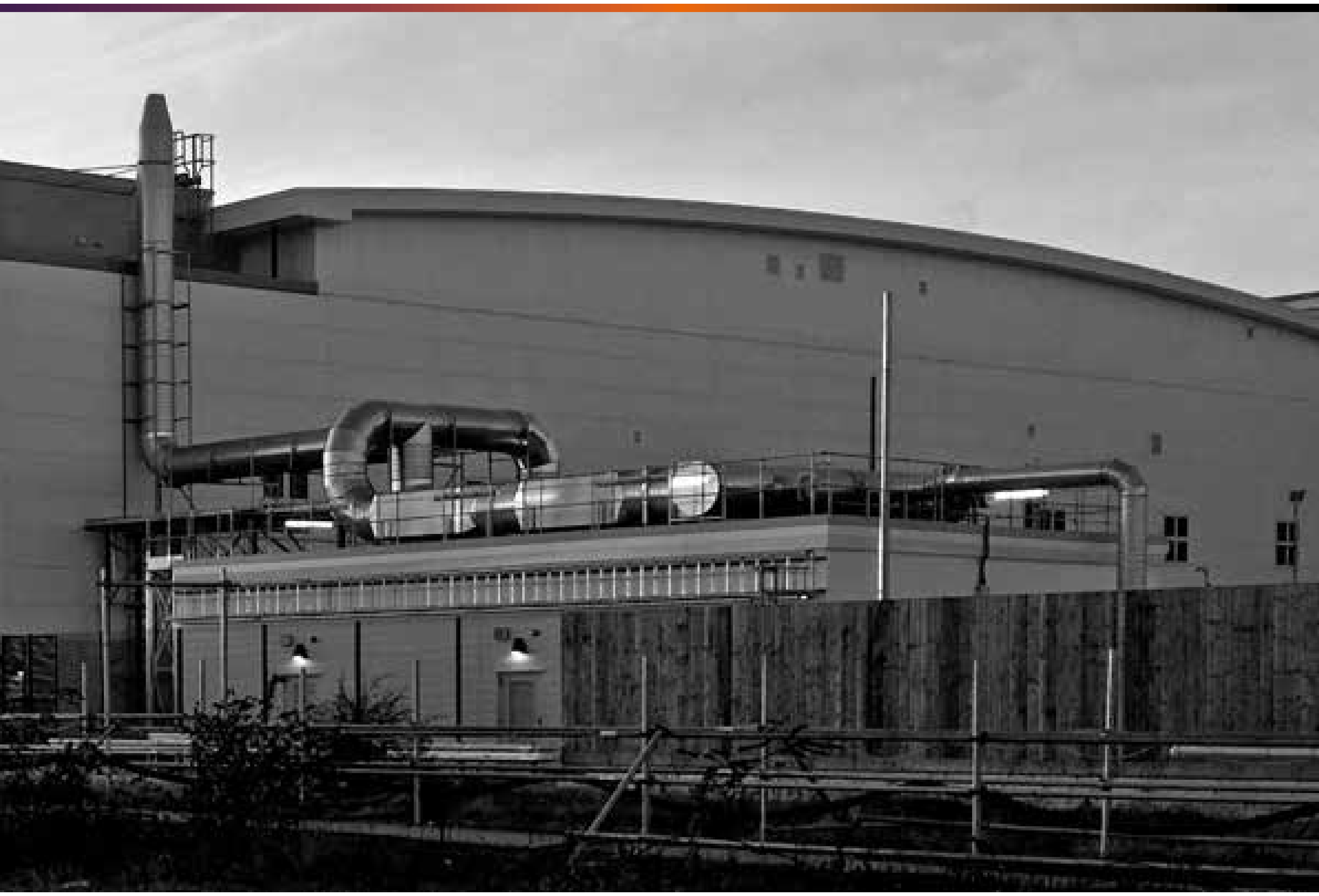
Annual Report and Financial Statements
2019

Contents



Chairman's overview

I am pleased to present our 2019 annual report and financial statements.

I am delighted and honoured, after two and a half years on the Board, to have taken over the chairmanship of IQE in April 2019. IQE is an exciting and innovative company and I am committed to supporting and championing a culture of innovation, growth and inclusion.

I am particularly proud of the response of all of the staff and leadership of IQE in the extremely difficult circumstances resulting from the COVID-19 pandemic. The implementation of measures to keep our teams working safely whilst keeping vital operations active, to support our customers and partners, has been achieved through the dedication of our teams and the support of their families.

IQE is the world's leading supplier of advanced semiconductor material solutions that underpin and will enable the 21st century economy. We innovate, develop and manufacture compound semiconductor wafers and complementary material technologies that are at the heart of the digital revolution.

Our compound semiconductor technologies play an increasingly important role in shaping the way we live, work and spend our leisure time. Our innovative materials will play a key role in enabling next generation solutions in communications technology, security, privacy and artificial intelligence. This includes powering connected devices, healthcare solutions, smart energy, autonomous vehicles, big data and ultra-high-speed connectivity including 5G, and the latest evolution of cloud and hyper-scale data centres.

IQE is a global technology leader operating in a dynamic and competitive market. Our compound semiconductor materials offer significant performance advantages and functionality over silicon-based semiconductors in terms of higher speed, lower power consumption, and more efficient RF capabilities; but perhaps most importantly, compound semiconductors lie at the heart of the expanding photonics industry.

During 2019 the global market for compound semiconductors experienced significant disruption as a result of the global geo-political situation, including trade tensions between the US and China. However, in the medium and long term, IQE's broad geographic footprint and wide range of leading technologies leave us well placed to adapt to these changing market conditions.

IQE has established and has continued to maintain a significant technological and process advantage in the high-volume manufacture of large diameter (150mm) wafers for vertical cavity surface emitting laser (VCSEL) products that form the heart of a rapidly-growing trend for optical sensing applications, such as facial recognition and authentication, where we command a significant global market share.

In 2019, we completed the infrastructure phase of our substantial capacity expansion. Our new 'Mega Foundry' in Newport is a state-of-the-art facility capitalising on 30 years of compound semiconductor experience. The first batch of tools are now in production, with space for a ten-fold expansion to address the 3D sensing market which is forecast for exceptional growth. We also increased our capacity in Taiwan for advanced wireless products based on GaAs (Gallium Arsenide) by 40% and consolidated our Wireless GaN (Gallium Nitride) capacity in Massachusetts. These Wireless expansions are key enablers to grow market share as 5G networks, infrastructures and solutions roll out globally.

IQE has a unique opportunity as a leading technology manufacturer to ensure that our culture, practices and procedures support minimal environmental impact. We continue to strive for the highest standards in our environmental practices. I am proud to say that our new Newport facility is built to the highest technical standards with energy saving features built in by design.

Furthermore, we recognise the technologies we develop and manufacture can have a huge positive impact towards a sustainable world. The advanced properties of materials like GaN are capable of providing highly-efficient power switching for a wide range of industrial and consumer uses. The use of GaN in 5G networks has the potential to revolutionise connectivity in rural areas, as well as the sustainable use of power resources in urban areas. Our VCSEL-based photonics provide greater security and are likely to play a key role in the safety of future autonomous vehicles. Our research and development into lasers for environmental and health monitoring has the potential to transform the way we all live. As energy infrastructure transitions to renewables and smart grids and as ultra high-speed, low latency communication networks roll out, IQE has a real and exciting opportunity to make a genuinely positive difference to society and the environment.

Board and management changes

Godfrey Ainsworth stepped down as Chairman and Interim CFO in April 2019. I would like to take this opportunity to thank Godfrey for his long service to IQE. I am delighted to be taking over as Non-Executive Chairman, having served on the Board since late 2016 as a Senior Independent Director.

A key milestone for IQE over the last year was the appointment of Tim Pullen who joined IQE as Chief Financial Officer in February 2019. Tim, whose appointment was announced in October 2018, was most recently Chief Financial Officer of ARM Limited, a global semiconductor and software design company owned by Softbank Group. His appointment as CFO is strongly aligned with the aim of having a Board with the appropriate balance of skills and expertise to steer the Company through the next exciting phase in our evolution.

In May 2019, Carol Chesney joined IQE as a Non-Executive Director and Chair of the Audit Committee. A Chartered Accountant, Carol is an experienced Non-Executive Director, currently serving as a Non-Executive Director and Chair of the Audit Committee of Renishaw plc since October 2012, in addition to serving as a Non-Executive Director and Chair of the Audit Committees of Hunting PLC since April 2018 and Biffa PLC since July 2018.

During the year, we also announced the formation of the Executive Management Board. This evolution of the senior management structure ensures we are extremely well positioned and resourced to execute our strategy and to make the changes necessary to scale and adapt the business as we grow. This followed the announcement of the retirement of Dr Howard Williams who was a founding member of EPI in 1988 (which became IQE in 1999) and who was appointed to the Board of IQE as Chief Operating Officer in 2004. Dr Williams has been an integral part of the growth of IQE and remains engaged with the Group on a part time basis as a consultant advisor.

Summary

2019 was a year in which IQE's financial performance was adversely affected to a material extent by the global geo-political environment. In 2020, the world is dealing with the significant uncertainty created by the spread of Coronavirus. However, I believe IQE is well placed to adapt to rapidly changing global market conditions and to withstand near term uncertainty. IQE has a unique breadth and depth in compound semiconductor material solutions, unrivalled intellectual property and strength in a diverse global manufacturing footprint. With the investments we have made in new technologies and manufacturing capacity, combined with recent evolutions in our Board and Executive Management personnel, the company is well placed to grow in the coming years.

I would like to thank my fellow Directors and all the management and staff of IQE for their hard work in the challenging circumstances of the past year as well as their ongoing professionalism and dedication in current uncertain times. I would also like to thank our shareholders for their continued support and belief that the IQE team will capitalise on the significant market opportunities that will emerge following these challenging years.

Phil Smith
Chairman, IQE Plc.
28 April 2020

Chief Executive's overview

2019 in review

2019 proved to be a very challenging year for IQE, primarily due to the considerable uncertainty created by the changes in the geo-political landscape and the ensuing effects on global technology markets.

Of particular importance to IQE was the impact of trade disputes on the market for smartphone handsets and volumes ordered by IQE's supply chains in the second half of the year. These changes proved disruptive to short-term sales volumes, materially impacting our revenues and profitability in 2019.

Overall, IQE posted a 10% reduction in revenues versus 2018 figures, which was in line with semiconductor industry norms during the 2019 downturn in the semiconductor cycle. In IQE's case, this was predominantly the result of reductions in revenue from two key customers, one in the Wireless segment, with orders being impacted by changes in global markets, and one in the Photonics segment due to technical issues outside of IQE's control. IQE is confident it has not lost share with either of these customers and remains very well positioned to partner with them in future growth opportunities.

Growth in 3D Sensing (3DS) revenues was slower than hoped as Android adoption of the technology was limited to very high-end handsets which sell in lower volumes. Additionally, there were no additional content gains – where IQE could benefit from a greater number of compound semiconductors being used in devices as they become ever more technologically advanced – in our existing major supply chain. However, broader adoption by Android is still anticipated and IQE is confident of maintaining its number one position and benefiting from potential content gains in the existing major supply chain in 2020 and beyond.

Despite the challenging market conditions in 2019, IQE made significant business progress in the year. This included:

The completion of the infrastructure phase of a significant capacity expansion project, including the go-live of production at our Mega Foundry in Newport, South Wales, a 40% increase in capacity in Taiwan and the centralisation of our US GaN capability in Massachusetts following the New Jersey site closure. Our investment in capacity expansion is focussed on servicing a number of new and emerging high-growth markets. By far the largest single expansion has been our new epi Mega Foundry in Newport which was initiated by IQE in September 2017. The 30,000m^2 building was acquired by the Cardiff Capital Region and subsequently leased by IQE. Since taking on the lease of the building as an empty shell, IQE has completed the first phase of construction of cleanrooms and services for up to 20 MOCVD tools. The first ten tools have been installed and nine are now production ready with six of these in full mass production. When fully occupied, the Newport facility will have the capacity to house up to 100 high-volume production tools.

The continuation of progress on Research and Development programmes in 2019, including Radio Frequency (RF) Filters and Switches, Long Wavelength VCSELs, Distributed Feedback (DFB) lasers and Quasi Photonic Crystals (QPC) for wafer level optics using our Nano-Imprint Lithography (NIL) technology. During the year we enhanced our New Product Introduction (NPI) process to strengthen governance for bringing new technologies to market and optimising returns on investment.

The formation of IQE's Executive Management Board which continues to make good progress in driving the Company's approach to increasing profitability, with specific responsibilities assigned for programs on operational execution, new technology introduction, revenue expansion through customer proximity and diversification, and strong cost management.

During the second half of 2019, the management team took steps to reduce costs and capital expenditure following the completion of the infrastructure phase of capacity expansion. We remain in a strong position to grow revenues and profits in future periods, due to the broad market opportunity we face and the high operating leverage of the Group.

As we entered 2020 there were positive signs that forecasts from our key customers and markets were returning to growth. However, these positive signs are tempered by the increasing uncertainty created by the global spread of Coronavirus. At the time of this report, our current production has been unaffected. We also have a strong balance sheet with access to material additional debt facilities should we need them. This means we are well positioned to withstand the current uncertainty and when this period is over, we look forward to an exciting future.

As the multi-year 5G mega-replacement cycle gathers pace, we anticipate strong growth for our business in future years. 5G will provide a significant growth driver for IQE in GaN technologies for mobile network infrastructure and for GaAs technologies for mobile handsets. Photonics will continue to grow with content growth and higher levels of handset penetration, for 3D sensing VCSEL based products. The rapidly increasing data content of 5G backhaul and front haul fibre optic networks and hyperscale datacentres will drive demand for our DFB lasers and high-speed detector products. In addition, increasing adoption of Infrared technologies for sensing applications, in space and defence, and in future adoption in consumer devices for environmental and healthcare monitoring will continue to strengthen our position in this market.

2020 outlook

After a challenging year in 2019, predominantly due to the impact of geo-political tensions, further challenging conditions are expected in 2020 due to the rapid global spread of Coronavirus.

The impacts of the virus on people's lives has already been significant at the date of this report, with many regions of the world in 'stay at home' lockdowns and healthcare systems stretched to maximum capacity and beyond. At IQE we are aware of the uncertainty this creates and are working as proactive members of the communities in which we operate, to help where we can.

Despite the uncertain environment, trading for the first quarter of 2020 was slightly above our expectations. The smartphone handset market has seen the launch of new models from several OEM's and 5G communications infrastructure deployments, are showing signs of growth.

Whilst at the time of this report IQE's business has been largely unaffected by the spread of Coronavirus, there remains a risk of a global economic downturn which could in turn adversely affect near-term demand for IQE's products.

An economic downturn with an associated reduction in business and consumer spending, could reduce demand for smartphones. However, at a time of social distancing and self-isolation, with many thousands of people continuing to work at home, demand for smartphone handsets may withstand an economic downturn better than many other sectors. Furthermore, the Group considers it likely that Governments will pursue 5G infrastructure deployments as part of economic stimulus packages as they emerge from the health crisis. There is already some evidence of this in Asia.

There also remains a risk of disruption to production at IQE sites or at those of our customers or suppliers. However, the Group's operations are geographically diversified across nine different sites in three continents, significantly lessening the impact of potential disruption at any single site. In addition, we are classified as a critical manufacturing business in many of the countries in which we operate. We continue to work closely with both suppliers and customers to manage our resilience against potential disruption.

These are unprecedented times across the world. During this challenging period, our primary objective is to keep our staff and their families safe and well. By focussing on this, by managing our business with prudence and discipline and with the assurance of access to sufficient debt facilities should we need them, I am confident we can navigate potential near-term challenges. Moreover, with our first-class workforce, strong underlying demand for our products and an exciting future product roadmap, I am convinced we will emerge from this an even stronger company, ready to tackle the future and the opportunities it will present.

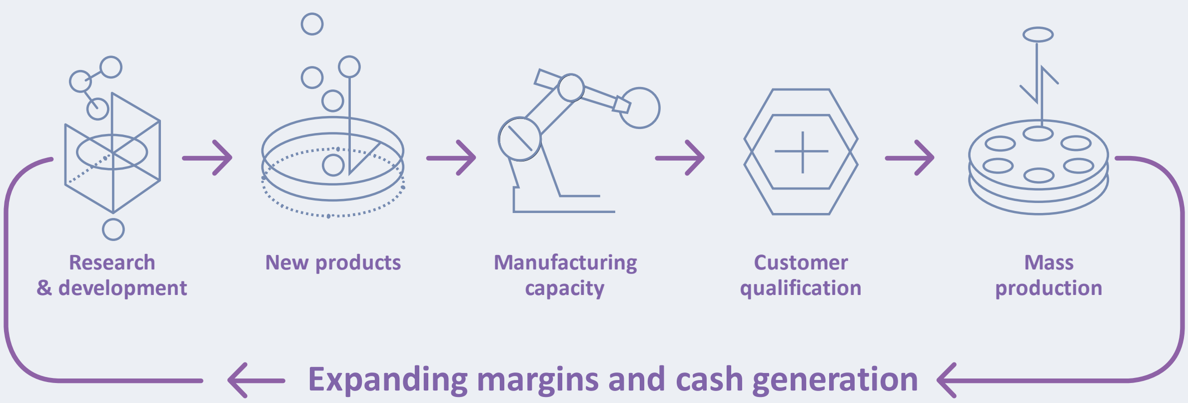
Dr Drew Nelson OBE
President and Chief Executive Officer, IQE Plc.
28 April 2020

Our business model

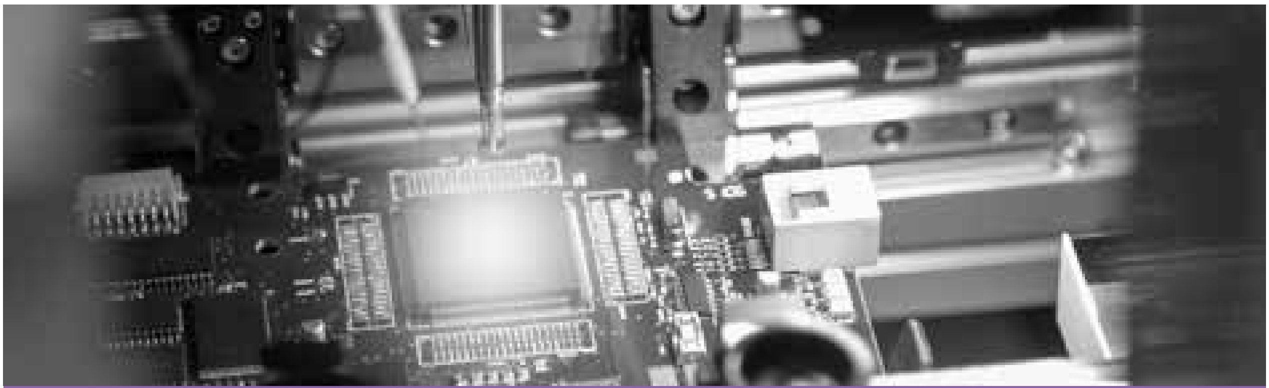
IQE's core business is the design and manufacture of compound semiconductor wafers or "epiwafers" using a process called epitaxy. IQE's epiwafers are used in advanced electronic and photonic components that provide the essential enabling technologies across a broad portfolio of today's high-tech products.

The importance of IQE's world leading technologies is increasing, driven by the macro trends of 5G communications and connected devices. These trends require the superior performance of compound semiconductor technologies to operate at higher frequencies, higher power ranges and to emit and detect light. We believe the future demand for compound semiconductors will underpin significant growth for IQE, enabling the company to deliver significant shareholder value.

Delivering shareholder value



Competitive advantage



IQE has established a strong leadership position in the compound semiconductor markets for both Wireless and Photonics epiwafers. Our leadership is built around our unparalleled breadth of intellectual property (IP). Our close collaboration with our customers ensures that our processes are highly integrated and embedded within our supply chains.

Our customers value IQE's focused innovation and technical expertise through which we develop and retain long-term relationships with all our major customers. We believe that our broad product portfolio, multi-site operations, extensive process know-how, advanced materials patent portfolio, superior quality, unit economics and deep customer relationships represent a powerful competitive advantage.

Research & Development

IQE is committed to technological leadership through research and development. In addition to our intellectual property portfolio and process know-how, we add further value by offering innovative new products and technologies that enhance our customers' competitive advantages.

Through both organic growth and acquisition, IQE has established clear technology leadership which continues to attract the brightest and best talent in our industry.

IP Portfolio

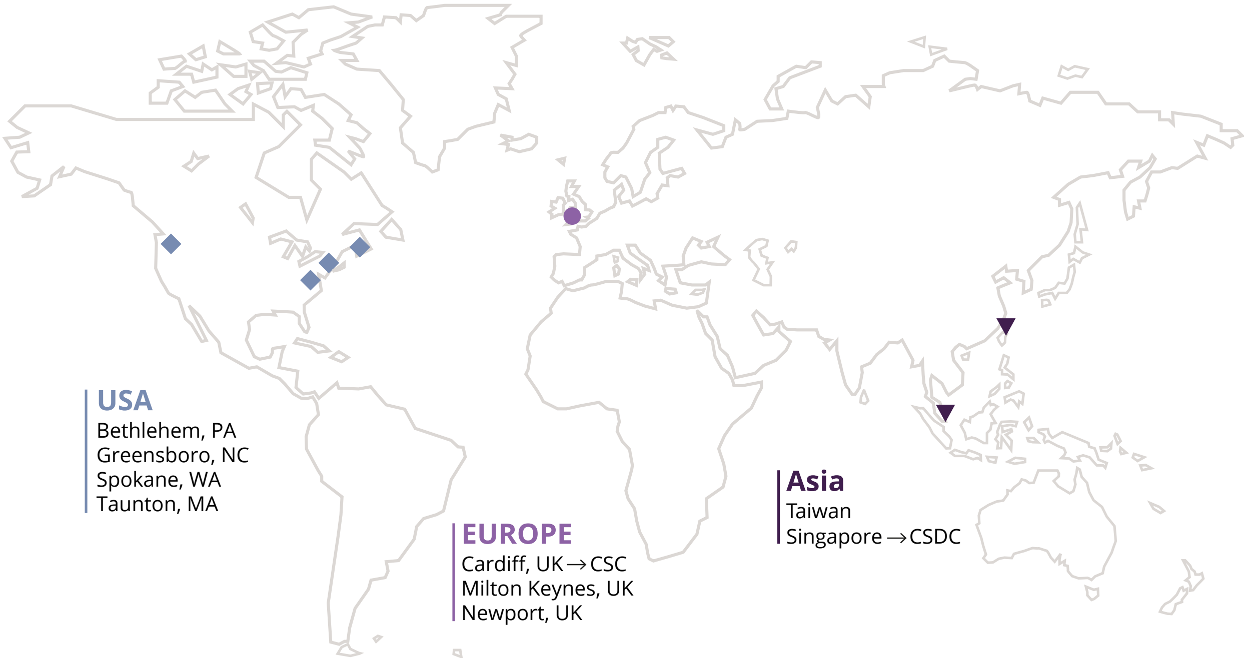
IQE's leadership as a materials solutions provider is underpinned by a comprehensive IP portfolio born out of 30 years of experience. IQE actively patents its technology when appropriate and in accordance with IP strategy. IQE's patent portfolio focuses on protecting the Group's key Technology Platforms which are applicable across a broad range of markets. The portfolio consists of approximately 175 patents (both granted and pending) but is expanding every year. Due to the central importance of IP, IQE has a dedicated Technology Group that manages the business' rapidly expanding IP portfolio.

New Product Introduction

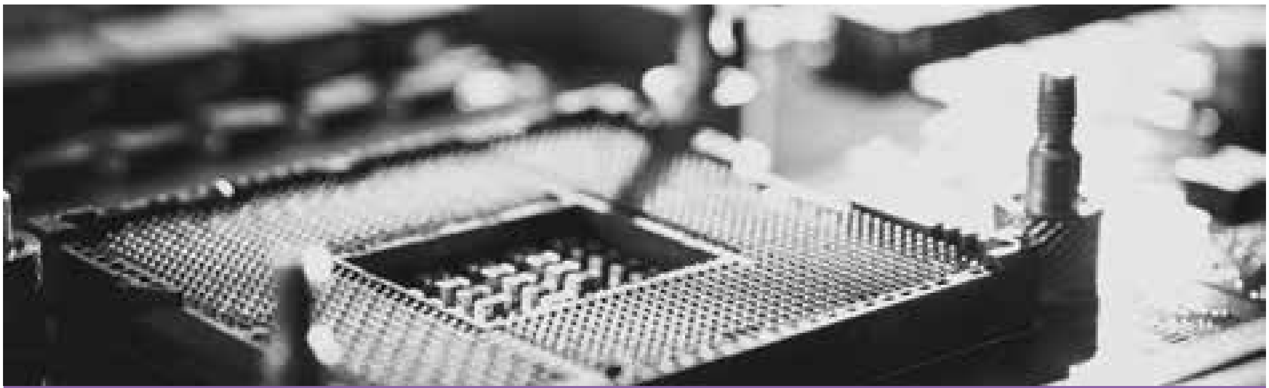
IQE's long-term success relies on enabling customers through new, innovative products. In order to ensure that the right products are developed and introduced, IQE uses a rigorous phase-gate governance framework. This framework ensures that all relevant functional groups of the company such as our Business Units, Technology, Operations, Finance and Quality, contribute their expertise ensuring that New Product Introduction is efficient and effective enabling significant growth and return on investment.

Global Manufacturing Capacity

IQE manufactures across three continents using both Metal Organic Chemical Vapour Disposition (MOCVD) and Molecular Beam Epitaxy (MBE) technologies. This unique global footprint enables the Company to forge links with academic institutions and research establishments worldwide and provides close proximity to our global customers, while ensuring security of supply for these customers. In 2019 our geographical revenues were approximately 55% from the US, 10% from Europe and 35% from Asia.



Key business units



The Group has established three external market facing business units within the organisation. Each of our business units has a clear product, technology and customer focus and is supported by a world-class technology group focussing on product introductions for new and emerging technology markets. Our business units are:

Wireless

The wireless market covers electronic radio-frequency (RF) devices that enable wireless communications. Our markets include, but are not limited to, mobile communications (smartphones), base stations, mobile networks, WiFi, smart metering, satellite navigation, and many other connected devices.

For the last two decades, compound semiconductors have been the key enabling technology for mass market applications such as smartphones, WiFi and wirelessly connected devices thanks to their high-speed and high-performance capabilities.
Our products will play an increasingly important role in enabling 5G systems and connected devices globally.

After the first smartphone was launched in 2007, the wireless market enjoyed several years of double-digit organic growth as the launch of newer, faster and more powerful devices enticed consumers to upgrade to the latest models. However, since 2013 the innovation cycle has slowed and handset market growth has tailed off. According to industry analyst IDC, overall smartphone shipments has stagnated since 2016 with handset shipments in 2019 remaining relatively flat year-on-year.

Whilst smartphone sales volumes may have stagnated, the relentless increase in data traffic continues to drive the need for more sophisticated wireless chip solutions in handsets. It is anticipated that this will drive the market towards 5G connectivity sooner rather than later, which provides significant upside potential for IQE's wireless business as the transition will require much more complex material technologies. Furthermore, infrastructure applications such as base stations, radar and CATV are likely to become an increasingly important part of IQE's wireless business as the superior performance of our materials technology continues to displace the incumbent silicon LDMOS technology.

The fastest growing segment of the wireless chip market over the past few years has been for high performance filters. Although the primary materials technology for filters (aluminium nitride AlN) is made from compound semiconductor elements, the wafers have to date been fabricated using a much less sophisticated "sputtering" process. IQE's cREO™ process provides a unique opportunity to overcome many of the challenges in producing single crystal AlN wafers for 5G filter applications and we are engaged with multiple customers with this potentially disruptive high-performance solution.

Whilst the Wireless sector offers strong future growth potential, due to the disrupted global supply chains and consequent inventory run down in 2019, our wireless sales declined 22.5% year-on-year. The sector accounted for 48.5% of the Group's sales in 2019.

Photonics

The photonics market covers applications that either transmit or sense light (both visible and Infrared). Photonics products made using IQE's advanced semiconductor materials enabling a wide range of end markets in consumer, commercial and industrial applications.

IQE is a world leader in photonics technologies with a product and intellectual property portfolio including Vertical Cavity Surface Emitting Lasers ("VCSEL"), Indium Phosphide (InP) and Infrared products. VCSELs are the key enabling technology behind a number of high growth markets including 3D sensing for face-recognition, data communications, data centres, gesture-recognition, environmental and health monitoring, cosmetics, illumination and heating applications.

Optical communications and sensing applications depend on the ability to emit or detect light and emitters include laser and LED based devices. Lasers broadly further sub-divide into edge emitters and surface emitters. Edge-emitting lasers represent the base technology that has been traditionally used in applications such as optical communications and CD/DVD storage devices. Surface emitting lasers are highly complex epitaxial structures that allow light to be emitted vertically rather than horizontally.

IQE is the market leader for outsourced VCSEL materials, which has been achieved by virtue of its technology leadership and track record for mass market delivery. This includes the demonstration of VCSELs with industry leading performance and yield for production on diameters up to 150 mm. IQE has been successful at enabling its customers to reduce the unit cost of chips which will help to accelerate the adoption of this technology.

Complementing the VCSEL business is a long-established InP capability. Whilst 2019 saw a reduction in sales of InP lasers due to technical issues at a significant customer that were outside of IQE's control, future growth is anticipated for this technology driven by the need for higher speed, higher capacity fibre optic systems to address continuing growth in data traffic.

In addition to VCSEL and InP applications that operate in the near-infrared part of the electromagnetic spectrum, short and mid-wave infrared applications continue to show solid performance. This "Infrared" photonics business is largely driven by safety, security and defence applications that deploy indium antimonide (InSb) and gallium antimonide (GaSb) engineered materials to enable high resolution infrared systems.

IQE is the undisputed global leader in the supply of InSb and GaSb wafers for advanced Infrared technology such as "see in the dark" defence applications.
Our continued investment in the development of photonics products includes the development of lasers for environmental and health monitoring with exciting growth opportunities in both industrial and consumer markets. Overall revenues from the Photonics Group increased year-on-year by 4.5% to £69.8m. The proportion of sales generated from photonics products accounted for 50% of the Group's sales in 2019.

New and emerging technologies

IQE's primary commercial activities currently fall into the wireless and photonics business categories but a number of emerging business opportunities relate to energy/power applications and the integration of compound semiconductors with silicon.

Energy/Power

Gallium Nitride on Silicon (GaN on Si) and Silicon Carbide (GaN on SiC) material technologies are driving a shift in the multi-billion dollar power switching and LED markets. IQE has continued to push the technology boundaries and is making solid progress both technically and in developing commercial relationships in the supply chain. The power switching market alone is approximately 3-4 times the size of the current wireless power amplifier chip market, and represents an exciting future opportunity for our business. IQE's patented technology, cREO™, provides a potentially significant competitive advantage in this space.

Silicon integration

The CMOS++ ("Compound Materials on Silicon") business unit focusses on advanced semiconductor materials related to silicon including the combination of the advanced properties of compound semiconductors with those of lower cost of silicon technologies.

The key advantages of compound semiconductors are that they:

- are much more efficient at emitting and processing high-speed wireless signals;
- are much more efficient at emitting and sensing light; and
- operate at much higher speeds and lower power consumption

It is these advanced properties which underpin our product portfolio in our Wireless and Photonics Business Units.

Future semiconductor technology architectures are showing some trends of moving toward hybrid integrated chips using a combination of traditional CMOS based chips with compound semiconductor chips, all built on a silicon base wafer. This provides the market with the significant performance advantages of compound semiconductors at a cost point nearer that of silicon, whilst allowing the CS industry to utilise the huge investment already made in large-scale silicon chip manufacturing. As a result, this greatly increases the available market for compound semiconductors and the potential demand for epitaxy. IQE has developed multiple routes to delivering this powerful new hybrid. With the addition of cREO™ and other IP, IQE is well placed to play a key role in this integration over the medium to long term. IQE is involved in multiple development programmes, which are developing the core technologies from which future new revenue streams are anticipated to emerge over the coming years.

The CMOS++ Business Unit grew by 31% year on year to £2.1m, accounting for 1.5% of the Group's sales in 2019.

Business processes

Customer qualification

The global semiconductor industry operates to exacting standards, requiring the ultimate product quality with uncompromising reproducibility and repeatability. In order to meet customers' requirements, it is usual to demonstrate beyond question that production processes are optimised, reliable and repeatable with 100% accuracy. Any failures at the start of the process can have a catastrophic impact further along the supply chain and as a result quality must be guaranteed.

Each of our advanced epitaxy tools has to be "qualified" in order to be released for production in any supply chain. This is because the complexity of the technology creates an inherent risk of microscopic variations between wafers in the same production run, as well as from run-to-run. Any process or product variations can have dramatic and costly implications downstream. For each new product, it is necessary to qualify raw materials, equipment and processes and procedures, and each qualification process can take many months to complete, with products being fully tested across multiple platforms and downstream processes.

Whilst there are significant IP barriers in being able to produce advanced semiconductor materials, there is an equally challenging IP barrier of controlling variations to be able to repeatedly and reliably produce high quality materials in high volume which enable high yields down stream. Additionally, the qualification processes require significant investment from all parties including IQE and our customers, but once proven, the process is fixed for the life of that product and becomes another major barrier to entry for competitors.

Mass Production

As a materials specialist, IQE also offers its customers the advantage of economies of scale. IQE has created a competitive advantage through superior quality, scale and a strategy of serving the entire market as a materials solution provider. Achieving low-cost chip production necessitates high quality wafers. Wafer defects translate into lost capacity and low yields for chip makers.
This is evident across the Company's global footprint and in particular at IQE's recently constructed 'Mega Foundry' in Newport and the expanded Wireless facility in Taiwan, both of which have a significant ability to scale. IQE is investing in these mass production capabilities to meet increasing demands for compound semiconductor epiwafers through:

- Investments in facilities and equipment to create manufacturing capacity;
- Development of superior products through a commitment to R&D and NPI;
- Development programmes to introduce standardised systems and processes;
- Introduction of advanced management systems; and
- Attraction and retention of the best industry talent.

The outsource model drives significant financial business value for IQE's chip manufacturing customers because of the superior unit economics generated by IQE's investments in mass production. As volumes grow, IQE's operational gearing affords significant scope for margin expansion and cash generation.

Innovation: research, development and intellectual property

Technology leadership lies at the heart of IQE's strategy and this is supported by a culture of innovation.
It is widely accepted that advanced materials are needed to overcome fundamental challenges to the semiconductor industry. IQE is ideally positioned to meet these challenges.

IQE has built an enviable global reputation in the industry for the breadth and depth of its materials technologies and capabilities. It is evident from IQE's many engagements with leading universities, start-ups, leading chip-makers and established global electronics giants, that IQE has succeeded in establishing itself as the 'go to' place for advanced materials for both current customers and new entrants.

IQE's leadership as a materials solution provider is underpinned by knowhow born out of 30 years of experience. IQE also actively patents its technology when appropriate and due to the central importance of IP, IQE has a dedicated Technology Group that manages the business' rapidly expanding IP and patent portfolio. The growing strength of IQE's IP is reflected in how its relationships within the supply chain have evolved. Historically, IQE was primarily engaged with chip makers, whereas it now regularly engages directly with a number of Tier 1 OEMs.

To maintain its IP leadership position, IQE continues to innovate through focused internal and external research and development (R&D) programmes. These programmes are funded through a combination of internal cash generation, customer funding, and grant funding. IQE's R&D is geared towards next generation applications as well as process improvements leading to greater throughput, higher-quality products, better manufacturing yields and increased production uptime. IQE's ability to support cutting edge R&D through to high-volume manufacturing makes it the premier choice as an advanced materials provider.

Innovation through collaboration

Building high-tech clusters

Collaboration is a powerful tool in accelerating innovation. The benefits are even greater when whole ecosystems "cluster" in geographically close locations, 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 its joint venture in the UK and its highly successful Open Innovation Programme (openiqe.com). Moreover, IQE has been at the heart of establishing a new CS Cluster in South Wales, UK, which is the first of its kind globally. This new cluster is accelerating research into novel technologies, product development, innovation and prototyping. The CS cluster, which is branded as CS Connected (csconnected.com), is the result of collaboration across government, industry and academia, as well as significant private and public sector investment to establish top-class facilities and infrastructure to support activities along the technology development chain from blue-sky research to high-volume production.

The journey started in 2015, when Cardiff University announced an investment of around £75 million in the Institute of Compound Semiconductors (ICS). The announcement was followed by a £24 million joint venture between IQE Plc and Cardiff University to form the Compound Semiconductor Centre (CSC), allowing businesses and academics to demonstrate production-ready CS materials reducing time-to-market and cost. The facilities at the CSC are being complemented by new materials research, fabrication and testing at the ICS.

