing revenue diversity and a broad IP portfolio.

The Board remains confident of achieving our expectations for the full year and we anticipate that we will continue to benefit from strong cash flows.

Strategic report: 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.

The Group is engaged in a number of research and development programmes in collaboration with customers, academia, research organisations 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.

Open Innovation

IQE is classified by the Welsh Government as an "Anchor Company" in acknowledgement of its status as an exemplar in terms of its global leadership.

As an Anchor Company, IQE was invited by the Welsh Government to run an Open Innovation pilot programme which has been highly successful in establishing new technology networks to identify long-term opportunities.

IQE's open innovation programme, 'OpenIQE' is actively helping to boost regional economies by collaborating with industrial and academic partners 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

CoInnovate

As part of IQE's open innovation programme, a key "CoInnovate" conference was held in Cardiff, UK in June 2015. The conference was jointly sponsored by the Welsh Government, academic partners as well as IQE and industrial partners including Airbus, GE Healthcare and General Dynamics,

The CoInnovate conference website is at:
www.coinnovate.co.uk

Strategic report: 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 deployed by:

- Respecting the need for confidentiality across our global customer base by ensuring that any references to customers' 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.

As an AIM listed company, IQE is not eligible to participate in the London Stock Exchange FTSE4 Good 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.

The company has also developed and implemented policies to comply with the requirements of the UK's Modern Slavery Act. Reference to the policy may be found on the corporate website at www.iqep.com.

The community

IQE engages with the communities in which it operates, supporting charitable causes, encouraging staff participation in sponsoring events and challenges, as well as taking part in initiatives such as Young Enterprise, Business Class (Business in the Community) and STEMNET, encouraging students to follow science, technology engineering and mathematics from school through to university studies.

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.

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

IQE's quality programme 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 characterisation 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 characterisation technologies and new materials solutions. IQE is actively involved in partnerships with its suppliers to develop the next generations of epitaxy and metrology equipment with a focus on increasing production efficiencies, reducing epiwafer costs, and maintaining its technological leadership.

Health & Safety

IQE pays a great deal of attention to ensuring the health and safety of everyone involved in the business.

The environment, health & safety (EHS) group completed a restructure at the beginning of 2016, which included continuation of training and accreditation of competent persons, appointment of safety practitioners whose role is to minimise risks of injury at work; ensure legislative compliance; and assist in creating and monitoring safety practices to be followed. The restructure also included the designation of safety advisors, with the appropriate expertise to support in specific areas of activity such as LEV and pressure systems.

The EHS group is actively involved in industry-wide initiatives and is proactively registering under new initiatives such as REACH.

The EHS group has also recently completed an audit and review of chemical control processes to ensure continued compliance with HazComm regulations.

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.

IQE's policies and procedures are in the process of being updated to meet the September 2015 vision of the environmental management standard, ISO14001, which will be rolled-out across the Group during 2016-17. The new standard places a greater emphasis on Risk and opportunity management embedded in the organisation.

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.

Strategic report: principal risks and uncertainties

The Group has an established process for the identification and management of risk as part of the governance framework. Management of risk is the responsibility of the Board of Directors. In managing risk a comprehensive and robust system of controls and risk management processes have been developed and implemented by the board.

The Board's role in risk management includes:

promoting a culture that emphasises integrity at all levels of business operations;

- embedding risk management within the core processes of the business;
- approving appetite for risk;
- determining the principal risks;
- ensuring that these are communicated effectively across the businesses; and,
- setting the overall policies for risk management and control.

The principal risks affecting the Group are identified by the Group Executive team within their functional areas of responsibility and reviewed by the Board.

Risk management within the business involves:

1. Identification and assessment of individual risks
2. Design of controls and operational processes to mitigate the risks
3. Testing of controls through internal review and audits
4. Conclusion on the effectiveness of the control environment in place

In identifying risks we analyse risks across four key areas:

- strategic risk;
- commercial risk;
- operational risk; and,
- financial risk.

The principal risks identified are listed in order of severity. Mitigation, where possible, is shown by each identified risk area.

Principal risk: COMPETITION

BUSINESS RISK

Loss of share with a significant customer.

Price erosion due to predatory pricing from a competitor

MITIGATION

Focus on quality, value and customer service

Develop and maintain close relationships with customers to become the "materials partner of choice", by forming multilevel partnerships from material design, to pilot and volume production.

Continue to invest in product development to ensure competitive advantage.

Qualification timescales can be long but once a product and relationship is established, it creates significant barriers to entry for competitors.

In some cases, customers seek second source supply arrangements to meet their own business continuity planning policies, our multiple site capabilities provide some mitigation against this risk.

Y-o-Y CHANGE IN LIKELIHOOD

Potential Impact:

High

Effect:

Sales volumes and profitability

Principal risk: TECHNOLOGICAL CHANGE

BUSINESS RISK

A disruptive technological change has not been anticipated as a result of a lack of investment in new products and materials.

We do not adequately identify and protect our IP

MITIGATION

IQE actively engages with customers, educational institutions and government agencies on a range of research and development ("R&D") programmes.

Where appropriate IQE has protected IP through patents. It is not always appropriate to protect "process know how" through patents. Rigorous controls over segregation of duties, data protection, and access controls are implemented to secure our "trade secrets".

Y-o-Y CHANGE IN LIKELIHOOD

Potential Impact:

High

Effect:

Sales volumes and profitability

Principal risk: FINANCIAL LIQUIDITY

BUSINESS RISK

The business does not maintain sufficient funding and liquidity to meet its obligations as they fall due.

MITIGATION

The Group prepares regular financial forecasts to evaluate its funding and liquidity requirements for the foreseeable future.

These forecasts are reviewed and approved by the Board.

Based on these forecasts appropriate funding and liquidity solutions are put in place to ensure that appropriate headroom is maintained.

At the year-end 31 December 2015 we have £41.1m of committed facilities against which there was net debt of £23.2m.

Y-o-Y CHANGE IN LIKELIHOOD

Potential Impact:

High

Effect:

Financial loss & reputational damage

Principal risk: NATURAL DISASTERS

BUSINESS RISK

Natural disaster disrupts production capability, supply of materials or customer demand.

MITIGATION

IQE operates multiple global manufacturing facilities which mitigates against the impact of natural disasters on IQE.

Our active programme to second source or dual site sources for all critical supplies mitigates supplier risk. Similarly our larger customers have multi-site production to mitigate their risk.

IQE maintains appropriate business interruption insurance.

Y-o-Y CHANGE IN LIKELIHOOD

Potential Impact:

Medium/High

Effect:

Costs, Sales and profitability

Principal risk: RETENTION OF KEY EMPLOYEES

BUSINESS RISK

Loss of key people and critical skills

Insufficient skilled employees

Poor engagement and morale

MITIGATION

Retention and development of its workforce is critical to the long term success of the 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.

Y-o-Y CHANGE IN LIKELIHOOD

Potential Impact:
Medium

Effect:
Quality issues and increased cost

Principal risk: BUSINESS INTERRUPTION - SUPPLY CHAIN

BUSINESS RISK

Dependency on sole supplier

Availability of qualified raw materials

MITIGATION

The raw materials which sustain IQE's products are not scarce resources.

Active programme to maintain cross qualified second sources.

Rigorous supplier quality management processes.

Maintain close relationships with its key suppliers in order to keep well informed about potential supply issues.

Y-o-Y CHANGE IN LIKELIHOOD

Potential Impact:
Medium

Effect:
Quality issues and cost pressure

Principal risk: CUSTOMER CONCENTRATION

BUSINESS RISK

Dependency on low number of customers could result in significant impact from a loss of share from a customer.

The group has two customers which individually account for more than 10% of the group sales.

MITIGATION

The wireless sector is highly concentrated with the top 5 RF Chip companies accounting for the vast majority of the wireless market.

IQE's strategy is to 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.

The customer qualification times and high quality standards creates significant barriers to entry for competitors.

Maintain and advance our technological advantage to deliver value and retain a competitive position.

Focus on quality, value and customer service.

Y-o-Y CHANGE IN LIKELIHOOD

Potential Impact:
Medium/Low

Effect:
Costs, Sales and profitability

Principal risk: LEGISLATIVE COMPLIANCE

BUSINESS RISK	MITIGATION	Y-o-Y CHANGE IN LIKELIHOOD
Failure to comply with applicable legislation, such as: Export Control, International Traffic In Arms (ITAR), Bribery Act, Employment legislation and company legislation.	Regular reporting of export and ITAR compliance and detailed internal control processes and procedures Continuing education of the team on the legislative developments and requirements. Internal reviews and external audits	 **Potential Impact:** Medium/Low **Effect:** Financial loss & reputational damage

EU Referendum

The UK government has announced that there will be a referendum on whether the UK should remain in the European Union which will be held on the 23rd June 2016.

The result on the 23rd of June is unlikely to have any significant short term impact on IQE's business as IQE trades both within and external to Europe, with Asia and the USA being the Group's dominant markets and the US Dollar being the Groups dominant currency.

However, 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. IQE has established trading, development partnerships and grant funding from across the EU.

IQE's position is that continued membership of the EU would be the most preferred outcome from the forthcoming referendum.

Continued membership of the EU offers potential longer-term opportunities for closer collaboration between industry, academia and government agencies across Europe for the development and commercialisation of next generation technologies. The Company's management believe that Europe can play a much larger global role in developing and commercialising new and emerging technologies that can and will address 21st century societal issues. Horizon 2020 and its flagship pilot line initiatives (ECSEL), Important Projects of Common European Interest, and Photonics 21 are clear examples of Europe's ambition to play a leading role in next generation technologies, whilst addressing the major societal challenges faced by all economies.

Innovation and collaboration are vital components in developing advanced capabilities and technology leadership. Membership of a reformed EU should help engender an environment that encourages collaboration between companies, academics and government agencies across member states, and the UK should play a major role in these collaborative innovation activities.

Strategic Report

A report of the Group's performance during the year and future developments is given in the Chairman's Statement and Chief Executive's Review on pages 4 to 7.

The directors use a number of key performance indicators to manage the business, disclosed in the financial review on page 28. Non financial KPIs are not disclosed.

These areas form the required elements of the strategic report presented on pages 18 to 37 and has been approved by the Board of Directors and signed on its behalf by:

Phillip Rasmussen
Chief Financial Officer & Company Secretary
22 March 2016

Drew Nelson
CEO & President
22 March 2016

Directors' biographies

Dr Drew Nelson OBE (61)

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.

Directorships: PhotonStar LED Group plc. (to 8th December 2015)

Phillip Rasmussen (45)

Chief Financial Officer 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.

Dr Howard Williams (61)

Chief Operations Officer

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 (which became IQE in 1999) 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.

Dr Godfrey H H Ainsworth FCA (60)

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

Following a Ph.D at Cardiff University, 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 in November 2009. He has held several Non-Executive Directorship appointments, including assignments for 3i plc, The Business Growth Fund 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, Cardiff Partnership Fund.