2016 saw the announcement by Innovate UK of a £50 million investment to establish the Compound Semiconductor Applications Catapult (CSAC), located in South East Wales; a world-class, open-access R&D facility to support businesses across the UK in exploiting novel CS technologies in key application areas.

In addition to IQE, other organisations in the region include Newport Wafer Fab (an open access chip foundry), and SPTS who design, manufacture and support a range of wafer processing tools for the semiconductor and microelectronics industries. Downstream capabilities include Microsemi's Advanced Packaging business, delivering novel solutions for miniaturised electronic circuits with wireless connectivity.

In September 2017, IQE, Welsh and UK Governments and the Cardiff Capital Region City Deal ratified the development agreement for building the Group's Mega-Foundry in Newport, South Wales. This was funded by the Cardiff Capital Region (CCR) Regional Cabinet via a contribution of £37.9 million from the CCR City Deal's Wider Investment Fund which is repaid by IQE over an eleven year lease, including an option to purchase.

In addition, Cardiff University was awarded £10 million by the Engineering and Physical Sciences Research Council (EPSRC) to lead the EPSRC Manufacturing Hub in Future Compound Semiconductors that will combine and connect the UK research excellence in compound semiconductors, with translational facilities at the new CSAC Catapult to provide a pathway from research through to device and application testing and qualification.

During 2019, the Compound Semiconductor Centre (CSC) won a number of contracts and awards to participate in research and development programmes for next generation applications that are expected to lead to future volume manufacturing opportunities for IQE and other partners in the growing Welsh compound semiconductor cluster.

Projects announced during 2019 included the HEMAN consortium that reported on developments in VCSEL technologies for delivering cheaper, faster VCSEL devices that will drive tomorrow's sensing technologies. The CSC joint venture also led the GANTT gallium nitride power consortium awarded through 'The road to zero emission vehicles' competition sponsored by OLEV (the Office for Low Emission Vehicles).

Another significant programme in which CSC was awarded a role in during 2019, was the £9.8m ESCAPE project to create a complete end-to-end supply chain for next generation Power Electronics, which is a key component to be used in all electric vehicles. More recently, CSC announced its participation in a UK £36.7m UK government programme "Drive the Electric Revolution" aimed at pushing the UK to net zero carbon growth by 2050.

The collaborative environment fosters strong working relationships to encourage sharing of knowledge and ideas and the organisations involved are enthusiastic about the future. CS Connected is open for business.

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. The Open IQE programme benefits IQE by raising the Company's profile throughout multiple supply chains and helps embed IQE's technology within new and emerging markets.

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

CoInnovate

IQE actively participates in major industry events and frequently chairs, hosts and presents technical papers at international conferences. A product of IQE's open innovation programme "CoInnovate" was launched in 2016 and has become a major event in the Welsh conference calendar. The conference is organised by IQE and jointly sponsored by the Welsh Government, academic partners as well as IQE and industrial partners including Airbus and General Dynamics.

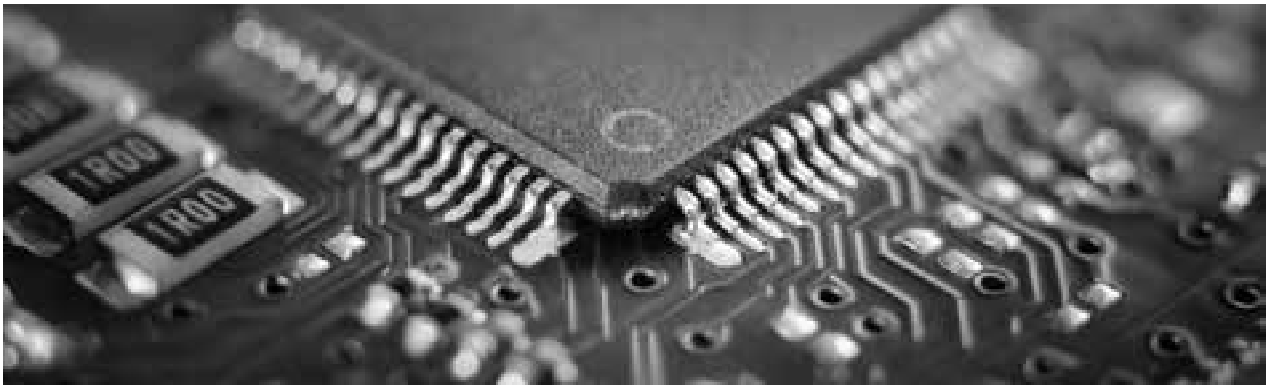
The next CoInnovate UK conference is scheduled for late 2020 following last year's event that attracted around 300 delegates from a mix of large businesses, SMEs and academics.

In May 2019, CoInnovateCS was launched in the US and was co-located with the industry-wide CS-Mantech conference. Following the success of CoInnovateCS in 2019, the second US conference was planned to be hosted alongside CS-Mantech in Tucson, Arizona in May 2020 but has been postponed due to the global COVID-19 pandemic.

All conference plans are under constant review in light of the ongoing pandemic.

More information can be found at the CoInnovate conference website (www.coinnovate.co.uk) and the CoInnovateCS conference website (www.coinnovatecs.com).

Business ethics & conduct



We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships. In our dealings with customers we strive to:

- Be open and honest about our products and services and communicate with customers all appropriate information they need to make informed decisions;
- Ensure 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; and
- Ensuring that we benchmark and evaluate what we do in order to continuously improve products and services in the marketplace.

In our dealings with suppliers

- Identifying and selecting suppliers using fair and reasonable methodologies;
- Identifying and using suppliers who operate to ethical business standards;
- Identifying and using local suppliers where 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.

In our relationships with employees and other stakeholders

- 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.

We encourage everyone to report any behaviour which may be in breach of the UK Corporate Governance Code, is unethical or illegal. This is achieved by fostering a culture of openness and accountability, and by providing a clear procedure that enables any individual to raise breaches of policy or malpractice directly at the highest level.

The opportunities and challenges we manage within our own business also extend to our global supply chain, which we view as an extension of our business. For this reason we are committed to ensuring the same responsible business standards and ethical behaviours we expect of ourselves are upheld by the hundreds of suppliers in our supply chain. In order to uphold our high standards of ethical procurement all our supply chain staff are regularly trained in the IQE Code of Business Ethics and Conduct. In 2019, training modules focussed on key topics for anti-bribery and corruption, conflicts of interest, corporate responsibility and respect in the workplace.

Delivering IQE's vision of being the global number one provider of advanced semiconductor materials and improving our positive social impact is not something we can achieve on our own. We recognise that a large proportion of our innovations are linked to working with our strategic supply chains which is why we invest in long-term mutually beneficial relationships with our key suppliers, in order to share capabilities and co-innovate for growth.

We regularly evaluate and feedback the performance of our key suppliers in order to maintain our competitive advantage. Our three main criteria are Quality, Competitiveness and Technology Leadership and we firmly believe that having supply chain partners that continually strive to drive continuous improvement in these areas creates the differentiation that IQE offers to its customers.

Confidentiality

Our business conduct policy emphasises the essential need for confidentiality in all of our dealings. Maintaining confidentiality is engrained in our culture. Our policy and practice ensures that all staff fully understand what constitutes confidential information and restrict internal access on a need to know basis. Information relating to third parties is not disclosed without the third parties' written consent.

Data protection

Closely linked to our policies on confidentiality is the way that we treat personal data. IQE complies with the requirements of data protection legislation and continues to undertake a range of activities including group-wide training, data audits and risk assessments pursuant to the new General Data Protection Regulations (GDPR) that came into force on 25 May 2018 and the Data Protection Act 2018.

Bribery Act

We implement and enforce effective systems to uphold our zero-tolerance approach to bribery and corruption. To ensure we only work with third parties whose standards are consistent with our own, all agents and third parties who act on behalf of the Group are obliged by written agreement to comply with such standards. A programme of supplier audits exists to ensure suppliers adhere to IQE's standards.

Human Rights and Modern Slavery

IQE is committed to respecting the human rights of all those working with or for us. We do not accept any form of child or forced labour and we will not do business with anyone who fails to uphold these standards. The Modern Slavery Act addresses the role of businesses in preventing modern slavery within their organisation and in their supply chains.

The Company has a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all of its business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in its business or in any of its supply chains.

The company has 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.

Our people

Values

IQE's strength lies in the expertise and diversity of our workforce. Over the years we have been fortunate to retain leading industry experts by being a market leader and through successful acquisitions. As a result, we recognise that our teamwork and collaboration is a powerful competitive advantage that keeps us at the cutting edge of technology and drives constant improvement throughout our organisation. This is supported by our culture of integrity, accountability, excellence, valuing people and teamwork.

- Integrity: We behave ethically, safely, honestly and lawfully
- Accountability: We work to clear and mutually accepted responsibilities, hands-on decision management and decision making
- Excellence: We strive for excellence in all we do with a focus on continuous improvement
- Valuing People: We treat people with respect and dignity; We communicate with clarity and honesty; We provide opportunities for people to reach their potential
- Teamwork: We work collaboratively towards common goals

Equality and diversity

IQE believes that all global employees should be free from discrimination regardless of race, nationality, gender, age, marital status, sexual orientation, disability and religious or political beliefs. We pursue equality of opportunity in all employment practices, policies and procedures and are committed to creating a work environment where everyone is treated with dignity and respect. Our human resources policies, including our employee handbook and Dignity at Work policy, support this aim and are available online to all employees.

IQE recognises that gender diversity remains an ongoing issue for the semiconductor industry and the gender diversity of IQE's Board now stands at 16.6% female with the appointment of Mrs Carol Chesney in May 2019. For more information on how the Board considered diversity in 2019 please see page 45.

Code of conduct

The day-to-day conduct requirements of IQE employees and contractors is defined in our Business Conduct Policy ("the Policy") which sets out expected standards in line with IQE's values and business principles. Upholding the Policy is the responsibility of all IQE employees and staff are also required to ensure that they comply with all relevant laws and regulations of the countries in which we operate and do business.

The Policy contains guidance on avoiding conflicts of interest, confidentiality, adherence to export controls, our approach to gifts and hospitality, bribery and corruption and managing relationships with third parties. In addition, the Policy sets out how employees should report concerns or a breach, including anonymously if they are not comfortable reporting to their line manager or the HR Department directly.

All those working for or on behalf of IQE are required to confirm that they have read and understood the Policy, a copy of which is accessible to all employees.

Communication and engagement

We believe that effective and timely communication is an essential part of positive employee engagement. We strive to ensure that our internal communication meets our needs as a diverse global business operating throughout the UK, US and Asia.

Quarterly Town Halls are held at each site to ensure understanding of strategy, alignment of goals and objectives and the cascade of important information. These are critical forums for the engagement of our staff. Information cascade is reinforced through regular team meetings.

IQE's annual Leadership Conference brings together our global Leaders, Executive Management Board and Non-Executive Directors. At this important event, internal networks are forged and a critical appraisal is made of the execution of our strategy. A key output is the alignment of goals and objectives for the year ahead.

We have also set up internal committees to engage employees in decision-making. At the beginning of 2019 we established the Employee Pensions & Benefits Governance Committee 'EPBGC'. This Committee's members were chosen by IQE staff and represent the interests of the staff in all decisions concerning employee benefits. The Committee is chaired by IQE's independent Non-Executive Director and Chair of the Audit & Risk Committee, Carol Chesney.

Learning and development

IQE recognises that our continuing commercial success is dependent upon our ability to attract, retain, motivate and nurture the best talent in our industry. As the foundation for this, we aim to support all employees to develop their full personal and professional potential and enjoy a rewarding and fulfilling career at IQE. We are committed to promoting an environment and culture that provides for agile and life-long learning and IQE is building a world-class engineering and leadership Academy with the following aims:

- transform how we train our people, embracing digital training methods and agile learning;
- ensure our engineering and technical staff have defined training pathways and we can demonstrate visibility around training execution and evaluation;
- shape the culture whilst embracing technology to simplify and create access for all to learn in an agile work environment;
- align our Learning Management System with our Quality Management System to ensure the effective management of competence.

During 2019 IQE launched an Employee Competence Framework and from that a Competence Management System. These have been supplemented with an updated Training and Development Policy, a new formal Training and Assessment Process and various new training and development forms, plans and logs. Training processes are now communicated with other departments and formalised via our document control systems.

A new Learning Management System called 'the Vault' was also launched in 2019. Starting in the UK this e-learning platform has now gained a global audience and is available to all worldwide employees. There are currently 71 courses in total on the Vault, and 30 e-courses that have been created in-house, in addition to new resources and learning aids which are regularly updated. Our training materials cover our UK engineering suite, UK health and safety courses, essential information and news about IQE as well as a whole host of personal development and leadership and management programmes. Engagement has been high with over 2700 course completions to date.

Ultimately, the Vault will support our employees in their development and will:

- transform how IQE trains through embracing digital training methods and agile learning;
- shape the company culture whilst embracing technology to simplify and create access for all to learn within an agile work environment;
- provide new and innovative links with learning materials from experts around the world.

Taking training beyond IQE

In the UK we have secured funding from the Welsh Assembly for our external training and forged links with the Compound Semiconductor cluster. In working collaboratively with the CS Cluster, local training providers and higher education institutions, we have instigated various opportunities and options for both internal and external training. This relationship allows us to share our best practice as well as provide a variety of alternative training opportunities for IQE staff.

As part of our STEM ambassador work we engage with a number of local schools, colleges, universities, science museums and careers fairs to actively promote and encourage the take up of science, technology, engineering and maths (STEM) subjects through these initiatives.

We also welcome local academics to share in their expertise as well as offer placement opportunities for research and development where appropriate. We hope to further develop this in the form of apprenticeships during 2020, working in partnership with local training providers and the CS Cluster to offer further opportunities.

Performance management

IQE aims to bring personal development "to life" and promotes a culture of learning and development. During 2019 we reviewed how our employees tracked and managed their performance and starting from 2020 we have implemented a new performance review process. We recognise the importance of our employees setting personal objectives that support the achievement of our organisational goals, and being provided with fair, balanced and constructive feedback in real-time.

A comprehensive online system called "Performance Hub" was selected for implementation in early 2020 to simplify and standardise the goal setting and tracking process. The system allows an individual to align their personal objectives with those of the company to ensure there is an alignment of purpose with the strategic goals of the business. Performance Hub will also provide employees and managers with a platform to share transparent and honest feedback on an ongoing basis, further supporting the personal and career development of IQE employees.

Employee wellbeing

At IQE the physical and mental health of our employees is paramount and we routinely promote wellbeing and provide wellness support to our staff. We have a designated mental health first aid officer on site and to assist our employees to be proactive about their health we also provide regular health checks, and offer access to medical assistance through a number of programmes.

IQE operates an employee education programme to support our staff making healthy lifestyle choices. This programme offers healthy lifestyle support and advice, and encourages better health and wellbeing for all employees. It aims to support individuals in making small sustainable changes to improve wellbeing and to improve sustainability by working in groups and making events fun. In 2020 wellbeing meetings are being held monthly at IQE's Newport site with the aim that learnings can be shared with other IQE locations.

Remuneration

IQE follows a remuneration strategy to attract and retain talented individuals. As well as competitive base salaries, IQE operates an annual cash bonus plan and long-term incentive share plan.

Senior employees participate in our bonus plan, which is designed to reward high levels of performance. The plan rewards the achievement of clearly defined financial targets and personal objectives.

In addition to this formal award process, IQE operates a 'spot award' programme which involved awards being issued monthly to any employee who has gone "above and beyond" their duties for the benefit of the Company. They represent a means of providing timely recognition and promoting a culture of excellence. In 2019 40 spot awards were awarded.

All of IQE's global employees participate in a long-term incentive share plan ("LTIP"). The plan ensures all employees are incentivised and motivated to grow the value of the Company over the medium to long term. Performance based vesting criteria ensures the plan creates value for shareholders. For more information on how the LTIP operated in 2019 please see page 59.

Communities and social review

Supporting our communities

As a significant employer in many of the locations in which we operate, we recognise the opportunity we have to make a positive contribution to our local communities. Therefore, we seek to contribute to the economic, social and environmental sustainability of our local communities through a range of activities and initiatives.

We encourage this to be driven "bottom-up", to ensure that our efforts are relevant to our employees and what is important to the local communities in which they operate. Through this approach, we are seeking to support our employees in their efforts to give something back to their communities.

The IQE social committee has been hard at work and have organised a number of events, not only to support employee wellbeing and engagement but also to raise funds for local communities. Individual employees have spent their time and effort on personal fundraisers for the foundation or chosen STEM charities, with our employees running, climbing and swimming to make a difference to their communities. IQE's staff are also encouraged to participate in various events including through volunteering work at holiday soup kitchens, raising money for the Special Olympics and blood donations facilitated at IQE sites.

Educational institutions

IQE engages with a number of schools, colleges and universities around the world and is actively promoting and encouraging the take up of science, technology, engineering and maths (STEM) subjects through a number of initiatives. In the UK, IQE is engaged with STEMNET, where IQE STEM Ambassadors participate in a variety of educational events with a particular emphasis on addressing the gender imbalance in engineering disciplines.

As part of our STEM ambassador work we engage with a number of local schools, colleges, universities, science museums and careers fairs to actively promote and encourage the take up of science, technology, engineering and maths (STEM) subjects through these initiatives.

Corporate Social Responsibility

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

Environment, health and safety

At IQE, the health and safety of our staff, partners and the communities in which we operate is our number one priority. We have implemented safety systems, processes and procedures to ensure we comply with legislation and minimise the risk of harm. IQE's employees take an active role in ensuring that their working environment is a safe place to work and visit by reporting all safety observations and incidents, being involved in safety audits, risk assessments and regular awareness training sessions.

The Environment, Health & Safety (EHS) group has a detailed ongoing continued professional development plan including training and accreditation of competent EHS professionals. These include Regional EHS Managers and site-based EHS Managers, Engineers and Coordinators (hereafter termed Site Safety Appointed Persons ('SSAP')). The Regional EHS Manager appointments provide for high-level advisory roles, identification of global best-practice and adoption of strategic EHS initiatives for all applicable legislative requirements, wherever the Group operates. The site-specific SSAP roles are directly responsible for localised EHS program implementation and operations at each IQE Site.

The Regional EHS Managers work directly and with the relevant Site General Manager or SSAPs in order to implement those best-practices identified from strategic initiatives to:

- minimise risks of injury at work;
- ensure legislative compliance;
- assist in creating and monitoring safety practices.

In addition, localised and specialist Safety Advisors, with the appropriate expertise to support in specific areas of activity, support in areas such as Local Exhaust Ventilation (LEV) and Pressure Systems legislation.

The EHS group continues to be actively involved in industry-wide initiatives, working with industry associations and proactively registering under regulatory directives such as REACH and GHS-based Hazard Communication. The group also monitors global chemical control activities (e.g. RoHS, TSCA) to ensure continued customer confidence and supply-chain compliance.

Safety and Environmental Teams & Reporting

The EHS Group is organised to effectively promote and increase the awareness of Safety and Environmental issues, directives and legal obligations, advising each group subsidiary company and the Board accordingly.

Daily EHS activities and reporting at local sites, managed by the localised safety roles, are fed into general site management for effective control. Regular analysis and discussion are an agenda item at periodic site management meetings. Localised EHS roles prepare regular site performance metrics for dissemination at a Group-level.

EHS Regional Managers oversee site trend analyses and undertake regular conference calls to discuss major issues and site developments. Regional face-to-face meetings and data collation culminate in periodic EHS Board Reports, demonstrating major trends in EHS activities and comparisons with industry best-practice and National Statistical averages.

Regional Managers and the Director responsible for EHS drive strategic initiatives, agreed at Board level, through each organisation to promote Group best-practice, thus ensuring conformance to global, regional and local regulations and directives. Initiatives are designed to fulfil the Group's objectives of maintaining at or beyond state-of-the-art EHS Management.

A full and comprehensive presentation of occupational trends, accidents, safety and environmental incidents, together with compliance with all regulatory requirements, Group and local objectives are published in the Annual EHS Report to the Board.

Health & Safety Policy Statement

IQE Senior Management are committed to ensuring a high level of health and safety performance in all of its activities and recognise effective health and safety management contributes to the overall success of the business.

IQE's policy for conducting its business in a safe and healthy manner is embodied in its global Health & Safety Policy Statement:

"The Company's approach to health and safety will be based on the identification, control, and, where possible, elimination of risk to persons and the environment. This policy provides a framework for the setting of occupational health and safety and process safety objectives by senior management, in consultation with workers. These objectives are intended to ensure the organisation's continual improvement in health and safety performance, striving to be incident and injury free.

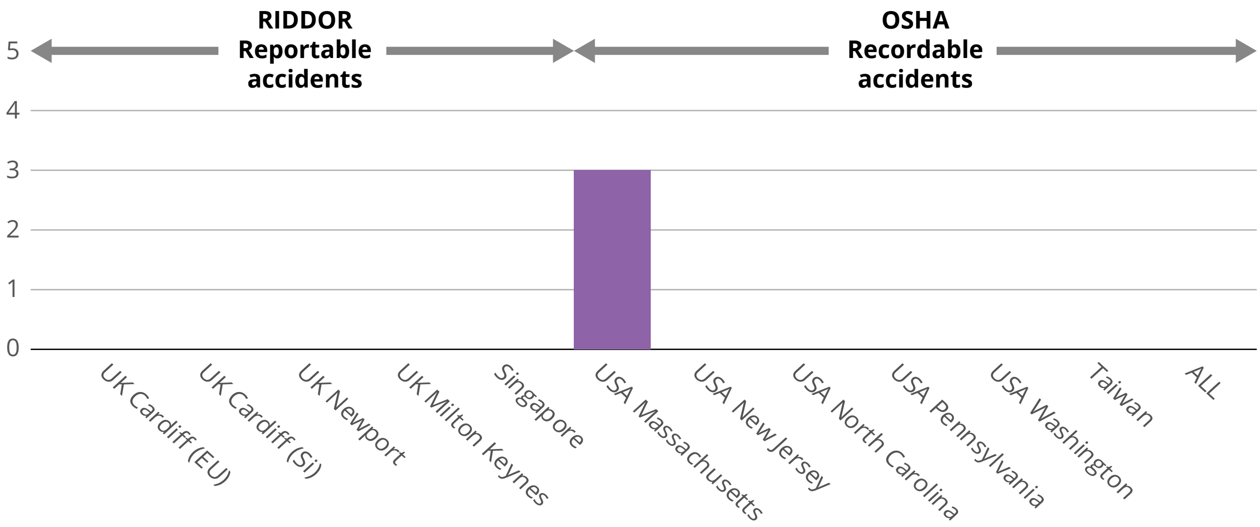
IQE is committed to:

- Providing safe and healthy working conditions for the prevention of work-related injury and ill health;
- Ensuring health and safety considerations are integrated into the business planning and decision-making processes;
- Fulfilling any legal and other requirements, identifying and implementing best practice wherever practicable;
- Eliminating hazards and reducing occupational health and safety risks;
- Providing all employees, contractors and visitors with relevant information, operational controls and regular training on safety requirements to enable them to conduct their activities safely;
- Providing a positive safety culture in which every employee, contractor and visitor feels free to speak up about non-conformances or unsafe situations or any other health and safety related issue;
- Consultation and participation of workers, and their representatives, on occupational safety and health and process safety matters;
- Continual improvement of the occupational health and safety management system.

Safety Performance 2019

As outlined on previous page, IQE closely monitors safety performance. In 2019, the UK and Singapore Sites experienced no RIDDOR reportable injures or dangerous occurrences as well as no lost work or restricted activity days. The US and Taiwan sites both report to OSHA bodies in their respective countries. No incidents were experienced in Taiwan. The Massachusetts site experienced a single incident resulting in three OSHA recordable events during 2019. For all incidents, an incident reporting system was used to document the investigation and root cause as well as identify and implement corrective actions to prevent reoccurrence.

RIDDOR/OSHA Reportable/Recordable Accidents 2019



Note: The UK sites report all minor accidents, not merely those reportable, and constitute minor cuts, slips etc. US reports feature only OSHA 300 recordable incidents (c.f. RIDDOR in the UK).

IQE acknowledges receipt in October 2019 of a set of citations from OSHA (Occupational Safety and Health Administration) in the United States relating to an inspection at the company's Massachusetts facility. This followed on from a single incident at the plant in April 2019. IQE fully cooperated with OSHA throughout its inspection and the majority of the issued citations were successfully defended and subsequently withdrawn. IQE worked with OSHA to fully resolve the citations, and the installation of OSHA's Process Safety Management (PSM) program will be finalised during 2020.

The safety of all of our employees has always been IQE's highest priority and the company has consistently maintained a robust workplace safety program and state of the art safety technology. We are proud of our strong safety record across our global manufacturing operations and are confident that our safety processes will continue to be strengthened through our cooperation with OSHA.

The Environment

IQE is committed to protecting local and global environments and endeavours to ensure that our activities and manufacturing operations are conducted in an environmentally responsible manner.

We are committed to minimising the environmental impact of our operations by encouraging all employees to promote and adopt ways of modifying their behaviour to reduce the impact on the environment. This includes reducing waste, recycling, restricting unnecessary travel, saving water and reducing energy usage.

Environmental Policy Statement

IQE senior management are committed to ensuring a high level of environmental performance in all of its activities and recognises effective environmental management contributes to the overall success of the business.

IQE's policy for conducting business in an environmentally responsible manner states that the company will ensure that:

- We fully integrate environmental considerations into the business planning and decision-making processes;
- Compliance obligations are identified and our operations must be conducted in accordance with these obligations;
- We validate our fulfilment of compliance obligations by means of documented periodic review;
- We employ best practice to reduce the environmental impact of our operations, prevent pollution, minimise waste and maximise the efficient use of energy and resources to protect the environment;
- We will work with IQE supply chain to minimise their environmental impacts;
- We continually improve our environmental management system and its performance by setting measurable objectives and reviewing them on a regular basis;
- We provide suitable information and training to all employees, and interested parties to ensure that the aims of the environmental management system are achieved;
- Appropriate resources will be made available to ensure this policy can be implemented.

In addition, each of our sites will supplement this policy to meet local requirements.

Environmental Management

ISO 14001 is a global standard for environmental management which was developed to help organisations reduce their environmental impact. It provides a framework for organisations to demonstrate their commitment to preserving and protecting the environment by:

- Reducing harmful effects on the environment, and
- Providing evidence of continual improvement of environmental management

All of IQE's continuously operating facilities have successfully completed independent third-party audits of our compliance with the ISO 14001:2015 standard. These audits were very successful with no material deficiencies recorded. Our operating facilities clearly demonstrate a commitment to environmental compliance, reducing waste, recycling materials, energy conservation and risk management where appropriate, complementary to our commercial objectives of reducing costs and improving operational efficiency.

Environmental Legislation Compliance

Compliance with environmental legislation is critical to our global businesses and is assured through the employment of appropriately qualified and competent managers, reporting through to the Chief Operating Officer. These managers have access to third-party professional advisors as required.

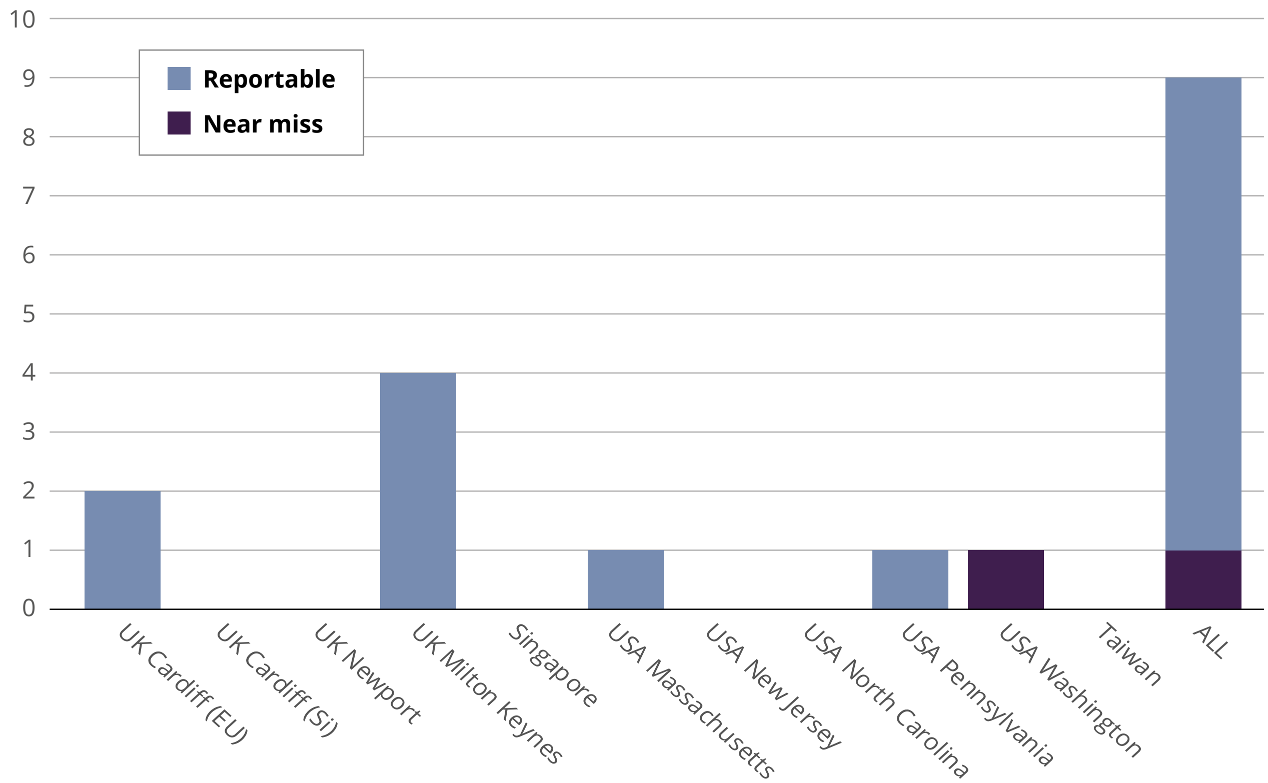
IQE maintains membership of a number of professional bodies which provide a good source of reference and support, enabling it to keep up-to-date with continually evolving legislation. This includes regular updates from: British Safety Council, British Standards Institution, Institute of Environmental Management and Assessment in the UK, the US National Safety Council, the US National Fire Protection Agency and the US Federal Register.

As a Company trading on AIM, a market operated by The London Stock Exchange plc, the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, relating to the disclosure of greenhouse gas emissions and other environmental matters, does not apply to IQE.

Environmental Performance 2019

IQE closely monitors environmental compliance. In 2019, IQE experienced one minor external environmental incident involving a bolt in a sump which caused an elevated lead level. Below is a detailed presentation of the environmental near miss incidents and regulatory reportable incidents that were recorded at IQE's global facilities. For all incidents, an incident reporting system was used to document the investigation and root cause as well as identify and implement corrective actions to prevent reoccurrence.

Environmental Incidents 2019
(Reportable and near-miss incidents)



A Near Miss Incident is an accident or incident that results in no injury, no property damage or environmental release/spill, but has the potential to cause harm or consequence. Near Miss incident examples include trips/slips/falls with no resulting injury, human error and false fire alarms (equipment factor related). IQE treats Near Miss Incidents seriously and has developed a reporting process for continuous improvement activities in order to ensure that hazards in the workplace are identified and to prevent future occurrence. This is a 5D investigative process comprising of an initial incident description, timing and containment measures, a follow-up investigation, an analysis of root-causes, listing of corrective and preventative actions, any additional recommendations and finally a close-out and sign-off process.

Global Chemical Control & Legislation

As a result of its commitment to global chemical control legislation, since the end of 2019 IQE became the REACH registrant for InP as a *substance*. Given the low tonnage band (1-10 tonnes) manufactured, the required REACH dossier was restricted to physical & chemical, toxicological and eco-toxicological properties only. InP, as a *substance*, is a very low proportion of IQE's product range, providing feedstock for InP ingots and wafers produced by some of its customers. IQE's dominant business – the supply of custom-designed mass-manufactured III-V epiwafers – involves the supply of InP and GaAs epiwafers as *articles*. Consequently, all IQE epiwafers are classified as articles under REACH and CLP legislation, and are shipped in a non-hazardous form.

Recycling and Energy Conservation

At each of our global sites we operate continuous improvement programmes to reduce waste and to recycle and re-use wherever practicable. Currently, at each site we recycle: plastics, steel, aluminium, paper, cardboard and process by-products where the opportunity to do so safely exists.

IQE also closely monitors the consumption of electricity, gas and water at all facilities and have targeted environmental improvement programs as part of ISO14001 to reduce carbon dioxide emissions and the depletion of natural resources.

Risk management

IQE employs risk management techniques to identify, evaluate and prioritize Health, Safety & Environmental risks followed by application of resources to minimize, monitor, and control the probability or impact of unfortunate events. IQE's risks may be inherent to the business or come from a variety of sources including engineering or administrative control failures, accidents, incidents and/or natural causes.

IQE performs regular risk management evaluations at its sites and identifies the highest potential risks and opportunities. A summary of the mitigation, likelihood and impact of the risks identified is included on pages 27-37.

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 Corporate risk is the responsibility of the Board of Directors and is a key focus of the Audit and Risk Committee.

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;
- setting the overall policies for risk management and control;
- ensuring that the above are communicated effectively across the business.

The Board reviews and approves an Annual Business Plan prior to the start of each financial year. The Annual Business Plan sets out the key strategic, operational and financial objectives for the year, together with a detailed financial budget.

The Executive Management Board is accountable to the Board for delivery of the Annual Business Plan. The Executives report performance against the plan on a monthly basis, which includes detailed analysis of budgetary variances and updated financial projections.

To provide a framework for the delivery the Group's strategy and plans, the Executive Management Board has developed an organisational structure with clear roles and responsibilities, and clear lines of reporting. The Group's Senior Leadership Team are responsible to the Executive Management Board for the development and delivery of the detailed action plans which underpin the Group's Annual Business Plan.

Each Executive Management Board member is responsible for identifying and managing the risks relating to their respective areas of responsibility, including the risks relating to strategy, the Annual Business Plan, and day-to-day business.

Risk management within the business involves:

- identification and assessment of individual risks;
- design of controls and operational processes to mitigate the risks;
- testing of controls through internal review and audits;
- conclusion on the effectiveness of the control environment in place.

In addition to day-to-day risk management, the Executive Directors formally assess the major business risks and evaluate their potential impact on the Group.

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

In identifying risks, we analyse risks across four key areas:

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

The Board has put in place a framework of internal controls to manage the risks faced by the Group, and the Audit & Risk Committee has responsibility to review, monitor and make policy recommendations to the Board upon all such matters.

The principal risks are described below.

Principal Risk: HEALTH, SAFETY AND ENVIRONMENT		
Business Risk Risk of harm from materials Risk of harm to personnel Risk of failure to comply with H&S legislation	**Mitigation:** IQE operates in a COMAH and PPC Regulated environment and employs the highest levels of technical and engineering control measures to prevent and reduce the possibility of a failure event occurring. Only trained and competent persons are permitted to work with potentially harmful materials. Operation under ISO14001. Highly qualified environmental professionals operating within the organisation are trained and certified to Lead Auditor Standard by BSI. We continuously audit and monitor environmental performance and management systems, driving continuous improvement across all facilities by sharing best practice. Systems and processes at all sites are externally assessed by BSI/BV – up to twice annually.	**Likelihood:** Medium (Unchanged) **Potential impact:** High **Effect:** Reputational damage, business interruption, increase in costs, loss of sales, adversely affecting profitability

Principal Risk: BUSINESS INTERUPTION		
Business Risk Risk of a natural disaster, public health emergency or other major incident disrupting production at an IQE site or at that of one of IQE's suppliers or customers Loss of key production data	**Mitigation:** IQE operates multiple global manufacturing facilities, which helps to mitigate against the impact of major incidents or events on IQE. Similarly, many of our larger customers have multi-site production to mitigate their risk. Our active programme to dual source most of our critical supplies mitigates an element of supplier risk. Commodity based items are protected wherever possible through Long-Term Supply Agreements that allow our supply chain to plan ahead and mitigate commodity fluctuations through hedging and/or buying ahead. IQE maintains appropriate business interruption insurance including for natural catastrophe. However, as is usual in such policies, pandemic health emergencies are excluded from cover. IQE's production data is appropriately stored and backed-up with IT system recovery plans in place.	**Likelihood:** High  (Increased) **Potential impact:** High **Effect:** Loss of production volumes and profitability

Coronavirus

At the time of preparing this report, there are significant impacts globally around the outbreak of the Coronavirus (CoV). The spread of the virus has impacted the health of thousands of people worldwide and has resulted in millions of people staying at home in necessary lockdowns imposed by governments. It is inevitable that Coronavirus will negatively impact Global GDP and significantly affect macroeconomic conditions in 2020.