Professor Simon J Gibson OBE (58)

Non-Executive Director, Chairman of the Remuneration Committee

Professor Simon Gibson 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 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.

Dr David Grant CBE (68)

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, DSTl, STEMNET, INNOVATE UK, NPL.

Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2015.

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 20 to 29. The review includes key performance indicators as detailed in the Five Year Financial Summary. The principal risks and uncertainties facing the group are set out on page 33 to 36. The future outlook for the Group is set out on page 29.

Dividends

The directors do not recommend the payment of a dividend (2014: £nil).

Directors

The directors in office at 31 December 2015 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 on page 42 to 46.

Substantial interests in shares

As at 29 February 2016, 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 International	10.68%
AXA Investment Mgrs	8.79%
Milton Asset Mgt	6.08%
Mr Richard I Griffiths	5.38%
Herald Investment Mgt	5.22%
Hargreaves Lansdown Asset Mgt	4.91%
Barclays Wealth	4.83%
Sanlam Four Investments UK	4.38%
TD Direct Investing	3.40%
M&G Investment Mgt	3.11%

shareholder analysis by Equiniti

Research and development

The group incurred costs in respect of research and development during the year of £5,117,000 (2014: £5,665,000) of which £4,979,000 (2014: £4,957,000) has been capitalised in accordance with IAS 38 ("Intangible assets"). The remaining research and development costs totalling £138,000 (2014: £698,000) 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 2015 was 51 days (2014: 74 days).

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, notice board announcements and "Town Hall" meetings. 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, and considering financial forecast to enable them to consider 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

Details of the principal risks and uncertainties impacting the group have been included in the strategic report on pages 33 - 36.

Treasury

IQE operates a central treasury function which acts in accordance with specific board policies. Speculative transactions are not permitted. The significant treasury policies relating to interest rates, foreign currency and liquidity are detailed in note 19.

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 and company 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 by:

P J Rasmussen
Finance Director & Company Secretary
22 March 2016

Remuneration report

Introduction

This report has been prepared applying the principles of the disclosures required for quoted companies under the Companies Act 2006 which were last amended in 2013 to introduce enhanced statutory requirements for the disclosure of directors' remuneration. Although not required to, the directors have decided to provide some of the 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.

(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, Dr D Grant 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 2015 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. No bonuses were awarded to the directors in respect of 2015.

(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 Meeting on 17 May 2002, 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 540,000 share options to staff (2014: 7,095,762 share options). During 2015, No share options were awarded to Directors in either 2014 or 2015.

On 7th January 2016 the Directors were awarded 17,625,562 deferred shares under the Company's Long Term Incentive Plan ("LTIP") based on external benchmarking.

As at 31 December 2015, 45,532,098 share options (2014: 50,536,520 share options) granted under the IQE Plc Share Option Scheme remain outstanding with exercise prices ranging from nil cost to 50p/option (2014: nil cost to 86p/option). No share options were exercised by directors during the year (2014: 8,541,823 share options). None of the directors' share options lapsed during the year (2014: nil). The numbers and prices of share options at 31 December 2015 and 31 December 2014 were as shown in the table below:

Option price	**2015 No. of options**	2014 No. of options
Share options of nil cost to 10p/option	**14,821,836**	16,364,700
Share options in excess of 10p/option to 20p/option	**25,062,958**	28,272,562
Share options in excess of 20p/option to 30p/option	**4,384,014**	4,335,000
Share options in excess of 30p/option	**1,263,290**	1,564,258
Total	**45,532,098**	50,536,520

(g) 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 2015, and there were no unfunded pension promises or similar arrangements for directors at 31 December 2015.

(h) 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.

(i) 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 2015.

Dr G H H Ainsworth service fees of £125,000 (2014: £125,000). In 2015 these fees were paid in cash to Horton Corporate Finance. In 2014 these fees were paid via a combination of cash and shares to Horton Corporate Finance. Dr G H H Ainsworth is a managing partner of Horton Corporate Finance. VAT was charged on the invoices from Horton Corporate Finance and this was recovered by the company. The cash element was £125,000 (2014: £95,000). The shares issued in relation to 2014 remuneration were to a value of £30,000 in the form of 105,340 new ordinary shares of 1p issued during 2014 and 46,816 new ordinary shares issued in January 2015.

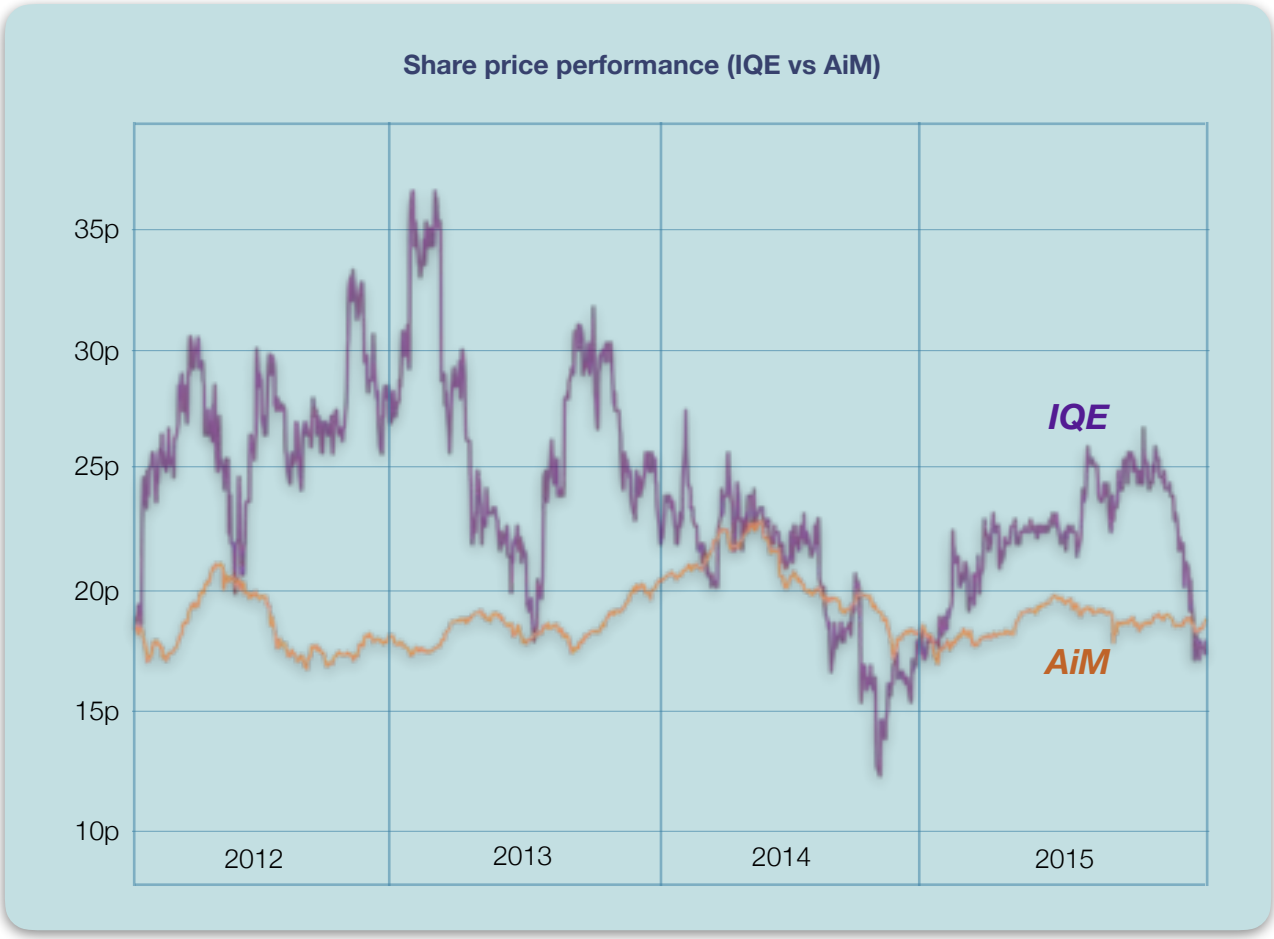
S J Gibson service fees of £50,000 (2014 £46,250) were paid in cash. Of these fees £8,000 (2014 £8,000) was paid to S J Gibson and £42,000 (2014: £38,250), was paid to Fishstone Limited. S J Gibson is a shareholder in Fishstone Limited. VAT was charged on the invoices from Fishstone Limited and this was recovered by the company.

Dr D Grant service fees of £50,000 (2014: £46,250) were paid in cash.

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. Neither had any share options in the company at 31 December 2015 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.

(j) Share price performance

The IQE plc share price has been compared with the AIM market all-share index for the four year period 2012 to 2015 as this was considered to be the most representative market group.



(k) Directors' interests in ordinary shares of IQE Plc - (audited)

The interests in ordinary shares of IQE Plc of those directors holding office at 31 December 2015 were as follows:

Name of director	As at 1 January 2015	As at 31 December 2015
Executive:		
Dr A W Nelson	35,259,218	35,259,218
Dr H R Williams	4,292,965	4,292,965
P J Rasmussen	3,473,357	3,473,357
Non-Executive:		
Dr G H H Ainsworth	3,227,339	3,274,155
S J Gibson	301,855	301,855
Dr D Grant	215,000	215,000
Total	**46,769,734**	**46,816,550**

On 7th January 2016 the directors were awarded deferred shares under the Company's LTIP, see page 43. There have no other changes to the director's interests between the year end and the date the accounts were issued.

(l) Aggregate directors' remuneration - (audited)

The total amounts paid for directors' remuneration during 2015 were as follows:

	2015 £'000	2014 £'000
Basic salaries	1,124	858
Bonuses	-	-
Non-executive fees	225	217
Subtotal salaries and fees	**1,349**	**1,075**
Car allowance	154	107
Benefits in kind	15	21
Money purchase pension contributions	56	56
Total	**1,574**	**1,259**

(m) Directors' emoluments - (audited)

The aggregate emoluments paid to each director during 2015 were as follows:

Name of director	Salary fees and bonuses £'000	Car Allowance £'000	Benefits in kind £'000	Pensions £'000	2015 Total £'000	2014 Total £'000
Executive:						
Dr A W Nelson	480	66	7	-	**553**	421
Dr H R Williams	322	44	1	28	**395**	305
P J Rasmussen	322	44	7	28	**401**	316
Non-Executive:						
Dr G H H Ainsworth					**125**	125
S J Gibson					**50**	46
Dr D Grant					**50**	46
Total					**1,574**	1,259

(n) Directors' interests in share options of IQE Plc - (audited)

The interests in share options in IQE Plc of those directors who held office at 31 December 2015 were as follows:

Name of director	As at 1 January 2015	Options granted	Options exercised	Options Cancelled	As at 31 December 2015	Date(s) from which exercisable
Executive:						
Dr A W Nelson	3,145,433	-	-	-	3,145,433	1 Jan 2014 to 1 Jan 2017
Dr H R Williams	3,269,715	-	-	-	3,269,715	1 Jan 2014 to 1 Jan 2017
P J Rasmussen	2,391,252	-	-	-	2,391,252	1 Jan 2014 to 1 Jan 2017
Non-Executive:						
Dr G H H Ainsworth	-	-	-	-	-	
S J Gibson	-	-	-	-	-	
Dr D Grant	-	-	-	-	-	
Total	**8,806,400**	**-**	**-**	**-**	**8,806,400**	

Name of director	As at 1 January 2014	Options granted	Options exercised	Options Cancelled	As at 31 December 2014	Date(s) from which exercisable
Executive:						
Dr A W Nelson	7,946,186	-	(4,800,753)	-	3,145,433	1 Jan 2014 to 1 Jan 2017
Dr H R Williams	5,140,250	-	(1,870,535)	-	3,269,715	1 Jan 2014 to 1 Jan 2017
P J Rasmussen	4,261,787	-	(1,870,535)	-	2,391,252	1 Jan 2014 to 1 Jan 2017
Non-Executive:						
Dr G H H Ainsworth	-	-	-	-	-	
S J Gibson	-	-	-	-	-	
Dr D Grant	-	-	-	-	-	
Total	**17,348,223**	**-**	**(8,541,823)**	**-**	**8,806,400**	

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

The highest and lowest mid-market share prices in respect of the shares of IQE Plc during 2015 were 26.75p/share and 17.25p/share respectively (2014: 27.50p /share and 12.50p/share respectively). The mid-market price of IQE plc shares closed at 17.50p/share as at 31 December 2015 (2014: 17.75p/share).

In aggregate, the executive directors made a gain of £nil (2014: £1,058,584) on the exercise of share options during the year. The majority of these shares were retained by the executive directors. Those sold were sold in order to satisfy the option price and tax arising on the exercise. The shares retained are included in the closing totals shown on page 45. Dr Nelson made a gain of £nil (2014: £581,594) as part of these exercises.

Approval

This report was approved by the Board of Directors on 22 March 2016 and signed on its behalf by:

S J Gibson, OBE
Remuneration Committee Chairman

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 2015, 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 and or shares. 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 three non-executive directors, S J Gibson, Dr D Grant and Dr G H H Ainsworth. 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 2015 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 2015	8	4	2
Number of meetings attended in 2015			
Executive			
Dr A W Nelson	8	n/a	2
P J Rasmussen	8	4	n/a
Dr H R Williams	8	n/a	n/a
Non-executive			
Dr G H H Ainsworth	8	4	2
S J Gibson	8	4	2
Dr D Grant	7	4	2

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; and
- 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.
- 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 (audited) are as detailed below:

	Total 2015 £'000	Total 2014 £'000
PricewaterhouseCoopers LLP (group auditors)		
Fees payable to company's auditor and its associates for the audit of parent company and consolidated financial statements	19	19
Fees payable to company's auditor and its associates for other services:		
- The audit of company's subsidiaries	88	94
- Audit-related assurance services	11	12
- Financial due diligence service	-	3
- Tax advisory	8	-
- Tax compliance service	5	-
Total PricewaterhouseCoopers LLP (group auditors)	**131**	**128**
Ernst and Young (auditors of MBE Technology Pte Limited)		
- Subsidiary company's audit	6	16
- Tax services	4	3
Total Ernst and Young (auditors of MBE Technology Pte Limited)	**10**	**19**
Total	**141**	**147**

Independent auditors' report to the members of IQE plc

Report on the financial statements

Our opinion

In our opinion:

- IQE plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 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 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.

What we have audited

The financial statements, included within the Financial Report and Annual Accounts (the "Annual Report"), comprise:

- the consolidated and parent company balance sheets as at 31 December 2015;
- the consolidated income statement and statement of comprehensive income for the year then ended;
- the consolidated and parent company cash flow statements for the year then ended;
- the consolidated 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.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic report and the 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 Statement of directors' responsibilities set out on page 41, 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 International Standards on Auditing (UK and Ireland) ("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 parent 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.

What an audit of financial statements involves

We conducted our audit in accordance with 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Colin Bates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
March 2016

Consolidated income statement

Consolidated income statement for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Revenue	3	**114,024**	**112,011**
Cost of sales		(83,372)	(86,015)
Gross profit		**30,652**	**25,996**
Other income and expenses	4	779	(1,726)
Selling, general and administrative expenses		(15,452)	(17,103)
Profit on disposal of property, plant and equipment	4	5,187	-
Operating profit	5	**21,166**	**7,167**
Finance costs	7	(1,790)	(1,924)
Adjusted profit before tax		**17,574**	**16,189**
Adjustments	4	1,802	(10,946)
Profit before tax		**19,376**	**5,243**
Taxation	8	773	(3,247)
Profit for the year		**20,149**	**1,996**
Profit attributable to:			
Equity shareholders		19,864	1,632
Non-controlling interest		285	364
		20,149	**1,996**
Basic earnings per share	10	3.00p	0.25p
Diluted earnings per share	10	2.90p	0.24p

Adjusted basic and diluted earnings per share is presented in note 10.

The notes on pages 60 to 95 form part of these financial statements.

All items included in the profit for the year relate to continuing operations.

Consolidated statement of comprehensive income for the year ended 31 December 2015

	2015 £'000	2014 £'000
Profit for the year	20,149	1,996
Currency translation differences on foreign currency net investments*	3,165	5,192
Total comprehensive income for the year	**23,314**	**7,188**
*This may be subsequently reclassified to profit or loss		
Total comprehensive income attributable to:		
Equity shareholders	23,000	6,822
Non-controlling interest	314	366
	23,314	**7,188**

Consolidated balance sheet

Consolidated balance sheet as at 31 December 2015

	Note	2015 £'000	2014 £'000
Non-current assets:			
Intangible assets	11	86,843	82,079
Property, plant and equipment	12	65,154	66,588
Deferred tax assets	8	14,210	12,332
Financial Assets	15	8,000	-
Total non-current assets		**174,207**	**160,999**
Current assets:			
Inventories	14	21,215	18,276
Trade and other receivables	15	23,050	24,463
Cash and cash equivalents		4,644	5,584
Total current assets		**48,909**	**48,323**
Total assets		**223,116**	**209,322**
Current liabilities:			
Borrowings	17	(3,241)	(14,720)
Trade and other payables	16	(43,693)	(30,396)
Provisions for other liabilities and charges	18	(1,116)	(1,551)
Total current liabilities		**(48,050)**	**(46,667)**
Non-current liabilities:			
Borrowings	17	(24,626)	(22,115)
Other payables	16	(484)	(15,431)
Provisions for other liabilities and charges	18	(2,922)	(3,934)
Total non-current liabilities		**(28,032)**	**(41,480)**
Total liabilities		**(76,082)**	**(88,147)**
Net assets		**147,034**	**121,175**
Equity attributable to the shareholders of the parent:			
Share capital	20	6,655	6,603
Share premium		49,600	49,108
Retained earnings		70,200	50,336
Other reserves		18,146	13,009
		144,601	**119,056**
Non-controlling interest		2,433	2,119
Total equity		**147,034**	**121,175**

The notes on pages 60 to 95 form part of these financial statements. These financial statements were approved by the Board of Directors on 22 March 2016.

Signed on behalf of the Board of Directors.

P J Rasmussen **Dr A W Nelson**

Consolidated statement of changes in equity

Consolidated statement of changes in equity for the year ended 31 December 2015

	Share capital £'000	Share premium £'000	Retained earnings £'000	Exchange rate reserve £'000	Other reserves £'000	Non-controlling interests £'000	Total equity £'000
Balance at 1 January 2015	**6,603**	**49,108**	**50,336**	**4,789**	**8,220**	**2,119**	**121,175**
Comprehensive income							
Profit for the year	-	-	19,864	-	-	285	20,149
Foreign exchange	-	-	-	3,136	-	29	3,165
Total comprehensive income	**-**	**-**	**19,864**	**3,136**	**-**	**314**	**23,314**
Transactions with owners							
Share based payments	-	-	-	-	2,001	-	2,001
Issues of ordinary shares	52	492	-	-	-	-	544
Total transactions with owners	**52**	**492**	**-**	**-**	**2,001**	**-**	**2,545**
Balance at 31 December 2015	**6,655**	**49,600**	**70,200**	**7,925**	**10,221**	**2,433**	**147,034**

	Share capital £'000	Share premium £'000	Retained earnings £'000	Exchange rate reserve £'000	Other reserves £'000	Non-controlling interests £'000	Total equity £'000
Balance at 1 January 2014	**6,475**	**48,958**	**48,704**	**(401)**	**6,762**	**1,753**	**112,251**
Comprehensive income							
Profit for the year	-	-	1,632	-	-	364	1,996
Foreign exchange	-	-	-	5,190	-	2	5,192
Total comprehensive income	**-**	**-**	**1,632**	**5,190**	**-**	**366**	**7,188**
Transactions with owners							
Share based payments	-	-	-	-	1,458	-	1,458
Issues of ordinary shares	128	150	-	-			278
Total transactions with owners	**128**	**150**	**-**	**-**	**1,458**	**-**	**1,736**
Balance at 31 December 2014	**6,603**	**49,108**	**50,336**	**4,789**	**8,220**	**2,119**	**121,175**

The notes on pages 60 to 95 form part of these financial statements.

Consolidated cash flow statement

Consolidated cash flow statement for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Cash flows from operating activities:			
Adjusted cash inflow from operations		**22,575**	**19,614**
Cash impact of adjustments		(1,604)	(4,753)
Cash inflow from operations	23	**20,971**	**14,861**
Net interest paid		(1,403)	(1,428)
Income tax (paid) / received		(459)	1,258
Net cash generated from operating activities		**19,109**	**14,691**
Cash flows from investing activities:			
Capitalised development expenditure		(4,979)	(4,957)
Investment in other intangible fixed assets		(1,198)	(1,291)
Purchase of property, plant and equipment		(3,825)	(3,178)
Net cash used in investing activities		**(10,002)**	**(9,426)**
Cash flows from financing activities:			
Issues of ordinary share capital		544	278
Repayment of borrowings	24	(15,109)	(4,680)
Increase in borrowings	24	4,349	1,305
Net cash used in financing activities		**(10,216)**	**(3,097)**
Net (decrease)/increase in cash and cash equivalents		**(1,109)**	**2,168**
Cash and cash equivalents at 1 January	25	5,584	3,258
Exchange gains on cash and cash equivalents		169	158
Cash and cash equivalents at 31 December	**25**	**4,644**	**5,584**

The notes on pages 60 to 95 form part of these financial statements.