IQE has implemented a Business Continuity sub-committee to respond to this evolving situation. The sub-committee is monitoring risk indicators and external guidance and has formulated policies and potential actions in readiness for different scenarios. It is also ensuring regular and clear communications with our staff and other stakeholders.

There are three key risks to IQE from the Coronavirus pandemic being considered and constantly monitored by the sub-committee.

Firstly, there is an increased risk to the health of our staff during this period. The safety of our people remains our primary objective. During the early phases of the spread of the virus in 2020, we implemented travel restrictions and enhanced health and safety measures to reduce the risks. The approach of the sub-committee has been to follow government advice and guidance in all of the regions in which it operates. As the virus continued to spread and governments issued updated advice, the sub-committee acted swiftly to communicate changes and implement appropriate measures. Throughout this period, the Executive Management Board are conducting enhanced levels of communication with all staff. We will continue to take appropriate measures to protect our people.

Secondly, there is an increased risk of business disruption at any of IQE's global sites or at one or more of our suppliers or partners. IQE has continued to operate during the pandemic and we have implemented appropriate social distancing measures, enhanced cleaning regimes and shift segregation measures at all of our global sites where appropriate. Only staff who are essential to production are working on-site with all other staff working from home. In the US, IQE is classified as a *critical infrastructure supplier* in all four states in which we operate, enabling us to continue operations during lockdown. In the UK, the government classes manufacturing as a critical part of the economy and there are no restrictions being placed on it. Similarly, in Taiwan and Singapore, governments are supportive of production continuing during the pandemic. As at the date of this report, there have been no suspensions to production due to Coronavirus at any of our global sites and the Business Continuity sub-committee continues to monitor the situation and that of our suppliers and customers very closely.

Thirdly, there is an increased risk of a fall in demand for IQE's products resulting from a global economic downturn due to the pandemic. However, trading for the first quarter of 2020 was slightly above our expectations and there are no signs of a material reduction in demand at the date of this report. The Business Continuity sub-committee continues to monitor markets and liaise with our customers closely.

Principal Risk: INFLUENCE OF MARKET CONDITIONS		
Business Risk Risk of product obsolescence due to changes in end-markets Risk of loss of access to markets resulting from the geo-political environment Risk of downturn in end markets or general macro-economic weakness	**Mitigation:** Global technological markets are dynamic and change occurs at a fast pace. As new technologies are introduced, mature technologies can become displaced and eventually become obsolescent. IQE's products appear in a wide variety of end-use applications and are essential to the operation of devices such as the smart phone. As technologies evolve, IQE manages its product roadmap to ensure it has a portfolio of current and future products that will continue to enable many technological markets. IQE's R&D programme and NPI governance process are designed to ensure the Company drives a return on investment from product development and introduction. IQE develops intellectual property locally across all of its global manufacturing sites to underpin its ability to serve markets globally. The Company complies with all relevant export control legislation. IQE is well positioned to adapt to changes in global technology markets and the company has the ability to leverage its global manufacturing footprint by qualifying tools in multiple production locations worldwide. IQE is working to diversify its products and customer base to reduce the impact of changes in specific markets, as evidenced by IQE's development of 3DS products and growth in Wireless products for infrastructure as well as handsets. IQE's Taiwan site expansion, which was completed in Q2 2019, increased wireless capacity by 40%.	**Likelihood:** Medium (Increased) **Potential impact:** High **Effect:** Loss of sales and reduction in profitability

<table>
<tr><th colspan="3">Principal Risk: CUSTOMER CONCENTRATION</th></tr>
<tr>
<td>Business Risk

Risk of loss of share and/or volume from a major customer</td>
<td>Mitigation:

IQE experienced a significant loss of volume from two key customers in 2019; one in the Wireless market (GaAs Power Amplifiers) and one in the photonics segment (InP lasers). These two customers account for the majority of the reduction in IQE's revenues year on year.

The wireless sector is highly concentrated with the top 5 Radio Frequency (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.

Indeed, as Global markets changed in 2019, IQE experienced an acceleration in customer diversification. Whilst share was maintained with US RF Chip companies, IQE is working to expand share with Taiwanese RF Chip foundries.

Similarly, share with IQE's major InP laser customer is not lost and future revenue opportunities are possible. In addition, customer diversification is possible with an expanding market opportunity for InP lasers in Asia becoming more evident. Here a change in business model, with the development of generic full service Distributed Feedback (DFB) lasers provides IQE with a diversification opportunity.

As 3DS proliferates into Android handsets and even beyond the handset, customer concentration in this segment will also reduce.

IQE continues to enjoy steady growth in other Infrared markets, notably the military market where IQE's technological expertise, customer-centricity and high quality products ensure a strong market share. This segment contains a number of different customers to the other parts of IQE's business.

IQE is also working to further diversify its product range and customer diversification by bringing new products to market, including long-wavelength VCSELs and RF Filters and Switches.</td>
<td>Likelihood:
Medium

(Increased)

Potential impact:
Medium

Effect:
Reduction in sales volumes and profitability</td>
</tr>
</table>

Principal Risk: FINANCIAL LIQUIDITY		
Business Risk Risk of not maintaining 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 the forecasts, appropriate funding and liquidity solutions are put in place to ensure that appropriate headroom and covenant compliance is maintained. At the 31 December 2019 year-end, the Group had net debt of £16m (excluding lease liabilities). In August 2019, the Group secured additional funding in the form of a new £30m asset financing facility with HSBC, maintaining the previously agreed £27m revolving credit facility with HSBC as a committed line. This increased total facilities to £57m. IQE has a long-standing and trusted relationship with our bankers HSBC who remain supportive of the Company. We are in close ongoing dialogue regarding the evolving effects of Coronavirus on supply chains and markets. In the context of the Coronavirus pandemic, IQE management have considered *severe but plausible* downside financial forecasts and projections, prepared with significant reductions to future forecast revenues. The Group has discussed the Group's severe but plausible downside financial forecasts with the Bank in order to agree the relaxation of certain banking covenants at 31 December 2020 and 30 June 2021 as a precautionary measure designed to increase headroom and availability of cash funding under the terms of the Group's committed bank facilities. The Company is focussed on strong working capital management and capital expenditure can flex to low levels if prevailing market conditions are poor, aiding cash preservation if required.	**Likelihood:** Low (Unchanged) **Potential impact:** High **Effect:** Financial liquidity and reputational damage

Principal Risk: LEGAL COMPLIANCE		
Business Risk Risk of failure to comply with applicable laws and regulations	**Mitigation:** IQE is a global manufacturing business, operating in a diverse range of jurisdictions around the world. IQE continually informs and educates its staff on the latest legislative and regulatory requirements including export control, anti-bribery & corruption, data protection and other matters. The Company's values underpin the operation of all staff with honesty and integrity and a zero tolerance approach is taken to non-compliance with IQE's high ethical standards. IQE complies with all relevant export control legislation globally. The Company operates a system of internal controls to ensure all transactions are classified appropriately and that any required licenses are obtained prior to shipping. The Company liaises closely with customers to identify the ultimate consignee of shipments. IQE engages a network of external advisors and expert advisors to ensure it is aware of changes to the legal and regulatory environment and that it responds effectively to these.	**Likelihood:** Medium (Unchanged) **Potential impact:** Medium **Effect:** Financial loss and reputational damage

Principal Risk: LOSS OF INTELLECTUAL PROPERTY		
Business Risk Risk of infringement of IQE patents by third parties Risk of loss of trade secrets to third parties Risk of claims alleging IQE has breached third party intellectual property rights	**Mitigation:** IQE operates in a competitive industry. In order to protect its intellectual property IQE maintains strict confidentiality controls and a system of non-disclosure agreements with staff, customers and suppliers. IQE protects its technology by strategically patenting in key areas. Where IQE becomes aware of potential infringement of IQE's IP by others, or receives a claim alleging infringement on a third party's IP, IQE will use appropriate legal resources to defend its position and its intellectual property portfolio. This is evidence in 2019 by the successful outcome of an arbitration hearing related to an infringement claim against IQE. Whilst the related Court process is not complete, the arbitration outcome validates IQE's strategy of defending its intellectual property.	**Likelihood:** Medium (Unchanged) **Potential impact:** Medium **Effect:** Financial losses, reputational damage

Principal Risk: COMPETITION		
Business Risk Risk of loss of market share Risk of loss of share with a significant customer Risk of excessive price erosion due to predatory pricing from a competitor Risk of entry of a new competitor	**Mitigation:** IQE has developed a leading market position through development of technology, superior product quality and investment in manufacturing capacity and customer qualification. IQE's competitive advantages are discussed further on page 9. The risk of competition has increased in 2019 due to two key factors. Firstly, the changing geo-political environment, which has favoured certain competitors in the short-term. Secondly, the attractiveness of new markets such as 3DS to new entrants. Despite the increase in risk, IQE continues to secure a substantial share in the markets in which it operates and remains well placed to adapt to changes in global markets. IQE maintains close relationships with customers and suppliers to become the "materials partner of choice" by forming multilevel partnerships from material design stage to pilot and volume production. This helps us to monitor the activity of our competitors and demonstrate to our customers the advantages offered by IQE. We also continue to invest in product development to ensure competitive advantage. IQE maintains an absolute focus on product quality, value and customer service with technology leadership and complimentary value added solutions that enhance our customers' competitiveness. IQE provides superior unit economics to our Customers through superior product quality and yields combined with superior unit economics from our approach to mass production. In some cases, customers seek second source supply arrangements to meet their own business continuity planning policies, but our multiple site capabilities provide suitable mitigation against this risk for some customers. The qualification process represents a significant investment for IQE and our Customers, both financially and in time so once a product and relationship are established, this becomes a significant barrier to entry for competitors. Contractual commitments from customers are also used in some cases to maintain share.	**Likelihood:** Medium (Increased) **Potential impact:** High **Effect:** Loss of market share, reduced sales volumes and profitability

Principal Risk: TECHNOLOGICAL CHANGE		
Business Risk Risk of a disruptive technological change that surpasses compound semiconductors	**Mitigation:** IQE is at the leading edge of technological advancement. Due to their inherent characteristics, compound semiconductors have superior performance characteristics. In order to minimise the risk of other technologies surpassing compound semiconductors, IQE invests in research and development and manages a New Product Introduction (NPI) process to ensure it has a pipeline of leading edge, commercially viable products and solutions.	**Likelihood:** Low (Unchanged) **Potential impact:** High **Effect:** Reduction in sales volume and profitability

Principal Risk: KEY PERSONNEL		
Business Risk Risk of loss of key personnel Risk that IQE may fail to attract the best industry talent Risk of attrition in skilled employees	**Mitigation:** Attraction of talented staff and the retention and development of IQE's workforce is critical to the long-term success of the Group. IQE's people are the heart of the business. In order to promote the development and retention of its staff, IQE offers career progression, personal development and a range of benefits and incentives. Of paramount importance is keeping our people safe. IQE is committed to investing in advanced safety systems in its facilities, in H&S training and in maintaining robust safety policies and procedures. In addition, IQE operates a highly effective quality management system across all of its operations. This system ensures that all key data and procedures are fully documented, reflecting IQE's "learning organisation" philosophy. IQE's commitment to personal development is evidenced by the implementation of the Training Academy in 2019. For more information please see page 19. IQE's leadership communicates regularly with staff, including at quarterly Town Halls. IQE's remuneration policy, including performance-based bonus and long-term incentive share plan are also key to retaining staff.	**Likelihood:** Low (Reduced) **Potential impact:** Medium **Effect:** Quality issues, production issues, increased costs of operation

Principal Risk: INFORMATION TECHNOLOGY

Business Risk	Mitigation:	Likelihood:
Risk of loss of IT network or service Risk of loss of key data, confidential information or intellectual property	IQE has invested in appropriate cyber security defences and employs a third-party specialist to monitor IQE's network. Cyber security mitigation plans in place to protect key information assets. All staff are required to complete highly effective cyber security training and IT policies are in place to ensure staff use assets appropriately. A risk framework with plans for the management, mitigation and resolution of device failures is in place. Hardware and software systems have in-built resilience including redundant elements. We continuously invest in and improve IT resilience. Data is appropriately stored and backed-up with IT system recovery plans in place.	Low (Reduced) **Potential impact:** Medium **Effect:** Additional costs and reputational damage

Tax compliance

In previous years IQE has disclosed Tax Compliance as a principal risk. This risk has now been assessed, based on current conditions, as having a low likelihood of occurrence and a low potential impact. As such, it is no longer considered a principal risk.

Brexit

The management team's view continues to be that the UK leaving the European Union (commonly referred to as 'Brexit') will have no significant impact on IQE's business operations. In making this assessment the following factors have been considered.

1. The Group operates and trades globally, with Asia and the USA representing the Group's dominant markets.
2. The Group sources input materials from various global suppliers, including dual-source or multi-source arrangements for volume items.
3. Safety stock holding of critical supply items have been increased for UK operations to mitigate potential customs delays.
4. The financial impact of World Trade Organisation tariffs has been evaluated as being de minimis.
5. IQE Europe Limited and IQE Silicon Compounds Limited applied for and have been granted an OGEL (Open General Export Licence) for exporting dual use goods to EU member States.

IQE believes there will be two possible impacts on IQE's business from a financial perspective.

1. IQE reports in GBP and earns the majority of its revenues in USD, so is exposed to exchange rate fluctuations which may be amplified by Brexit.
2. Access to grant funded research and development projects is likely to be adversely affected by Brexit and there is some uncertainty over the grant funding landscape in the UK post-Brexit. This predominantly affects IQE's Compound Semiconductor Centre (CSC) joint venture with Cardiff University given the nature of its strategy to bridge the gap between academic research and mass production.

IQE does not foresee any scenarios where Brexit will have a significant impact on the Group's ability to access workers with requisite skills. Nor does it envisage any circumstances in which a party might gain a competitive advantage over IQE as a result of Brexit.

Section 172(1) Statement – Stakeholders

The Directors have given due regard to the matters set out in section 172(1)(a) to (f) when performing their duties under Section 172 of the Companies Act. They have considered the long-term consequences of decisions, matters affecting the Company's employees and other stakeholder relationships, and the need to act fairly between members of the Company.

Recognising that companies are run for the benefit of their shareholders, but that the long-term success of a business is dependent on maintaining relationships with stakeholders, the Board continuously reviews which relationships support the generation and preservation of value in the Company. These relationships include those with customers, suppliers, employees, academic and research institutions, industrial partners and public bodies. The key relationships are those that are essential to achieving IQE's vision and strategy:

- IQE's vision is to maintain and grow our established position as the leading global provider of advanced semiconductor materials – the global "go to" compound semiconductor materials specialist;
- to realise this vision requires the ability to deliver "enabling technology", which meets the performance and price points needed for adoption, and which can be delivered reliably, on-time, every-time with the ability to scale rapidly; and
- to the effectiveness of its business model as described in this Strategic Report on previous page.

The Directors have directly engaged with these key stakeholders or through senior representatives of the Group - including those responsible for procurement, planning, operations and quality who interact with their counterparts at other organisations - who report directly to the Directors with a view to understanding the relevant issues through a number of methods. These methods include:

- face-to-face meetings;
- attendance at industry conferences as described further on pages 14 to 15;
- regularly reading relevant publications, journals and reports;
- workers council, town hall and Employee Pensions and Benefits Governance Committee (EPBGC) meetings as described in this Strategic Report on pages 18 to 19.

Throughout 2019, IQE has maintained very active dialogue with a wide range of customers and suppliers and also major end-use OEMs. Guidance from end customers on future volume and technical requirements for photonics applications has driven investment decisions on capacity and also on metrology requirements critical to maintaining position as supplier of choice for major consumer applications.

Engagement with our Wireless customers' customers is more limited due to the preference of our customers for us to act through them, not around them. Nevertheless, we actively monitor our customers' customers via their public data releases, analysts' reports and applicable conferences. Feedback from all sources is carefully weighted, verified and evaluated internally with cross-referencing to other IQE Business Units with like customers and markets.

Other examples of decisions and strategies that have been affected by regard to stakeholders in 2019 include:

- consideration of culture as the basis of decision making within the business has underpinned the decision to undertake the process of revisiting our vision and strategy, redefining our values and creating an overarching brand for our people strategy;
- decisions concerning financial capital allocation, including investment in R&D and manufacturing capacity to ensure an ability to generate and preserve value over the longer term;
- consideration of employee benefits which have resulted in the establishment of the EPBGC and a change of pension provider;
- working with various industry bodies in the region to support a bid to the Strength in Places fund led by UK Research and Innovation to support the growth of a compound semiconductors cluster in the South Wales region.

In 2019, as in the previous year, IQE's Directors have also considered the need to act fairly between members of the Company when explaining to those of IQE's major shareholders that are loaning their stock, the difficulty that such loaning of stock creates for the Company.

Financial review

The Group reports financial performance in accordance with International Financial Reporting Standards adopted by the European Union ('IFRS') and provides disclosure of additional alternative non IFRS GAAP performance measures to provide further understanding of financial performance. Details of the alternative performance measures used by the Group including a reconciliation to reported IFRS GAAP performance measures is set out in note 5 to the financial statements.

Consolidated revenues declined by 10.4% to £140.0m (2018: £156.3m), primarily as a result of (i) a fall in demand from a major Wireless customer due changes in global technology markets resulting from a changing geo-political context and (ii) a fall in demand from a major Photonics customer due to technical matters outside of IQE's control.

Segmental information has been restated in the financial statements to reflect changes in the Group's operating and reporting structure following the establishment of an Executive Management Board that has consolidated responsibility for the Group's primary markets and operating segments under the leadership of an Executive VP, Global Business Development, Wireless and Emerging Products and an Executive VP, Global Business Development, Photonics & Infrared. This change to the Group's operating and reporting structure has resulted in the consolidation of the previously disclosed Infrared segment into Photonics and the reclassification of certain revenues and associated costs pertaining to a specific site, which has shared production, between the Wireless and Photonics segments.

Photonics represents the largest proportion of the Group's revenue accounting for 49.8% (2018: 42.7%) of total wafer sales with Wireless representing 48.7% (2018: 56.2%) and CMOSS++ representing 1.5% (2018: 1.1%) on a restated basis.

Photonics wafer revenues were up 4.4% to £69.8m (2018: £66.8m) despite a significant loss of volume from an Indium Phosphide customer that experienced technical issues with an end customer that were outside the Group's control. Photonics demand, especially for VCSEL and Infrared products continued to grow in 2019. VSCEL revenues accounted for circa 50% of total Photonics revenues in 2019. Single digit % growth was driven by demand from the Group's existing VCSEL supply chain and initial volumes from Android supply chains. Infrared revenues accounted for circa 30% of total Photonics revenues in 2019 with growth rates consistent with historic growth being driven primarily by defence applications.

Wireless wafer revenues were down 22.4% to £68.2m (2018: £87.9m). The decline in Wireless revenue reflects the global market changes related to the geo-political landscape, including the impact of a significant decline in volume from one of the Group's major GaAs Power amplifier customers, despite maintaining the previous share of that customers business. GaAs wafers account for circa 70% of Wireless revenues in 2019, with GaN wafers accounting for circa 30%.

Gross profit declined from £37.5m to £21.4m. Adjusted gross profit, which excludes the charge for share based payments, decreased from £36.8m to £20.9m resulting in an adjusted gross margin decline on wafer sales from 23.9% to 14.9%. The decline in adjusted gross profit margin reflects under-utilisation of assets in a period where revenue has declined and additional manufacturing capacity has been installed at the Group's manufacturing sites in Newport (UK), Hsinschu (Taiwan) and Massachusetts (US).

Other income declined from £1.1m to £nil. The decrease in other income relates to the net insurance proceeds received in 2018 following the death of the former Chief Financial Officer, Phillip Rasmussen. The net insurance income was excluded from the adjusted profit measures in 2018 as the income did not relate to underlying trading.

Selling, general and administrative ('SG&A') expenses increased from £29.9m to £36.3m. Adjusted

SG&A, which excludes adjustments for share based payments, amortisation of acquired intangibles, restructuring costs, patent dispute legal costs and certain non-current asset impairments increased from £20.7m to £25.8m reflecting an increase in non-cash amortisation charges, an increase in corporate costs as the business primes itself for growth and exchange rate movements.

Restructuring costs totalling £0.8m (2018: £3.3m) relates to site-specific employee related restructuring of £0.6m (2018: £nil) and additional costs of £0.2m (2018: £3.3m) associated with the closure of the Group's manufacturing facility in New Jersey. Patent dispute legal costs of £4.3m (2018: £1.3m) relate to a confidential legal dispute. The associated arbitration hearing ruled entirely in favour of IQE. In a related Court process, in which the counterparty has stated it is considering appealing the award, the case is not yet fully resolved. This means that whilst IQE can maintain its position that the eventual outcome will not be adverse, any potential positive impacts cannot currently be estimated. Non-current asset impairments totalling £9.5m (2018: £nil) relates to the impairment of certain intangible, right of use and non-current financial assets detailed in note 5.

Operating profit decreased from £8.7m to a current year loss of £18.8m. Reflecting the adjustments noted above, adjusted operating profit decreased from £16.0m to an operating loss of £4.7m. The segmental analysis in note 4 reflects the adjusted operating margins for the primary segments (before central corporate support costs). Wireless adjusted operating margins declined from c.18.8% to c.9.7%, primarily reflecting declines in volume and associated underutilisation of manufacturing capacity. The decline in adjusted Photonics operating margins from c.15.3% to c.1.9% primarily reflects increased non-cash amortisation charges and increased cost associated with the Group's newly commissioned Newport foundry where volumes continue to ramp.

Share of losses in joint ventures of £4.7m (2018: £2.0m) reflects payments of £0.7m made on behalf of the Group's joint venture, CSDC, in the period prior to its acquisition on 10 October 2019 and the application of the loss absorption requirement of IAS28.38 resulting in a charge of £4.0m following reassessment of the recoverability of the Group's preference share debt due from CSC to long term during the year (see note 5).

The acquisition of CSDC was for a nominal cash consideration of £5 and by taking control of the loss-making operation, the Group is well placed to take the necessary steps to restructure the operation and pursue various Asian market sales opportunities for MBE-based products to return the operation to profitability.

Finance costs increased to £1.5m from income of £0.1m in 2018 reflecting the Group's utilisation of its borrowing facilities to fund capital expansion and the unwind of discounting associated with lease liabilities following the implementation of IFRS 16 'Leases'.

The charge for taxation increased from £5.6m to £10.2m reflecting increases in non-cash deferred tax charges. Increased deferred tax charges principally relate to the reversal of previously recognised US deferred tax assets, deferred tax associated with accelerated capital allowances in excess of depreciation, reflecting the significant recent capital investment in the business partially offset by the recognition of deferred tax assets on current year taxable losses in the UK. The largest component of the deferred tax charge relates to the partial reversal of previously recognised US deferred tax assets. A forecast shift in the balance of the Group's projected manufacturing production and hence profits between the US and rest of the world has resulted in lower projected utilisation of US deferred tax assets in future years resulting in the partial reversal of previously recognised US deferred tax assets with a tax impact of ~£9.6m.

The tax charge on adjusted items of £1.8m and the associated low effective tax rate principally reflects the non-deductible nature of certain asset impairments, the tax treatment of the equity accounted CSC loss absorption and the impact of the effective tax rate arising on the tax credit associated with the share-based payment credit. The tax credit associated with share-based payments principally reflects the reduction in future tax deductions associated with the decrease in share price and a reduction in the number of options where performance criteria are expected to be achieved.

Cash invested remained consistent with the prior period at £42.1m (£42.4m) as the Group has completed the infrastructure phase of its capacity expansion programme. Capital expenditure has remained broadly consistent at £31.9m (2018: £30.4m) related to the investments in the new Mega Foundry in Newport, focused on the 3D sensing market, the expansion of the Group's wireless (GaAs) capacity in Taiwan and the consolidation of the Group's wireless GaN capacity in Massachusetts.

Investment has continued in technology and intellectual property. Technology based development expenditure totals £8.4m (2018: £10.4m).

Investment in capital and technology development has partially been funded by debt. The Group's net debt position of £16.0m (2018: £20.8m net funds), excluding lease liabilities arising on implementation of IFRS 16 compares to committed bank borrowing facilities of £57.0m (2018: £nil).

KPI dashboard

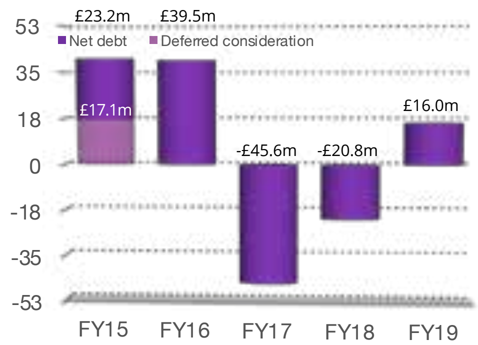
Sales (£M)

Operating profit (£M) (before exceptional items

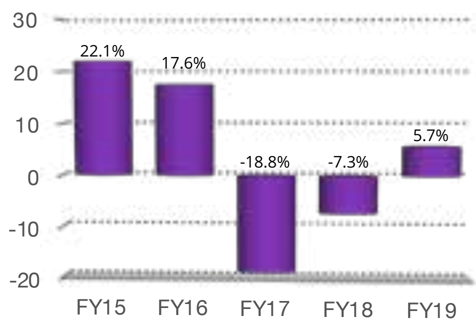
Cash from operations (£M) (before exceptional cash flows)

Adjusted Diluted EPS (pence)

Leverage (£M)



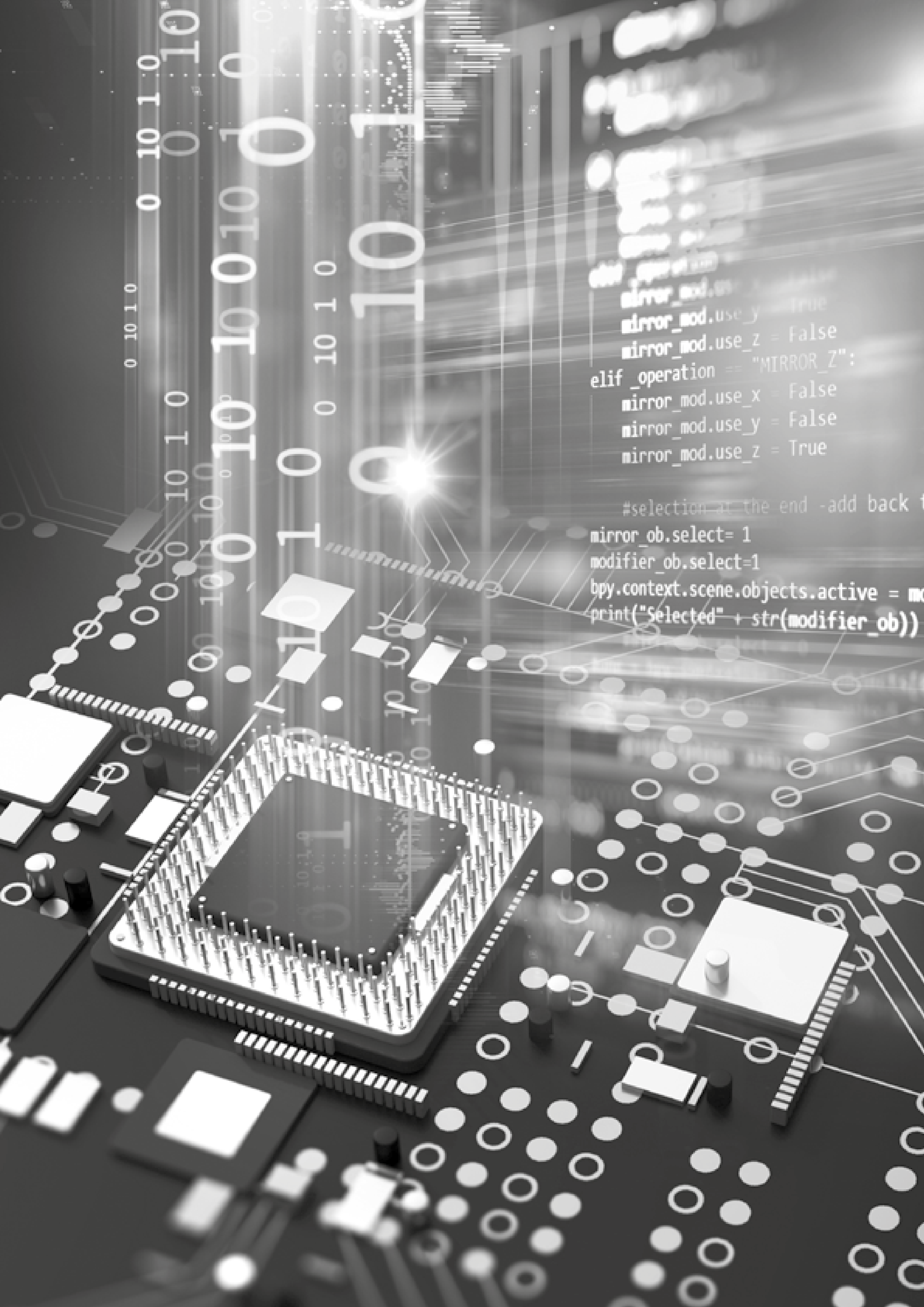
Gearing (%)



Going concern

After making enquiries and considering the available resources, the financial forecasts together with available cash and committed borrowing facilities to enable them to consider the future prospects of the Group, the Directors have formed a judgement that there is a reasonable expectation that the Company and the Group have adequate resources to continue operating for the foreseeable future and therefore the going concern basis has been adopted in preparing these financial statements.

In reaching this conclusion, the Board has considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, the likelihood of their occurrence and the likely effectiveness of mitigating actions that the Directors would consider undertaking.


mirror_mod.use_z = False
elif _operation == "MIRROR_Z":
mirror_mod.use_x = False
mirror_mod.use_y = False
mirror_mod.use_z = True
#selection at the end -add back
mirror_ob.select= 1
modifier_ob.select=1
bpy.context.scene.objects.active =
print("Selected" + str(modifier_ob))

Long-term viability statement

The Directors have considered the viability of the Group over a three-year period to December 2022, taking account of the Group's current position and the potential impact of the principal risks and uncertainties described in the Strategic Report on page 27.

In making this statement the Directors have considered the resilience of the Group, taking account of its current position, the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions.

The Directors have determined that the three-year period to December 2022 is an appropriate period over which to provide its viability statement as it reflects a period of time over which information and forecasts concerning demand for development, qualification and production of wafers, is considered reasonably reliable. In making their assessment, the Directors have taken account of the Group's ability to raise new finance in most market conditions and other potential mitigating actions.

Whilst there are emerging levels of uncertainty regarding the impact of Coronavirus on the world economy, the Directors are confident that the overall market in compound semiconductors will continue to grow over the medium to long term. To ensure IQE continues to be well positioned to exploit this growing market in the longer-term, IQE has developed a technology roadmap and continues to invest in research and development. We have also made strategic investments to provide additional manufacturing capacity at sites in the UK, US and Asia and space for further expansion at our site in Newport, South Wales. Further, we have secured additional funding in the form of a new £30m asset financing facility with HSBC, maintaining the previously agreed £27m revolving credit facility with HSBC as a committed line. This increased total facilities to £57m.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2022.

This Strategic Report is approved by the Board of Directors and signed on its behalf by:

Phil Smith
Chairman, IQE Plc.
28 April 2020

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2019.

In accordance with section 414C(11) of the Companies Act, the Company has chosen to include in the Company's Strategic Report, certain information which would otherwise be required by Schedule 7 of the 'Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008' to be contained in the Director's Report. Cross references to such information in the Strategic Report are included below.

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. Those branches of the Group outside of the United Kingdom are described in the Strategic Report on page 9.

Business review

A review of the Group's trading during the year and its position at the year-end is provided on pages 38 to 40. 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 pages 27 to 37. The future outlook for the Group is set out on page 42. Details of any important events and likely future developments affecting the Company and subsidiaries since the end of the financial year are also included in the Strategic Report.

Dividends

The directors do not recommend the payment of a dividend (2018: £nil).

Directors

The directors in office at 31 December 2019 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 56.

Substantial interests in shares

As at 31 March 2020 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:

Shareholder/beneficial owner	Shares	IC%
Invesco (OppenheimerFunds)	140,000,000	17.58
T Rowe Price International	76,244,643	9.57
Hargreaves Lansdown Asset Mgt	51,949,363	6.52
T Rowe Price	43,955,961	5.52
Dr Andrew W Nelson	31,536,777	3.96
Schroder Investment Mgt	30,941,283	3.88
Interactive Investor	30,763,608	3.86
AXA Investment Mgrs	26,259,570	3.30
Barclays Wealth	25,804,421	3.24

Source: EQUINITI Investor Analytics

IQE has not acquired any of its own shares during 2019.

Research and development

The Group incurred costs in respect of research and development during the year of £9,280,000 (2018: £11,202,000) of which £8,123,000 (2018: £10,559,000) has been capitalised in accordance with IAS 38 ("Intangible assets"). The remaining research and development costs totalling £1,157,000 (2018: £643,000) have been charged to the income statement, net of grant funding of £nil (2018: £617,000).

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 2019 was 58 days (2018: 82 days).

Employment policies

A review of the Group's employment policies is provided on page 18.

Principal risks and uncertainties

Details of the principal risks and uncertainties impacting the Group have been included in the Strategic Report on pages 27 to 37.

Treasury

IQE operates a central treasury function, which acts in accordance with specific board policies. Speculative transactions are not permitted. The significant treasury policies relate to Interest rates, foreign currency and liquidity are detailed in note 22.

Insurance and Indemnities

We have purchased and maintain appropriate insurance cover in respect of directors' and officers' liabilities. The Company has also entered into qualifying third-party indemnity arrangements for the benefit of all its Directors in a form and scope that comply with the requirements of the Act. These indemnities were in force throughout the year and up to the date of this Report and Annual Accounts.

Provision of information to auditors

As 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.

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

Phil Smith
Chairman, IQE Plc.
28 April 2020

Statement of Compliance with the UK Corporate Governance Code

The Board of Directors believes in high standards of corporate governance and is accountable to shareholders for the Group's performance in this area. Furthermore, IQE is a company trading on AIM, a market operated by The London Stock Exchange plc, and since September 2018, the AIM rules expressly require companies to recognise and apply a corporate governance code of practice.

For many years, the Board of Directors has chosen to apply the UK Corporate Governance Code (the "Code") and to provide corporate governance disclosures similar to those that would be required of a premium-listed company. The Group has applied the 2018 edition of the Code in respect of its financial year ending 31 December 2019. Each edition of the Code is available on the website of the Financial Reporting Council (FRC) at: www.frc.org.uk.

This statement is structured according to the five sections of the updated 2018 Code, namely: Board Leadership and Company Purpose; Division of Responsibilities; Composition, Succession & Evaluation; Audit, Risk and Internal Control; and Remuneration.

The Company is a smaller company for the purposes of the Code, and as such, certain provisions of the Code either do not apply to the Company or are judged to be disproportionate or less relevant in its case. Where the Company does not comply with any specific code provision then this is highlighted and explained in this statement below.

IQE has identified the following main areas of non-compliance with the new Code:

> The Company's Articles of Association do not provide that Directors are subject to annual re-election as prescribed by the new Code. The Board has previously considered the FRC's guidance to companies outside the FTSE 350 to consider the annual re-election of all Directors, and considered that this would be overly burdensome for the nature of the Group. Now that the new Code removes the exemption for small companies, the Board will give due consideration to a potential change to the Company's Articles of Association during 2020. Any change will be subject to shareholder approval at the AGM following a decision.t The Board will also consider the requirement of the new Code to set out in the papers accompanying the resolution to elect each Director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success.

> IQE does not currently maintain a succession plan for the Company Secretary or all management immediately below Board level, but IQE is working to develop such plans based on merit and objective criteria (including the promotion of diversity of gender, social and ethnic backgrounds, cognitive and personal strengths) as required by the new Code. As part of its consideration of developed succession plans, the Nominations Committee will consider the linkage of its diversity objectives with company strategy and the gender balance of those in senior management and their direct reports.

> The performance of the Directors is assessed on an ongoing basis. For example, the Chief Executive reviews the performance of the Executive Directors on a periodic basis and reports to the Remuneration Committee at least annually. However, IQE has not carried out a formal and rigorous annual evaluation of the performance of the Board, its Committees, Chair and individual Directors to the extent as required by the Code. It is intended that a formal review process will be implemented during 2020 and thereafter, but that this will probably not require external facilitation. Companies outside the FTSE 350 such as IQE are encouraged, but not required, to consider the use of externally facilitated board evaluations.