Parent company balance sheet

Parent company balance sheet for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Non-current assets:			
Investments	13	29,070	28,430
Intangible assets	11	1,441	332
Property, plant and equipment	12	4	18
Total non-current assets		**30,515**	**28,780**
Current assets:			
Trade and other receivables	15	77,711	81,606
Cash and cash equivalents		-	2,065
Total current assets		**77,711**	**83,671**
Total assets		**108,226**	**112,451**
Current liabilities:			
Trade and other payables	16	(2,307)	(2,753)
Borrowings	17	(3,546)	(12,800)
Total current liabilities		**(5,853)**	**(15,553)**
Non-current liabilities:			
Trade and other payables	16	(484)	(484)
Borrowings	17	(22,722)	(19,673)
Total non-current liabilities		**(23,206)**	**(20,157)**
Total liabilities		**(29,059)**	**(35,710)**
Net assets		**79,167**	**76,741**
Shareholders' equity:			
Share capital	20	6,655	6,603
Share premium		49,600	49,108
Retained earnings		12,505	12,624
Other reserves		10,407	8,406
Total equity		**79,167**	**76,741**

The notes on pages 60 to 95 form part of these financial statements. These financial statements were approved by the Board of Directors on 22 March 2016.

Signed on behalf of the Board of Directors.

P J Rasmussen **Dr A W Nelson**

Parent company statement of changes in equity

Parent company statement of changes in equity for the year ended 31 December 2015

	Share capital £'000	Share premium £'000	Retained earnings £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2015	**6,603**	**49,108**	**12,624**	**8,406**	**76,741**
Comprehensive expense					
Loss for the year	-	-	(119)	-	(119)
Total comprehensive expense	**-**	**-**	**(119)**	**-**	**(119)**
Transactions with owners					
Share based payments	-	-	-	2,001	2,001
Issues of ordinary shares	52	492	-	-	544
Total transactions with owners	**52**	**492**	**-**	**2,001**	**2,545**
Balance at 31 December 2015	**6,655**	**49,600**	**12,505**	**10,407**	**79,167**

	Share capital £'000	Share premium £'000	Retained earnings £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2014	**6,475**	**48,958**	**17,588**	**6,948**	**79,969**
Comprehensive expense					
Loss for the year	-	-	(4,964)	-	(4,964)
Total comprehensive expense	**-**	**-**	**(4,964)**		**(4,964)**
Transactions with owners					
Share based payments	-	-	-	1,458	1,458
Issues of ordinary shares	128	150	-	-	278
Total transactions with owners	**128**	**150**	**-**	**1,458**	**1,736**
Balance at 31 December 2014	**6,603**	**49,108**	**12,624**	**8,406**	**76,741**

The notes on pages 60 to 95 form part of these financial statements.

Parent company cash flow statement

Parent company cash flow statement for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Cash flows from operating activities:			
Cash inflow from operations	23	6,430	4,152
Interest paid		(1,088)	(1,092)
Taxation		-	86
Net cash generated from operating activities		**5,342**	**3,146**
Cash flows from investing activities:			
Investment in other equity investments	13	(25)	(50)
Investment in other intangibles	11	(104)	(316)
Purchase of property plant and equipment	12	(2)	(7)
Net cash used in investing activities		**(131)**	**(373)**
Cash flows from financing activities:			
Issues of ordinary share capital		544	278
Repayment of borrowings		(13,000)	(2,463)
Increase in borrowings		4,314	1,305
Net cash used in financing activities		**(8,142)**	**(880)**
Net (decrease)/increase in cash and cash equivalents		**(2,931)**	**1,893**
Cash and cash equivalents at 1 January		2,065	172
Cash and cash equivalents at 31 December	17	**(866)**	**2,065**

The notes on pages 60 to 95 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

IQE plc Group's principal activity are set out on page 40 of the directors report. 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 IFRS IC 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 standards, amendments and interpretations adopted by the group. The following standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2015. They do not materially impact on the group results:

- Annual improvements 2011 - 2013

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2015 and not early adopted

A number of new standards and amendments to standards and interpretations have been endorsed for annual periods beginning after 1 January 2015 (noted below), 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.

- Annual improvements 2014 (2012-2014 cycle)
- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation
- Amendments to IAS 16, 'Property, plant and equipment'
- Amendments to IAS 27, 'Separate financial statements' on the equity method
- Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative
- Amendment to IFRS 10, 11 and 12 on transition guidance
- Amendments to IAS 32 and IFRS 7 Financial instruments on asset and liability offsetting
- IAS 28 (revised), 'Investments in associates and joint ventures'
- IFRS 13, 'Fair value measurement'
- Amendment to IAS 12,'Income taxes' on deferred tax
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38,'Intangible assets', on depreciation and amortisation
- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures.

A number of new standards and amendments to standards and interpretations have been issued but are not yet endorsed for annual periods beginning after 1 January 2015 (noted below), and have not been 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.

IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018)

IFRS 9 Financial instruments (effective for annual periods beginning on or after 1 January 2018)

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 control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully 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.

Joint ventures

The group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. We have assessed the nature of our joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long term interests that, in substance, form part of the group's net investment in the joint ventures), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures 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 is 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 in-line with the expected revenue profile over the period during which the economic benefits are expected to be received, which typically range between 3 and 8 years. The estimated remaining useful lives of development costs are reviewed at least on an annual basis. Amortisation commences once the project is completed and revenues are being generated.

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 8 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 .....15 to 25 years
Short leasehold improvements.....5 to 27 years
Plant and machinery .....5 to 15 years
Fixtures and fittings.....3 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 and parent company 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.

Provisions

Provisions are recognised when:

- the Group has a legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. Where a leasehold property, or part thereof, is vacant or sub-let under terms such that the rental income is insufficient to meet all outgoings, provision is made for the anticipated future shortfall up to termination of the lease, or the termination payment, if smaller.

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 note 19.

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, services and intellectual property licenses 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, services or intellectual property 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 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.

Share based payments

The group operates a Share Option Scheme, under which the group receives services from employees as consideration for share options in IQE plc. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the Consolidated Income Statement. The total amount to be expensed is determined by reference to the fair value of the options granted including any market performance conditions (for example, an entity's share price); excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period) and including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium. The scheme is equity settled.

In the company's own financial statements, the grant of share options to the employees of subsidiary undertakings is treated as a capital contribution. Specifically, the fair value of employee services received (measured at the date of grant) is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the change will be treated as a cash-settled transaction.

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 for fiscal year 2013 and before are recognised as a credit within the group's tax charge. For subsequent years the R&D tax credits are under the RDEC scheme and are recognised with operating profit.

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 financial statements.

Other equity investments

Other equity investments are held at cost less provision for impairment in both the parent company and group financial statements 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 tangible and 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, future commercial benefits and expected useful economic life 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 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 acquisitions made during 2012 and 2013. 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 £0.8m (2014: £9.9m) to other income as a result of the re-assessment of the forecast volumes. Further details are provided in note 4.

(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.

The forecasts used to support deferred tax asset recognition are the same forecasts used in the impairment review and support partial recognition of the available deferred tax assets.

(f) Onerous lease provision

A provision for onerous leases was made in the prior year. The provision assumes that the lease will be onerous for the next three and a half years. Subsequent to this period we expect to be able to sublet the premises or negotiate to exit the lease. The full term of the lease obligation is 6 years with the lease running until 2021.

(g) Adjustments to profit

The board provides an adjusted profit measure to provided additional information to aid an understanding of the group's performance as set out in note 4 we have detailed all of the items which are included within the adjustments to profit.

3 - Segmental analysis

The board of directors considers that the wireless, photonics, infrared and CMOS++ markets are the group's primary reporting segments. The board of directors assesses the performance of these operating segments based on their adjusted operating profit.

Further details on the nature of the segments is provided in the strategic report.

Revenue	2015 £'000	2014 £'000
Wireless	79,482	89,110
Photonics	15,985	12,485
Infra Red	8,878	9,276
CMOS++	1,655	1,140
Total Segment Revenue	**106,000**	**112,011**
License income from sales to joint ventures	8,024	-
Total Revenue	**114,024**	**112,011**
Adjusted operating profit		
Wireless	7,147	15,827
Photonics	4,320	1,833
Infra Red	1,181	1,144
CMOS++	(1,695)	(1,186)
Segment adjusted operating profit	**10,953**	**17,618**
Profit from license income from sales to joint ventures*	8,024	-
Adjusted operating profit	**18,977**	**17,618**
Gain on disposal of fixed assets	5,187	-
Non-cash accounting charges	(3,596)	(3,070)
Net reduction in contingent deferred consideration	779	9,903
Restructuring and reorganisation	(568)	(17,779)
Finance Costs	(1,403)	(1,429)
Profit before tax	**19,376**	**5,243**

* The profit arising from license income sales to joint ventures represents revenue of £15,310,000 offset by an elimination of unrealised profit of £7,286,000 relating to our retained interest in the Compound Semiconductor Centre Limited joint venture.

Costs not directly attributable to a segment are allocated based on the proportion of revenue attributable to that segment.

Staff work for multiple segments, therefore it is not possible to allocate staff related expenses and the share based payment charge to specific segments.

Finance costs are not allocated to the segments because treasury is managed centrally.

Measures of total assets and liabilities for each reportable segment are not reported to the chief operating decision maker and therefore have not been disclosed.

3 - Segmental analysis (continued)

In the years set out below, certain customers accounted for greater than 10% of the Group's total revenues:

	Segment	2015 £'000	2015 % revenue	2014 £'000	2014 % revenue
Customer 1	Wireless	35,022	31%	33,001	29%
Customer 2	Wireless	19,468	17%	27,025	24%

There are no customers in the photonics, Infra Red or CMOS++ segments that accounted for greater than 10% of the Group's total revenues.

Geographical information

Disclosure of group revenues by location of customer:

	2015 £'000	2014 £'000
Americas	**69,851**	**75,740**
United States of America	69,745	75,552
Rest of Americas	106	188
Europe, Middle East & Africa (EMEA)	**16,589**	**7,325**
France	169	447
Germany	3,415	2,249
Israel	1,137	1,609
United Kingdom	9,540	1,680
Rest of EMEA	2,328	1,340
Asia Pacific	**27,584**	**28,946**
People's Republic of China	949	768
Japan	4,665	5,023
Taiwan	19,905	21,572
Rest of Asia Pacific	2,065	1,583
Total revenue	**114,024**	**112,011**

Disclosure of non-current assets by location of assets:

	Property, plant and equipment		Intangible assets	
By location	**2015 £'000**	**2014 £'000**	**2015 £'000**	**2014 £'000**
USA	44,377	45,944	63,694	59,226
Singapore	6,630	6,762	8,502	8,646
Taiwan	8,872	7,555	1,297	1,155
UK	5,275	6,327	13,350	13,052
	65,154	**66,588**	**86,843**	**82,079**

4 - Adjusted profit measures

The group's results are reported after a number of imputed non-cash charges and non-recurring items. Therefore, we have provided additional information to aid a better understanding of the group's performance.

	2015 £'000	2014 £'000
Gain on disposal of fixed assets	5,187	-
Non-cash accounting charges	(3,596)	(3,070)
Gain on release of contingent deferred consideration	779	9,903
Restructuring and reorganisation	(568)	(17,779)
Total before tax	**1,802**	**(10,946)**
Deferred tax on adjustments	281	(3,759)
Total after tax	**2,083**	**(14,705)**

As disclosed in note 27, in July 2015 the group established a joint venture with Cardiff University to develop and commercialise compound semiconductor technologies in Europe. To establish the joint venture, IQE contributed equipment with a market value of £12m, which was matched by a £12m cash contribution from Cardiff University. This created a non-cash exceptional gain of £4.8m in IQE's accounts reflecting the Group's share of the difference between the book value and market value of the equipment contributed. In addition, other unrelated disposals of fixed assets realised a net gain of £0.4m.

The non-cash accounting charges of £3.6m (2014 : £3.1m) reflect a charge for share based payments of £2.0m (2014 £1.5m), the amortisation of acquired intangibles £1.2m (2014 £1.1m) and the unwind of the discounting of long term balances £0.4m (2014 £0.5m).

The Group generated a non-cash profit of £0.8m (2014 £9.9m) arising from a reduction in the estimated remaining deferred consideration (settled via trade discount) in respect of a previous acquisition. This has been classified within other income and expenses in the consolidated income statement.

The restructuring and reorganisation costs of £0.6m (2014: £17.8m) reflects some one-off redundancy and asset write downs associated with the restructuring of the groups manufacturing operations.

The deferred tax credit of £0.3m (2014: £3.8m charge) reflects the net deferred tax impact associated with these adjustments.

Certain items noted above are accounting estimates based on judgements, accordingly, the actual amounts may differ from these estimates. The adjustments above are classified £1.8m (2014: £5.6m) within gross margin, and £2.0m (2014: £3.2m) within sales general & admin costs.

	2015 £'000	2014 £'000
Adjusted gross margin	32,439	31,552
Reported gross margin	30,652	25,996
Adjusted sales, general and administrative expenses	(13,462)	(13,935)
Reported sales, general and administrative expenses	(15,452)	(17,103)
Adjusted operating profit	18,977	17,618
Reported operating profit	21,166	7,167
Adjusted profit before tax	17,574	16,189
Reported profit before tax	19,376	5,243
Adjusted profit after tax	18,066	16,701
Reported profit after tax	20,149	1,996

4 - Adjusted profit measures (continued)

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

	2015 £'000	2014 £'000
Profit attributable to equity shareholders	**19,864**	**1,632**
Minority interest	285	364
Tax	(773)	3,247
Share based payments	2,001	1,458
Finance costs	1,790	1,924
Depreciation of tangible fixed assets	6,192	6,590
Amortisation of intangible fixed assets	5,040	3,902
(Profit) / loss on disposal of fixed assets	(5,187)	15
Provision for onerous lease*	-	6,673
Impairment of assets*	453	6,354
Gain on release of contingent deferred consideration*	(779)	(9,903)
Restructuring and re-organisation costs*	115	4,753
EBITDA	**29,001**	**27,009**

* Exceptional items impacting EBITDA include the following items: impairment of assets, provision for onerous lease, wireless business unit re-organisation costs and the release of contingent deferred consideration.

5 - Operating profit

	2015 £'000	2014 £'000
The operating profit is stated after charging/(crediting):		
Depreciation of property, plant and equipment	6,192	6,590
Amortisation of non-current intangible assets	5,040	3,902
Services provided by auditors*	141	147
Operating lease rentals	3,030	3,209
Research and development	138	698
Exchange gains	(675)	(26)
Share based payments	2,001	1,458
Cost of raw materials consumed	45,338	43,741
Gain on disposal of fixed assets	(5,187)	15
Elimination of unrealised gains with joint ventures	7,286	-
Exceptional items**	(211)	7,877

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

**Exceptional items include the following items: re-organisation costs, impairment of assets and the release of contingent deferred consideration. Exceptional items in 2014 also included onerous lease provisions. Further details are provided in note 4.

6 - Employee costs

	2015 £'000	2014 £'000
Employee costs (including directors' remuneration)		
Wages and salaries	23,314	25,525
Social security costs	2,664	2,799
Other pension costs	956	1,107
Charge for share based payments	2,001	1,458
	28,935	**30,889**
	Number	**Number**
Average number of employees (including directors)		
Cost of sales	364	449
Selling, general and administrative	124	132
	488	**581**

Directors' emoluments and share option details are disclosed in the Remuneration Report on pages 45 to 46 in sections k to n. Key management within the group comprises the executive and non-executive directors, the business unit leaders, and other staff who report directly to the executive directors. Compensation to key management, including pensions of £164,000 (2014: £154,000), was £3,581,000 (2014: £3,133,000) and the charge for share-based payments was £1,284,000 (2014: £703,000).

7 - Finance costs

	2015 £'000	2014 £'000
Bank and other loans	1,402	1,347
Finance lease interest	1	82
Unwind of discount on long term balances	387	495
	1,790	**1,924**

8 - Taxation

Current tax (charge)/credit	2015 £'000	2014 £'000
United Kingdom research and development tax credits receivable	-	1,569
Overseas adjustments in respect of prior years	-	-
Overseas taxes charges	(635)	(444)
Total current tax (charge)/credit	**(635)**	**1,125**
Deferred tax credit/(charge)	1,408	(4,372)
Total tax credit/(charge)	**773**	**(3,247)**

8 - Taxation (continued)

Factors affecting total tax credit/(charge)

The tax credit assessed for the year is different from that resulting from applying the standard rate of corporation tax in the UK: 20.25% (2014: 21.5%). The differences are explained below:

	2015 £'000	2014 £'000
Profit on ordinary activities before taxation	19,376	5,243
Tax charge at 20.25% thereon (2014: 21.5%)	(3,924)	(1,127)
Effects of :		
Expenses not deductible for tax purposes	(41)	(41)
Overseas tax rate differences	(311)	(5,584)
Recognition of tax losses	1,774	964
Tax losses utilised for which no deferred tax asset was recognised	3,268	-
Other deferred tax movements	242	972
Impact on deferred tax as a result of changes in tax rates	(235)	-
United Kingdom research and development tax credits receivable	-	1,569
Total tax credit/(charge) for the year	**773**	**(3,247)**

Finance (No.2) Act 2015, which was substantively enacted on 26 October 2015, included legislation to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 with a further reduction to 18% from 1 April 2020. Accordingly, the closing UK deferred tax asset/liability in the financial statements has been recognised on this basis.

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 where appropriate.

Deferred tax asset	2015 £'000	2014 £'000
At 1 January	12,332	16,040
Deferred tax (charge)/credit recognised in the year	1,408	(4,372)
Deferred tax assets recognised on acquisition	-	-
Foreign exchange differences	470	664
At 31 December	**14,210**	**12,332**

Analysis of deferred tax	2015 £'000	2014 £'000
Accelerated capital allowances	(8,336)	(7,361)
Tax losses carried forward	26,661	19,481
Timing differences on Intangible assets	(7,547)	(6,124)
Other	3,432	6,336
At 31 December	**14,210**	**12,332**

8 - Taxation (continued)

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits from the same trade is probable.

The net amount not recognised is an asset of £10,808,000 (2014: £19,595,000). The unrecognised amounts relate to tax losses carried forward. The asset would be recognised if sufficient profits from the same trade arise in future periods.

Total tax losses carried forward account for a potential deferred tax asset of £37,469,000 (2014: £39,076,000).

Company

There is an unrecognised deferred tax asset of £522,000 (2014: £585,000) which relates primarily to short term timing differences arising on share option charges.

R&D Tax Credits

The Group recognised a credit of £537,000 (2014: £925,000) within operating profit in relation to claims made under the R&D Expenditure Credit Scheme (RDEC).

9 - Dividends

No dividend has been paid or proposed in 2015 (2014: £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 the dilutive effect of '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. The adjustments are detailed in note 4.

	2015 £'000	2014 £'000
Profit attributable to ordinary shareholders	19,864	1,632
Adjustments to profit after tax (note 4)	(2,083)	14,705
Adjusted profit attributable to ordinary shareholders	**17,781**	**16,337**
	2015	**2014**
Weighted average number of ordinary shares	662,633,162	650,836,462
Dilutive share options	21,247,935	25,116,813
Adjusted weighted average number of ordinary shares	**683,881,097**	**675,953,275**
Adjusted basic earnings per share	2.68p	2.51p
Basic earnings per share	3.00p	0.25p
Adjusted diluted earnings per share	2.60p	2.42p
Diluted earnings per share	2.90p	0.24p

11 - Intangible assets

The Group	Goodwill £'000	Patents £'000	Development costs £'000	Software £'000	Acquisition intangibles* £'000	Total £'000
Cost						
At 1 January 2015	55,885	591	29,014	2,806	6,366	94,662
Additions	-	1,162	4,979	1,003	30	7,174
Foreign exchange	1,968	3	758	2	298	3,029
At 31 December 2015	**57,853**	**1,756**	**34,751**	**3,811**	**6,694**	**104,865**
Accumulated amortisation and impairment						
At 1 January 2015	-	174	9,501	760	2,148	12,583
Charge for the year	-	49	3,601	182	1,208	5,040
Foreign exchange	-	1	279	1	118	399
At 31 December 2015	**-**	**224**	**13,381**	**943**	**3,474**	**18,022**
Net book value						
At 31 December 2015	**57,853**	**1,532**	**21,370**	**2,868**	**3,220**	**86,843**
At 31 December 2014	55,885	417	19,513	2,046	4,218	82,079

The Group	Goodwill £'000	Patents £'000	Development costs £'000	Software £'000	Acquisition intangibles* £'000	Total £'000
Cost						
At 1 January 2014	52,861	526	23,167	1,595	5,941	84,090
Additions	-	60	4,957	1,231	27	6,275
Disposals	-	-	-	(25)	-	(25)
Foreign exchange	3,024	5	890	5	398	4,322
At 31 December 2014	**55,885**	**591**	**29,014**	**2,806**	**6,366**	**94,662**
Accumulated amortisation and impairment						
At 1 January 2014	-	118	6,578	619	916	8,231
Charge for the year	-	56	2,609	121	1,116	3,902
Charge for Impairment	-	-	-	39	-	39
Disposals	-	-	-	(25)	-	(25)
Foreign exchange	-	-	314	6	116	436
At 31 December 2014	**-**	**174**	**9,501**	**760**	**2,148**	**12,583**
Net book value						
At 31 December 2014	**55,885**	**417**	**19,513**	**2,046**	**4,218**	**82,079**
At 31 December 2013	52,861	408	16,589	976	5,025	75,859

11 - Intangible assets (continued)

The amortisation charge of: £5,040,000 (2014: £3,902,000) 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.