> The Remuneration Committee has responsibility for determining the policy and setting remuneration for the Executive Directors and the Chairman. It also has responsibility to recommend and monitor the level and structure of remuneration for senior management. However, the Remuneration Committee does not currently determine the policy and set the remuneration for senior management and the Company Secretary as required by the Code.

Board Leadership and Company Purpose

The Group is headed by an effective and entrepreneurial Board that is collectively responsible for the long-term sustainable success of the Group, generating value for shareholders and contributing to wider society. The Strategic Report sets out how the Board has recently engaged with:

- opportunities and risks to the future success of the business;
- the sustainability of the Group's business model;
- delivery of the Group's strategy;
- its aims of creating shareholder value and contributing to wider society.

All directors act with integrity, lead by example and promote the desired culture of innovation, collaboration, valuing people, integrity, accountability and constant improvement. Workforce policies and procedures, including in relation to investing in and rewarding its workforce, are consistent with the company's culture and values and support its long term sustainable success. The Board actively engages with the workforce including through its Employee Benefits and Pensions Governance Committee, Workers Counsels and 'town hall' meetings. Through this activity and engagement, the Board is satisfied that the Group's purpose, values and strategy (set out in the Strategic Report) are aligned with a culture of innovation, collaboration, valuing people, integrity, accountability and constant improvement.

Through its budget processes and consideration of strategic projects, each of which include presentations to the Board from leaders of business units and functions, the Board establishes the Group's objectives, ensures that necessary resources are in place to meet those objectives and measures performance against those objectives. These are complimented by the Audit & Risk Committee's responsibility to consider risk management as set out in the Strategic Report on pages 27 to 37.

As required under its Terms of Reference and the Code applicable to 31 December 2019, the Audit and Risk Committee recently reviewed and refreshed a policy on whistleblowing that is applicable across the Group's global operations. This sets out the means by which the workforce should raise concerns and how they may do so in confidence and if they wish, anonymously. Further information is provided on page 18 of the Strategic Report. Pursuant to the requirements of the new Code, moving forward, the full Board shall not only consider reports arising from its operation, but will also routinely review the arrangements in place for the proportionate and independent investigation and follow-up action as set out in the whistleblowing policy.

The Board regards regular communications with shareholders as one of its key responsibilities. The Chief Financial Officer, Chief Executive Officer and Chairman meet with institutional investors on a regular basis to discuss the Group's performance, the shareholders' views, and to ensure that the strategies and objectives of the Group are aligned and well understood.

The Chief Executive Officer and Chairman keep the Board fully informed of any significant matters discussed with shareholders and of shareholders' views. Furthermore, all members of the Board receive copies of any analysts' reports of which the Company is made aware.

The Company employs an Investor Relations Manager who supports the Directors with day-to-day investor relations. Together, they respond to investor enquiries throughout the year.

The Committee Chairs engage with shareholders on significant matters related to their areas of responsibility at AGMs and other shareholder meetings as required.

The Head of Investor Relations also maintains the Group's IR website, which provides details of the Group's business including its strategy, technologies, operations and products. The website provides news about the Group, share price information, and financial reports including the annual and interim reports. Hard copies of annual reports are also available on request. The website can be found at www.iqep.com.

The Company will advise shareholders attending the AGM of the number of proxy votes lodged in respect of each resolution, split between 'For', 'Against', 'at the Chairman's discretion' and 'abstentions'. These are advised after the resolutions have been dealt with on a show of hands, providing that a poll has not been called for or is required. In accordance with the recommendations of the new Code, when announcing results of votes where 20% or more have been cast against the board recommendations for a resolution, the Company will explain what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken will then be published no later than six months after the shareholder meeting. A final summary on what impact the feedback has had on the decisions the board has taken and any actions or resolutions now proposed will be included in the annual report and if applicable, in the explanatory notes to the resolutions at the next shareholder meeting.

The Chairman is available to meet with major institutional shareholders as needed throughout the year to consult on corporate governance matters and performance against the strategy. The Senior Independent Director is also available to consult on governance matters and to provide an independent view of the position and prospects of the Group.

The Non-Executive Directors, having considered the Code, are of the view that this approach to shareholder communication remains appropriate for the Group. However, should shareholders have concerns which they feel cannot be resolved through normal shareholder meetings, the Senior Independent Director and the remaining Non-Executive Directors may be contacted through the Company Secretary.

As described further in the Section 172(1) Statement on page 37, the interests of the Company's other key stakeholders have also been considered in recent Board discussions and has influenced the Board's decision-making. The Board continuously reviews the effectiveness of its engagement with stakeholders and the mechanisms that facilitate such engagement.

Under Article 117 of IQE plc's Articles of Association, if a Director or a person closely connected to them has an interest in a transaction or arrangement of the Company, such Director is required to declare such interest in accordance with company law. Save in certain defined circumstances described in Article 118, a Director should not be counted for quorum or voting purposes in respect of any transaction or arrangement where they have an interest. The Directors give due consideration to any circumstances in which a potential conflict of interest may arise or may be perceived to arise, including in connection with significant shareholdings and ensure that the influence of third parties does not compromise or override independent judgement.

Where Directors have any concerns about the operation of the Board or the management of the company that cannot be resolved, their concerns are recorded in the minutes of Board Meetings. On resignation, a Non-Executive director should provide a written statement to the Chairman for circulation to the Board, if they have any such concerns.

Division of Responsibilities

Mr Phil Smith took over the role of Non-Executive Chairman on 1 April 2019 from Dr Godfrey Ainsworth FCA who retired as Executive Chairman.

Executive Director Dr Howard Williams, Chief Operations Officer, retired from the Board on 1 August 2019.

The Board comprises the Non-Executive Chairman, Mr Phil Smith, the Executive President and Chief Executive Officer, Dr Drew Nelson, the Executive Chief Financial Officer, Mr Tim Pullen and three independent Non-Executive Directors. Throughout the year ending 31 December 2019 and since, at least half of the Board, excluding the Chairman, have been Non-Executive Directors.

The Board is supported by an Executive Management Board.

The Board considers that the four Non-Executive Directors, Mr Phil Smith, Sir David Grant, Sir Derek Jones and Mrs Carol Chesney who have each held office for less than nine years, to be independent in accordance with the Code, and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Mrs Carol Chesney most recently joined the board as Non-Executive Director on 14 May 2019. This followed the appointment of Sir Derek Jones on 29 November 2017 and the appointment of Mr Phil Smith on 19 December 2016.

The Board recognises the special position and role of the Chairman under the Code, and it has approved the formal division of responsibilities between the Chairman and Chief Executive. The Chairman is responsible for the leadership of the Board and ensuring its effectiveness. The Chief Executive manages the Group and has the prime role, with the assistance of the Board, of developing and implementing business strategy.

The Board meets regularly through the year - at least six times and additionally on an ad hoc basis as is required to discharge its duties effectively. It is provided with appropriate strategic, operational and financial information prior to each meeting together with reports to enable it to monitor the performance of the Group. The number of meetings of the Board, Committees and individual attendance by Directors is set out in the annual report each year.

Under the direction of the Chairman, the Company Secretary facilitates good information flows within the Board and its Committees and between senior management and Non-Executive Directors. The Company Secretary is also responsible for advising the Board through the Chairman on all governance matters. 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. Pursuant to Article 134 of IQE Plc's Articles of Association, both the appointment and removal of the Company Secretary is a matter for the whole board.

Tom Dale, General Counsel, was appointed as Company Secretary of IQE plc with effect from 19 March 2020. Tom's appointment follows the resignation of Jason Howells who left the Company on 20 December 2019. Link Company Matters Limited, a specialist company secretarial and corporate administration services provider, was appointed as Company Secretary during the transition period.

At Board meetings, the Chairman ensures that all Directors are able to make an effective contribution throughout meetings and every Director is encouraged to participate and provide their perspective and opinions. The Chairman always seeks to achieve unanimous decisions of the Board following due discussion of agenda items.

The Board has a formal schedule of matters referred to it for decision, this list includes appropriate strategic, financial, organisational and compliance issues, including the approval of high-level announcements, circulars, reports and accounts and certain strategic and management issues. Examples of such items include, but are not limited to:

- the approval of interim and annual results,
- the approval of the annual budget,
- approval of acquisitions or disposals,
- approval of major items of capital expenditure,
- approval of changes to corporate or capital structure,
- financial issues, including changes in accounting policy, the approval of dividends, bank facilities and guarantees, and
- the approval of significant contracts.

The Non-Executive Directors scrutinise and hold to account the performance of management and individual executive directors against agreed performance objectives. To facilitate this, the Chairman and Senior Independent Director ensure that meetings of Non-Executive Directors without the Executive Directors present are held. These include meetings of the Nominations, Remuneration and Audit & Risk Committees as described further below.

One of the roles of the Non-Executive Directors is to undertake detailed examination and discussion of the strategies proposed by the Executive Directors to ensure that decisions are in the best long-term interests of shareholders and take proper account of the interests of the Group's other stakeholders.

The Senior Independent Director, Sir David Grant, is recognised as the independent Board member who acts as an independent sounding board for the Chairman and serves as an intermediary for the other directors if needed. Furthermore, the Senior Independent Director is available to discuss any concerns of shareholders and/or employees which have not adequately been resolved by the Executive Directors, or for which such contact is inappropriate, such as concerns of any suspected impropriety. These concerns can be conveyed in private and investigated as required by the Code.

The Non-Executive Directors have not formally met without the Chairman present to appraise the Chairman's performance. However, this was not specifically required under the Code as applicable in the year ending 31 December 2019.

When making new appointments, the Board takes into account other demands on Directors' time and significant appointments are required to be disclosed with an indication of the time involved. Pursuant to the new Code, since 1 January 2020, additional external appointments should not be undertaken without prior approval of the Board, with the reasons for permitting significant appointments explained in the annual report. No full time Executive Director has more than one non-executive directorship in a FTSE 100 company or other significant appointment.

The Board has four sub committees, the Executive Committee, the Remuneration Committee, the Nominations Committee and the Audit & Risk Committee. The Board has delegated special responsibilities to these committees as follows:

(a) Executive Committee
The Executive Committee consists of the Executive Directors under the chairmanship of Dr Drew 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 & Risk Committee
The Audit & Risk Committee consists of the Non-Executive Directors, Sir Derek Jones, Sir David Grant and Mrs Carol Chesney. The Committee meets at least twice a year under the chairmanship of Mrs Carol Chesney.

The Audit & Risk Committee's main duties are described on page 50. They 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 & Risk 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.

A report on the activity of the Audit & Risk Committee during 2019 is included on pages 53 to 55.

(c) Remuneration Committee
The Remuneration Committee consists of the Non-Executive Directors, Mr Phil Smith, Sir Derek Jones, Sir David Grant and Mrs Carol Chesney. Sir David Grant is Chairman of the Committee. The Committee meets at least twice a year.

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 is responsible for setting salaries, incentives and other benefit arrangements of Executive Directors. It scrutinises the performance of individual Executive Directors against agreed performance objectives.

A report on the activity of the Remuneration Committee during 2019 as well as the Company's Remuneration Policy is included on pages 56 to 71.

(d) Nominations Committee
The Nominations Committee consists of the four Non-Executive Directors, namely Mr Phil Smith, Sir Derek Jones, Mrs Carol Chesney and is chaired by Sir David Grant.

The Board has delegated responsibility for nominations to this Committee, which has a prime role in appointing and removing executive directors.

The Chief Executive attends meetings of the Nomination Committee by invitation.

A report on the activity of the Nominations Committee during 2019 is included on page 55.

Terms of reference for the Remuneration Committee, Nominations Committee and Audit & Risk Committee are available from the Company Secretary or on the corporate website (www.iqep.com).

Composition, Succession and Evaluation
Rules concerning the appointment and replacement of Directors and Secretaries of the Company are contained in the Articles of Association ("Articles"). Amendments to the Articles must be approved by a special resolution of the shareholders.

Under the Articles, all Directors are subject to election by shareholders at the first Annual General Meeting following their appointment, and to re-election thereafter at intervals of no more than three years.

The Articles provide that the Company Secretary shall be appointed by the Directors for such term, at such remuneration and upon such conditions as they may think fit and any Company Secretary so appointed may be removed by them. If thought fit, two or more persons may be appointed as joint company secretaries or an assistant or deputy company secretary may be appointed by the Directors. Any person so appointed by the Directors may also be removed by the Directors.

The Nominations Committee, which consists of Sir David Grant, Chair, Mr Phil Smith, Sir Derek Jones and Mrs Carol Chesney, reviews the Board structure, leads the process for Board appointments and makes recommendations to the Board, including on succession planning. Due consideration is given to the length of service of the Board as a whole and the need to ensure its membership is regularly refreshed.

All Directors are appointed by the Board following a formal, rigorous and transparent selection process and recommendation by the Nominations Committee. Board appointments are made on merit, against criteria identified by the Nominations Committee having regard to the benefits of diversity on the Board, including gender.

Pursuant to its Terms of Reference (available from the Company Secretary and at www.iqep.com), the Nominations Committee is required to give full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the company, and the skills and expertise needed on the Board in the future.

The Nominations Committee meets regularly during the year and is instrumental in determining the requirement and process for the identification and subsequent appointment of Directors. The Nominations Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role for new appointments. In identifying potential candidates for positions as Non-Executive Directors, the Committee has full regard to the principles of the Code regarding the independence of Non-Executive Directors. The terms and conditions of appointment of the Non-Executive Directors are available for inspection upon request to the Company Secretary. The Nominations Committee is responsible for the Board's policy on diversity. The Board recognises the benefits of diversity. Diversity of gender, social and ethnic backgrounds, cognitive and personal strengths, skills, international and industry experience and knowledge are amongst many other factors taken into consideration when seeking to appoint new Directors to the Board. Notwithstanding the foregoing, all Board appointments will always be made on merit.

IQE and its Nominations Committee do not usually use open advertising and/or an external search consultancy for the appointment of the Chair and Non-Executive Directors, but does so when appropriate and in such event will include a statement about any connection it has with Company or individual Directors in the annual report.

An account of the activities of the Nominations Committee during the year ending 31 December 2019 is included in the Nominations Committee Report on page 55

By way of induction to the Group, new Directors meet with the existing members of the Board, senior managers and business function leaders as appropriate and at least annually all Directors receive presentations from senior managers and business function leaders and receive professional independent training and advice as necessary from time to time at the Company's expense.

Audit, Risk and Internal Control
The Board views maintaining high standards in its governance and management of the affairs of the Group as a fundamental part of discharging its stewardship responsibilities. Accordingly, both the Board and the Audit & Risk 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. This process accords with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

The Audit & Risk Committee consists of the three independent Non-Executive Directors named above, whose biographies are included on pages 72 to 73. The Board is satisfied that the Audit & Risk Committee has competence relevant to the sector in which the company operates.

The main responsibilities of the Audit & Risk Committee are as follows:

- reviewing the effectiveness of the Company's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk;
- reviewing significant financial reporting issues and judgements;
- monitoring the integrity of the Company's financial statements and any formal announcements relating to the company's financial performance;
- keeping the relationship with the auditors under review, including their terms of engagement, fees and independence;
- necessity to establish dedicated internal audit;
- advising the Board on whether the Committee believes the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- conducting the tender process and making recommendations to the board, about the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity;
- reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the board on any improvement or action required; and
- reporting to the board on how it has discharged its responsibilities

The Audit & Risk Committee meets regularly during the year. The meetings are also attended by senior members of the finance team and representatives of the Group's external auditors by invitation. At meetings attended by the external auditors time is allowed for the Audit & Risk Committee to discuss issues with the external auditors without management being present.

The Board reviews the effectiveness of the Group's risk management and internal controls on a continuing basis and has recently extended the Terms of Reference of the Audit Committee so that the Committee now has extended oversight for such matters. Terms of reference for the Audit & Risk Committee are available from the Company Secretary or on the corporate website (www.iqep.com).

The work of the Audit & Risk Committee is set out in the Audit & Risk Committee Report on page 53. The Board and its Audit & Risk Committee's recent consideration of risk management and internal controls is described further in the Strategic Report on pages 27 to 37.

A statement regarding the Directors' responsibility for preparing the annual report is set out in the Board Report on page 52.

The Board's robust assessment of the Company's emerging and principal risks and a description of the procedures it has in place to identify and manage risks is set out in the Strategic Report on pages 27 to 37.

The Board's most recent considerations of the adoption of the going concern basis of accounting and its assessment of the long-term viability of the business are set in the Strategic Report on page 52.

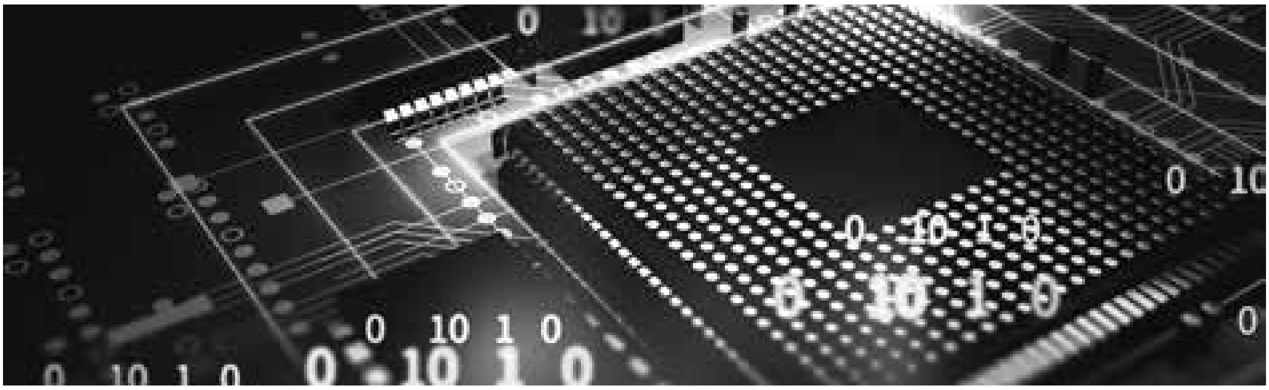
Remuneration

The Group's policy and practices on Directors' remuneration and the activities of the Remuneration Committee are described in the Director's Remuneration Report on pages 56 to 71.

The Executive Directors have responsibility for determining the remuneration of senior management and the company secretary in accordance with policies developed through consultation with the Group's Human Resources advisors and Remuneration Committee. As with all employees, senior management are eligible to receive share option awards and to an annual bonus (each subject to personal as well as Group financial performance). Further information in relation to IQE's Bonus Plan and Share Option Plan are provided on page 58 of the Director's Remuneration Report.

Directors exercise independent judgement and discretion when authorising remuneration outcomes, taking account of Company and individual performance as well as wider circumstances. Directors do not participate in decisions concerning their own remuneration.

Board Report



Contribution of the Directors

The Board's goal is to ensure that its membership and the membership of its committees should have the appropriate combination of skills, experience and knowledge (including experience and knowledge of IQE's business). Biographies of the Directors are set out on pages 72 to 73 and on IQE's website (www.iqep.com). These show the range of business and financial experience upon which the Board is able to call and why each director's contribution is and continues to be important to the company's long-term sustainable success.

The number of meetings held during 2019 by the Board, the Audit & Risk Committee, the Nominations Committee and the Remuneration Committee are as shown below. The number of meetings attended by the Executive and Non-Executive Directors where they are a member is also shown below:

	Board	Audit & Risk Committee	Remuneration Committee	Nominations Committee[1]
Number of meetings in 2019	10	4	2	0
Attendance				
Executive:				
Dr G H Ainsworth[2]	4	N/A	N/A	N/A
Dr A W Nelson	8	N/A	N/A	N/A
Dr H R Williams[3]	6	N/A	N/A	N/A
Mr Tim Pullen[4]	6	N/A	N/A	N/A
Non-Executive:				
Mr P Smith[5]	10	2	2	N/A
Sir D Grant	10	4	2	N/A
Sir D Jones	9	4	2	N/A
Mrs Carol Chesney[6]	5	3	0	N/A

N/A – Not a member of the Committee or not required to attend meetings.

[1] There were no meetings of the Nominations Committee in 2019. Any decision requiring the Nominations Committee were made by the full Board in 2019.

[2] Dr Godfrey Ainsworth retired from the Board on 25 June 2019.

[3] Dr Howard Williams retired from the Board on 1 August 2019.

[4]Tim Pullen was appointed to the Board on 4 February 2019 and attended all Board meetings after that date except for 3 December 2019 (see note 7.) Tim Pullen attended all the Audit Committee meetings but is not included in the table above as he is an attendee, rather than a member of that committee.

[5] Mr Phil Smith was a member of the Audit & Risk Committee before his appointment as Chairman on 25 June 2019.

[6] Mrs Carol Chesney was appointed to the Board on 13 May 2019 and attended all Board and committee meetings after that date except for the Board meeting on 3 December 2019 (see note 7.)

[7] A Board meeting was held on 3 December but this comprised only three directors as it was approving the allotment of new employee shares in IQE plc.

As appropriate, Directors that are unavailable to attend a meeting are consulted and their views are made known in advance or at the meeting. Such directors receive a briefing on matters discussed as soon as possible following the meeting.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and they have elected to prepare the parent Company financial statements on the same basis.

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 parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant and reliable;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU;
- Assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors have decided to prepare voluntarily a Directors' Remuneration Report in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements applied to the company. The Directors have also decided to prepare voluntarily a Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

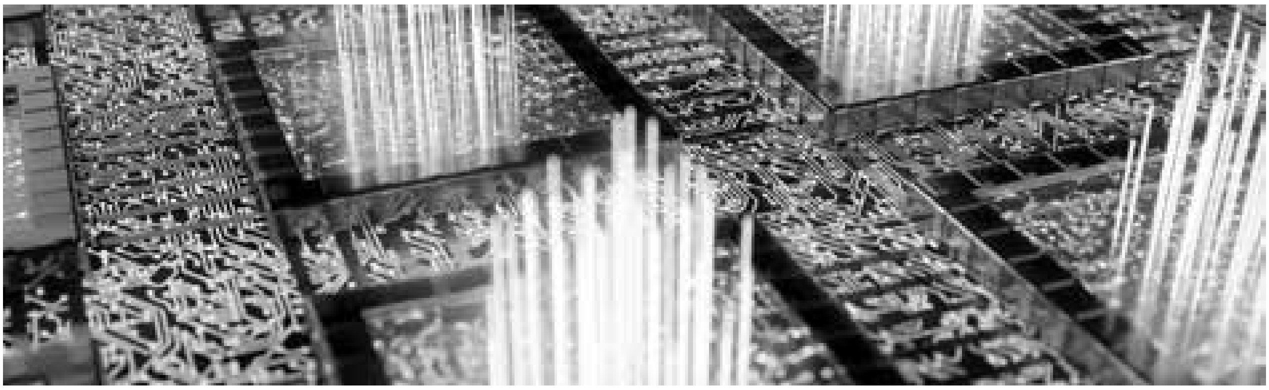
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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

Phil Smith
Chairman, IQE Plc.
28 April 2020

Audit & Risk Committee Report



An annual rolling agenda is used to ensure that all matters within the Audit & Risk Committee's Terms of Reference are appropriately covered during the year. The Committee considers that it has discharged its responsibilities as set out in its Terms of Reference to the extent appropriate during the year.

Through consideration of reports from, and meetings with, management and the external auditors, the Committee has reviewed and determined the following:

- judgemental areas and whether revenue recognition and the provisioning policies have been applied consistently and the level of provisions remains appropriate;

- whether the expected future cash flows of the Group support the carrying value of goodwill, and whether there are any triggering events which suggest any potential impairment of other intangible assets including the valuation of development intangibles and the capitalisation of development costs;

- whether the presentation of the financial statements, including the presentation of adjusted performance measures, is appropriate and balanced;

- whether the accounting for joint ventures and any related disclosure in the financial statements are appropriate.

Through consideration of reports by independent tax specialists assessing the Group tax affairs in the UK, the US, Taiwan and Singapore as appropriate, and consideration of reports by and meetings with management assessing current and deferred tax accounting, the Committee has reviewed and determined whether the provision for tax liabilities, and the current and deferred tax accounting is appropriate.

The Committee has reviewed the resources available to the Group, taking account of the Group's trading and cashflow forecast together with available funding headroom to assess the appropriateness of the going concern assumption.

At the request of the Board, the Committee also considered whether the 2019 annual report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy.

External Auditors

The Audit & Risk Committee has developed a formal auditor independence policy. In accordance with this policy, the Committee oversees the relationship with the external auditors and monitors all services provided by them and all fees payable to them. This is to ensure that potential conflicts of interest are considered and that an independent, objective and professional relationship is maintained.

The Committee also regularly reviews the nature, extent, objectivity and cost of non-audit services provided by the external auditors. In doing this, the Committee does not approve any contract for additional services from them that would compromise their audit independence. 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 both the Chairman of the Audit & Risk Committee and the Senior Independent Director. The provision of external audit and tax compliance are separated where possible. Tax advice is provided by independent advisors including KPMG, EY, Mazars, Baker Tilly and Bevan & Buckland. The policy also establishes guidelines for the recruitment of employees or former employees of the external auditor.

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

KPMG LLP	2019 £'000	2018 £'000
Fees payable to the company's auditor and its associates for the audit of parent company and consolidated financial statements	185	156
Fees payable to company's auditor and its associates for other services:		
- The audit of company's subsidiaries	27	10
- Audit related assurance services	20	12
- Tax advisory	12	55
- Tax compliance service	-	-
Total KPMG LLP (group auditors)	**244**	**233**

Ernst and Young (auditors of MBE Technology Pte & CSDC)	2019 £'000	2018 £'000
- Subsidiary company's audit	27	8
- Tax services	9	4
Total Ernst and Young (auditors of MBE Technology Pte & CSDC)	**36**	**12**

Total	**280**	**245**

The Audit & Risk Committee also monitors the effectiveness of the annual audit. Before the end of the financial year, the Committee receives a detailed audit plan from the auditors that identifies the auditors' assessment of the key risks and their intended areas of focus. This is agreed with the Committee to ensure that the scope and coverage of audit work is appropriate. IQE's management also provide the Committee with feedback on the effectiveness of the audit and the quality of the audit firm and lead audit partner.

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

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

Internal Audit & Controls

The Audit & Risk Committee has reviewed the effectiveness of the Group's system of internal controls and risk management activities bi-annually as part of the half year and full year public reporting.

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 include the following:

- 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;

- where appropriate, taking out insurance cover; and
- approval by the Audit & Risk 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.

This process remained in operation for the year under review and as part of that process, management report any material exceptions to the Audit & Risk Committee.

The Group does not have an independent internal audit function, however the Group operates internal audit on an ad hoc peer review basis, with a scope of evaluating and testing the Group's financial control procedures. The Committee considers that this remains appropriate for the size and geographical spread of the Group.

In completing its review of the effectiveness of the Group's system of internal controls the Audit & Risk Committee has taken account of any material developments up to the date of the signing of the most recent financial statements. In addition, recognition is given to the external audit findings, which help to inform the Audit & Risk Committee's views of areas of increased risk.

Nominations Committee Report

In 2018, with the direction of the Nominations Committee, IQE conducted a tender exercise for the engagement of head-hunters to assist the Board in recruiting a replacement permanent CFO. The Board appointed Odgers Berndston head-hunters in May 2018 and actively engaged with them to complete a preliminary evaluation and provide a list of potential candidates with the necessary skills and experience. In scoping the search for candidates, each Board member was consulted in order to agree the necessary skills and experience of candidates to be considered for appointment. Based on these criteria a list of potential candidates was developed, which was filtered to a short-list of four candidates for interview by the Nominations Committee. Odgers Berndston has no other connection with the Company and is an independent provider of services to the Company.

The recruitment process was completed on 15 October 2018 when the Company announced the appointment of Mr Timothy Neil Pullen as Chief Financial Officer. Mr Pullen took up his employment on 4 February 2019.

The Board continued to work on the recruitment of an additional Non-Executive Director. This activity led to the appointment of Mrs Carol Chesney on 14 May 2019. Mrs Chesney subsequently took over the Chair of the Audit & Risk Committee, which had been chaired by Sir Derek Jones since April 2018.

Dr Ainsworth retired from the Board on 25 June 2019. Mr Phil Smith, former Chairman of Cisco who joined the board in December 2016, became Non-Executive Chairman on the retirement of Dr Ainsworth.

The Nominations Committee is also exploring options for the establishment of an advisory board of experienced and independent individuals to meet twice a year and feedback their advice to the IQE Board, as is quite common for technology businesses.

Directors' Remuneration Report

Remuneration Committee Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am pleased to present the Remuneration Committee's report of the Directors' remuneration for the year ended 31 December 2019 for which we will be seeking shareholder approval at the Annual General Meeting in June 2020.

As an AIM-listed company, IQE is not required to submit a remuneration policy to a shareholder vote. However, to align with best practice remuneration governance, we have voluntarily decided to do so.

We appointed Mercer | Kepler to undertake a review of IQE's remuneration arrangements and this culminated in IQE's remuneration policy for the years 2017 to 2020, as set out below. This remuneration policy, along with the annual report for 2016 remuneration was approved at the 2017 AGM, with 99.99% and 99.73% voting in favour respectively. The report for 2017 remuneration was approved at the 2018 AGM with 99.94% voting in favour. The report for 2018 remuneration was approved at the 2019 AGM with 99.16% voting in favour. This annual report for 2019 remuneration will be put to a shareholder vote on a voluntary basis at the 2020 AGM.

David Grant

Sir David Grant,
Remuneration Committee Chairman
28 April 2020

NOTE: This report includes audited and unaudited information, which is identified throughout the report.

Directors' Remuneration Policy

IQE aims to attract, retain and motivate high calibre executives, whilst recognising the need to be cost effective, and to incentivise significant industry out-performance. The Remuneration Committee established a remuneration policy that balances these factors, taking account of investor feedback and prevailing best practice. This section of the Directors' Remuneration Report sets out the Policy for Executive Director remuneration which was approved by shareholders at the 2017 AGM.

Policy Table

Function	Operation	Opportunity	Performance metrics
Base salary To recognise the individual's skills and experience and to provide a competitive total package.	Base salaries are reviewed annually, with reference to market levels, individual contribution, the experience of each Executive and increases across the Group. Any adjustments become effective on 1 January.	Any base salary increases are applied in line with the outcome of the Remuneration Committee's review. In respect of existing Executive Directors, it is anticipated that salary increases will generally be in line with those of salaried employees as a whole. In exceptional circumstances (including, but not limited to, a material increase in job size or complexity, material market misalignment) the Remuneration Committee has discretion to make appropriate adjustments to salary levels to ensure they remain appropriate.	n/a
Pension To provide an opportunity for executives to build up income on retirement.	All Executives are members of the Group pension scheme and/or receive a cash pension allowance. Salary is the only element of remuneration that is pensionable.	Executive Directors receive a pension contribution of 10% of salary or an equivalent cash allowance.	n/a
Benefits To provide non-cash benefits which are competitive in the market in which the executive is employed.	Executives receive benefits which consist primarily of health cover, private medical insurance, life assurance, long-term disability insurance and reimbursement for fuel, although may include other benefits that the Remuneration Committee deems appropriate in the circumstances.	Benefits may vary according to role and individual circumstances. Eligibility to benefits and the cost of benefits are reviewed periodically. The Remuneration Committee retains discretion to approve a higher cost in exceptional circumstances (e.g. relocation or expatriation) or in circumstances where market rates have changed (e.g. cost of insurance cover).	n/a

Function	Operation	Opportunity	Performance metrics
Annual Bonus To incentivise and reward strong performance against financial and personal annual targets, thus delivering value to shareholders and being consistent with the delivery of the strategic plan.	Performance measures, targets and weightings are set at the start of the year. The scheme is based on a combination of financial performance and personal objectives. At the end of the year, the Remuneration Committee determines the extent to which targets have been achieved. Bonus payments up to 100% of salary are delivered in cash or in the form of stock grants. Clawback (of any bonus paid) may be applied during employment or for 2 years post-termination in the event of gross misconduct, material financial misstatement, error in calculation of outcomes or in any other circumstance that the Remuneration Committee considers appropriate.	For Executive Directors, the maximum annual bonus opportunity will be 120% of base salary (100% under previous policy). The bonus pays 0% at Threshold and 50% at Target, with straight-line vesting between these levels and Target and Maximum, and no vesting below Threshold. Any bonus earned over 100% of base salary would be paid in the form of stock grants.	Performance is assessed on an annual basis against financial and personal / strategic objectives set at the start of each year. Financial measures will be weighted appropriately each year according to business priorities, and will represent no less than 70% of the annual plan. Performance vs. targeted levels will be measured at budgeted FX rates. Personal/strategic objectives will represent no more than 30% of the maximum opportunity and will be set annually to capture expected individual contributions to IQE's strategic plan. The personal element will be restricted to 15% of the maximum opportunity in the event the thresholds for two out of the three relevant financial measures are not met. The Remuneration Committee has discretion to adjust formulaic bonus outcomes to ensure fairness for shareholders and participants, to ensure pay aligns underlying company performance, and to avoid unintended outcomes. These adjustments can be either upwards (within plan limits) or downwards (including down to zero). The Remuneration Committee may consider measures outside of the bonus framework to ensure there is no reward for failure. Any adjustment would be carefully considered and fully explained in the Annual Report on Remuneration. Further details of the measures, weightings and targets applicable are provided on page 50 in the Annual Report on Remuneration.

Function	Operation	Opportunity	Performance metrics
LTIP To drive sustained long-term performance that supports the creation of shareholder value.	Under the long-term incentive plan (LTIP) annual awards of shares or nil-cost options may be made to participants. Award levels and performance conditions are reviewed before each award cycle to ensure they remain appropriate. The Committee has the discretion to authorise a payment, in shares, equal to the value of dividends which would have accrued on vested shares during the vesting period. Malus (of any unvested LTIP) and clawback (of any vested LTIP) may be applied during employment or for 2 years post-termination in the event of gross misconduct, material financial misstatement, error in calculation of outcomes or in any other circumstance that the Remuneration Committee considers appropriate.	The LTIP provides for normal awards of up to 150% of salary (100% under the previous policy, but with a 2x multiplier linked to absolute TSR). In exceptional circumstances, including but not limited to recruitment, normal awards may be made up to 200% of salary (no change from previous policy) to secure the right individual. Up to 25% of the LTIP will be paid for achieving Threshold performance, increasing on a straight-line basis to full vesting for achieving Stretch performance.	Vesting of LTIP awards is subject to achieving performance conditions and continued employment. The Remuneration Committee has the discretion to change the performance measures for new cycles to ensure that they continue to be linked to the delivery of the Company's strategy. Any significant change would be subject to prior shareholder consultation. If no entitlement has been earned at the end of the relevant performance period, awards lapse. The Remuneration Committee has discretion to adjust outcomes to ensure they fairly reflect underlying performance. The Remuneration Committee also considers environmental, social, governance and health and safety criteria, to ensure there is no reward for failure.

Notes to the policy table

Performance measure selection and approach to target setting

The measures used under the annual bonus plan are selected annually to reflect IQE's main objectives for the year and reflect both financial performance (e.g. EBITDA, cashflow and revenue growth) and personal contributions to delivering the strategic plan.

In terms of the performance conditions for the LTIP, the Remuneration Committee considers Fully Diluted Adjusted Earnings per Share ('EPS') to be a key measure of IQE's long-term bottom line performance, while Total Shareholder Return ('TSR') is a measure which strongly aligns management and shareholder interests. Targets applying to the bonus and new LTIP awards are reviewed annually, based on a number of internal and external reference points. Performance targets are intended to be stretching and achievable, and reflect IQE's strategic priorities and its market opportunities.

Remuneration policy for other employees

All employees are eligible to participate in a discretionary annual bonus and receive awards under the LTIP.

Shareholding guidelines

The Remuneration Committee wishes to encourage Executive Directors to build up a significant shareholding in the Company. Shareholding guidelines are therefore in place to require Executive Directors to acquire a shareholding (excluding shares held conditionally pursuant to LTIP performance) equivalent to 200% of base salary. 50% of any shares vesting (post-tax) under the new LTIP are required to be held until the relevant shareholding level is achieved. Executive Directors are expected to build up the required shareholding within five years of appointment to the Board. Details of the Executive Directors' current shareholdings are provided in the Annual Report on Remuneration on page 51.

Non-Executive Director remuneration

Non-Executive Director	Date of appointment letter
Sir David Grant	1 September 2012
Phil Smith	30 November 2016
Sir Derek Jones	1 December 2017
Carol Chesney	13 May 2019

Subject to re-election by shareholders, Non-Executive Directors are appointed by the full Board and retire by rotation in accordance with the Company's Articles of Association. The remuneration of Non-Executive Directors are matters reserved for the full Board, subject to a limit of £150,000 per annum or such other figure as shareholders may approve plus reasonable expenses in accordance with the Company's Articles of Association.