Impairment tests for goodwill

Goodwill is tested for impairment annually and whenever there is an indication of impairment at the level of the cash-generating unit (CGU) or group of CGUs to which it is allocated. Multiple production facilities are included in a single CGU reflecting that production can (and is) transferred between sites for different operating segments to suit capacity planning and operational efficiency. Given the interdependency of facilities, goodwill is therefore tested for impairment by grouping operational sites into a CGU or CGUs based on type of production. This gives rise to the following allocation of Goodwill:

	2015 £'000	2014 £'000
Allocation of goodwill by CGU :		
III/V Epitaxy	51,403	49,694
Substrates	6,450	6,161
Total Goodwill	**57,853**	**55,885**

The recoverable amount of the CGUs has been determined based on value in use calculations, using cash flow projections for a five year period plus a terminal value. The Board approved budget is used for the first year of the forecast.

Key assumptions applied in the forecasts include:

- Margin erosion 1.5% pa (2014: 1% pa),
- Cost inflation 2% (2014: 3% pa),
- A long term growth rate of 2% (2014: n/a)
- A discount rate of 9% (2014: 11%)

Management believes it is appropriate to use the same discount rate for each CGU given that they have similar risk profiles and common funding.

In respect of the III/V Epitaxy CGU, the forecast EBITDA compound growth rate is c.6% over the five year period. Driving this growth is Photonics revenue growth of c.10.5% pa (2014: 10.5% pa) which is significantly lower than the 2015 Photonics revenue growth rate. Also included is revenue into emerging markets growing to c.£23m after 5 years (2014: £10m after 5 years).

No impairment would arise if the EBITDA compound growth rate fell to zero over the same period. An impairment of the III/V Epitaxy CGU goodwill would arise in the event that the discount rate was increased from 9% to 13%.

11 - Intangible assets (continued)

The Company	Patents £'000	Software £'000	Total £'000
Cost			
At 1 January 2015	-	332	332
Additions	1,073	36	1,109
At 31 December 2015	**1,073**	**368**	**1,441**
Accumulated depreciation			
At 1 January 2015	-	-	-
Charge for the year	-	-	-
At 31 December 2015	**-**	**-**	**-**
Net book value			
At 31 December 2015	**1,073**	**368**	**1,441**
At 31 December 2014	-	332	332

The Company	Patents £'000	Software £'000	Total £'000
Cost			
At 1 January 2014	-	-	-
Additions	-	316	316
Reclassification to intangibles	-	16	16
At 31 December 2014	**-**	**332**	**332**
Accumulated depreciation			
At 1 January 2014	-	-	-
Charge for the year	-	-	-
At 31 December 2014	**-**	**-**	**-**
Net book value			
At 31 December 2014	**-**	**332**	**332**
At 31 December 2013	-	-	-

12 - Property, plant and equipment

a) The Group

	Land and buildings £'000	Short leasehold improvements £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 January 2015	7,680	27,953	3,816	147,426	186,875
Additions	-	123	298	5,710	6,131
Disposals*	-	(467)	(20)	(43,794)	(44,281)
Foreign exchange	133	933	72	3,322	4,460
At 31 December 2015	**7,813**	**28,542**	**4,166**	**112,664**	**153,185**
Accumulated depreciation					
At 1 January 2015	3,059	13,739	2,834	100,655	120,287
Charge for the year	189	1,196	251	4,556	6,192
Disposals*	-	(380)	-	(40,351)	(40,731)
Foreign exchange	22	286	59	1,916	2,283
At 31 December 2015	**3,270**	**14,841**	**3,144**	**66,776**	**88,031**
Net book value					
At 31 December 2015	**4,543**	**13,701**	**1,022**	**45,888**	**65,154**
At 31 December 2014	4,621	14,214	982	46,771	66,588

	Land and buildings £'000	Short leasehold improvements £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 January 2014	**7,796**	**26,604**	**3,650**	**138,898**	**176,948**
Additions	2	57	82	3,030	3,171
Disposals	(275)	(31)	-	(29)	(335)
Foreign exchange	157	1,323	84	5,527	7,091
At 31 December 2014	**7,680**	**27,953**	**3,816**	**147,426**	**186,875**
Accumulated depreciation					
At 1 January 2014	**3,121**	**11,836**	**2,458**	**87,693**	**105,108**
Charge for the year	187	1,140	274	4,989	6,590
Impairment charge for the year	-	353	24	4,540	4,917
Disposals	(275)	(31)	-	(14)	(320)
Foreign exchange	26	441	78	3,447	3,992
At 31 December 2014	**3,059**	**13,739**	**2,834**	**100,655**	**120,287**
Net book value					
At 31 December 2014	**4,621**	**14,214**	**982**	**46,771**	**66,588**
At 31 December 2013	4,675	14,768	1,192	51,205	71,840

During 2014 as part of the rationalisation and re-organisation programme, IQE provided facilities, equipment and IP on favourable terms to the CSDC. As a consequence, IQE booked provisions of £4.9m for asset impairment relating to the transfer of tools to the CSDC. The impairment provision wrote the assets down to their recoverable amount.

*As part of the ongoing standardisation and improvement of the group underlying accounting records, accumulated cost and depreciation of £29.5m were eliminated in respect of fully depreciated assets no longer used within the business.

12 - Property, plant and equipment (continued)

b) Capitalised finance leases

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

	2015 £'000	2014 £'000
Cost	2,856	2,728
Accumulated Depreciation	(408)	(216)
Net book value	**2,448**	**2,512**

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 2015	69
Additions	1
Reclassification to intangibles	-
At 31 December 2015	**70**
Accumulated depreciation	
At 1 January 2015	51
Charge for the year	15
At 31 December 2015	**66**
Net book value	
At 31 December 2015	**4**
At 31 December 2014	18

	Fixtures and fittings £'000
Cost	
At 1 January 2014	78
Additions	7
Reclassification to intangibles	(16)
At 31 December 2014	**69**
Accumulated depreciation	
At 1 January 2014	35
Charge for the year	16
At 31 December 2014	**51**
Net book value	
At 31 December 2014	**18**
At 31 December 2013	43

13 - Investments

a) Company

	Investments in subsidiaries £'000	Other equity investments £'000	Total £'000
Cost			
At 1 January 2015	99,894	50	99,944
Additions	-	25	25
Disposal	-	-	-
Subsidiaries share based payments charge	615	-	615
At 31 December 2015	**100,509**	**75**	**100,584**
Provisions for impairment			
At 1 January 2015	71,514	-	71,514
Disposal	-	-	-
Impairment charge	-	-	-
At 31 December 2015	**71,514**	**-**	**71,514**
Net book value			
At 31 December 2015	**28,995**	**75**	**29,070**
At 31 December 2014	28,380	50	28,430

	Investments in subsidiaries £'000	Other equity investments £'000	Total £'000
Cost			
At 1 January 2014	83,703	3,205	86,908
Additions	15,652	50	15,702
Disposal	-	(3,205)	(3,205)
Subsidiaries share based payments charge	539	-	539
At 31 December 2014	**99,894**	**50**	**99,944**
Provisions for impairment			
At 1 January 2014	70,438	3,205	73,643
Disposal	-	(3,205)	(3,205)
Impairment charge	1,076	-	1,076
At 31 December 2014	**71,514**	**-**	**71,514**
Net book value			
At 31 December 2014	**28,380**	**50**	**28,430**
At 31 December 2013	13,265	-	13,265

Details of the company's subsidiaries are set out in note 26.

Investments are reviewed for impairment annually, where the net asset value is lower than the investment carrying value an impairment charge is recognised in the income statement.

During 2014 impairment charges of £1,076,000 were recognised to the write down of the investment in subsidiaries to recoverable amount.

14 - Inventories

	2015 £'000	2014 £'000
Raw materials and consumables	16,669	13,177
Work-in-progress and finished goods	4,546	5,099
	21,215	**18,276**

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 £6,381,000 (2014: £5,937,000). £746,000 (2014: £1,339,000) of inventories were written down during 2015 and an expense recognised in the income statement.

15 - Trade and other receivables

Current	2015 Group £'000	2015 Company £'000	2014 Group £'000	2014 Company £'000
Trade receivables	12,666	-	12,809	-
Amounts owed by group undertakings	-	77,258	-	81,224
Other receivables and prepayments	10,384	453	11,654	382
	23,050	**77,711**	**24,463**	**81,606**

Non-current	2015 Group £'000	2015 Company £'000	2014 Group £'000	2014 Company £'000
Financial assets	8,000	-	-	-

As at 31 December 2015, 82% (2014: 88%) of trade receivables were within terms. Of the other trade receivables, 64% (2014: 93%) were less than 30 days past due. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £204,000 (2014: £330,000). This allowance has been determined by reference to past default experience. Included in other receivables is accrued income of £7,739,000 (2014: £8,806,000).

Our trade receivables are with established customers, we monitor customer D&B credit ratings and have had no material defaults in the past. None of our receivables are with customers where we have had any history of default.

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.

Amounts owed by group undertakings are unsecured and repayable on demand. Interest is charged at a rate of 5% per annum (2014: 5% per annum).

Financial assets relate to £8,000,000 of Preferred 'A' shares (2014: £nil) issued by Compound Semiconductor Centre Limited ('CSC'), a joint venture between the Group and Cardiff University (see Note: 27 for further details. The preference shares carry the following rights:

- No voting rights
- Dividend equivalent to the HSBC Bank PLC base rate for the applicable period on the amount paid up, subject to CSC having available profits.
- Repayable in proportion to the outstanding principle from surplus cash generated.

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

16 - Trade and other payables

Current	2015 Group £'000	2015 Company £'000	2014 Group £'000	2014 Company £'000
Trade payables	12,832	691	14,518	57
Amounts owed to group undertakings	-	-	-	1,457
Deferred consideration	16,649	1,005	5,183	-
Overseas tax payable	704	-	522	-
Other taxation and social security	1,085	120	1,072	728
Accruals and deferred income	12,423	491	9,101	511
	43,693	**2,307**	**30,396**	**2,753**

Non-current	2015 Group £'000	2015 Company £'000	2014 Group £'000	2014 Company £'000
Deferred consideration	484	484	15,431	484

Within deferred consideration is £5.6m (2014: £10.7m) being the best estimate of the amount that will be settled through contractually agreed price discounts over the next year (2014: two years). Long term contingent deferred consideration balances are discounted at 2.5%.

The fair value of the contingent deferred consideration has been re-assessed during the year resulting in a reduction of £0.8m (2014: £9.9m). This has been credited to the consolidated income statement within other income and expenses. The exceptional income has been excluded from our adjusted profit measure set out in note 4.

Amounts owed to group undertakings are unsecured and repayable on demand. Interest is charged at a rate of 5% per annum (2014: 5% per annum).

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

There are no foreign currency exchange contracts held at 31 December 2015 or 31 December 2014.

17 - Borrowings

The Group	2015 £'000	2014 £'000
Non-current borrowings:		
Bank borrowings	24,626	22,002
Finance leases	-	113
	24,626	**22,115**
Current borrowings:		
Bank borrowings	3,162	13,867
Finance leases	79	853
	3,241	**14,720**
Total borrowings	**27,867**	**36,835**

17 - Borrowings (continued)

a) Bank borrowings

	2015 £'000	2014 £'000
Bank borrowings fall due for repayment as follows:		
Within one year	3,162	13,867
Between one and five years	23,084	20,398
After five years	1,542	1,604
	27,788	**35,869**

For details of the Group's bank borrowings see note 19.

b) Finance leases

	2015 £'000	2014 £'000
Gross finance lease liabilities – minimum lease payments:		
Within one year	80	873
Between one and five years	-	114
	80	987
Finance charges	(1)	(21)
Present value of finance lease liabilities	**79**	**966**

	2015 £'000	2014 £'000
Present value of finance lease liabilities:		
Within one year	79	853
Between one and five years	-	113
	79	**966**

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

The company

The borrowings of the parent company comprise the bank loan of £25,402,000 (2014 £32,473,000) which comprise mutli currency acquisition and RCF facilities, and an overdraft of £866,000 (2014: £nil).

The Company	2015 £'000	2014 £'000
Non-current borrowings:		
Bank borrowings	22,722	19,673
	22,722	**19,673**
Current borrowings:		
Bank overdraft	866	-
Bank borrowings	2,680	12,800
	3,546	**12,800**
Total borrowings	**26,268**	**32,473**

17 - Borrowings (continued)

	2015 £'000	2014 £'000
Bank borrowings fall due for repayment as follows:		
Within one year	3,546	12,800
Between one and five years	22,722	19,673
After five years	-	-
	26,268	**32,473**

18 - Provisions for other liabilities and charges

	2015 £'000	2014 £'000
As at 1 January	**5,485**	**-**
Charged to the income statement	116	6,673
Utilised during the year	(1,489)	(1,206)
Foreign exchange	(74)	18
As at 31 December	**4,038**	**5,485**

	2015 £'000	2014 £'000
Current	1,116	1,551
Non-Current	2,922	3,934
Total Provisions for other liabilities and charges	**4,038**	**5,485**

During 2014, as part of the re-organisation and rationalisation of the Group's facilities the Group is ceased activities at its Singapore facility and established the Compound Semiconductor Development Centre. The provision above represents the onerous lease obligation in respect of the Singapore property. This is expected to be utilised over the next three and a half years. The provision has been discounted using a risk free rate of 2.5%.

19 - Financial instruments

Financial instruments by category

Trade and other receivables (excluding prepayments), preference share receivables and cash and cash equivalents are classified as 'loans and receivables'. Borrowings and trade and other payables are classified as 'other financial liabilities at amortised cost'. Both categories are initially measured at fair value and subsequently held at amortised cost.

Derivatives (forward exchange contracts) are classified as 'derivatives used for hedging' and accounted for at fair value with gains and losses taken to reserves through the consolidated statement of comprehensive income.

Financial risk and treasury policies

The Group's finance team maintains liquidity, manages relations with the Group's bankers, identifies and manages foreign exchange risk and provides a treasury service to the Group's businesses. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions.

The Group has clearly defined policies for the management of foreign exchange rate risk. The Group finance team does not undertake speculative foreign exchange dealings for which there is no underlying exposure. Exposures resulting from sales and purchases in foreign currency are matched where possible and the net exposure may be hedged by the use of forward exchange contracts.

19 - Financial instruments (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and monies on deposit with financial institutions

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.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable as set out below. 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.

Carrying amount	2015 Group £'000	2015 Company £'000	2014 Group £'000	2014 Company £'000
Cash and Cash equivalents	4,644	-	5,584	2,065
Trade receivables	12,666	-	12,809	-
Amounts owed by group undertakings	-	77,258	-	81,224
Other receivables	7,739	-	8,806	
Financial Assets (Preference share receivables)	8,000	-	-	-
	33,049	**77,258**	**27,199**	**83,289**

Included in other receivables is accrued income of £7,739,000 (2014: £8,806,000).

The majority of the group's revenues are derived from large multinational organisations and are with established customers. Therefore the credit risk is considered to be small. We monitor customer D&B credit ratings and have had no material defaults in the past. None of our receivables are with customers where we have had any history of default.

	Gross 2015 £'000	Provision 2015 £'000	Net 2015 £'000	Gross 2014 £'000	Provision 2014 £'000	Net 2014 £'000
Not past due	10,033	-	10,033	10,929	-	10,929
Past due 0-30	1,823	-	1,823	2,056	176	1,880
Past due more than 30	1,014	204	810	154	154	-
	12,870	**204**	**12,666**	**13,139**	**330**	**12,809**

An allowance has been made for estimated irrecoverable amounts from the sale of goods of £204,000 (2014: £330,000). This allowance has been determined by reference to past default experience. The individually impaired receivables mainly relate to a number of independent customers. A portion of these receivables is expected to be recovered.

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

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 2015 a 1 cent movement in the US dollar to Sterling rate would impact the net value of these instruments by £53,000 (2014: £47,000) (before the mitigating impact of cash flow hedges).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages its funding to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses weekly cash flow forecasts to monitor cash requirements and to optimise its borrowing position.

Typically the Group ensures that it has sufficient borrowing facilities to meet foreseeable operational expenses. At the year end the group had available facilities of £41.1m (2014: £44.8m).

19 - Financial instruments (continued)

The following shows the contractual maturities of financial liabilities, including interest payments, where applicable and excluding the impact of netting agreements and on an undiscounted basis:

Analysis of contractual cash flow maturities 31 December 2015	Carrying amount £'000	Contractual cash flows £'000	Less than 12 months £'000	1-2 Years £'000	2-5 Years £'000	5+ Years £'000
Trade and other payables	29,798	29,798	29,798	-	-	-
Deferred consideration	11,539	11,539	11,055	-	484	-
Secured bank loans	27,788	30,881	3,956	6,251	18,137	2,537
Finance leases	79	80	80	-	-	-
	69,204	**72,298**	**44,889**	**6,251**	**18,621**	**2,537**

Analysis of contractual cash flow maturities 31 December 2014	Carrying ount £'000	Contractual cash flows £'000	Less than 12 months £'000	1-2 Years £'000	2-5 Years £'000	5+ Years £'000
Trade and other payables	24,141	24,141	24,141	-	-	-
Deferred consideration	9,860	10,084	-	9,600	484	-
Secured bank loans	35,869	38,555	14,852	15,893	5,334	2,476
Finance leases	966	987	869	118	-	-
	70,836	**73,767**	**39,862**	**25,611**	**5,818**	**2,476**

Market risks

1 - 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 as three of the group's principal subsidiaries are situated in North America.

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 2015 and 31 December 2014 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 (2014: £200,000).

2 - 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. Historically the Group has not undertaken any hedging activity in this area however the board keeps this under regular review. All foreign currency cash deposits are made at prevailing interest rates. The main element of interest rate risk concerns borrowings.

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

19 - Financial instruments (continued)

2 - Interest rate risk (continued)

The variable rate US dollar term loans, which had a principal outstanding at 31 December 2015 of £0.3m (2014: £1.3m), and bear interest of between 2.0% to 2.95% over LIBOR. These loans are repayable by monthly instalment with remaining terms of less than one year.

The fixed rate US dollar term loans, which had a principal outstanding at 31 December 2015 of £2.1m (2014: £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 US Dollar acquisition facility, which had a principal outstanding at 31 December 2015 of £8.1m (2014: £20.2 million), bears interest of between 2.5% to 2.95% over LIBOR. This loan is repayable by quarterly instalments with a remaining term of 2 years.

The UK Pound revolving credit facility is a multi-currency facility of up to £30 million, committed until 2018. It bears interest of between 1.75% to 1.95% over LIBOR. The balance drawn at 31 December 2015 was £17.6m (2014: £12.3m).

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 2015 was 8% (2014: 8%).

Floating rate liabilities are primarily indexed to LIBOR. The group did not enter into any interest rate swap instruments during 2015. 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 2015 annual interest charge by approximately £170,000 (2014: £170,000).

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

Capital risk management

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 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 year is shown in the Five Year Financial Summary.

The group defines total capital as equity in the consolidated balance sheet plus net debt or less net funds plus deferred consideration (note 16). Total capital at 31 December 2015 was £187,390,000 (2014: £173,039,000).

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt plus deferred consideration divided by total capital. At 31 December 2015 the gearing ratio was 22% (2014: 30%).

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

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	2015 Carrying amount £'000	2015 Fair value £'000	2014 Carrying amount £'000	2014 Fair value £'000
Cash and Cash equivalents	4,644	4,644	5,584	5,584
Trade receivables	12,668	12,668	12,809	12,809
Other receivables – (accrued income)	7,739	7,739	8,806	8,806
Financial Assets (Preference share receivables)	8,000	8,000	-	-
Trade and other payables	(29,798)	(29,798)	(29,324)	(29,324)
Deferred consideration	(11,539)	(11,539)	(9,860)	(9,860)
Secured bank loans	(27,788)	(28,136)	(35,869)	(36,104)
Finance leases	(79)	(79)	(966)	(966)
	(36,155)	**(36,503)**	**(48,820)**	**(49,055)**

19 - Financial instruments (continued)

Basis for determining fair value

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Secured loans

As the loans are floating rate borrowings, amortised cost is deemed to reflect fair value excluding unamortised transaction fees.

Trade and other receivables/payables

As receivables/payables have a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Financial Assets (Preference share receivables)

As the preference shares receivables are floating rate receivables, amortised cost is deemed to reflect fair value.

20 - Share capital

Group and Company	2015 Number of shares	2015 £'000	2014 Number of shares	2014 £'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	665,533,170	6,655	**660,327,767**	**6,603**

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

	2015 Number	2014 Number
At 1 January	660,327,767	647,513,661
Employee share schemes	5,205,403	12,814,106
At 31 December	**665,533,170**	**660,327,767**

5,205,403 ordinary shares (2014: 12,814,106 Ordinary shares) were issued during the year as follows:

	2015 Number of shares	2015 Consideration	2014 Number of shares	2014 Consideration
Employee share schemes	5,205,403	Nil to 15.66p	12,814,106	Nil to 19.97p
	5,205,403		**12,814,106**	

The share premium arising from the consideration received of £544,000 (2014: £278,000) was £492,000 (2014: £150,000).

21 - Share based payments

The total amount charged to the income statement in 2015 in respect of share based payments was £2,001,000 (2014: £1,458,000). Included within the share based payments charge is a £1,186,000 (2014: £848,000) charge relating to the Company's Long Term Incentive Plan.

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	**2015**	2014
Weighted average share price at grant date	**22.46**	17.12
Weighted average exercise price	**12.49**	12.94
Weighted average vesting period (years)	**3**	3
Option life (years)	**10**	10
Weighted average expected life (years)	**3**	3
Weighted average expected volatility factor	**53%**	61%
Weighted average risk free rate	**1.25%**	1.25%
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.

Non-market 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 2015 was £33,000 (2014: £342,000).