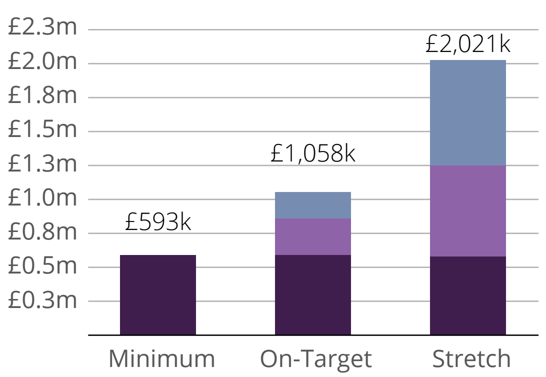
The Non-Executive Directors are not eligible to participate in the Company's performance related bonus plan, long-term incentive plans or pension arrangements. Full terms and conditions for each of the Non-Executive Directors are available at the Company's registered office during normal business hours and will be available at the AGM for 15 minutes prior to the meeting and during the meeting.

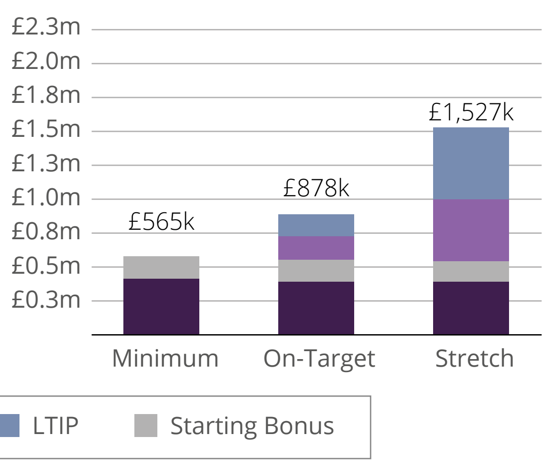
Details of the policy on fees paid to the Company's Non-Executive Directors are set out in the table below:

Function	Operation	Opportunity	Performance metrics
Fees To attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Company.	The fees paid to the Non-Executive Directors are determined by the Board (excluding the Non-Executive Directors or group of Non-Executive Directors whose remuneration is being discussed). Fee levels are benchmarked against similar roles at comparable companies. Time commitment and responsibility are taken into account when reviewing fee levels.	Fee levels are reviewed annually, with any adjustments effective 1 January in the year following review. It is expected that increases to Non-Executive Director fee levels will normally be in line with salaried employees over the life of this policy. However, in the event that there is a material misalignment with market or a material change in the time commitment required to fulfil a non-executive director role, the Board has the power to make an appropriate adjustment to the fee level.	n/a

Pay scenarios

The charts below provide an illustration of the potential future reward opportunities for the Executive Directors, and the split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'On-target' and 'Stretch'.





** LTIP value calculated based on market value of the options at the date of grant less the nominal grant price*

The 'Minimum' scenario comprises fixed remuneration, i.e. base salary, pension, benefits and for Tim Pullen, his starting bonus, which are the elements of the remuneration package not linked to performance. The figures for base salary and pension (10% of salary) are as of 1 January 2020, while those for taxable benefits are based on the latest single figure table for 2019. The 'On-Target' scenario reflects fixed remuneration on previous page, plus a target bonus payout of 50% of maximum and threshold vesting for the LTIP of 25% of maximum. The 'Stretch' scenario reflects fixed remuneration, plus full payout of the annual bonus (120% of salary) plus full vesting of the normal LTIP of 150% of salary.

Approach to recruitment remuneration

External appointments

In the cases of hiring or appointing a new Executive Director from outside the Company, the Remuneration Committee may make use of all the existing components of remuneration, as follows:

Component	Approach	Maximum annual grant value
Base salary	The base salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and current basic salary. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases over multiple years subject to the individual's development in the role.	
Pension	New appointees will receive pension contributions or an equivalent cash supplement in line with existing policy.	
Benefits	New appointees will be eligible to receive benefits which may include (but are not limited to) those outlined in the policy table.	
Annual Bonus	The structure described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year. Targets for the personal element will be tailored to each executive.	In line with normal annual limit
LTIP	New appointees will be granted awards under the LTIP on the same terms as other executives, as described in the policy table.	Up to 200% of salary on appointment; in line with normal annual limit thereafter

In determining the appropriate remuneration for a new executive director appointee, the Remuneration Committee will take into consideration all relevant factors (including nature and quantum of each component of remuneration and the jurisdiction from which the candidate was recruited) to ensure that arrangements are in the best interests of IQE and its shareholders. The Remuneration Committee may make an award in respect of a new appointment to 'buy out' remuneration arrangements forfeited on leaving a previous employer on a like-for-like basis, which may be awarded in addition to the ongoing remuneration elements outlined in the table above. In doing so, the Remuneration Committee will consider relevant factors, including time to vesting, performance conditions attached to awards, and the likelihood of these conditions being met. Any 'buy-out' awards will typically be made under the existing annual bonus and LTIP schemes, although in exceptional circumstances the Remuneration Committee may exercise the discretion available under Listing Rule 9.4.2 R to make awards using a different structure. Any 'buy-out' awards would have a fair value no higher than the awards forfeited. The Remuneration Committee will take advice from independent remuneration consultants on the structure and award package for a new Executive Director.

Internal appointments

In the case an internal promotion to the Board, the Remuneration Committee will use the same policy as detailed above, although there will be no opportunity for a buyout. However, where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these arrangements.

Non-Executive Directors

In recruiting a new Non-Executive Director, the Remuneration Committee will utilise the policy as set out in the table on page 57.

Service contracts and treatment for leavers and change of control

Executive	Date of service contract
Dr Godfrey Ainsworth[1]	16 June 2016
Dr Andrew Nelson	1 June 2016
Dr Howard Williams[2]	1 June 2016
Mr Tim Pullen	4 February 2019

[1] Dr Godfrey Ainsworth retired from the Board on 25 June 2019
[2] Dr Howard Williams retired from the Board on 01 August 2019

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Remuneration Committee. Each of the Executive Directors has a rolling service contract requiring 6 months' notice of termination on either side.

Such contracts contain no specific provision for compensation for loss of office, other than an obligation to pay for any notice period waived by the Company, where pay refers to salary, benefits and pension only. Executive Directors' service contracts are available to view at the Company's registered office.

When considering exit payments, the Remuneration Committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants. The table below summarises how the awards under the annual bonus and LTIP are typically treated in different circumstances, with the final treatment remaining subject to the Remuneration Committee's discretion:

Reason for leaving	Calculation of vesting / payment
Annual bonus	
Resignation	No annual bonus payable.
'Good leaver'[1] Change of control	Cash bonuses will typically be paid to the extent that performance objectives have been met. Any resulting bonus will typically be pro-rated for time worked. The Remuneration Committee retains discretion to vary this treatment in individual circumstances.
LTIP	
Resignation	Outstanding awards lapse
'Good leaver'[1] and change of control	The Committee determines whether and to what extent outstanding awards vest based on the extent to which performance conditions have been achieved and the proportion of the vesting period worked. The Remuneration Committee retains discretion to vary this treatment in individual circumstances. The determination of vesting will be made as soon as reasonably practical following the end of the performance period or such earlier date as the Remuneration Committee may agree (within 12 months in the event of death). In the event of a change of control, awards may alternatively be exchanged for new equivalent awards in the acquirer where appropriate.

[1] 'Good leaver' is defined as a participant ceasing to be employed by the Group by reason of death, disability, ill health, retirement in agreement with the Company or any other reason that the Committee determines in its absolute discretion.

External appointments

With the approval of the Board in each case, and subject to the overriding requirements of the Group, Executive Directors may accept external appointments as Non-Executive Directors of other companies and retain any fees received. None of the Executive Directors received any remuneration from external directorships during the year.

Consideration of conditions elsewhere in the company

When making decisions on changes to Executive Director remuneration, the Remuneration Committee considers changes to pay and conditions across the Group. To this end, the HR Manager provides the Remuneration Committee with a summary of the proposed level of average increase for employees prior to the annual salary review. For Executive Directors, the Remuneration Committee does not formally consult with employees on the executive remuneration policy and implementation.

Consideration of shareholder views

The Remuneration Committee maintains a regular dialogue with the Company's major shareholders. Following the 2019 AGM, IQE Management consulted with shareholders regarding the concerns raised regarding the adoption of the new all employee LTIP plan.

Annual Report on Remuneration

Remuneration Committee role, membership and advice

The primary role of the Remuneration Committee is to determine and agree with the Board fair and reasonable remuneration arrangements for the Chairman and Executive Directors.

The main activities of the Remuneration Committee during the year were as follows:

- determined annual bonuses payable to Executive Directors in 2019;
- reviewed and approved vesting of LTIP awards;
- reviewed and approved the Executive Directors' salaries for 2019;
- determined performance targets for the Executive Directors' 2019 annual bonus and LTIP awards in line with the Company's strategic plan;
- drafted the Directors' Remuneration Report;
- considered benchmarking and advice from independent remuneration consultants, Mercer | Kepler, and approved the remuneration of Tim Pullen, who joined IQE into the role of Chief Financial Officer on 4 February 2019.

The Remuneration Committee's Terms of Reference are set out on the Company's website at www.iqep.com.

During the year, the Remuneration Committee comprised all of the Non-Executive Directors. The number of meetings held during 2019 by the Remuneration Committee and attendance by the individual Committee members at such meetings is set out in the Board Report on page 51.

The Board undertakes an annual evaluation of the Remuneration Committee's performance to ensure its continued ability to independently and objectively review Executive Director remuneration at the Group.

The following individuals may be invited to attend meetings of the Remuneration Committee on certain occasion to provide advice and to help the Remuneration Committee to make informed decisions:

- Dr Andrew Nelson, Chief Executive Officer;
- Tim Pullen, Chief Financial Officer;
- Representatives from Mercer | Kepler, independent advisors to the Committee

No individuals are involved in decisions relating to their own remuneration.

Mercer | Kepler provides independent advice to the Remuneration Committee. Mercer | Kepler is a signatory to the Code of Conduct for Remuneration Consultants in the UK, operated by the Remuneration Consultants Group, and which requires all advice to be objective and independent (see www.remunerationconsultantsgroup.com for more information). Services provided by Mercer | Kepler included advice on remuneration packages for executives, assistance with a review of incentive arrangements and support on drafting this Directors Remuneration Report, as well as other ad-hoc advice on remuneration. Fees of £25,110 inclusive of VAT were paid to Mercer | Kepler in respect of services it provided to the Company in 2019. The Committee considers that Mercer | Kepler is independent, does not have any connections with IQE that may impair their independence, and does not provide any services to the Group other than its advice on remuneration.

Single total figure of remuneration for Executive Directors (audited information)

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 December 2019 and the prior year:

	Dr Godfrey Ainsworth		Dr Andrew Nelson		Dr Howard Williams		Mr Tim Pullen	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Salary & benefits[1]	178	264	545	526	211	353	351	-
Starting bonus	-	-	-	-	-	-	169	-
Annual bonus	79	238	-	105	-	70	-	-
Long-term incentive	-	-	-	2,999	-	2,009	-	-
Pension[2]	18	26	54	53	21	35	33	-
Total	**275**	**528**	**599**	**3,683**	**232**	**2,467**	**553**	**-**

1. Taxable benefits for 2019 consist of health cover, private medical insurance, life assurance, long-term disability insurance, fuel and car repairs.
2. Executive Directors are entitled to participate in a defined contribution scheme, in relation to which the Company contributes 10% of salary or equivalent cash allowance.

Incentive outcomes for years ending 31 December 2018 and 31 December 2019

Annual Bonus

Financial objectives (EBITDA and cashflow measures) were not met in 2018, however the Committee exercised modest discretion to ensure fairness for shareholders and participants and to avoid unintended outcomes. As such, 20% of salary was awarded to Drew Nelson and Howard Williams for strong cash management and achievement of personal objectives. This reflected the tight control of cash flow during the year despite difficult trading conditions and significant capital expenditure (increasing headroom significantly with the agreement of $35m RCF facility with HSBC). It also reflected strong performance in the development of IQE's new foundry in Newport South Wales, which had progressed from an empty building to production within 15 months. Further, it has been made in recognition of the substantial strategic progress made by the Group in a significantly challenging year following the death of CFO, Phillip Rasmussen.

Godfrey Ainsworth, who took on the CFO role at short notice, was excluded from the long-term incentive but given a bonus opportunity structured largely around specific individual objectives, which he achieved: providing support to the Board and the wider leadership team at a very difficult time; contributing to an important recruitment process for a new CFO; assistance to the CEO in investor relations activities and acting as interim CFO pending the appointment of Mr Pullen. As a result, he earned a bonus of 90% of salary for 2018 and 90% of salary for the first quarter of 2019.

Financial objectives in the bonus plan for 2019 (EBITDA and cashflow) were not met resulting in no performance related bonus being awarded to Andrew Nelson or Tim Pullen.

A starting bonus of £169,000 was paid to Mr Pullen in 2019 in compensation for awards forfeited when he left his previous employment. These bonuses are subject to a two-year clawback in certain circumstances if Mr Pullen leaves the employment of the Company before the end of the Clawback Period.

Long-term incentive plan

4,069,579 LTIP options awarded to Drew Nelson in 2017 were due to vest on 31 December 2019. The performance criteria for these awards were not met and these options have lapsed.

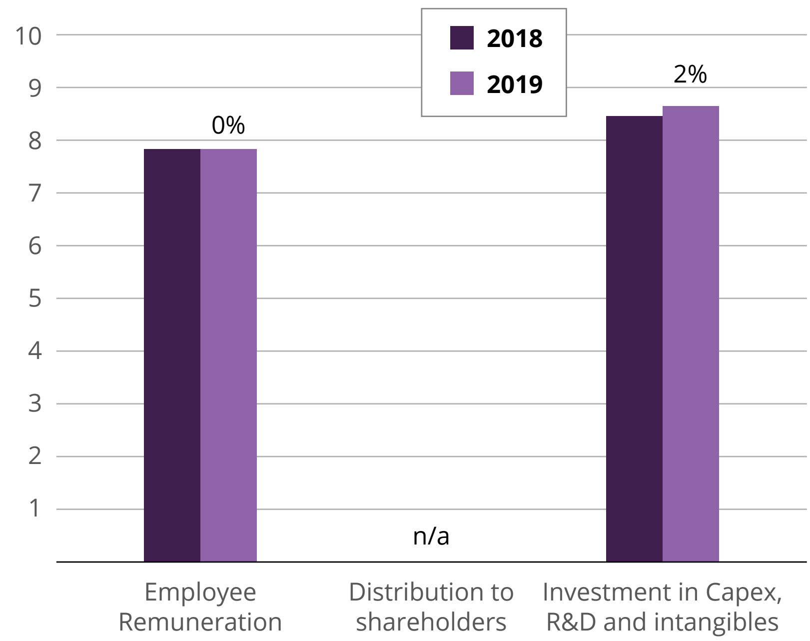
Percentage change in CEO remuneration

The table below shows the percentage change in CEO remuneration from the prior year compared to the average percentage change in remuneration for other employees. The CEO's annual remuneration includes base salary, taxable benefits and annual bonus. The % change in annual remuneration for other employees is calculated using the increase in the earnings of all employees who were employed in the UK throughout 2018 and 2019. The Committee considers the UK employee population to be the most appropriate comparison for CEO vs. other employee pay, as all executive directors are currently employed in the UK, our UK employee population includes employees at all levels of the organisation, and pay inflation in our other geographies is affected by different local market factors.

	% change 2018-19	
	CEO	All UK employees
Base salary	+3.6%	+2.5%
Taxable benefits	+3.6%	+2.5%
Annual bonus	-100%	-100%

Relative importance of spend on pay

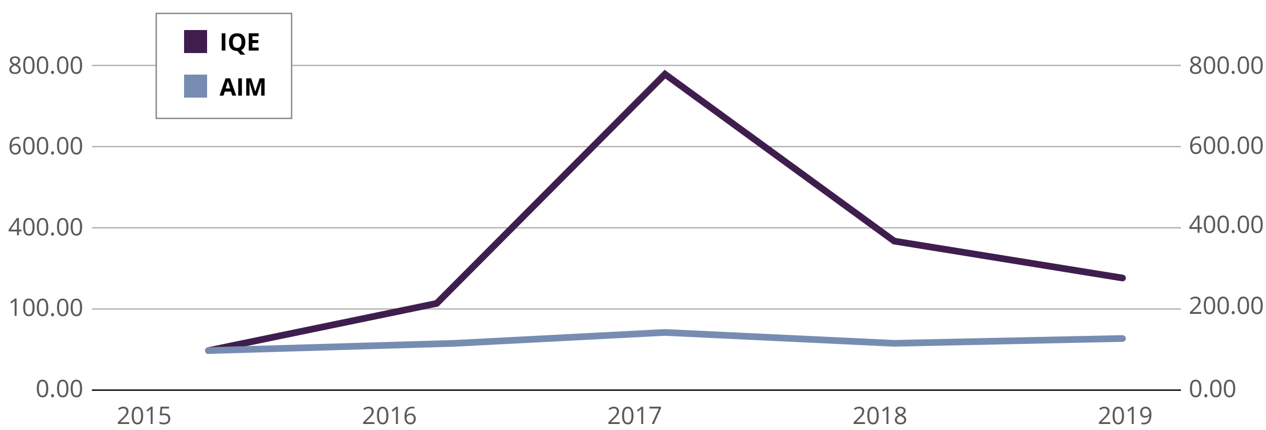
The graph below shows shareholder distributions (i.e. dividends and share buybacks), total employee pay expenditure and investment in capital expenditure, research & development and intangibles for the financial years ended 31 December 2018 and 31 December 2019, along with the year-on-year percentage change.



Review of past performance

The following graph charts the TSR of the Company and the FTSE AIM Index (to which IQE is a member) over the period from 1 January 2015 to 31 December 2019. The table below details the Chief Executive's "single figure" remuneration over the same period.

Historical TSR performance (GBX)



Historical CEO remuneration

	2015	2016	2017	2018	2019
CEO single figure of remuneration (£000)	851	1,066	1,087	3,683	599
STI award as a % of maximum opportunity	0%	100%	100%	20%	0%
LTI award as a % of maximum opportunity	100%	n/a	n/a	62%	0%

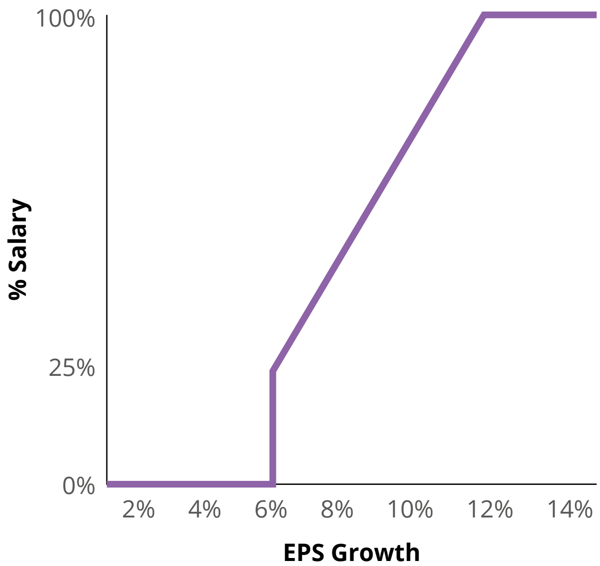
Scheme interests awarded in 2019 (audited information)

Executive director	Award type	Date of award	# shares awarded	Face value	End of performance period
Dr Andrew Nelson	Nil-cost option	01 January 2019	966,246	£618,397	31 December 2021
Mr Tim Pullen	Nil-cost option	04 February 2019	699,814	£506,665	31 December 2021
Mr Howard Williams	Nil-cost option	01 January 2019	647,292	£414,267	31 December 2021

The face value of shares was based on the share price at dates of award of 65.0p at 1 January 2019 and 73.4p at 4 February 2019, less the 1p nominal value exercise price.

Vesting of these awards is subject to EPS compound annual growth as illustrated below, where EPS is measured over the period from 1 January 2019 to 31 December 2021.

50% of the awards for Andrew Nelson and Howard Williams also require absolute TSR growth over the 3-year performance period to be 100% or more.



Exit payments made in the year
No exit payments were paid to any Director during the year.

Payments to past Directors
Payments made to past Directors totalled £157,000 (2018: £nil) reflecting ongoing employee services received from Dr Howard Williams and Dr Godfrey Ainsworth following their retirement from the board in 2019.

Single total figure of remuneration for Non-Executive Directors (audited information)
The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 December 2019 and the prior year:

	NED fees	
	2019 £'000	2018 £'000
Sir David Grant	50	50
Phil Smith[1]	96	50
Sir Derek Jones	50	50
Mrs Carol Chesney[2]	32	-

1. *Mr Phil Smith was appointed Chairman of the Board on 25 June 2019 upon the Retirement of Dr Godfrey Ainsworth.*
2. *Mrs Carol Chesney was appointed to the Board as an independent Non-Executive Director on 13 May 2019*

Implementation of remuneration policy for 2020

Base salary

The Remuneration Committee approved the following base salary increases, in line with the average increase for all UK employees:

Executive Director	Annual base salary at 1 January 2019	Annual base salary at 1 January 2020	Percentage increase
Dr Andrew Nelson	£538,433	£538,433	0%
Dr Howard Williams	£360,698	n/a	n/a
Tim Pullen*	£362,457	£362,457	0%

** Mr Pullen took up employment on 4 February 2019*

Pension

Executive Directors are entitled to a pension contribution of 10% of salary or equivalent cash allowance. The typical employee pension contribution is up to 10% of salary.

Annual bonus

For 2020, the Executive Directors will have the opportunity to receive a cash bonus to be paid after the announcement of full year results for 2020, based on financial performance for the 2020 financial year and agreed personal / strategic performance measures.

Each measure has an on-target, threshold and stretch target approved by the Board of Directors in at the time of Budget approval. On-target performance will equate to a 50% of base salary bonus payout. The maximum bonus payout will be 120% of base salary if all stretch targets are met. The range of outcomes is therefore 0% to 120% inclusive. Any payout above 100% will be made in the form of a share grant, calculated based on the average of the share price on the three days preceding the date of the Annual Results Announcement.

Performance of each of the components of the plan will be calculated separately. However, if the threshold is not met for two out of three financial measures then there will be zero payout for financial performance. Moreover, in the event of zero payout for financial performance, the maximum payout for personal / strategic measures will be restricted to 15% of the maximum bonus amount.

A starting bonus of £156,000 will be paid to Mr Pullen in 2020 in compensation for awards forfeited when he left his previous employment. These bonuses are subject to a two-year clawback in certain circumstances if Mr Pullen leaves the employment of the Company before the end of the Clawback Period.

LTIP (audited information)

For 2020, normal LTIP awards of up to 150% of salary may be made to Executive Directors, as outlined in the Policy Table. 50% of these awards will vest on EPS performance and 50% on relative TSR performance. No award will vest below Threshold performance, and vesting will increase on a straight-line basis between Threshold and Stretch.

The EPS performance criterion will be based on IQE plc's Fully Diluted Adjusted Earnings per Share achieved for the year ended 31 December 2022, as shown in the audited annual accounts published in March 2023. The relative Total Shareholder Return (TSR) criterion will also be measured over the 3 years ended 31 December 2022, versus the change in the FTSE All Share Index over the same period. In order to remove potential distortion from market volatility, the three-month volume weighted average share price and index level as at 31st December 2019 and as at 31st December 2022 will be used in assessing performance.

EPS Element (50%)

- 12.5% of LTIP options exercisable if EPS of 0.25 pence is achieved in the year ended 31 December 2022
- 50% of LTIP options exercisable if EPS of 0.4 pence is achieved in the year ended 31 December 2022
- Percentage of exercisable LTIP options will be interpolated if EPS is between 0.25 and 0.4 pence.
- No options will vest if EPS is less than 0.25 pence

TSR Element (50%)

- 12.5% of LTIP options exercisable if relative TSR over the 3 years to 31 December 2022 is at 100% of the FTSE all share index growth over the period.
- 50% of LTIP options exercisable if relative over the 3 years to 31 December 2022 is at 130% of the FTSE all share index growth over the period.
- Percentage of exercisable LTIP options will be interpolated if TSR is between 100% and 130%.
- No options will vest if relative TSR is less than 100% of the index value

The EPS and TSR elements will vest individually and not be dependent on each other. The EPS calculation will be adjusted for any share placements or issuances made during the period.

Directors' interests

A table setting out the beneficial interests of the Directors and their families in the share capital of the Company as at 31 December 2019 is set out below.

Since 31 December 2019 there have been no changes in the Directors' interests in shares.
Details of Directors' share options are set out in the tables below.

<table>
<tr><th></th><th>Shares owned outright as at 1 Jan 2019</th><th>Shares owned outright as at 31 Dec 2019</th><th>Shareholding requirement % salary/fee</th><th>Current shareholding % salary/fee</th><th>Requirement met?</th></tr>
<tr><td>Dr Andrew Nelson</td><td>28,459,218</td><td>36,140,417</td><td>200%</td><td>3,289%</td><td>Yes</td></tr>
<tr><td>Dr Howard Williams[1]</td><td>2,392,965</td><td>N/A</td><td>200%</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Tim Pullen[2]</td><td>-</td><td>-</td><td rowspan="6">N/A</td><td>0%</td><td rowspan="6">N/A</td></tr>
<tr><td>Dr Godfrey Ainsworth[3]</td><td>2,154,197</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Sir David Grant</td><td>215,000</td><td>215,000</td><td>280%</td></tr>
<tr><td>Phil Smith</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Sir Derek Jones</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Mrs Carol Chesney</td><td>-</td><td>-</td><td>-</td></tr>
</table>

[1] Dr Howard Williams resigned from the Board on 01 August 2019

[2] Mr Tim Pullen was appointed on 4 February 2019

[3] Dr Godfrey Ainsworth resigned from the Board on 25 June 2019

Executive Directors are expected to build up a shareholding of 200% of salary within five years of appointment to the Board.

On 2 August 2019 Dr Drew Nelson entered into a sale and repurchase agreement with Equities First Holdings ("EFH") for 11,000,000 ordinary shares of 1 pence each in the Company ("EFH Sale Shares"), out of his total beneficial holding (including persons closely associated) of 36,140,417 ordinary shares (the "Agreement").

Under the terms of the Agreement, he is obligated to repurchase (and EFH is obligated to sell to Dr Nelson) all these EFH Sale Shares at the end of a three year term, ending on 02 August 2022. The price at which he has sold and is required to repurchase the EFH Sale Shares is 43.96 pence per share. The Agreement provides that he has transferred all title and waives his voting rights in these EFH Sale Shares. However, under the terms of the agreement, EFH is prohibited from short selling or voting the EFH Sale Shares during the term of the agreement. Furthermore, EFH will pay Dr Nelson income that reflects any dividends as they arise from all of these EFH Sale Shares during the entire period, as if Dr Nelson had continued to own all the EFH Sale Shares himself.

The monies raised will principally be used to satisfy income tax and NI obligations following the exercise of 7,681,199 share options by Dr Nelson, as announced on 29 April 2019. Under HMRC rules, income tax and National Insurance becomes payable through PAYE directly upon the exercise of share options. Consequently, Directors often need to immediately sell at least half of the exercised shares to cover this tax and NI liability. In the case of Dr Nelson, he has elected to raise the tax and NI monies through these arrangements in order to retain all of the ordinary shares resulting from the exercise of share options, thereby maximising his overall shareholding in the Company. The remainder of the monies raised are intended to be used to fund future tax liabilities and NI due on the exercise of share options if they arise, as well as fund further potential share purchases and cover any margin calls which may occur under the Agreement. Dr Nelson used an identical share sale and repurchase agreement with EFH in October 2014, for the same purposes, which resulted in the repurchase of 18,000,000 ordinary shares by Dr Nelson from EFH in September 2017.

2019	Options					
	Unvested and subject to continued performance	**Unvested and subject to continued employment**	**Vested but unexercised**	**Vested during year**	**Lapsed during year**	**Exercised during year**
Dr Andrew Nelson	613,409	-	-	-	4,069,579	7,681,199
Dr Howard Williams *	N/A	N/A	N/A	-	-	3,424,470
Tim Pullen	699,814	-	-	-	-	-
Dr Godfrey Ainsworth	N/A					
Sir David Grant						
Phil Smith						
Sir Derek Jones						
Mrs Carol Chesney						

** The table above represents the position of Dr Williams' share option up to 01 August 2019 when he resigned from the Board.*

Dr Andrew Nelson exercised 7,681,199 share options on 24 April 2019 when the Group's share price was £0.73. The gain on exercise totalled £5,550,000.

Dr Howard Williams exercised 3,424,470 share options on 10 April 2019 at a share price of £0.68. The gain on exercise totalled £2,259,000.

2018	Options					
	Unvested and subject to continued performance	**Unvested and subject to continued employment**	**Vested but unexercised**	**Vested during year**	**Lapsed during year**	**Exercised during year**
Dr Andrew Nelson	4,682,988	-	7,681,199	4,686,329	2,846,633	-
Phillip Rasmussen	-	-	-	8,262,707	-	-*
Dr Howard Williams	3,131,844	-	6,313,583	3,139,113	1,907,187	-
Tim Pullen	-	-	-	-	-	-
Dr Godfrey Ainsworth	N/A					
Sir David Grant						
Phil Smith						
Sir Derek Jones						

**As announced on 1 May 2018, the Board approved the accelerated vesting of 8,262,707 options in addition to the 2,211,444 options that were vested but unexercised by the late Phillip Rasmussen. These options were transferred to the Executrix of Mr Rasmussen's estate and subsequently exercised.*

Summary of shareholder voting at the 2019 AGM

Results of the vote on the remuneration report at the IQE's AGM on 25 June 2019 are as below:

	Total number of votes	% of votes cast
For (including discretionary)	400,625,751	99.16%
Against	3,323,338	0.82%
Total votes cast (excluding withheld votes)	**403,949,089**	**99.98%**
Votes withheld	71,026	0.02%
Total votes cast (including withheld votes)	**404,020,115**	**100%**

2019 AGM LTIP resolution voting and proposed actions

At the AGM on 25 June 2019, 42.9 percent of shareholders voted against the resolution to approve the adoption of the 2019 IQE Long Term Incentive Share Option Plan ("2019 LTIP").

In line with Provision 4 of the UK Corporate Governance Code 2018, announced in December 2019 an outline of the Company's understanding of the reasons behind the 2019 AGM LTIP resolution voting result and the Remuneration Committee and Board undertook to take the following actions as a result of the vote.

The 2019 LTIP replaced the previous Executive Share Option Scheme approved by shareholders at the AGM in July 2009 and was intended as a simple renewal of the existing rules, which had not been the subject of any representations from shareholders since their approval by shareholders in 2009. Accordingly, the Remuneration Committee did not anticipate any significant dissent and therefore did not seek to engage shareholders in advance of submitting the plan to an advisory vote at the 2019 AGM.

The Board was aware however that in advance of this year's AGM, Institutional Shareholder Services ("ISS") issued a report in which it recommended that shareholders vote against the resolution to approve the 2019 LTIP plan, citing two principal concerns:

> That the dilution limits sought under the plan exceeded the standard dilution limit expected by institutional investors of 10% in 10 years for all of the Company's share schemes; and,

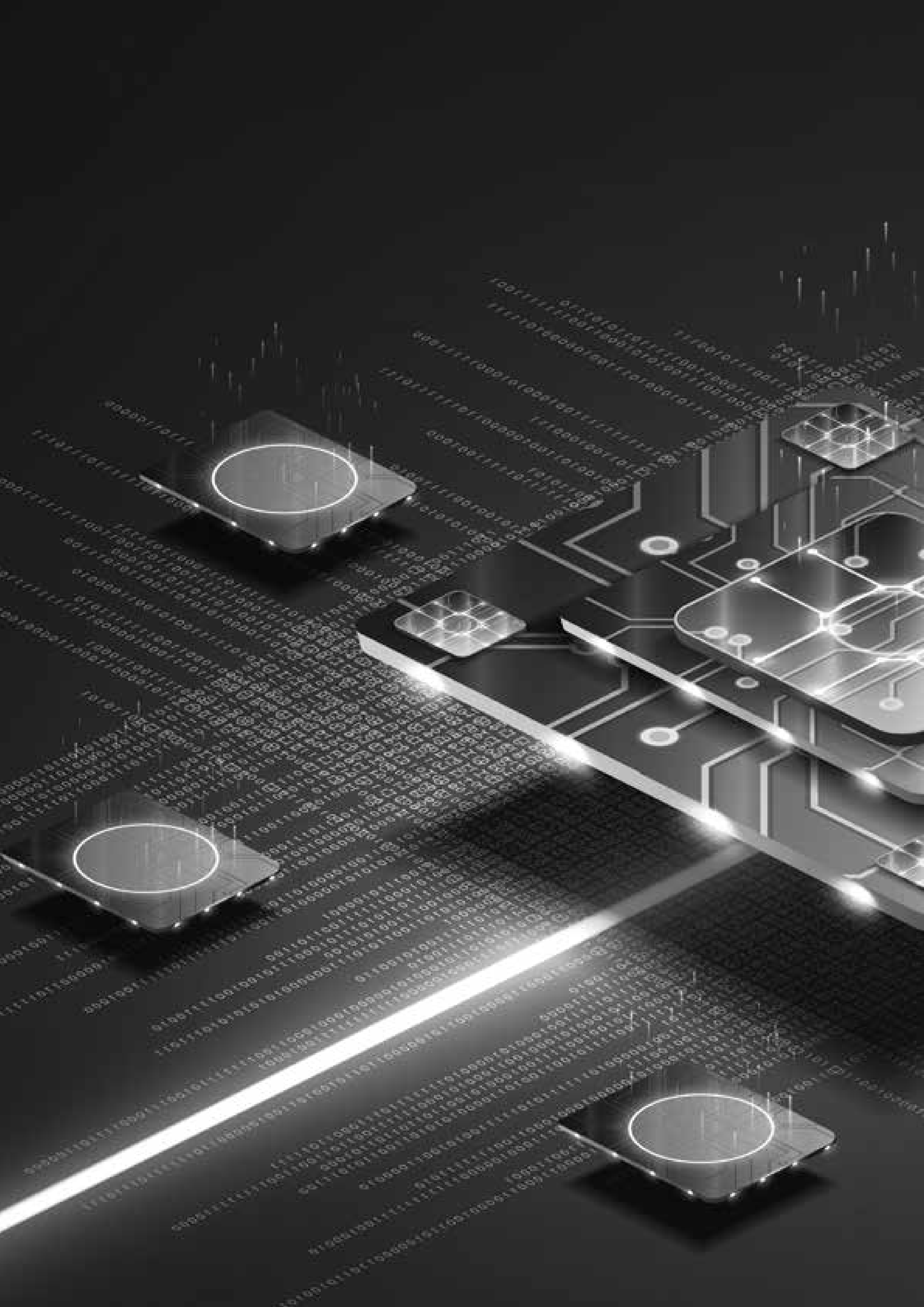
> That the plan permits the vesting of outstanding options to good leavers without a pro-rata reduction to vesting based on performance and the portion of the vesting period expired up to the time of the termination of employment.

Prior to and following the AGM, the Board engaged with shareholders, emphasising that as a global technology company with the majority of its operations employing staff in Asia and the USA, share options are considered an essential tool for the Company to attract and retain the world-class talent required to sustain and grow our business. The adoption of the 15% dilution limit in 10 years in 2009 was intended to ensure that we would have sufficient flexibility to offer competitive rewards to highly-sought after candidates in critical roles throughout the entirety of the organisation, as all IQE employees are offered share options as part of their compensation packages.

Notwithstanding the above and that the 2019 LTIP resolution was ultimately approved at the AGM, the Board recognises that the significant vote against is an indication of the strength of shareholder sentiment in this area. The Board has therefore resolved to take the following actions in response:

> The Remuneration Committee will undertake a review of the Directors' Remuneration Policy with a view to submitting a new Policy to shareholders at the 2020 AGM. As part of this review, the Remuneration Committee has undertaken an exercise to understand when IQE expects to be able to comply with the standard 10% dilution limit. The result demonstrated that, due to the number of share options currently outstanding to all IQE employees, a reduction to the 10% dilution limit is not currently feasible. However, the Board recognises the importance of moving to a 10% dilution limit and is committed to doing so over time; and,

> The Board is taking steps to amend the LTIP plan rules to align the leaver provisions for all employees to those set out for the Executive Directors. This language will make clear that the maximum potential entitlement for a good leaver will be a pro-rata vesting of outstanding awards i.e. taking account of the time from grant to the time of departure as a proportion of the full vesting period.



Directors' biographies

Phil Smith (63)
Non-executive Chairman

Phil Smith BSc, Hon LLD, DUniv. FIET, became Chairman of Cisco for the UK and Ireland in August 2016, after eight years as Chief Executive. Mr Smith is also the Chairman of Innovate UK and Chairman of the Tech Partnership. Additionally, he sits on the Board of the National Centre for Universities and Business (NCUB). Mr Smith has a thirty-five year track record in the technology industry in leading companies including Philips Electronics and IBM. In September 2014 he was awarded an Honorary Doctorate by Birmingham City University, cited for his outstanding contribution to the IT industry, a "leader among leaders". In March 2015 Mr Smith was awarded an Honorary Degree of Doctor of Laws by the University of Warwick and in 2016 an Honorary Degree of Doctor of Science by his alma mater, Glasgow University. Current directorships: Be The Business (Productivity Council), Streeva Ltd, Tech Partnership Degrees.

Sir David Grant CBE (72)
Non-executive Director, Chairman of the Remuneration and Nomination Committees

Sir 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. David was knighted in the 2016 Birthday Honours for services to engineering, technology, and skills. Current directorships: Senior Independent Director, Renishaw plc; Chair, National Physical Laboratory.

Sir Derek Jones KCB (67)
Non-executive Director, Chairman of the Audit & Risk Committee

Sir Derek Jones was the Permanent Secretary of the Welsh Government as well as a member of the UK Civil Service Board and its Senior Leadership Committee until he retired from the Welsh Government in February 2017. He spent the earlier part of his government career in Whitehall, working at HM Treasury and the then Department for Trade & Industry, where he headed the Far East Trade Desk. In government in Wales he has also served as Director of Finance and Director of Economic Affairs. Outside government, Sir Derek was Director of Business & Strategic Partnerships at Cardiff University, responsible for securing long-term collaborations with the private sector and is an Honorary Professor and Fellow of the University. Currently, Sir Derek is Chair of the Board of the public transport operator Keolis UK, Chair of the Board of Keolis Amey Operations and Board member of Keolis Amey Cymru Ltd. Sir Derek is also the Chair of the Prince's Trust in Wales and is a Vice President of Cardiff Business Club. He was made Companion of the Order of the Bath (CB) in 2009 and subsequently Knight Commander (KCB) in 2014, for services to economic and social conditions.

Dr Drew Nelson OBE (65)

President and Chief Executive Officer

Dr Drew Nelson has over 30 years' experience in the semiconductor industry in a variety of research and managerial positions. Following a PhD in Semiconductor Physics, he joined BT Research Laboratories in 1981, leading the group responsible for the development of advanced optoelectronic devices for optical fibre communications. He subsequently managed the technology transfer from BT to Agilent for mass production. He co- founded EPI in 1988 (which became IQE in 1999) and was appointed Chief Executive Officer of IQE Plc in April 1999. Dr Nelson has held several Non-Executive Directorship appointments, and served on several Government and Industry bodies. He received an OBE in 2001 for services to the Electronics Industry. He is currently a member of the High Level Group appointed by the EC to oversee the implementation of Key Enabling Technologies (KETs) throughout Europe. Current directorships outside of the IQE Group: Compound Semiconductor Centre Limited (joint venture between IQE and Cardiff University), Neptune 6 Limited, Llansannor Management Consultants Ltd, Llansannor House Holdings Limited, Oyster Innovations Limited, Truelux Group Limited.

Tim Pullen (42)

Chief Financial Officer

Tim Pullen, who joined the Board of IQE Plc on 4 February 2019, was most recently Chief Financial Officer of ARM Limited, a global semiconductor and software design company owned by Softbank Group. During his time at ARM, Mr Pullen was focused on executing the investment strategy and scaling the company's finance and business capabilities. Prior to this, Mr Pullen was Finance Director at O2 / Telefonica UK, where he held a variety of senior financial positions including responsibility for Technology Operations, B2B and Digital segments and Finance Operations. In connection with his time at O2, Mr. Pullen also held roles as a Non-Executive Director of Tesco Mobile, O2's joint venture with Tesco Mobile and was a Director of Cornerstone Telecommunications Infrastructure Limited, O2's network sharing joint venture with Vodafone. Before his time at O2, Mr. Pullen held various senior finance roles at Serco Group plc, a leading British provider of outsourcing services, including the BPO Division in UK & Europe, the Global Technology business and in Business Transformation. Mr Pullen is a Chartered Accountant and qualified with Ernst & Young. Tim Pullen is also a Director of the Compound Semiconductor Centre Limited.

Carol Chesney (57)

Non-executive Director, Chair of Audit Committee

Mrs. Chesney, FCA, is an experienced Non-executive Director, currently serving as a Non-executive Director and Chair of the Audit Committee of Renishaw plc since October 2012, in addition to currently serving as a Non-executive Director and Chair of the Audit Committees of Hunting PLC since April 2018 and Biffa PLC since July 2018. Prior to this, Mrs. Chesney served as the Company Secretary of Halma PLC, the FTSE 100 health, safety and environmental technology group, until 2018, having also served as the Group Financial Controller. During her time at Halma PLC, Mrs. Chesney's role included corporate governance, legal compliance, equity incentives, pensions, internal audit management, taxation, property, health and safety compliance, environmental reporting and anti-bribery and corruption compliance. Mrs. Chesney is a Fellow of the Institute of Chartered Accountants in England and Wales, and qualified with Arthur Andersen in the UK.

Independent auditor's report

to the members of IQE plc

1. Our opinion is unmodified

We have audited the financial statements of IQE PLC ("the Company") for the year ended 31 December 2019 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, parent company balance sheet, parent company statement of changes in equity, parent company cash flow statement, and the related notes, including the accounting policies in note 2.

In our opinion:

— 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 2019 and of the Group's loss for the year then ended;

— the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);

— the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview	
Materiality: group financial statements as a whole	£850k (2018:£660k) 0.6% of total revenues (2018: 3.8% of normalized group PBT)
Coverage	96% (2018: 95%) of total group revenues

Key audit matters		**vs 2018**
Event driven risk	**New:** Going concern - the impact of uncertainties due to the global spread of COVID-19	▲
Event driven risk	The impact of uncertainties due to the UK exiting the European Union on our audit	◀▶
Recurring risks	Revenue recognition	◀▶
	Capitalisation of Development costs	◀▶
	Carrying value of development intangibles not yet available for use	◀▶
Parent Company only	Valuation of investments in and recoverability of receivables from subsidiaries	◀▶

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, were as follows:

	The risk	Our response
Going concern - the impact of uncertainties due to the global spread of COVID-19 *Refer to note 2.2 (accounting policy and financial disclosures).*	**Disclosure Quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model, including the impact of the Coronavirus, and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. As a result of the COVID-19 pandemic (Coronavirus), uncertainty about the immediate outlook for many companies has increased sharply. The risk includes the potential effect on customer demand, the availability of debt and other financing arrangements, the impact on the wider supply chain, and, ultimately, the potential of adversely affecting on the Group's and Company's available financial resources over this period. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: — **Our Covid-19 knowledge:** We considered the directors' assessment of Covid-19 related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. This included assessing the Group as operating in a critical industry with key worker status. — **Our sector experience:** We critically assessed the directors' going concern assessment, including the reasonableness of the key assumptions used in the cash flow forecasts and the level of downside sensitivities applied using our industry knowledge of Covid-19 risks. — **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts, taking account of the severe, but plausible adverse effects that could arise from the identified risks individually or collectively and the potential impact on the Group's borrowing covenants. — **Funding assessment:** We obtained relevant loan agreements, as revised, agreeing facilities available to the Group and recalculated covenant compliance and headroom based on management's latest forecasts and those in severe but plausible downside scenarios. — **Evaluating directors' intent:** We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. This included assessing the intent and ability of the Directors to implement these actions in the time frame required and that they were entirely in the Directors' control. — **Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosures by comparing this to the key assumptions, key sensitivities and mitigating actions considered by the Directors.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 36 (principal risks)*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in the carrying value of development intangibles and capitalisation of development costs below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: — **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks**;** — **Sensitivity analysis:** When addressing valuation of development intangibles and capitalisation of development costs and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; — **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on valuation of development intangibles and capitalisation of development costs, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.
Revenue recognition (£140.0 million; 2018: £156.3 million) *Refer to note 2.20 (accounting policy) and note 4 (financial disclosures)*	**2019/2020 Revenues** Pressures on achieving internal and external expectations of results increase the risk of fraudulent revenue recognition, in particular the recognition of sales around the year-end date.	Our procedures included: — **Control design:** Assessing the design of controls over the matching of sales transactions to related orders and customer-authorised delivery note or purchase order; — **Enquiry of customers:** Obtained direct confirmation of receivables balances held by a sample of customers at the year-end date to agree revenue associated with product delivered into Supplier Managed Inventory; — **Test of details:** Agreed a sample of sales transactions around the year-end, based upon their financial significance, to customer-authorised despatch note or purchase order; — **Test of details:** Agreed a sample of post year-end credit notes, based upon their financial significance, to original customer-authorised despatch note or purchase order, to assess revenue has not been overstated at the year-end date;

	The risk	Our response
Capitalisation of development costs (Additions of £8.1million; 2018: £9.8 million) *Refer to note 2.5 (accounting policy) and note 13 (financial disclosures).*	**Accounting Treatment** Capitalised development costs are significant due to investment in areas including VCSEL, GaN, cREO and Photonics. The application of accounting standards to determine whether the criteria for capitalisation have been met is inherently subjective as this involves an assessment of the probability of future outcomes, the time period that constitutes the process development phase and the identification of any costs related to saleable product produced at the same time, which should be excluded from capitalisation.	Our procedures included: — **Our expertise:** Critically assessed the costs capitalised against the criteria of the relevant accounting standard and our understanding of the progress of the Group's projects, including assessing the technical feasibility of the asset; — **Personnel interviews:** Held discussions with the Group Technology Director, to and challenge the feasibility of these projects and the likelihood of future economic benefit with reference to supporting documentation such as market analysis and customer correspondence**.** — **Test of details:** Agreed a sample of labour costs allocated to development projects to supporting documentation, primarily timesheets and payroll records for relevant employees. Agreed a sample of material and overhead costs to supporting documentation, including agreeing substrate costs to purchase invoices and analysing gas consumption; — **Challenged assumptions:** Challenged the reasonableness of the assumptions applied in respect of the proportion of labour and overhead costs capitalised with reference to the number of development runs performed during the year compared to the total number of all runs. — **Calculation reperformance:** Re-performed the group's calculation of standard costs used in allocating costs throughout the year, agreeing actual costs incurred to purchase invoices. — **Test of details:** Agreed a sample of wafers sold during the year, selected from sales records, back to production/development run records to assess that the cost of sold wafers has been expensed and not been inappropriately capitalised.

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
Carrying value of development intangibles not yet available for use (£12.8 million; 2018: £17.5 million) *Refer to note 2.7 (accounting policy) and note 3.2 (financial disclosures).*	**Subjective valuation** The ability of an intangible asset to generate sufficient future economic benefits to recover its carrying amount is determined to be subject to greater uncertainty before the asset is available for use rather than after it is available for use, especially where there has been limited development activity in the period. Value in use calculations are prepared for development intangibles that are not yet available for use at the balance sheet date. These are subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the value in use calculations had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality. The financial statements (note 3.2) disclose the sensitivity estimated by the Group.	Our procedures included: — **Challenge assumptions:** We challenged the Group's assessment of the future viability of development intangible assets not yet available for use, assessing the key assumptions in the value in use calculations with reference to external evidence, including customer correspondence for the projects and/or external market analyst reports in respect of the associated technology. — **Benchmarking assumptions:** We compared the group's assumptions to externally derived data in relation to key inputs such as growth rates and discount rates; — **Sensitivity analysis:** We performed sensitivity analysis on the assumptions noted above; — **Personnel interviews:** We held discussions with the Group Technology Director to corroborate our understanding of the future uses and opportunities for the development assets; — **Assessing transparency:** Assessing whether the group's disclosures reflected the risks inherent in the valuation of development intangibles not yet available for use.
Parent Company: Valuation of investments in and recoverability of receivables from subsidiaries (£221.4 million; 2018: £235.8m) *Refer to notes 2.9 and 2.27 (accounting policy) and notes 16 and 18 (financial disclosures).*	**Low risk, high value** The carrying amount of the parent company's investments in and receivables from subsidiaries represents 95% (2018: 95%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: **Test of detail:** We compared the carrying amount of 100% of investments and receivables with the relevant subsidiaries' balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. **Assessing subsidiary audits:** Assessed the work performed by the component team of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets. **Comparing valuations:** For the investments or receivables where the carrying amount exceeded the net asset value, we compared the carrying amount with the expected value of the business based on the subsidiaries forecast profitability and cash flows.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £850k (2018: £660k), determined with reference to a benchmark of group revenues of £140,015k (which represents 0.61%). In 2018 materiality was set with reference to normalised group profit before tax of £17,242k of which it represented 3.8%.

In 2019 we consider total revenue to be the most appropriate benchmark as it provides a more stable measure in period of investment where the group has seen a temporary dip in profits. The level of materiality reflects the size of the group.

Materiality for the parent company financial statements as a whole was set at £300k (2018: £300k), as communicated by the group audit team. This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.13% (2018: 0.13%) of the Company's total assets.

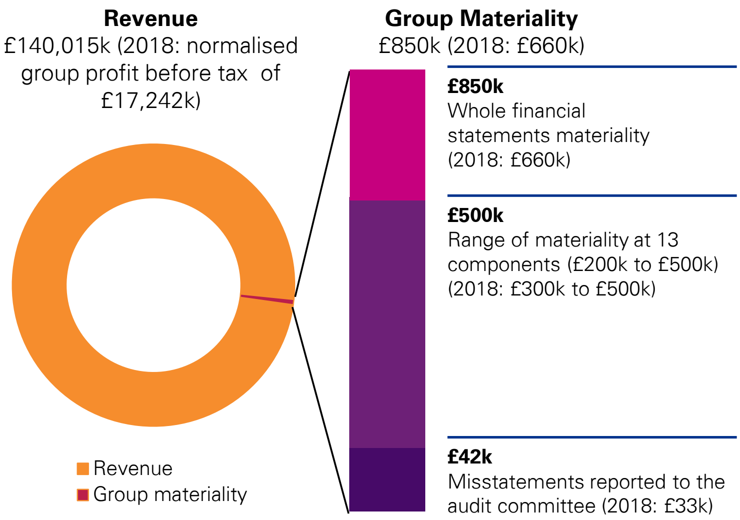
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £42k (2018: £33k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

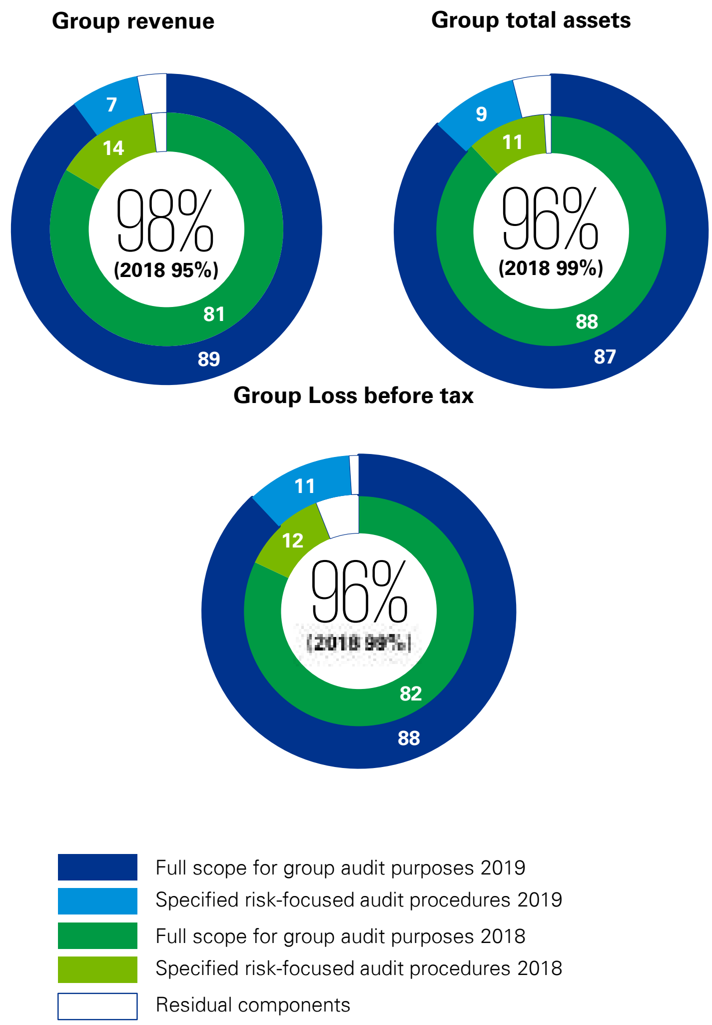
Of the group's 15 (2018: 14) reporting components, we subjected 8 (2018: 8) to full scope audits for group purposes and 2 (2018: 2) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 2% (2018: 5%) of total group revenue, 4% (2018: 1%) of total group assets and 4% (2018: 1%) of loss before tax is represented by 3 (2018: 3) reporting components, none of which individually represented more than 2% (2018: 2%) of any of total group revenue, group loss before tax or total group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team approved the component materialities, which ranged from £200k to £500k (2018: £300k to £500k), having regard to the mix of size and risk profile of the Group across the components.





4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

— we have anything material to add or draw attention to in relation to the directors' statement in Note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or

— the related statement given as if the Listing Rules applied set out on page 42 is materially consistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the directors' report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

— the directors' confirmation within the long term viability statement on page 42 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;

— the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and

— the directors' explanation in the long term viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the terms of our engagement we are required to review the Long-term viability statement as if the Listing Rules applied. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

5. We have nothing to report on the other information in the Annual Report (continued)

Corporate governance disclosures

We are required to report to you if:

— we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or

— the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

In addition to our audit of the financial statements, the directors have engaged us to review their Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters. Under the terms of our engagement we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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

— 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 and the part of the Directors' Remuneration Report which we were engaged to audit are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 52, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act and terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

A Campbell

Andrew Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX
28 April 2020

Five year financial summary

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Revenue	**140,015**	**156,291**	**154,553**	**132,707**	**114,024**
Adjusted EBITDA (see below)	**16,246**	**26,404**	**37,152**	**31,730**	**29,001**
Operating (loss) / profit					
● Adjusted*	**(4,676)**	**16,040**	**26,534**	**22,119**	**18,977**
● Reported	**(18,802)**	**8,660**	**17,194**	**19,826**	**21,166**
(Loss) / profit after tax					
● Adjusted*	**(19,010)**	**11,229**	**24,998**	**20,692**	**17,045**
● Reported	**(35,128)**	**1,189**	**14,660**	**18,023**	**17,847**
Net cash flow from operations					
Before adjustments (note 5)	**16,530**	**16,982**	**31,089**	**24,281**	**22,575**
Reported	**8,948**	**16,988**	**29,717**	**22,463**	**20,971**
Free cash flow**					
Before exceptional cash flows	**(25,445)**	**(26,045)**	**(2,945)**	**4,382**	**12,114**
Reported	**(33,027)**	**(26,039)**	**(4,317)**	**2,564**	**10,510**
Net (debt)/cash excluding lease liabilities***	**(15,970)**	**20,807**	**45,612**	**(39,549)**	**(23,223)**
Equity shareholders' funds	**266,593**	**305,730**	**287,950**	**184,666**	**142,299**
Basic EPS – adjusted****	**(2.46p)**	**1.44p**	**3.61p**	**3.06p**	**2.53p**
Basic EPS – unadjusted	**(4.51p)**	**0.13p**	**2.11p**	**2.66p**	**2.65p**
Diluted EPS – adjusted****	**(2.46p)**	**1.38p**	**3.38p**	**2.89p**	**2.45p**
Diluted EPS – unadjusted	**(4.51p)**	**0.12p**	**1.98p**	**2.52p**	**2.56p**

* The adjusted performance measures for 2019 and 2018 are reconciled in note 5. The adjusted performance measures for 2015-2017 are reconciled in those financial statements.

** Free cash flow is defined as net cash flow of £11,867,000 before financing £21,831,000 and net interest paid (£671,000).

*** Net (debt)/cash is defined as borrowings less cash but excluding lease liabilities.

**** Adjusted EPS measures exclude the impact of certain non-cash charges and one-off or non-operational items (see note 12).

Five year financial summary (continued)

Adjusted EBITDA has been calculated as follows:

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
(Loss)/profit after tax	**(35,128)**	**1,189**	**14,660**	**18,023**	**17,847**
Tax	**10,180**	**5,558**	**435**	**340**	**248**
Interest expense/(income)	**1,458**	**(87)**	**2,099**	**1,463**	**1,790**
Share based payments	**(771)**	**(1,044)**	**7,526**	**2,881**	**2,001**
(Profit)/Loss on disposal of PPE	**(245)**	**-**	**22**	**47**	**(5,187)**
Adjusted items	**18,463**	**7,906**	**385**	**(1,962)**	**1,070**
Depreciation of PPE	**10,477**	**6,773**	**5,637**	**5,561**	**6,192**
Depreciation of right of use asset	**3,590**	**-**	**-**	**-**	**-**
Amortisation of intangible assets	**8,222**	**6,109**	**6,388**	**5,377**	**5,040**
Adjusted EBITDA	**16,246**	**26,404**	**37,152**	**31,730**	**29,001**

Consolidated income statement for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Revenue	4	**140,015**	**156,291**
Cost of sales		(118,631)	(118,840)
Gross profit		**21,384**	**37,451**
Other income and expenses	5	-	1,097
Selling, general and administrative expenses		(36,297)	(29,888)
Impairment loss on financial assets	5	(4,134)	-
Profit on disposal of property, plant and equipment	5	245	-
Operating (loss) / profit	6	**(18,802)**	**8,660**
Finance (costs) / income	8	(1,458)	87
Share of losses of joint ventures accounted for using the equity method	30	(4,688)	(2,000)
Adjusted (loss) / profit before income tax		**(7,019)**	**13,974**
Adjustments	5	(17,929)	(7,227)
(Loss) / Profit before income tax		**(24,948)**	**6,747**
Taxation	9	(10,180)	(5,558)
(Loss) / Profit for the year		**(35,128)**	**1,189**
(Loss) / Profit attributable to:			
Equity shareholders		(35,473)	966
Non-controlling interest		345	223
		(35,128)	**1,189**
(Loss) / earnings per share attributable to owners of the parent during the year			
Basic (loss) / earnings per share	12	(4.51p)	0.13p
Diluted (loss) / earnings per share	12	(4.51p)	0.12p

Adjusted basic and diluted (loss) / earnings per share are presented in note 12.

All items included in the (loss) / profit for the year relate to continuing operations.

The company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company profit and loss account.

The notes on pages 92 - 143 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2019

	2019 £'000	2018 £'000
(Loss) / profit for the year	(35,128)	1,189
Currency translation differences on foreign currency net investments*	(3,654)	11,140
Total comprehensive (expense) / income for the year	**(38,782)**	**12,329**
Total comprehensive (expense) / income attributable to:		
Equity shareholders	(39,084)	12,010
Non-controlling interest	302	319
	(38,782)	**12,329**

* Items that may subsequently be reclassified to profit or loss.

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive (expense) / income is disclosed in note 9.

The notes on pages 92 - 143 form an integral part of these consolidated financial statements.

Consolidated balance sheet as at 31 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Intangible assets	13	118,456	121,775
Fixed asset investments	16	75	75
Property, plant and equipment	14	136,482	124,445
Right of use assets	15	39,355	-
Deferred tax assets	10	5,679	13,244
Financial assets	18	-	7,937
Total non-current assets		**300,047**	**267,476**
Current assets			
Inventories	17	30,668	35,709
Trade and other receivables	18	33,065	38,015
Cash and cash equivalents		8,800	20,807
Total current assets		**72,533**	**94,531**
Total assets		**372,580**	**362,007**
Current liabilities			
Trade and other payables	19	(26,367)	(45,908)
Current tax liabilities		(1,162)	(431)
Bank borrowings	20	(2,034)	-
Lease liabilities	20	(3,083)	-
Provisions for other liabilities and charges	21	-	(2,554)
Total current liabilities		**(32,646)**	**(48,893)**
Non-current liabilities			
Bank borrowings	20	(22,736)	-
Lease liabilities	20	(44,895)	-
Deferred tax liabilities	10	(1,860)	-
Provisions for other liabilities and charges	21	-	(3,836)
Total non-current liabilities		**(69,491)**	**(3,836)**
Total liabilities		**(102,137)**	**(52,729)**
Net assets		**270,443**	**309,278**
Equity attributable to the shareholders of the parent			
Share capital	23	7,961	7,767
Share premium		152,385	151,147
Retained earnings		63,826	99,299
Exchange rate reserve		27,502	31,113
Other reserves		14,919	16,404
		266,593	**305,730**
Non-controlling interest		3,850	3,548
Total equity		**270,443**	**309,278**

The notes on pages 92 - 143 form an integral part of these consolidated financial statements. The financial statements were authorised for issue by the board of directors approved on 28 April 2020 and were signed on its behalf.

Mr T Pullen   Dr A W Nelson

Consolidated statement of changes in equity for the year ended 31 December 2019

	Share capital	Share premium	Retained earnings	Exchange rate reserve	Other reserves	Non-controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2019	**7,767**	**151,147**	**99,299**	**31,113**	**16,404**	**3,548**	**309,278**
Comprehensive expense							
(Loss) / profit for the year	-	-	(35,473)	-	-	345	(35,128)
Other comprehensive expense for the year	-	-	-	(3,611)	-	(43)	(3,654)
Total comprehensive expense for the year	**-**	**-**	**(35,473)**	**(3,611)**	**-**	**302**	**(38,782)**
Transactions with owners							
Share based payments	-	-	-	-	(641)	-	(641)
Tax relating to share options	-	-	-	-	(124)	-	(124)
Proceeds from shares issued	194	1,238	-	-	(720)	-	712
Total transactions with owners	**194**	**1,238**	**-**	**-**	**(1,485)**	**-**	**(53)**
At 31 December 2019	**7,961**	**152,385**	**63,826**	**27,502**	**14,919**	**3,850**	**270,443**

	Share capital	Share premium	Retained earnings	Exchange rate reserve	Other reserves	Non-controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	**7,560**	**145,927**	**98,333**	**20,069**	**16,061**	**3,229**	**291,179**
Comprehensive income							
Profit for the year	-	-	966	-	-	223	1,189
Other comprehensive income for the year	-	-	-	11,044	-	96	11,140
Total comprehensive income for the year	**-**	**-**	**966**	**11,044**	**-**	**319**	**12,329**
Transactions with owners							
Share based payments	-	-	-	-	1,826	-	1,826
Tax relating to share options	-	-	-	-	(437)	-	(437)
Proceeds from shares issued	207	5,220	-	-	(1,046)	-	4,381
Total transactions with owners	**207**	**5,220**	**-**	**-**	**343**	**-**	**5,770**
At 31 December 2018	**7,767**	**151,147**	**99,299**	**31,113**	**16,404**	**3,548**	**309,278**

Other reserves relates to share based payments.

The notes on pages 92 - 143 form an integral part of these consolidated financial statements.

Consolidated cash flow statement for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Adjusted cash inflow from operations		**16,530**	**16,982**
Cash impact of adjustments	5	(7,582)	6
Cash generated from operations	26	**8,948**	**16,988**
Net interest paid		(671)	(66)
Income tax paid		(151)	(665)
Net cash generated from operating activities		**8,126**	**16,257**
Cash flows from investing activities			
Purchase of property, plant and equipment		(31,864)	(30,375)
Purchase of intangible assets		(1,806)	(1,550)
Capitalised development expenditure		(8,427)	(10,437)
Proceeds from disposal of property, plant and equipment		263	-
Acquisition of subsidiary, net of cash acquired		10	-
Net cash used in investing activities		**(41,824)**	**(42,362)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		712	813
Repayment of borrowings	27	(17,125)	-
Proceeds from borrowings	27	41,895	-
Payment of lease liabilities	27	(3,651)	-
Net cash generated from financing activities		**21,831**	**813**
Net decrease in cash and cash equivalents		**(11,867)**	**(25,292)**
Cash and cash equivalents at 1 January		20,807	45,612
Exchange (losses)/gains on cash and cash equivalents		(140)	487
Cash and cash equivalents at 31 December		**8,800**	**20,807**

The notes on pages 92 - 143 form an integral part of these consolidated financial statements.

Parent company balance sheet for the year ended 31 December 2019

	Note	2019 £'000	Restated* 2018 £'000
Non-current assets			
Intangible assets	13	6,539	6,263
Property, plant and equipment	14	19	15
Investments	16	89,961	89,228
Deferred tax assets	10	2,637	1,365
Trade and other receivables	18	131,541	146,607
Total non-current assets		**230,697**	**243,478**
Current assets			
Trade and other receivables	18	576	721
Cash and cash equivalents		1,746	4,582
Total current assets		**2,322**	**5,303**
Total assets		**233,019**	**248,781**
Current liabilities			
Trade and other payables	19	(18,982)	(20,706)
Bank borrowings	20	-	-
Total current liabilities		**(18,982)**	**(20,706)**
Non-current liabilities			
Bank borrowings	20	-	-
Total non-current liabilities		**-**	**-**
Total liabilities		**(18,982)**	**(20,706)**
Net assets		**214,037**	**228,075**
Shareholders' equity			
Share capital	23	7,961	7,767
Share premium		152,385	151,147
Retained earnings		38,687	52,780
Other reserves		15,004	16,381
Total equity		**214,037**	**228,075**

* The comparative financial information for the year ended 31 December 2018 has been restated. Details of the restatement are set out in note 18.

The notes on pages 92 - 143 form an integral part of these financial statements.

The financial statements were authorised for issue by the board of directors approved on 28 April 2020 and were signed on its behalf.

Mr T Pullen Dr A W Nelson

Parent company statement of changes in equity for the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Retained earnings £'000	Other reserves £'000	Total Equity £'000
At 1 January 2019	**7,767**	**151,147**	**52,780**	**16,381**	**228,075**
Comprehensive expense					
Loss for the year	-	-	(14,093)	-	(14,093)
Total comprehensive expense	**-**	**-**	**(14,093)**	**-**	**(14,093)**
Transactions with owners					
Share based payments	-	-	-	(641)	(641)
Tax relating to share options	-	-	-	(16)	(16)
Proceeds from shares issued	194	1,238	-	(720)	712
Total transactions with owners	**194**	**1,238**	**-**	**(1,377)**	**55**
At 31 December 2019	**7,961**	**152,385**	**38,687**	**15,004**	**214,037**

	Share capital £'000	Share premium £'000	Retained earnings £'000	Other reserves £'000	Total Equity £'000
At 1 January 2018	**7,560**	**145,927**	**50,476**	**15,810**	**219,773**
Comprehensive expense					
Profit for the year	-	-	2,304	-	2,304
Total comprehensive expense	**-**	**-**	**2,304**	**-**	**2,304**
Transactions with owners					
Share based payments	-	-	-	1,826	1,826
Tax relating to share options	-	-	-	(209)	(209)
Proceeds from shares issued	207	5,220	-	(1,046)	4,381
Total transactions with owners	**207**	**5,220**	**-**	**571**	**5,998**
At 31 December 2018	**7,767**	**151,147**	**52,780**	**16,381**	**228,075**

Other reserves relate to share based payments.

The notes on pages 92 - 143 form an integral part of these financial statements.

Parent company cash flow statement for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Cash outflow from operations	26	(5,176)	(30,332)
Interest received		2,496	3,523
Income tax paid		-	-
Net cash used in operating activities		**(2,680)**	**(26,809)**
Purchase of intangible assets		(778)	(685)
Purchase of property plant and equipment		(18)	(18)
Net cash used in investing activities		**(796)**	**(703)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		712	813
Proceeds from borrowings		17,053	-
Repayments of borrowings		(17,125)	-
Net cash generated from financing activities		**640**	**813**
Net decrease in cash and cash equivalents		**(2,836)**	**(26,699)**
Cash and cash equivalents at 1 January		4,582	31,281
Cash and cash equivalents at 31 December		**1,746**	**4,582**

The notes on pages 92 - 143 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2019

1. General information

IQE plc ('the company') and its subsidiaries (together 'the Group') develop, manufacture and sell advanced semiconductor materials. The Group has manufacturing facilities in Europe, United States of America and Asia and sells to customers located globally.

IQE plc is a public limited company incorporated in the United Kingdom under the Companies Act 2006. The Company is domiciled in the United Kingdom and is quoted on the Alternative Investment Market (AIM). The address of the Company's registered office is Pascal Close, St Mellons, Cardiff, CF3 0LW.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, except for the impact of the implementation of IFRS 16 'Leases'.

2.1 Basis of preparation

The financial statements of IQE plc have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRS IC) interpretations adopted by the European Union and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention except where fair value measurement is required by IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

2.2 Going concern

The Group made a loss of £35,128,000 (2018: £1,189,000 profit) and had a decrease in cash and cash equivalents of £12,007,000 (2018: £24,805,000 decrease) for the year ended 31 December 2019.

The following matters have been considered by the directors in determining the appropriateness of the going concern basis of preparation in the financial statements:

- On 24 January 2019, the Group agreed a new £26,700,000 ($35,000,000) three-year multi-currency revolving credit facility from HSBC Bank plc. The Group has complied with all covenants associated with the facility.
- On 29 August 2019, the Group agreed a new £30,000,000 five-year Asset Finance Loan facility from HSBC Bank plc of which £25,000,000 is drawn down at the date of this report. The Group has complied with all covenants associated with the facility.
- The Group generated cash from operating activities of £8,126,000 (2018: £16,257,000) and its financial forecasts and projections for the period up to and including 30 June 2021 show that the Group is forecast to continue to comply with its banking covenants and has adequate cash resources to continue operating for the foreseeable future.
- On 11 March 2020, the World Health Organisation declared the outbreak of a coronavirus (COVID-19) a pandemic. The COVID-19 outbreak has created significant uncertainty in global economies and the markets in which the Group operates which pose risks to the Group's continuity of business operations, demand for its products and its forecast future financial performance given current world health and global economic conditions.

Business Continuity Risk

The Executive Management Board has set up a Business Continuity Subcommittee, chaired by the Chief Financial Officer, to manage the Group's response to the outbreak of the coronavirus pandemic.

The subcommittee is responsible for monitoring risk indicators, external guidance and maintaining regular communications with employees and other stakeholders. The subcommittee has formulated policies and potential actions in readiness for different scenarios and is working closely with relevant business functions within the Group to co-ordinate COVID-19 responses and on-going dialogue with customers and suppliers to ensure that proactive steps are taken to respond to any situation.

The Group's operations are geographically diversified. Manufacturing operations are located at nine different sites across three continents, significantly lessening the impact of potential disruption at any single site.

The nature of the Group's operations, as a critical semiconductor technology supplier, also means that the Group and its manufacturing sites are less likely to be affected by 'lockdown' scenarios than other businesses, something that has been evidenced by our classification as a *critical infrastructure provider* in the United States where the Department of Homeland Security deems IQE to have a "*special responsibility to maintain* (our) *normal work schedule*", in the United Kingdom where the Secretary of State, Department for Business, Energy & Industrial Strategy has written to the Group stating that 'manufacturing is a critical part of our economy and I would like to be clear that there is no restriction on manufacturing continuing under the current rules' and in Taiwan and Singapore, where National Government's continue to support manufacturing.

All manufacturing sites continue to remain operational and production has not been affected by any disruption at all of the Group's global sites at the date of this report. The Group has introduced social distancing measures at its sites and has restricted the numbers of people on site to the minimum essential for production, with other staff working from home. The Group dual or multi-sources key raw materials (substrates, gases, consumables) wherever possible, from a broad range of global suppliers, reducing the likelihood of potential disruption to IQE production from any single supplier. The Group continues to work closely with both suppliers and customers to manage inventory levels in order to create resilience against potential disruption.

Market Conditions

Trading for the first quarter of 2020 was slightly above expectations. The smartphone handset market has seen the launch of new models from several OEM's and communications infrastructure related demand linked to 5G deployment, particularly in Asia, shows signs of growth. The Group is also experiencing growth in sales of military infra-red products.

Despite current market conditions, there remains a risk of a global economic downturn which could in turn adversely affect global demand for Smartphones and other electrical devices that incorporate the Group's products and/or delay the roll out of 5G communications networks. Such scenarios would adversely affect demand from IQE's customers and therefore the financial performance of the Group.

Conversely, at a time of social distancing and self-isolation, with many thousands of people continuing to work at home, demand for smartphone handsets may withstand an economic downturn better than many other sectors. Furthermore, the Group considers it likely that Governments will pursue 5G infrastructure deployments as part of economic stimulus packages as they emerge from the health crisis. There is already some evidence of this in Asia.