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

	2015 Number of options	**2015 Average exercise price (pence)**	**2014 Number of options**	**2014 Average exercise price (pence)**
At 1 January	50,536,520	13.12	56,152,601	11.24
Granted	540,000	20.50	7,095,762	12.94
Exercised	(4,354,287)	12.49	(11,282,603)	2.87
Cancelled/lapsed	(1,190,135)	18.19	(1,429,240)	19.17
At 31 December	45,532,098	13.14	50,536,520	13.12

21 - Share based payments (continued)

The weighted average share price at the time of the options exercised during 2015 was 21.72p (2014: 21.04p).

As at 31 December 2015, the total number of options held by employees was 45,532,098 (2014: 50,536,520) as follows:

Option price pence/share	Option period ending	2015 Number of options	2014 Number of options
6.87p - 10.25p	31 December 2015	-	558,173
10.40p - 19.42p	31 December 2016	1,698,091	1,453,888
13.58p - 19.42p	31 December 2017	4,024,597	4,647,872
16.10p - 16.10p	31 December 2018	179,306	194,306
3.65p - 17.07p	31 December 2019	5,366,327	6,614,693
0.00p – 45.58p	31 December 2020	1,398,748	1,602,277
9.15p – 50.25p	31 December 2021	5,059,830	5,675,400
0.00p – 28.17p	31 December 2022	5,322,392	5,367,392
0.00p – 27.75p	31 December 2023	15,611,687	16,939,534
0.00p – 23.83p	31 December 2024	6,357,106	7,482,985
18.42p – 25.17p	31 December 2025	514,014	-
At 31 December		**45,532,098**	50,536,520

22 - 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 for the financial year amounted to £119,000 (2014: Loss £4,964,000).

23 - Cash generated from operations

The Group	2015 £'000	2014 £'000
Profit before tax	19,376	5,243
Finance costs	1,790	1,924
Depreciation of property, plant and equipment	6,192	6,590
Amortisation of intangible assets	5,040	3,902
(Profit) / loss on disposal of fixed assets	(5,187)	15
Non cash element of joint venture transactions	(714)	-
Impairment of assets	453	6,354
Onerous lease provisions	-	6,673
Gain on release of contingent deferred consideration	(779)	(9,903)
Contingent deferred consideration (settled through contractual discounts)	(4,837)	(7,981)
Share based payments	2,001	1,458
Cash inflow from operations before changes in working capital	**23,335**	**14,275**
(Increase) in inventories	(2,813)	(792)
Decrease in trade and other receivables	2,739	760
(Decrease)/increase in trade and other payables	(2,290)	618
Cash inflow from operations	**20,971**	**14,861**

The Company	2015 £'000	2014 £'000
Loss before tax	(119)	(5,044)
Finance costs	1,088	1,092
Finance income	(4,230)	(3,758)
Foreign exchange	1,614	2,238
Impairment of investments	-	1,076
Depreciation	15	16
Share based payments	1,387	919
Cash outflow from operations before changes in working capital	**(245)**	**(3,461)**
Decrease in trade and other receivables	8,126	5,927
Increase in trade and other payables	(1,451)	1,686
Cash inflow from operations	**6,430**	**4,152**

24 - Reconciliation of net cash flow to movement in net debt

	2015 £'000	2014 £'000
Increase in cash in the year	(1,109)	2,168
Increase in borrowings	(4,349)	(1,305)
Repayment of borrowings	14,191	3,867
Repayment of leases	918	813
Net movement resulting from cash flows	**9,651**	**5,543**
Net debt at 1 January	**(31,251)**	**(34,351)**
Net movement resulting from cash flows	9,651	5,543
Non-cash movements (note 25)	(1,623)	(2,443)
Net debt at 31 December	**(23,223)**	**(31,251)**

25 - Analysis of net debt

	At 1 January 2015 £'000	Cash flow £'000	Other non-cash movements £'000	At 31 December 2015 £'000
Bank borrowings due after one year	(22,002)	(4,349)	1,725	(24,626)
Bank borrowings due within one year	(13,867)	14,191	(3,486)	(3,162)
Finance leases due after one year	(113)	-	113	-
Finance leases due within one year	(853)	918	(144)	(79)
Total borrowings	(36,835)	10,760	(1,792)	(27,867)
Cash and cash equivalents	5,584	(1,109)	169	4,644
Net debt	**(31,251)**	**9,651**	**(1,623)**	**(23,223)**

Cash and cash equivalents at 31 December 2015 comprised balances held in instant access bank accounts and other short term deposits with a maturity of less than 3 months.

Non-cash movements include foreign exchange movements on US dollar denominated borrowings.

26 - 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
IQE KC 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 Limited	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
EPI Holding Limited	Ordinary shares of £1	100%	Dormant holding company	UK
KTC Wireless LLC	Limited liability company	100%	Dormant holding company	USA
IQE USA Inc	Limited liability company	100%	Dormant holding company	USA
IQE Solar LLC	Limited liability company	100%*	Dormant company	USA
IQE Properties Inc	Limited liability company	100%*	Property holding company	USA
Wafer Technology International Limited	Ordinary shares of £1	100%	Dormant holding company	UK

* Indirect holdings

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 financial statements 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.

27 - Joint ventures

The group holds investments in two joint ventures as follows:

Name of company	Class of capital	Proportion of shares held	Activity	Country of incorporation
Compound Semiconductor Centre Limited.	Common stock of £1 par value	50%*	Research, development and Manufacture of semiconductor materials	UK
CSDC Private Limited.	Common stock of $1 par value	51%*	Research, development and Manufacture of semiconductor materials	Singapore

* Indirect holdings

On 23 March 2015 the group entered into a joint venture agreement with WIN Semiconductors Corp and Nangyang Technological University to create the Compound Semiconductor Development Centre ("CSDC") in Singapore. The CSDC is a centre of excellence in Asia for the development and commercialisation of advanced semiconductor products. The shareholder agreement establishes that this new entity is jointly controlled by the shareholders who have an equal share of the voting rights.

On 9 July 2015 the group entered into a joint venture agreement with Cardiff University to create the Compound Semiconductor Centre ("CSC") in the United Kingdom. The CSC is a centre of excellence in Europe for the development and commercialisation of advanced semiconductor products. The shareholder agreement establishes that this new entity is jointly controlled by the shareholders who have an equal share of the voting rights.

All of the above Joint ventures are accounted for using the equity method in these consolidated financial statements as set out in the groups accounting policies note 1. All of the Joint ventures financial year end is the 31 December 2015 which is co-terminus with the Group and has been used in preparing these Group accounts. No dividends have been received from the Joint ventures in the period.

We enclose below, summarised financial information for these joint ventures for the reporting period:

(a) Summary information for Compound Semiconductor Centre Limited ("CSC Ltd")

Summary income statement	2015 £'000
Revenue	1,521
Loss from continuing operations	(954)
Loss for the period	(954)
Total comprehensive expense for the period	**(954)**

Summary balance sheet	2015 £'000
Non-current assets	33,310
Current assets	5,168
Current Liabilities	(666)
Non-current Liabilities	(14,766)
Equity attributable to Joint Venturers	**23,046**

Carrying value of equity interest in CSC Ltd	2015 £'000
Net assets of CSC Ltd	23,046
Proportion of the Groups ownership interest	50%
Groups share of net assets	11,523
Elimination of unrealised gains on transactions with CSC Ltd	(12,000)
Cumulative unrecognised losses	477
Carrying amount of the Groups interest in the JV	**-**

27 - Joint ventures (continued)

(a) Summary information for CSC Ltd (continued)

Summary of cumulative unrecognised losses	2015 £'000
Unrecognised losses brought forward	-
Unrecognised unrealised gains on transactions with CSC Ltd	(249)
Unrecognised losses in the year	(477)
Cumulative unrecognised losses carried forward	**(726)**

(b) Summary information for CSDC Private Limited

Summary income statement	2015 SG$'000
Revenue	12,208
Loss from continuing operations	(1,820)
Loss for the period	(1,897)
Total comprehensive expense for the period	**(1,897)**

Summary balance sheet	2015 SG$'000
Non-current assets	-
Current assets	4,445
Current Liabilities	(3,834)
Non-current Liabilities	(2,508)
Deficit attributable to Joint venturers	**(1,897)**

Carrying value of equity interest CSDC Private Limited	2015 SG$'000
Net liabilities of CSDC Private Limited	(1,897)
Proportion of the Groups ownership interest	51%
Groups share of net assets	(967)
Cumulative unrecognised losses	967
Carrying amount of the Groups interest in the JV	**-**

Summary of cumulative unrecognised losses	2015 SG$'000
Cumulative unrecognised losses brought forward	-
Unrecognised losses in the year	(967)
Cumulative unrecognised losses carried forward	**(967)**

28 - Related party transactions

The group incurred professional fees and expenses during the year of £125,000 (2014: £125,000) payable to Horton Corporate Finance and £45,000 (2014: £38,000) payable to Fishstone Limited. Dr G H H Ainsworth, who is a director of IQE Plc, is a managing partner of Horton Corporate Finance. S J Gibson, who is a director of IQE Plc, is also a director of Fishstone Limited. An amount of £63,500 (2014: £43,000) was outstanding to these parties at the year-end.

During the year the group recognised Revenue of £207,000 (2014: £145,000) with Seren Photonics Limited. Dr G H H Ainsworth is a Director of IQE plc and Seren Photonics Limited. As at the 31 December 2015 £nil (2014: £148,000) was receivable from Seren Photonics Limited. During 2015 IQE provided loans to Seren Photonics Limited of £25,000 (2014: £nil). During 2014, IQE made a £50,000 investment in Seren Photonics Limited during the year in return for 69 "B" ordinary shares.

During the year the group recognised Revenue of £240,000 (2014: £nil) and also made purchases of £5,860,000 (2014: £nil) with CSDC Private Limited a joint venture of the Group. An amount of £457,000 (2014:£nil) was owed to CSDC Private Limited at year end.

During the year the group recognised revenue of £7,784,000 (2014: £nil) which is net of an elimination of unrealised profit of £7,286,000 (2014: £nil). The group also made purchases of £1,521,000 (2014:£nil) and recharged other costs of £145,832 (2014: £nil) with Compound Semiconductor Centre Limited ('CSC') a joint venture of the Group. Transactions relating to the formation of the CSC are disclosed further in note 4. An amount of £728,156 (2014:£nil) was owed to the CSC at year end. In the groups year end balance sheet there are receivables of £8,000,000 (2014: £nil) relating to Preferred 'A' Shares held in CSC and a shareholder loan of £115,000 (2014: £nil).

29 - Operating lease commitments

The group was committed at 31 December 2015 and 31 December 2014 to making the following aggregate payments in respect of non-cancellable operating leases:

	2015 £'000	2014 £'000
Due within one year	2,082	3,174
Due between two and five years	6,519	12,099
Due after five years	11,378	5,985
	19,979	**21,258**

30 - Commitments

The group had capital commitments at 31 December 2015 of £747,000 (2014:£nil).

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, FREng (President and Chief Executive Officer)
Mr S J Gibson OBE (Non-Executive)
Dr David Grant CBE, FREng, 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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PHOTONIC APPLICATIONS:

enabled by compound semiconductor technology