Whilst the risk of disruption to supply chains and of economic downturn is likely to remain for some months, the effects on the Group's markets are unclear at the date of this report. Due to this, Management and the Directors have considered severe but plausible downside scenarios to the Group's financial forecasts and projections when considering going concern.

Severe but plausible downside financial forecasts and projections have been prepared with significant reductions to future forecast revenues, designed to reflect severe downside scenarios associated with COVID-19 disruption and demand risks, for a 15-month period to 30 June 2021. The severe but plausible downside scenario, applied to the Group's current financial forecasts, which take account of current trading and customer demand, assumes a ~1/3 reduction in revenue in H2 2020 and a ~1/4 reduction in H1 2021 partially offset by controllable working capital and capital expenditure mitigations. The downside scenario illustrates that the Group is forecast to continue to comply with its banking covenants, albeit with reduced covenant headroom, and has adequate cash resources to continue operating for the foreseeable future.

The Group has a long-standing and trusted relationship with its bankers, HSBC Bank plc, who remain supportive. The Group has maintained close on-going dialogue with its bankers regarding the evolving effects and risks of COVID-19 on the business, including discussion of the Group's severe but plausible downside financial forecasts in order to agree the relaxation of certain banking covenants at 31 December 2020 and 30 June 2021 as a precautionary measure designed to increase covenant headroom and availability of cash funding under the terms of the Group's committed bank facilities in the event of a more extreme scenario.

The Group meets its day-to-day working capital and other cash requirements through its bank facilities and available cash. The Group's severe but plausible downside cash flow forecasts and projections, in conjunction with increased covenant headroom following formal relaxation of certain bank covenants associated with the Group's committed bank facilities show that the Group has adequate cash resources to continue operating for the foreseeable future such that the directors consider it appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements.

2.3 Changes in accounting policy and disclosures

(a) New standards, amendments and interpretations.
The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 January 2019:

- Annual improvements to IFRS Standards 2015-2017 Cycle
- IFRS 16 'Leases'.
- Amendments to IAS 19 'Employee Benefits' which clarifies the accounting for defined benefit plan amendments, curtailments and settlements.
- Amendment to IAS 28 'Investments in associates and joint ventures' which clarifies the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied.
- Amendments to IFRS 9 'Financial Instruments' which clarifies the treatment of financial assets with prepayment features with negative compensation.
- Interpretation 23 'Uncertainty over Income Tax Treatments' which explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

The adoption of these standards, amendments and interpretations has not had a material impact on the financial statements of the Group or parent company, except for the adoption of IFRS 16 'Leases' where the impact of adoption of this new standard is set out in note 2.30 to the financial statements.

(b) New standards, amendments and interpretations issued but not effective and not adopted early
A number of new standards, amendments to standards and interpretations which are set out below are effective for annual periods beginning after 1 January 2020 and have not been applied in preparing these consolidated financial statements.

- IFRS 17 'Insurance contracts' which establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 'Insurance Contracts'
- Amendments to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures' which clarifies the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures.
- Amendments to IFRS 3 'Business Combinations' which clarifies the definition of a business.
- Amendments to IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors' which are intended to make the definition of material easier to understand.
- Amendments to references to the 'Conceptual framework' in IFRS standards.

The Directors anticipate that none of the new standards, amendments to standards and interpretations are expected to have a significant effect on the financial statements of the Group or parent company.

2.4 Consolidation

The consolidated financial statements comprise the results of IQE plc (the Company) and its subsidiary undertakings, together with the Group's share of the results of its associates and joint ventures.

Subsidiaries
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 and unrealised gains or losses on transactions between Group companies are eliminated and 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 of each investor. The nature of the Group's joint arrangements has been assessed and each joint arrangement has been determined to be a joint venture. 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.

Gains by the Group on transactions with joint ventures are eliminated against the carrying value of the Group's interest in its joint ventures to the extent that the gain does not exceed the carrying amount. In circumstances where a gain exceeds the carrying amount the Group has made an accounting policy choice to recognise the gain in the comprehensive income statement, subject to an assessment of recoverability of value from the joint venture rather than recognising the gain as deferred income in the consolidated balance sheet.

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 Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Where the fair values of acquired identifiable assets, liabilities and contingent liabilities 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 that result from new information that existed at the date of acquisition, which if known at the time would have resulted in a different amount being recognised 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 identifiable assets, liabilities and contingent liabilities 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 the acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred.

2.5 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 but 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 immediately charged to the Consolidated Income Statement. Subsequent reversals of impairment losses for goodwill are not recognised.

Negative goodwill arising on an acquisition where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of the consideration is credited and recognised in the consolidated income statement immediately.

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 the assets over their estimated useful lives of 10 to 15 years. The carrying value of patents, trademarks and licences is reviewed for potential impairment 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 directly attributable 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 production volume 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 the development has been released into production.

The carrying value of capitalised development costs in respect of completed projects is reviewed for impairment if events or circumstances indicate a potential impairment. Projects that remain under development at the reporting date are reviewed for 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 10 years.

The carrying value of capitalised software costs is reviewed for potential impairment 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 paid to utilise third party software are expensed as incurred.

e) Customer contracts recognised on acquisition

Customer contract intangible assets that 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.

The fair value of customer contracts 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 customer contract intangible assets is reviewed for potential impairment if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement.

2.6 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 property, plant and equipment to its residual value 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. Depreciation is charged to cost of sales and selling and general administration expenses in the income statement.

Costs incurred after initial recognition are included in the assets' carrying amounts or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'profit/loss on disposal of property, plant and equipment' in the income statement.

The assets residual values and useful economic lives are reviewed, and adjusted if appropriate, at the end of each reporting period. A review was completed during 2019 which resulted in no material changes to asset residual values and useful economic lives (2018: no material changes). The carrying value of property, plant and equipment is reviewed for potential impairment if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement.

2.7 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are reviewed for potential impairment at least annually or more frequently if events or circumstances indicate a potential impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 risk adjusted pre-tax discount rate. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out 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 selling expenses.

2.9 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.

2.10 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 company balance sheets bank overdrafts are presented within cash and cash equivalents as Group treasury arrangements are pooled by territory.

2.11 Preference share debt instruments

Preference share financial assets are debt instruments due from a related party (see note 30). Debt instruments are initially recognised at fair value and subsequently measured at amortised cost on the basis that the financial asset is held with the objective of collecting the contractual cash flows and the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2.12 Financial assets

Financial assets are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the financial instrument and are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income – debt investment, fair value through other comprehensive income – equity investment or fair value through profit or loss.

The classification depends on the purpose for which the financial assets were acquired and the classification is determined at the date of initial recognition. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period following the change in business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

Amortised cost financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting period where the item is classified as a non-current asset. The Group's financial assets comprise trade and other receivables (note 2.9), cash and cash equivalents (note 2.10), preference share debt instruments (note 2.11) and contract assets (note 2.20).

Amortised cost and effective interest method

Financial assets are measured at amortised cost using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ('ECL') on trade receivables, contract assets and investments in debt instruments that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group recognises lifetime ECL for trade receivables and contract assets. The ECL on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors including observable data such as changes in arrears or economic conditions that provide an indication that a debtor is experiencing significant financial difficulty, default or delinquency in payment that correlate with defaults.

For preference share debt instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to twelve month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Credit impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Significant increase in credit risk – Preference share debt instruments

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the joint venture entity in which the Group holds its preference share debt, obtained primarily from financial forecasts and projections prepared by management of the joint venture entity as well as consideration of various external sources of actual and forecast economic information that relate to the joint venture's core operations.

In particular, the following information is considered when assessing whether credit risk has increased significantly since initial recognition:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the joint venture's ability to redeem the preference share debt;
- existing or forecast adverse changes in the joint venture's business plan and financial projections indicating a significant extension to the period prior to redemption of the preference share debt;
- an actual or expected significant deterioration in the operating results of the joint venture;
- significant increases in credit risk on other financial assets of the joint venture; and
- an actual or expected significant adverse change in the regulatory, political or technological environment that results in a significant decrease in the joint venture's ability to redeem the preference share debt.

In the event that the credit risk assessment results in a probable delay in forecast repayment of the debt instrument compared to the original expectation the Group considers that this represents a significant increase in credit risk.

In circumstances where credit risk increases to the point that it becomes highly probable that the debt instrument will not become recoverable the Group considers that this would represent a default event.

Measurement and recognition of expected credit losses

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. Exposure at default is represented by the gross carrying amount of the financial asset at the reporting date.

ECL for financial assets is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for financial assets with a corresponding adjustment to the carrying amount in the consolidated balance sheet.

2.13 Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or fair value through profit and loss. A financial liability is classified as fair value through profit and loss if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at fair value through profit and loss are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are measured at amortised cost using the effective interest method.

Financial liabilities are non-derivative financial liabilities with fixed or determinable payments and they are included in current liabilities, except for maturities greater than 12 months after the reporting period where the item is classified as a non-current liability. The Group's financial liabilities comprise trade and other payables (note 2.14), borrowings (note 2.15) and lease liabilities in the consolidated balance sheet.

2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables 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.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost using the effective interest method.

2.16 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.17 Government grants

Government grants are recognised at fair value when there is reasonable assurance that the Group has complied with the conditions attaching to them and the grants will be received. Grants related to purchase of assets are treated as deferred income and allocated to the income statement over the useful lives of the related assets while grants related to expenses are treated as other income in the income statement.

2.18 Share capital and other reserves

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Other reserves relate to share based payment transactions.

2.19 Provisions

Provisions are recognised when the Group has a present 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. Restructuring provisions comprise site closure costs and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the time value of money and the risks specific to the obligation.

2.20 Revenue recognition

Revenue represents the transaction price specified in a contract with a customer for goods, services and intellectual property licenses provided in the ordinary course of business net of value added and other sales related taxes.

Standard Customer Products

Revenue is recognised when the goods are delivered and have been accepted by customers at their premises. For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of revenue recognised will not occur.

The amount of revenue recognised is adjusted for expected returns, which are estimated based on historical data for each specific type of product with a refund liability recognised as part of trade receivables. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of any liability accordingly.

A receivable is recognised when the goods are delivered, since this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Bespoke Customer Products

Revenue is recognised for bespoke customer products with no alternative use where the Group has a guaranteed contractual right to payment on an over time basis prior to the delivery of goods to the customers' premises.

The amount of revenue recognised is adjusted for expected returns, which are estimated based on historical data for each specific type of product with a refund liability recognised as part of trade receivables. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of any liability accordingly.

The Group operates supplier managed inventory arrangements for certain global customers where the Group is responsible for ensuring that contractually agreed levels of inventory are maintained at specified locations. The Group has a guaranteed contractual right to payment for the bespoke customer products manufactured under these arrangements with revenue recognised on an over time basis.

Intellectual Property Licenses

Intellectual property license income relates to the sale of finite and perpetual period licenses.

Revenue is recognised for intellectual property licenses with a right to use over a finite period when control of the license is transferred to the customer in accordance with the terms of the relevant licensing agreement and collection of the resulting receivable is reasonably assured.

Revenue is recognised for perpetual intellectual property licenses with a right to use when a signed agreement or other persuasive evidence of an arrangement exists, the intellectual property has been delivered, the license fee is fixed or determinable and collection of the resulting receivable is reasonably assured.

2.21 Segmental reporting

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

2.22 Finance income and finance costs

The Group's finance income and finance cost include interest income and interest expense.

Interest income or expense is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset, or the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. However, for financial assets that have become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset.

2.23 Pension costs

The Group operates defined contribution pension schemes. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Contributions are charged in the Consolidated Income Statement as they become payable in accordance with the rules of the scheme. The Group has no further obligations once the contributions have been made.

2.24 Share based payments

The Group operates a number of equity-settled share based compensation plans under which the Group receives services from employees as consideration for equity instruments 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 and as a credit in other reserves in the consolidated statement of changes in equity except for the social security element of the award which is treated as cash settled with the liability recognised in other taxation and social security within trade and other payables in the consolidated balance sheet. 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 or hold shares for a specific period of time).

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 consolidated 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 the balance to share premium. 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 charge will be treated as a cash-settled transaction.

2.25 Foreign currency
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.

2.26 Current and deferred tax
Income tax for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, respectively.

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 research and development tax relief under the RDEC scheme are recognised within operating profit in the period in which the research and development costs are treated as an expense. 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.

2.27 Investment in subsidiaries
Investments in subsidiaries are held at cost of investment less provision for impairment in the parent company financial statements.

2.28 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.

2.29 Alternative performance measures
Alternative performance measures are disclosed separately in the financial statements after a number of adjusted non-cash, one-off or non-operational items where it is deemed necessary by the Director's to do so to provide further understanding of the financial performance of the Group. Adjusted items are material items of income or expense that have been shown separately due to the significance of their nature or amount. The tax impact of adjusted items is calculated applying the relevant enacted tax rate for each adjusted item. Details of the adjusted items are included in note 5.

2.30 Change in accounting policy – IFRS 16 'Leases'

(a) Change in accounting policy – Overview
IFRS 16 'Leases' addresses the definition of a lease, the recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a lease', SIC-15 'Operating leases – Incentives' and SIC-17 'Evaluating the substance of transactions involving the legal form of a lease' and is effective for annual periods beginning on or after 1 January 2019.

(b) Change in accounting policy - IFRS 16 'Leases' - Transition
The Group currently leases a number of assets principally relating to property, including its newly constructed Newport facility as well as leasing property, plant and equipment from its joint venture, Compound Semiconductor Centre Limited.
The group has implemented the requirements of IFRS 16 'Leases' from 1 January 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognised at 1 January 2019, and applied the following practical expedients on a lease-by-lease basis to its portfolio of leases:

- Application of a single discount rate to the portfolio of property and plant leases that are deemed to have reasonably similar characteristics;
- Adjustment on transition to the right of use asset value associated with the leased Singapore manufacturing facility by the amount of the previously recognised onerous lease provision as an alternative to performing an impairment review;
- Application of recognition and measurement exemptions for all leases where the lease term ends within 12 months or fewer of the date of initial application with those leases accounted for as short-term leases;
- Application of hindsight in applying the new standard to determine the lease term where lease contracts contain options to extend or terminate the lease; and
- Exclusion of any initial direct costs in the measurement of the right of use asset.

(c) Change in accounting policy IFRS 16 'Leases' - Accounting policy

The Group assesses whether a contract is or contains a lease, at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less), leases of low value assets (such as small items of office furniture and equipment) and leases with variable rentals not linked to a relevant index (see note 3a). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Right-of-use assets and lease liabilities are recognised at the lease commencement date. Right-of-use assets are initially measured at cost, and subsequently measured at cost less any accumulated depreciation and impairment losses, adjusted for certain remeasurements of the lease liability.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Right-of-use assets are presented as a separate line in the consolidated statement of financial position. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when there is a change in future lease payments. Changes in future lease payments can arise from a change in an index or rate, a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or from a change in assessment about whether a termination option is reasonably certain not to be exercised.

The Group did not make any such adjustments during the current year.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Cost of sales" in profit or loss (see note 3a).

(d) Change in accounting policy – IFRS 16 'Leases' - Implementation impact

Implementation of IFRS 16 'Leases' requires the Group to recognise new right of use assets and lease liabilities for certain operating leases that principally relate to the Group's manufacturing facilities. The nature of expenses related to these leases has changed in the twelve months ended 31 December 2019 because the Group now recognises a depreciation charge for the right of use assets and an interest expense on lease liabilities. Previously, for non-variable lease expenses, the Group recognised operating lease costs on a straight-line basis over the lease term and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The implementation of IFRS 16 at 1 January 2019 has had no impact on total net assets or cash. The impact has been restated from the position disclosed in the Group's 30 June 2019 interim reporting to reflect a reclassification of a previously disclosed lease receivable of £2,233,000 to a right of use asset. The reclassification has been required to reflect the terms of a specific property sublease agreement and has no impact on total net assets or cash. The impact of implementation of IFRS 16 at 1 January 2019 is summarised in the narrative and table set out on the next page.

Non-Current Assets

- Increase in non-current assets of £42,778k to reflect the recognition of right of use lease assets (net of the previously recognised Singapore onerous lease of £5,256k);
- Decrease in property, plant and equipment and corresponding increase in right of use assets of £2,178k to reflect the reclassification of previously capitalised Newport foundry rent free period costs during the asset commissioning phase

Non-Current Liabilities

- Increase in non-current liabilities of £48,115k to reflect the non-current recognition of lease liabilities associated with the right of use lease assets;
- Decrease in non-current provisions of £3,836k to reflect reclassification of the non-current element of the previously recognised Singapore onerous lease to right of use lease assets

Current Assets and Liabilities

- Increase in current liabilities of £2,097k to reflect the recognition of lease liabilities associated with the right of use lease assets payable within one year;
- Decrease in provisions due within one year of £1,420k to reflect reclassification of the current element of the previously recognised Singapore onerous lease to right of use lease assets; and
- Decrease in trade and other payables of £2,178k to reflect reclassification of deferred Newport foundry rent-free period costs to lease liabilities.

Impact on the condensed consolidated balance sheet as at 1 January 2019	**Reported 2018 £'000**	**Right of use asset £'000**	**Lease liability £'000**	**Working capital £'000**	**Onerous lease £'000**	**1 January 2019 £'000**
Intangible assets	121,775	-	-	-	-	121,775
Fixed asset investments	75	-	-	-	-	75
Property, plant & equipment	124,445	-	-	(2,178)	-	122,267
Right of use lease assets	-	48,034	-	2,178	(5,256)	44,956
Deferred tax assets	13,244	-	-	-	-	13,244
Financial assets	7,937	-	-	-	-	7,937
Non-current assets	267,476	48,034	-	-	(5,256)	310,254
Inventories	35,709	-	-	-	-	35,709
Trade and other receivables	38,015	-	-	-	-	38,015
Cash and cash equivalents	20,807	-	-	-	-	20,807
Current assets	94,531	-	-	-	-	94,531
Total assets	362,007	48,034	-	-	(5,256)	404,785
Trade and other payables	(45,908)	-	-	2,178	-	(43,730)
Current tax liabilities	(431)	-	-	-	-	(431)
Provisions	(2,554)	-	-	-	1,420	(1,134)
Lease liabilities	-	-	(2,097)	-	-	(2,097)
Current liabilities	(48,893)	-	(2,097)	2,178	1,420	(47,392)
Provisions	(3,836)	-	-	-	3,836	-
Lease liabilities	-	-	(45,937)	(2,178)	-	(48,115)
Non-current liabilities	(3,836)	-	(45,937)	(2,178)	3,836	(48,115)
Total liabilities	(52,729)	-	(48,034)	-	5,256	(95,507)
Net assets	309,278	48,034	(48,034)	-	-	309,278

(e) Change in accounting policy – IFRS 16 'Leases' – Implementation disclosure requirements

Incremental borrowing rate – weighted average
The present value of the lease liabilities applicable to the Group's portfolio of property and plant leases has been determined using a discount rate that represents the Group's incremental rate of borrowing, assessed as 2.25% - 2.65% depending on the lease characteristics. The weighted average incremental rate of borrowing applied in the calculation of lease liabilities on transition is 2.37%.

Difference between IAS 17 operating leases commitment and IFRS 16 lease liability on transition
Previously, the Group classified its portfolio of property and plant leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

	1 January 2019 £'000
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	46,126
Discounted using the incremental borrowing rate at 1 January 2019	38,030
– Extension options reasonably certain to be exercised	24,113
– Recognition exemption for leases of low-value assets and leases with less than 12 months term at transition	(202)
– Adjustments relating to variable lease payments linked to actual asset usage (note 3)	(11,729)
Lease liability recognised at 1 January 2019	**50,212**

3. Critical accounting judgements and key sources of estimation uncertainty

The Group's principal accounting policies are described in note 2. 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 significant judgement and estimation are set out below:

(a) Critical accounting judgements in applying the Group's accounting policies

Joint Venture - Evaluation of rights, levels of control and influence

The determination of the level of influence or control that the Group has over a business is a mix of contractually defined and subjective factors that can be critical to the appropriate accounting treatment of an entity in the Group's consolidated financial statements. Control or influence is achieved through Board representation and by obtaining rights of veto over significant decisions relevant to the activities of the entity.

Compound Semiconductor Centre Limited ('CSC')
On 9 July 2015 the Group entered into a joint venture agreement with Cardiff University to create the CSC in the United Kingdom. The commercial purpose of the CSC is the research, development and manufacture of advanced compound semiconductor materials by metalorganic vapour phase epitaxy ('MOVPE').

The manufacturing and technical capability of the CSC was established with the Group contributing fixed assets, transferring employees (including the current Managing Director of the CSC) and licensing intellectual property with Cardiff University contributing cash. The Group also entered into an agreement with CSC that conveyed to the Group the right to use the CSC's assets, establishing the Group as the CSC's cornerstone customer during the early stages of the development of the CSC's business (see Note 30).

The Shareholder Agreement establishes that the CSC is jointly controlled by the shareholders. Key decisions, defined as part of contractually agreed Board reserved matters, require approval from directors representing each joint venture partner who have equal Board representation and voting rights.

The Group does not control the CSC such that its 50% equity investment in the joint venture is accounted for using the equity method in accordance with the accounting policies set out in note 2.

Joint Ventures – Right of use asset

The Group established CSC with its joint venture partner as a centre of excellence for the development and commercialisation of advanced compound semiconductor wafer products.

On establishment of the joint venture, the Group contributed assets as part of its initial investment and entered into an agreement with the joint venture that conveys to the Group the right to use the assets of the joint venture for a minimum five-year period. This agreement, which contains rights attaching to the use of the joint venture's assets, meets the definition of a lease. In the Group's judgement, due to the variable nature of the lease payments, which are directly linked to the actual usage of the assets, the lease payments have been excluded from the measurement of right of use assets and lease liabilities with the variable lease costs recognised in operating expenses in the income statement as incurred.

Joint Venture – Classification of preference share debt

The Group classifies its preference share financial assets due from the CSC as debt instruments rather than treating the preference shares as part of the Group's net investment in the CSC. This is on the basis that these preference shares, redeemable at par, contingent on the generation of cash by CSC, are not deemed to be tantamount to equity.

Preference share funding was provided to the CSC by the joint venture partners to accelerate the development and growth of the CSC's business. The contractual arrangements between the joint venture partners and the CSC require that any surplus cash generated by the CSC is used to redeem the preference share funding provided by the joint venture partners, as envisaged in the CSC business plan contained within the original Joint Venture Shareholder Agreement and the latest forecasts prepared by CSC.

Upon transition to IFRS 9, the Group assessed that this financial asset meets the requirements to be measured at amortised cost in line with the treatment previously adopted under IAS 39. The instrument is held within a business model whose sole objective is to collect the contractual cash flows. These cash flows, in turn, represent solely payments of principal and interest on the principal amount outstanding.

Joint Ventures - Significant increase in credit risk associated with preference share debt

As explained in note 2, expected credit losses are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group considers qualitative and quantitative reasonable and supportable forward-looking information associated with the forecast future financial performance and cash generation of CSC. The Group has assessed that the credit risk on the preference share debt has increased significantly, based on the joint venture's latest forecast, which indicate that recovery of the debt will be delayed compared to the original expectation.

Adjustments to profit

Alternative performance measures are disclosed separately in the financial statements after a number of adjusted exceptional, non-cash, one-off or non-operational items where it is deemed necessary by the Director's to do so to provide further understanding of the financial performance of the Group. Details of the adjusted items are included in note 5.

(b) Critical accounting estimates and key sources of estimation uncertainty

3.1 Goodwill impairment testing

Following the assessment of the goodwill allocated to the Wireless cash generating unit ('CGU'); to which goodwill of £59,317,000 (2018: £60,121,000) is allocated, the directors consider the recoverable amount of goodwill allocated to the Wireless CGU to be most sensitive to the achievement of the Group's three-year internal forecasts. The three-year forecasts comprise forecasts of revenue, material costs and site manufacturing labour and overhead costs based on current and anticipated market conditions that have been considered and approved by the Board. Whilst the Group is able to manage most of its Wireless CGU costs, significant elements of the Wireless revenue forecasts are inherently linked to global demand for smartphones and the adoption of 5G technology where uncertainty about both the timing and level of growth remains which is a key sensitivity given current market dynamics.

The sensitivity analysis in respect of the recoverable amount of 'Wireless' goodwill is presented in note 13.

3.2 Intangible assets not yet available for use

Included in the intangible assets are development cost assets not yet available for use of £12,824,000 (2018: £17,529,000) which have been reviewed for impairment as at the reporting date.

The recoverable amount of each technology development project has been determined based on value in use calculations, using cash flow projections in line with the expected useful economic life of each asset. The value in use calculations are based on management approved risk-adjusted cash flow forecasts for each project and have been discounted using a discount rate of 10%.

The key assumptions in these calculations are revenue and gross profit margin for each project which are based on assumptions about expected market size, market penetration and customer demand which are all inherently linked to the global demand for the technology under development where the timing and level of demand is subject to uncertainty.

The Group has carried out a sensitivity analysis on the impairment tests of each of these projects, using various reasonably possible scenarios.

No impairment would arise if the discount rate was increased from 10% to 15%. Similarly, no impairment would arise on any of these projects if the revenue or the gross profit margin were reduced by 10% in each year of the forecast period.

3.3 Useful economic lives of development cost intangible assets

The periods of amortisation used for product and process development cost assets require estimates to be made on the estimated useful economic lives of the intangible assets to determine an appropriate rate of amortisation. Capitalised development costs are amortised in line with the expected production volume profile of the products to which they relate over the period during which economic benefits are expected to be received which is typically between 3 – 8 years.

The carrying value of development cost intangible assets is £41,307,000 (2018: £41,819,000). The amortisation charge for development cost intangible assets in the current year is £6,360,000 (2018: £4,702,000). If useful economic lives of development cost intangible assets were reduced by 1 year across the whole portfolio of assets the impact on current year amortisation would be to increase the charge by £776,000 (2018: £747,000) to £7,136,000 (2018: £5,449,000).

3.4 Useful economic lives and residual values of property, plant and equipment

The useful economic life and residual value of property, plant and equipment is reviewed annually. The useful economic life and residual value of an asset is assessed by considering the expected usage, estimated technical obsolescence, physical wear and tear and the operating environment in which the asset is located.

No adjustments have been made to the assessed useful economic lives or residual values of property, plant and equipment in the current years.

The carrying value of property, plant and equipment is £136,482,000 (2018: £124,445,000). Differences between estimated useful economic lives and residual values of property, plant and equipment and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and future rates of depreciation.

The depreciation charge for property, plant and equipment in the current year was £10,477,000 (2018: £6,773,000). If useful economic lives of the Group's significant epitaxial reactors, included within plant and machinery was reduced by 1 year across the whole portfolio of assets the impact on current year depreciation would be to increase the charge by £359,000 (2018: £294,000) to £10,836,000 (2018: £7,067,000). If residual values of the reactors were decreased by 10% across the whole portfolio of assets the impact on current year depreciation would be to increase the charge by £389,000 (2018: £190,000) to £10,866,000 (2018: £6,963,000).

3.5 Valuation of lease liabilities and right of use assets

The application of IFRS 16 requires the Group to make judgments and estimates that affect the valuation of the lease liabilities and the valuation of right-of-use assets that includes determining the contracts in scope of IFRS 16, determining the contract term and determining the interest rate used for discounting of future cash flows.

The lease term determined by the Group generally comprises the non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option.

Exercise of extension options, principally existing in the Group's property leases are assumed to be reasonably certain, except for the Group's Newport facility where it has been assumed that it is reasonably certain that the Group will exercise its buy-out option at the end of the initial lease term. The same term applied to the length of the lease contract has been applied to the useful economic life of right-of-use assets.

The present value of the lease payments applicable to the Group's portfolio of property and plant leases has been determined using a discount rate that represents the Group's incremental rate of borrowing, assessed as 2.25% - 2.65% depending on the lease characteristics. If the incremental rate of borrowing was decreased by 0.10% the impact would be to increase the lease liability by £252,000.

3.6 Calculation of loss allowance – Preference share debt

The Group classifies its preference share financial assets due from its joint venture, CSC, as debt instruments.

The carrying value of the Group's preference share debt is £nil (2018: £7,937,000) after an expected credit loss impairment of £4,134,000 (2018: £nil) and absorption of the Group's share of joint venture equity accounted losses of £3,951,000 (2018: £nil) detailed in note 5.

When measuring expected credit loss on the preference share debt due from CSC the Group uses reasonable and supportable forward-looking information, which is primarily based on assumptions about forecast future financial performance of CSC.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group expect to receive, considering cash flows from any collateral.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of the future financial performance of CSC.

The Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition, a situation that has been determined in the current year. The significant increase in credit risk has been assessed following review of a combination of factors, including CSC's progress and achievement against milestones set-out in its original business plan, current cash flow forecasts for CSC and the capacity of CSC to redeem the debt.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of the debt instrument and is the difference between the contractual cash flows due and those that the Group expect to receive, considering cash flows from any collateral.

Default events and associated probability of default is assessed by reference to a range of scenarios based principally on assumptions and expectations of the future financial performance of CSC that have been derived from CSC's Board approved 2020 Budget and CSC Management's 2021 and 2022 financial forecasts extrapolated over the repayment period.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of the future financial performance of CSC.

If revenue growth in the 2020-2022 CSC Budget and Management forecasts was restricted to zero lifetime expected credit loss would increase from £4,134,000 to £8,085,000.

3.7 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, capital expenditure and the utilisation of tax losses for each relevant tax jurisdiction where the Group operates.

At 31 December 2018, the Group recognised deferred tax assets in relation to historical losses at its operations in the United States of America. Recognition of the deferred tax asset was based on an assessment of future cash flow forecasts and the associated profitability of the US operations.

Increased international trade tension affecting the markets in which the Group operates has resulted in a shift in the balance of future forecast manufacturing and hence profits from the Group's US operations to its UK and Asian operations. This geographical shift in manufacturing and profitability results in lower forecast utilisation of US deferred tax assets and has resulted in the partial reversal of previously recognised US deferred tax assets with a tax impact of £10,349,000. The Group has assessed the recoverability of its deferred tax assets by reference to Board approved budgets and cash flow forecasts which are also used as the basis for the Group's impairment and going concern reviews.

If shifts in manufacturing between the Group's US and UK and Asian operations resulted in a 10% greater than forecast reduction in US profitability then US deferred tax asset recognition would reduce by an additional £891,000.

3.8 Share based payments

Share based payment charges associated with long-term incentive plans are calculated taking account of an assessment of the achievability of relevant performance conditions. The share-based payment charge for long-term incentive awards would be £1,938,000 (2018: £2,184,000) greater in 2019 if it was assumed that all performance criteria for existing awards would be met.

4. Segmental analysis

The Chief Operating Decision Maker is defined as the Executive Management Board. The Executive Management Board consider that the Wireless, Photonics and CMOS++ markets are the Group's primary reporting segments.

The Executive Management Board assess the performance of these operating segments based on their adjusted operating profit.

	2019	Restated 2018
Revenue	**£'000**	**£'000**
Wireless	68,166	87,862
Photonics	69,758	66,807
CMOS++	2,091	1,622
Revenue	**140,015**	**156,291**
Adjusted operating (loss) / profit		
Wireless	6,590	16,548
Photonics	1,324	10,239
CMOS++	(1,304)	(1,295)
Central corporate costs	(11,286)	(9,452)
Adjusted operating (loss) / profit	**(4,676)**	**16,040**
Adjusted items (see note 5)	(14,126)	(7,380)
Operating (loss) / profit	**(18,802)**	**8,660**
Share of losses of joint venture accounted for using the equity method	(4,688)	(2,000)
Finance (costs) / income	(1,458)	87
(Loss) / profit before tax	**(24,948)**	**6,747**

Segmental information has been restated to reflect changes in the Group's operating and reporting structure following the establishment of an Executive Management Board that has consolidated responsibility for the Group's primary markets and operating segments under the leadership of an Executive VP, Global Business Development, Wireless and Emerging Products and an Executive VP, Global Business Development, Photonics & Infrared. This change to the Group's operating and reporting structure has resulted in the consolidation of the previously disclosed Infrared segment into Photonics and the reclassification of certain revenues and associated costs pertaining to a specific site, which has shared production, between the Wireless and Photonics 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.

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

Customer	Segment	2019 £'000	2019 % revenue	2018 £'000	2018 % revenue
Customer 1	Wireless	20,430	15%	33,806	22%
Customer 2	Wireless	20,181	14%	22,727	15%
Customer 3	Photonics	18,152	13%	16,438	11%

There are no customers in the CMOS++ segment that account for greater than 10% of the Group's total revenue.

Geographical information

Revenue by location of customer	2019 £'000	2018 £'000
Americas	**77,189**	**96,101**
United States of America	77,089	95,851
Rest of Americas	100	250
Europe, Middle East & Africa (EMEA)	**13,951**	**14,694**
France	785	323
Germany	5,525	6,692
Israel	2,537	3,106
United Kingdom	2,242	2,850
Rest of EMEA	2,862	1,723
Asia Pacific	**48,875**	**45,496**
People's Republic of China	4,356	4,033
Japan	1,570	1,686
Taiwan	37,656	32,802
Rest of Asia Pacific	5,293	6,975
Total revenue	**140,015**	**156,291**

Disaggregate information

Revenue by nature	2019 £'000	2018 £'000
Standard customer products	13,785	13,125
Bespoke customer products	126,230	143,166
Intellectual property licenses	-	-
Total revenue	**140,015**	**156,291**

Included within bespoke customer product revenue is revenue of £58,763,000 (2018: £72,971,000) that relates to supplier managed inventory arrangements where billing occurs from the earlier of a specified contractual backstop date following delivery or when the product is drawn from inventory by the customer.

Non-current assets by location

By location	Property, plant and equipment 2019 £'000	Property, plant and equipment 2018 £'000	Intangible assets 2019 £'000	Intangible assets 2018 £'000
USA	49,501	49,051	82,075	79,042
Singapore	7,156	7,642	9,980	10,158
Taiwan	21,383	16,951	4,819	3,748
UK	58,442	50,801	21,582	28,827
	136,482	**124,445**	**118,456**	**121,775**

5. Adjusted profit measures

The Group's results report certain financial measures after a number of adjusted items that are not defined or recognised under IFRS including adjusted operating profit, adjusted profit before income tax and adjusted earnings per share. The Directors believe that the adjusted profit measures provide a more useful comparison of business trends and performance and allow management and other stakeholders to better compare the performance of the Group between the current and prior year, excluding the effects of certain non-cash charges and one-off or non-operational items. The Group uses these adjusted profit measures for internal planning, budgeting, reporting and assessment of the performance of the business.

The tables below show the adjustments made to arrive at the adjusted profit measures and the impact on the Group's reported financial performance.

(All figures £'000s)	2019 Adjusted Results	2019 Adjusted Items	2019 **Reported Results**	2018 Adjusted Results	2018 Adjusted Items	2018 **Reported Results**
Revenue	140,015	-	**140,015**	156,291	-	**156,291**
Cost of sales	(119,145)	514	(118,631)	(119,536)	696	(118,840)
Gross profit	20,870	514	**21,384**	36,755	696	**37,451**
Other income	**-**	-	-	**-**	1,097	1,097
SG&A	(25,791)	(10,506)	(36,297)	(20,715)	(9,173)	(29,888)
Impairment loss on financial assets	-	(4,134)	(4,134)	-	-	-
Profit on disposal of PPE	245	-	245	-	-	-
Operating (loss)/profit	(4,676)	(14,126)	**(18,802)**	16,040	(7,380)	**8,660**
Share of JV losses	(737)	(3,951)	(4,688)	(2,000)	-	(2,000)
Finance costs	(1,606)	148	(1,458)	(66)	153	87
(Loss)/profit before tax	(7,019)	(17,929)	**(24,948)**	13,974	(7,227)	**6,747**
Taxation	(11,991)	1,811	(10,180)	(2,745)	(2,813)	(5,558)
(Loss)/profit for the period	(19,010)	(16,118)	**(35,128)**	11,229	(10,040)	**1,189**

(All figures £'000s)	Pre tax Adjustment	Tax Impact	2019 Adjusted Results	Pre tax Adjustment	Tax Impact	2018 Adjusted Results
Share based payments	771	133	**904**	1,044	(3,607)	**(2,563)**
Amortisation of acquired intangibles	(385)	81	**(304)**	(518)	109	**(409)**
Restructuring	(813)	164	**(649)**	(3,337)	701	**(2,636)**
Insurance income	-	-	**-**	1,097	(197)	**900**
Patent dispute legal fees	(4,308)	775	**(3,533)**	(1,262)	227	**(1,035)**
Impairment – intangibles	(3,805)	685	**(3,120)**	-	-	**-**
Impairment – ROU asset	(1,623)	-	**(1,623)**	-	-	**-**
Impairment – financial assets	(4,134)	-	**(4,134)**	-	-	**-**
Share of JV losses – financial asset	(3,951)	-	**(3,951)**	-	-	**-**
CSDC acquisition - negative goodwill	171	-	**171**	-	-	**-**
Onerous property lease	-	-	**-**	(4,404)	-	**(4,404)**
Discounting	148	(27)	**121**	153	(46)	**107**
Total	(17,929)	1,811	**(16,118)**	(7,227)	(2,813)	**(10,040)**

The nature of the adjusted items is as follows:

- Share based payments – The credit (2018: credit) recorded in accordance with IFRS 2 'Share based payment' of which £514,000 (2018: £696,000 credit) has been classified within cost of sales in gross profit and £257,000 (2018: £348,000 credit) has been classified as selling, general and administrative expenses in operating profit. £1,331,000 of cash has been defrayed in the year (2018: £nil) in respect of employer social security contributions following the exercise of unapproved employee share options.

- Amortisation of acquired intangibles - The charge of £385,000 (2018: £518,000) relates to the amortisation of acquired intangibles arising in respect of fair value exercises associated with previous corporate acquisitions that has been classified as selling, general and administrative expenses within operating profit and is non-cash.

- Restructuring – The charge of £813,000 (2018: £3,337,000) relates to:

    i. Site-specific restructuring and associated employee severance costs of £587,000 (2018: £nil). The charge has been classified as selling, general and administrative expenses within operating profit and represents a cash cost.
    ii. The closure of the Group's manufacturing facility in New Jersey, USA and the transfer of the associated trade and assets to the Group's manufacturing facility in Massachusetts, USA at a cost of £226,000 (2018: £3,337,000). Cash costs defrayed in the year of £1,360,000 (2018: £nil) comprise severance and reactor decommissioning costs with non-cash costs of £2,203,000 charged in 2018 relating to asset impairments. The charge has been classified as selling, general and administrative expenses within operating loss.

- Insurance income - The income relates to insurance proceeds received following the death of the Chief Financial Officer, Phillip Rasmussen, in April 2018. Obligations payable to Phillip Rasmussen's estate and fees associated with the recruitment of Phillip Rasmussen's successor totalling £nil (2018: £1,037,000) were netted off the gross insurance proceeds of £nil (2018: £2,134,000). The net insurance proceeds were cash received in 2018 and have been classified as other income within operating loss.

- Patent dispute legal costs – The charge relates to legal fees incurred in respect of a patent dispute defence. Costs of £4,308,000 (2018: £1,262,000), of which £4,304,000 has been defrayed in the year (2018: £nil) have been classified within selling, general and administrative expenses within operating profit.

- Impairment of intangibles – The non-cash charge of £3,805,000 (2018: £nil) relates to the impairment of certain development costs, patent costs and software where the Group has taken the decision to either discontinue using the asset or discontinue the relevant technology development activities (see note 13).

- Impairment of right of use asset – The non-cash charge of £1,623,000 (2018: £nil) relates to the impairment of the right of use asset relating to space at the Singapore manufacturing site sub-let by Compound Semiconductor Development Centre Limited, the Group's former joint venture that was acquired during the year (see note 15). The charge has been classified as selling, general and administrative expenses within operating profit.

- Impairment of financial asset – The non-cash charge of £4,134,000 (2018: £nil) relates to the expected credit loss associated with the Group's preference share financial asset due from its joint venture, Compound Semiconductor Centre Limited (see note 3.6).

- Share of joint venture losses (financial asset) - The factors that have led to recognising an impairment loss relating to the preference share financial asset due from the joint venture, Compound Semiconductor Centre Limited, have resulted in a considerable lengthening of the period over which the asset is expected to be recovered. As a result, the group has reassessed the preference share as a long-term interest in the joint venture on the basis that repayment is no longer expected in the foreseeable future. As a long-term interest in an equity accounted investee, the group has applied the loss absorption requirement in IAS 28.38 to the carrying amount of the preference share financial asset, after the application of an expected credit loss as described above, and allocated a further share of the joint venture's losses to the preference share financial asset. This has resulted in a further write down of the asset, to £nil, representing a charge of £3,951,000, over and above the expected credit loss charge of £4,134,000, being recognised in profit or loss.

- CSDC acquisition negative goodwill – The non-cash credit of £171,000 (2018: £nil) relates to the negative goodwill arising on the Group's acquisition of its former joint venture, Compound Semiconductor Centre Limited (see note 31). The credit has been classified as selling, general and administrative expenses within operating profit.

- Discounting – This relates to the unwind of discounting on long term financial assets of £148,000 (2018: £257,000) and the unwinding of discounting on long term liabilities of £nil (2018: £104,000). Discounting is non-cash and has been classified as finance costs within profit before tax.

- Onerous property lease – The non-cash charge of £nil (2018: £4,404,000) related to an increase in the provision for an onerous property lease that was originally made in 2014 following the restructuring of the Group's operations in Singapore. The increase in the provision made in 2018 for unused and unlet space at the manufacturing site extended the provision to the end of the lease obligation in 2022. The extension of the onerous lease provision resulted in a charge of £4,404,000 that was classified within selling, general and administrative expenses within operating profit. Cash costs associated with the annual rental for the unused and unlet space total £1,460,000 (2018: £1,539,000) are included within payment of lease liabilities in the financing section of the cash flow statement.

  The group has implemented the requirements of IFRS 16 'Leases' from 1 January 2019 with the Singapore property lease accounted for on balance sheet from this date. IFRS 16 'Leases' has been implemented using the modified retrospective approach applying the practical expedient that allows on transition an adjustment to the value of the right of use asset by the amount of any previously recognised onerous lease provision as an alternative to performing an impairment review. The adoption of this practical expedient results in the reclassification of the lease provision as part of the net value of the right of use asset in the Group's balance sheet from 1 January 2019 (see note 2).

The cash impact of adjusted items in the consolidated cash flow statement represents the cash costs defrayed in 2019 in respect of restructuring, employer social security on employee share schemes and patent dispute legal costs totalling £7,582,000.

Adjusted EBITDA (adjusted earnings before interest, tax, depreciation and amortisation) is calculated as follows:

	2019 £'000	2018 £'000
(Loss)/profit attributable to equity shareholders	(35,473)	966
Non-controlling interest	345	223
Finance costs / (income)	1,458	(87)
Tax	10,180	5,558
Depreciation of property, plant and equipment	10,477	6,773
Depreciation of right of use assets	3,590	-
Amortisation of intangible fixed assets	8,222	6,109
Loss/(profit) on disposal of PPE	(245)	-
Share based payments	(771)	(1,044)
Adjusted Items	18,463	7,906
Restructuring	813	3,337
Insurance income	-	(1,097)
Patent dispute legal costs	4,308	1,262
Impairment of intangibles	3,805	-
Impairment of right of use asset	1,623	-
Impairment of financial asset	4,134	-
Share of joint venture losses (financial asset)	3,951	-
CSDC acquisition negative goodwill	(171)	-
Onerous property lease	-	4,404
Adjusted EBITDA	**16,246**	**26,404**
IFRS 16 impact on 2018	-	2,144
Adjusted EBITDA under IFRS 16	**16,246**	**28,548**

6. Operating (loss)/profit

	2019 £'000	2018 £'000
The operating (loss)/profit is stated after charging/(crediting):		
Depreciation of property, plant and equipment	10,477	6,773
Depreciation of right of use assets	3,590	-
Impairment of right of use asset	1,623	-
Amortisation of intangible assets	8,222	6,109
Impairment of intangible assets	3,805	-
Impairment of non-current financial assets	4,134	-
Services provided by auditors*	243	232
Operating lease rentals	-	8,799
Expenses relating to variable lease payments not included in the measurement of the lease liability	6,656	-
Research and development	1,157	26
Exchange (gains) / losses	(251)	77
Share based payments	(771)	(1,044)
Cost of raw materials consumed	62,044	68,250
Profit on disposal of fixed assets	(245)	-
Adjusted items	4,950	7,906

'Expenses relating to variable lease payments not included in the measurement of the lease liability' principally relate to the variable cash costs of production based on usage that are payable to the Group's joint venture, CSC, associated with the Group's right of use of the joint venture's assets (note 3 and 32). In the comparative period the variable lease payments were classified within 'operating lease rentals' prior to the implementation of IFRS 16 'Leases' (see note 2.30)

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

7. Employee costs

	2019 £'000	2018 £'000
Employee costs (including directors' remuneration)		
Wages and salaries	34,568	34,611
Social security costs	3,696	3,872
Other pension costs	1,553	1,576
Share based payments	(771)	(1,044)
	39,046	**39,015**

	2019 Number	2018 Number
Average number of employees (including directors)		
Manufacturing	410	423
Selling, general and administrative	253	233
	663	**656**

Directors' emoluments, share options and other long-term incentive plan details, including details of all outstanding options and long-term incentive awards and the value of director pension contributions paid are set out in the Remuneration Report on pages 56 to 71 where the relevant disclosures have been highlighted as audited.

Following changes to the Group's operating and reporting structure and the establishment of the Executive Management Board on 1 August 2019 key management within the Group comprises members of the Executive Management Board and Non-Executive Directors.

Compensation to key management following establishment of the Executive Management Board, including pensions of £25,000, was £927,000 and the credit for share-based payments was £118,000.

Prior to the establishment of the Executive Management Board key management comprised Executive and Non-Executive Directors, members of the Management Board and Business Unit Leaders. Compensation paid to key management prior to the establishment of the Executive Management Board, including pensions of £111,000 (2018: £158,000 full year), was £2,593,000 (2018: £5,234,000 full year) and the credit for share-based payments was £268,000 (2018: £2,292,000 full year credit).

8. Finance (costs) / income

	2019 £'000	2018 £'000
Bank and other loans	(670)	(66)
Unwind of discounting on lease liabilities	(936)	-
Unwind of discount on long term balances	148	153
	(1,458)	**87**

9. Taxation

Income tax expense	2019 £'000	2018 £'000
Current tax on profits for the year	882	880
Total current tax charge	**882**	**880**
Origination and reversal of temporary differences	9,298	4,678
Total deferred tax charge	**9,298**	**4,678**
Total tax charge	**10,180**	**5,558**

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise from applying the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%) as follows:

	2019 £'000	2018 £'000
(Loss)/profit on ordinary activities before taxation	(24,948)	6,747
Tax charge at 19.00% thereon (2018: 19.00%)	4,740	(1,282)
Effects of:		
Expenses not deductible for tax purposes	(2,802)	(668)
Overseas tax rate differences	391	(800)
Tax losses for which no deferred tax asset was recognised	(2,221)	-
Derecognition of previously recognised deferred tax assets	(10,641)	-
Share option schemes	272	(3,607)
Income not subject to tax	-	444
Pre-measurement of deferred tax – change in UK tax rate	(80)	280
Adjustments in respect of prior years	161	75
Total tax charge for the year	**(10,180)**	**(5,558)**

The current geo-political context affecting the markets in which IQE operates has resulted in a shift in the balance of projected manufacturing production and hence profits between the US and rest of the world. As a result, lower utilisation of US deferred tax assets is projected in coming years which has resulted in the partial reversal and de-recognition of previously recognised US tax losses.

The share option schemes amount shown on previous page represents the change in the expected tax impact on the exercise of options, principally reflecting the reduction in future corporation tax deductions associated with the decrease in share price and a reduction in the number of options where performance criteria are expected to be achieved.

The Group's results report certain financial measures after a number of adjusted items with a tax impact of £1,811,000 credit (2018: £2,813,000 charge) as detailed in note 5.

Finance (No.2) Bill 2016, which was substantively enacted in September 2016, included legislation to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 with a further reduction to 17% from 1 April 2020. Accordingly, the closing UK deferred tax asset in the financial statements has been recognised in accordance with the rate reductions enacted as part of the Finance (No.2) Bill 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020.

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.

Amounts recognised directly in equity	**2019 £'000**	**2018 £'000**
Aggregate current and deferred tax arising in the period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Deferred tax: Share options	(124)	(437)
Total tax charge to equity for the year	**(124)**	**(437)**

10. Deferred Taxation

Deferred tax	**2019 £'000**	**2018 £'000**
At 1 January	13,244	17,768
Income statement charge recognised in the year	(9,298)	(4,678)
Tax charge recognised directly in equity	(124)	(437)
Exchange differences	(3)	591
At 31 December	**3,819**	**13,244**

The current portion of the deferred tax asset is £1,782,000 (2018: £4,835,000) in relation to utilisation of tax losses. The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Group

Deferred tax liabilities	Accelerated Capital Allowances £'000	Intangibles £'000	Total £'000
At 1 January 2018	**(6,782)**	**(4,501)**	**(11,283)**
(Charge)/credited to income statement	(2,218)	387	(1,831)
Exchange differences	(330)	(21)	(351)
At 31 December 2018	**(9,330)**	**(4,135)**	**(13,465)**
Charged to income statement	(1,619)	(913)	(2,532)
Exchange differences	98	17	115
At 31 December 2019 before set-off	**(10,851)**	**(5,031)**	**(15,882)**
Set-off of tax			14,022
At 31 December 2019 after set-off			**(1,860)**

Deferred tax assets	Tax Losses £'000	Other £'000	Total £'000
At 1 January 2018	**22,402**	**6,649**	**29,051**
Credited/(charged) to income statement	1,114	(3,961)	(2,847)
Charged to equity	-	(437)	(437)
Exchange differences	936	6	942
At 31 December 2018	**24,452**	**2,257**	**26,709**
Credited/(charged) to income statement	(5,637)	(1,129)	(6,766)
Charged to equity	-	(124)	(124)
Exchange differences	(114)	(4)	(118)
At 31 December 2019 before set-off	**18,701**	**1,000**	**19,701**
Set-off of tax			(14,022)
At 31 December 2019 after set-off			**5,679**

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 Group did not recognise deferred income tax assets of £20,012,000 (2018: £473,000) in respect of losses amounting to £90,682,000 (2018: £2,491,000) that can be carried forward against future taxable income. The deferred tax asset can be recognised if sufficient profits from the same trade arise in future periods.

Tax losses in the UK totalling £57,520,000 (2018: £36,630,000) have no date of expiry. Tax losses acquired in Singapore totalling £12,460,000 (2018: £nil) have no date of expiry. Tax losses in the US can be carried forward against future taxable income for 20 years before expiring. Of the Group's total US tax losses of £112,291,000 (2018: £87,909,000) losses amounting to £5,615,000 and £5,165,000 expire in 2020 and 2021.

Deferred tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested.

A credit of £418,000 (2018: £324,000) has been recognised within operating profit in relation to claims made under the R&D Expenditure Credit Scheme (RDEC) in the UK.

Company

Deferred tax assets	Tax Losses £'000	Share Options £'000	Other Timing Differences £'000	Total £'000
At 1 January 2018	-	5,220	32	5,252
Charged to income statement	-	(3,673)	(5)	(3,678)
Charged to equity	-	(209)	-	(209)
At 31 December 2018	**-**	**1,338**	**27**	**1,365**
Credited/(charged) to income statement	2,546	(1,255)	(3)	1,288
Charged to equity	-	(16)	-	(16)
At 31 December 2019	**2,546**	**67**	**24**	**2,637**

11. Dividends

No dividend has been paid or proposed in 2019 (2018: £nil).

12. (Loss) / Earnings per share

Basic (loss) / 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 adjusted items in order to provide a more meaningful measure of underlying profit. The adjustments are detailed in note 5.

	2019 £'000	2018 £'000
(Loss)/Profit attributable to ordinary shareholders	(35,473)	966
Adjustments to (loss)/profit after tax (note 5)	16,118	10,040
Adjusted (loss) / profit attributable to ordinary shareholders	**(19,355)**	**11,006**

	2019 Number	2018 Number
Weighted average number of ordinary shares	787,175,574	761,750,145
Dilutive share options	13,562,165	37,072,892
Adjusted weighted average number of ordinary shares	**800,737,739**	**798,823,037**
Adjusted basic (loss) / earnings per share	(2.46p)	1.44p
Basic (loss) / earnings per share	(4.51p)	0.13p
Adjusted diluted (loss) / earnings per share	(2.46p)	1.38p
Diluted (loss) / earnings per share	(4.51p)	0.12p

13. Intangible assets

Group	Goodwill £'000	Patents £'000	Development costs £'000	Software £'000	Customer contracts £'000	Total £'000
Cost						
At 1 January 2019	67,630	7,224	69,411	7,775	7,828	159,868
Additions	-	726	8,123	1,080	-	9,929
Foreign exchange	(900)	(5)	(589)	(6)	(100)	(1,600)
At 31 December 2019	**66,730**	**7,945**	**76,945**	**8,849**	**7,728**	**168,197**
Accumulated amortisation and impairment						
At 1 January 2019	-	439	27,592	2,618	7,444	38,093
Charge for the year	-	286	6,360	1,192	384	8,222
Impairment	-	656	1,955	1,194	-	3,805
Foreign exchange	-	(4)	(269)	(6)	(100)	(379)
At 31 December 2019	**-**	**1,377**	**35,638**	**4,998**	**7,728**	**49,741**
Net book value						
At 31 December 2019	**66,730**	**6,568**	**41,307**	**3,851**	**-**	**118,456**
At 31 December 2018	67,630	6,785	41,819	5,157	384	121,775

Group	Goodwill £'000	Patents £'000	Development costs £'000	Software £'000	Customer contracts £'000	Total £'000
Cost						
At 1 January 2018	64,408	3,043	57,621	6,800	7,427	139,299
Additions	-	4,160	9,854	958	-	14,972
Foreign exchange	3,222	21	1,936	17	401	5,597
At 31 December 2018	**67,630**	**7,224**	**69,411**	**7,775**	**7,828**	**159,868**
Accumulated amortisation and impairment						
At 1 January 2018	-	340	22,083	1,812	6,551	30,786
Charge for the year	-	95	4,702	794	518	6,109
Foreign exchange	-	4	807	12	375	1,198
At 31 December 2018	**-**	**439**	**27,592**	**2,618**	**7,444**	**38,093**
Net book value						
At 31 December 2018	**67,630**	**6,785**	**41,819**	**5,157**	**384**	**121,775**
At 31 December 2017	64,408	2,703	35,538	4,988	876	108,513

Customer contract intangible assets relate to customer contracts acquired as part of a business combination.

The amortisation charge of £8,222,000 (2018: £6,109,000) and the impairment charge of £3,805,000 (2018: £nil) have been charged to selling, general and administrative expenses in the Consolidated Income Statement.

Development cost and patent cost impairment charges of £2,611,000 (2018: £nil) relate to a small number of technology projects where the Group has taken the decision to discontinue the development and commercialisation of the associated technology. The net book value of these development cost and patent assets has been impaired to £nil.

Software impairment charges of £1,194,000 (2018: £nil) principally relate to internally developed software that following a decision made in the current year is no longer used as part of the Group's manufacturing operations. The net book value of this software has been impaired to £nil.

Impairment tests for goodwill

Cash Generating Units ('CGUs) have been redefined and aligned with the Group's segmental reporting to reflect changes in the Group's operating and reporting structure following the establishment of an Executive Management Board that has consolidated responsibility for the Group's primary markets and operating segments under the leadership of an Executive VP, Global Business Development, Wireless and Emerging Products and an Executive VP, Global Business Development, Photonics & Infrared.

Cash generating units previously defined as 'III/V Expitaxy' and 'Substrates' have been redefined as Wireless and Photonics with no restatement or reallocation of goodwill between segments.

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

	2019 £'000	2018 £'000
Allocation of goodwill by CGU		
Wireless	59,317	60,121
Photonics	7,413	7,509
Total Goodwill	**66,730**	**67,630**

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 based upon a long-term growth rate of 2% (2018: 2%).

Value in use calculations are based on the Group's approved 2020 budget and three-year forecast extrapolated to year five using the estimated long-term growth rate.

In 2018 the Board approved 2019 budget was used for the first year of the value in use calculation with the mid-point of the guidance published in 2018 used as the growth rate for each of the Group's operating segments in years two to five. The discount factor applied in the value in use calculation in 2018 was 10%.

The key assumptions applied in the 2019 cash flow forecast are summarised below:

	Year 1 %	Year 2 %	Year 3 %	Year 4 %	Year 5 %
Risk adjusted pre-tax discount rate	10	10	10	10	10
Photonics growth rate	2020 Budget	3 Year Plan	3 Year Plan	2%	2%
Wireless growth rate	2020 Budget	3 Year Plan	3 Year Plan	2%	2%

The recoverable amount of the Photonics CGU determined based on value in use calculations exceeds the carrying amount of the associated goodwill and other intangible assets and property, plant and equipment allocated to the CGU by greater than £250,000,000.

The recoverable amount of the Wireless CGU determined based on value in use calculations exceeds the carrying amount of the associated goodwill and other intangible assets and property, plant and equipment allocated to the CGU by greater than £140,000,000.

The Group has carried out a sensitivity analysis on the impairment tests of each cash-generating unit to which goodwill has been allocated, using various reasonably possible scenarios.

No impairment would arise if the discount rate for the Photonics and Wireless CGU was increased from 10% to 15%.

No impairment would arise if the growth rate in each of the Photonics and Wireless CGU's in the forecast period from 2021 to 2024 was restricted by 25%.

Company	Patents £'000	Software £'000	Total £'000
Cost			
At 1 January 2019	5,615	801	6,416
Additions	714	64	778
At 31 December 2019	**6,329**	**865**	**7,194**
Accumulated amortisation			
At 1 January 2019	-	153	153
Charge for the year	60	85	145
Impairment	357	-	357
At 31 December 2019	**417**	**238**	**655**
Net book value			
At 31 December 2019	**5,912**	**627**	**6,539**
At 31 December 2018	5,615	648	6,263

Company	Patents £'000	Software £'000	Total £'000
Cost			
At 1 January 2018	1,599	564	2,163
Additions	4,016	237	4,253
At 31 December 2018	**5,615**	**801**	**6,416**
Accumulated amortisation			
At 1 January 2018	-	87	87
Charge for the year	-	66	66
At 31 December 2018	**-**	**153**	**153**
Net book value			
At 31 December 2018	**5,615**	**648**	**6,263**
At 31 December 2017	1,599	477	2,076

14. Property, plant and equipment

Group	Land and buildings £'000	Short leasehold improve-ments £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost					
At 31 December 2018	11,496	34,953	6,687	195,170	248,306
Adjustments on adoption of IFRS 16 (note 2.30d)	-	-	-	(2,178)	(2,178)
At 1 January 2019	11,496	34,953	6,687	192,992	246,128
Additions	7,832	5,494	5,194	7,174	25,694
Disposals	-	(677)	(475)	(6,081)	(7,233)
Foreign exchange	(90)	(444)	(71)	(1,735)	(2,340)
At 31 December 2019	**19,238**	**39,326**	**11,335**	**192,350**	**262,249**
Accumulated depreciation					
At 1 January 2019	3,968	19,204	4,544	96,145	123,861
Charge for the year	695	1,517	606	7,659	10,477
Disposals	-	(635)	(471)	(6,109)	(7,215)
Foreign exchange	(14)	(190)	(35)	(1,117)	(1,356)
At 31 December 2019	**4,649**	**19,896**	**4,644**	**96,578**	**125,767**
Net book value					
At 31 December 2019	**14,589**	**19,430**	**6,691**	**95,772**	**136,482**
At 31 December 2018	7,528	15,749	2,143	99,025	124,445

Property, plant and equipment includes assets in the course of construction with a net carrying value of £14,086,000 (2018: £37,675,000) primarily relating to leasehold improvements, plant and equipment purchased for the Group's manufacturing site at Taunton, Massachusetts and buildings, plant and equipment purchased for the Group's manufacturing site at Hsinchu, Taiwan.

	Land and buildings £'000	Short leasehold improve-ments £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 January 2018	8,731	32,112	5,635	153,642	200,120
Additions	2,495	914	701	34,752	38,862
Disposals	-	-	-	-	-
Foreign exchange	270	1,927	351	6,776	9,324
At 31 December 2018	**11,496**	**34,953**	**6,687**	**195,170**	**248,306**
Accumulated depreciation					
At 1 January 2018	3,728	17,376	3,999	84,217	109,320
Charge for the year	195	965	495	5,118	6,773
Impairment	-	-	-	1,651	1,651
Foreign exchange	45	863	50	5,159	6,117
At 31 December 2018	**3,968**	**19,204**	**4,544**	**96,145**	**123,861**
Net book value					
At 31 December 2018	**7,528**	**15,749**	**2,143**	**99,025**	**124,445**
At 31 December 2017	5,003	14,736	1,636	69,425	90,800

Company	Fixtures and fittings £'000
Cost	
At 1 January 2019	105
Additions	18
At 31 December 2019	**123**
Accumulated depreciation	
At 1 January 2019	90
Charge for the year	14
At 31 December 2019	**104**
Net book value	
At 31 December 2019	**19**
At 31 December 2018	15

	Fixtures and fittings £'000
Cost	
At 1 January 2018	87
Additions	18
At 31 December 2018	**105**
Accumulated depreciation	
At 1 January 2018	77
Charge for the year	13
At 31 December 2018	**90**
Net book value	
At 31 December 2018	**15**
At 31 December 2017	10

15. Right of use assets

Group	Land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2019	49,826	386	50,212
Additions	346	-	346
Foreign exchange	(217)	(5)	(222)
At 31 December 2019	**49,955**	**381**	**50,336**
Accumulated depreciation			
At 1 January 2019	5,256	-	5,256
Charge for the year	4,153	134	4,287
Impairment	1,623	-	1,623
Foreign exchange	(184)	(1)	(185)
At 31 December 2019	**10,848**	**133**	**10,981**
Net book value			
At 31 December 2019	**39,107**	**248**	**39,355**
At 31 December 2018	-	-	-

Depreciation of £697,000 has been capitalised as part of the construction and commissioning costs associated with the Group's Newport foundry.

The non-cash charge of £1,623,000 (2018: £nil) relates to the impairment of the right of use asset relating to space at the Singapore manufacturing site sub-let by Compound Semiconductor Development Centre Limited, the Group's former joint venture that was acquired during the year. Following the acquisition the Group considers this to be a separate cash generating unit and due to the time remaining on the lease and the loss making nature of the business the right of use asset has been impaired (see note 31).

16. Investments

Group	Equity investments £'000
Cost	
At 1 January 2018 and 2019	75
At 31 December 2018 and 2019	**75**

Company	Investments in subsidiaries £'000	Other equity investments £'000	Total £'000
Cost			
At 1 January 2019	121,185	75	121,260
Subsidiaries share based payments charge	733	-	733
At 31 December 2019	**121,918**	**75**	**121,993**
Provisions for impairment			
At 1 January 2019	32,032	-	32,032
At 31 December 2019	**32,032**	**-**	**32,032**
Net book value			
At 31 December 2019	**89,886**	**75**	**89,961**
At 31 December 2018	89,153	75	89,228

	Investments in subsidiaries £'000	Other equity investments £'000	Restated Total £'000
Cost			
At 1 January 2018	120,118	75	120,193
Subsidiaries share based payments charge	1,067	-	1,067
At 31 December 2018	**121,185**	**75**	**121,260**
Provisions for impairment			
At 1 January 2018	32,032	-	32,032
Reversal of impairment	-	-	-
At 31 December 2018	**32,032**	**-**	**32,032**
Net book value			
At 31 December 2018	**89,153**	**75**	**89,228**
At 31 December 2017	88,086	75	88,161

Details of the company's subsidiaries are set out in note 29.

Investments are reviewed for impairment trigger events annually. This review includes a qualitative assessment of the business performance of each investment and a quantitative assessment of any potential impact on the carrying value of each investment arising from the results of the Group's value in use calculations prepared as part of the Group's goodwill impairment review. No impairment trigger events have been identified as part of the review in the current year (2018: none).

Indicators that impairment losses might have reversed are assessed annually. No events indicating a reversal of impairment losses have been identified as part of the review in the current year (2018: none).

	2019 £'000	2018 £'000
Raw materials and consumables	23,767	29,001
Work-in-progress and finished goods	6,901	6,708
	30,668	**35,709**

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 £8,960,000 (2018: £6,415,000). £3,219,000 (2018: £1,419,000) of inventories were written down during 2019 and an expense recognised in the income statement.

18. Trade and other receivables

Current	2019 Group £'000	2019 Company £'000	2018 Group £'000	Restated 2018 Company £'000
Trade receivables	20,499	-	18,615	-
Other receivables	4,624	339	5,280	583
Contract assets	4,883	-	12,173	-
Prepayments	3,059	237	1,947	138
	33,065	**576**	**38,015**	**721**

Non-current	2019 Group £'000	2019 Company £'000	2018 Group £'000	Restated 2018 Company £'000
Amounts owed by group undertakings	-	131,541	-	146,607
Financial assets	-	-	7,937	-
	-	**131,541**	**7,937**	**146,607**

Company current and non-current trade and other receivables has been restated in the comparative period to reflect the reclassification of amounts owed by group undertakings from current assets to non-current assets as the receivable was not expected to be collected within one year.

Contract assets relate to bespoke manufactured customer products where the Group has a guaranteed contractual right of payment. Contract assets are transferred to receivables at the point that manufactured products are delivered to customers, except for supplier managed inventory arrangements where contract assets are transferred to receivables from the earlier of a specified contractual date following delivery or when the product is drawn from inventory by the customer. All 2018 contract assets have been transferred to receivables during 2019.

As at 31 December 2019, 83% (2018: 86%) of trade receivables were within terms. Of the other trade receivables, 81% (2018: 89%) were less than 30 days past due. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £223,000 (2018: £224,000). This allowance has been determined by reference to past default experience.

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 (2018: 5% per annum).

Financial assets relate to £8,800,000 of Preferred 'A' shares (2018: £8,800,000) issued by the Compound Semiconductor Centre Limited ('CSC'), a joint venture between the Group and Cardiff University (see note 30 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 and their estimated fair values are set out in note 22.

19. Trade and other payables

Current	2019 Group £'000	2019 Company £'000	2018 Group £'000	2018 Company £'000
Trade payables	17,298	243	25,343	970
Amounts owed by group undertakings	-	15,926	-	15,106
Other taxation and social security	390	212	1,931	1,628
Other payables	1,089	1,055	10,843	1,389
Accruals and deferred income	7,590	1,546	7,791	1,613
	26,367	**18,982**	**45,908**	**20,706**

Accruals and deferred income include no contract liabilities (2018: £nil).

Amounts owed to group undertakings are unsecured and repayable on demand. Interest is charged at a rate of 5% per annum (2018: 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 2019 or 31 December 2018.

20. Borrowings

Group	2019 £'000	2018 £'000
Non-current borrowings:		
Bank borrowings	22,736	-
Lease liabilities	44,895	-
	67,631	**-**
Current borrowings:		
Bank borrowings	2,034	-
Lease liabilities	3,083	-
	5,117	**-**
Total borrowings	**72,748**	**-**

Bank borrowings

	2019 £'000	2018 £'000
Bank borrowings fall due for repayment as follows:		
Within one year	2,034	-
Between one and five years	22,736	-
After five years	-	-
	24,770	**-**

On 24 January 2019, the Company agreed a new £27,300,000 ($35,000,000) multi-currency revolving credit facility, provided by HSBC Bank plc that is secured over the assets of IQE plc and certain subsidiary companies. The facility has a three-year term and an interest rate margin of between 1.45 and 1.95 per cent per annum over LIBOR on any drawn balances.

On 29 August 2019, the Company agreed a new £30,000,000 asset finance facility, provided by HSBC Bank plc that is secured over various plant and machinery assets. The facility has a five-year term and an interest rate margin of 1.65% per annum over base rate on any drawn balances.

Lease liabilities

	2019 £'000	2018 £'000
Lease liabilities fall due for repayment as follows:		
Within one year	3,083	-
Between one and five years	14,688	-
After five years	30,207	-
	47,978	**-**

Lease liabilities principally relate to property (see note 2.30).

21. Provisions for other liabilities and charges

Group	Restructuring £'000	Onerous Lease £'000	**2019 Total** **£'000**	Restructuring £'000	Onerous Lease £'000	**2018 Total** **£'000**
As at 31 December	1,134	5,256	6,390	-	2,200	**2,200**
Adjustments on adoption of IFRS 16 (note 2.30d)	-	(5,256)	(5,256)	-	-	**-**
As at 1 January	**1,134**	-	**1,134**	-	2,200	**2,200**
Charged to the income statement	-	-	**-**	1,091	4,404	**5,495**
Utilised during the year	(1,134)	-	(1,134)	-	(1,539)	**(1,539)**
Foreign exchange	-	-	**-**	43	191	**234**
As at 31 December	-	-	**-**	1,134	5,256	**6,390**

	Restructuring £'000	Onerous Lease £'000	**2019 Total** **£'000**	Restructuring £'000	Onerous Lease £'000	**2018 Total** **£'000**
Current	-	-	**-**	1,134	1,420	**2,554**
Non-current	-	-	**-**	-	3,836	**3,836**
Total	-	-	**-**	1,134	5,256	**6,390**

The restructuring provision related to costs associated with the closure of the Group's manufacturing facility in New Jersey, USA and the transfer of the trade and assets to the Group's manufacturing facility in Massachusetts, USA. The provision principally comprised severance and reactor decommissioning costs and has been fully utilised in the current year.

The onerous lease provision established for vacant space at the Group's Singapore manufacturing site has been treated as a transition adjustment on adoption of IFRS 16 'Leases' to the right of use asset value associated with the leased Singapore manufacturing facility. The right of use asset recognised in respect of the Singapore property lease on adoption of IFRS 16 'Leases' has been reduced by the amount of the previously recognised onerous lease provision as an alternative to performing an impairment review (see note 2.30b).

22. Financial Instruments

Financial instruments by category

Trade and other receivables (excluding prepayments) and cash and cash equivalents are classified as financial assets at amortised cost. Borrowings and trade and other payables are classified as financial liabilities at amortised cost. Both categories are initially measured at fair value and subsequently held at amortised cost. All financial instruments are classified as level 2 per the fair value hierarchy with the exception of the preference share instruments which are classified as level 3.

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.

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.

Customer credit risk is managed at the Group and site level with credit risk assessments completed for all customers. If no independent credit rating is available the credit quality of the customer is assessed by reference to the customers' financial position, past experience and other relevant factors. Individual credit limits are set based on internal or external ratings in accordance with the Group's credit risk policies. 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. The Group has historically experienced low levels of payment default.

Counterparty risk associated with monies on deposit with financial institutions is managed at the Group level in accordance with the Group's treasury policies. The credit quality of banks has been assessed by reference to external credit ratings, based on reputable credit agencies long-term issuer ratings.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset 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.

Assets as per balance sheet	2019 Group £'000	2019 Company £'000	2018 Group £'000	2018 Company £'000
Carrying amount				
Cash and cash equivalents	8,800	1,746	20,807	4,582
Trade receivables	20,499	-	18,615	-
Amounts owed by group undertakings	-	131,541	-	146,607
Other receivables excluding prepayments	9,507	339	17,453	583
Financial Assets (Preference share receivables)	-	-	7,937	-
	38,806	**133,626**	**64,812**	**151,772**

Included in other receivables are contract assets of £4,883,000 (2018: £12,173,000).

The Group is exposed to credit concentration risk with its three largest customers which represent 50% (2018: 63%) of outstanding trade receivables and contract asset balances. Customer credit risk is managed according to strict credit control policies. The majority of the Group's revenues are derived from large multinational organisations that are established customers of the Group with no prior history of default such that credit risk is considered to be low. The Group monitors customer D&B credit ratings and has had no material defaults in the past. None of the receivables are with customers where we have had any history of default.

	Gross 2019 £'000	Provision 2019 £'000	Net 2019 £'000	Gross 2018 £'000	Provision 2018 £'000	Net 2018 £'000
Not past due	17,193	-	17,193	16,163	-	16,163
Past due 0-30	2,859	-	2,859	2,387	-	2,387
Past due more than 30	670	223	447	289	224	65
	20,722	**223**	**20,499**	**18,839**	**224**	**18,615**

An allowance has been made for estimated irrecoverable amounts from the sale of goods of £223,000 (2018: £224,000). This allowance has been determined on an expected credit loss basis 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 contract assets are primarily denominated in US dollars, as are trade payables (note 18) limiting the exposure of the Group to movements in foreign exchange rates. Based on the balances held at 31 December 2019 a 1 cent movement in the US dollar to Sterling rate would impact the net value of these instruments by £68,000 (2018: £12,000).

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. The Group ensures that it has sufficient borrowing facilities to meet foreseeable operational expenses. At the year- end the Group had available undrawn facilities of £33,300,000 (2018: £1,000,000).

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

Group

Analysis of contractual cash flow maturities - Other financial liabilities at amortised cost 31 December 2019	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	18,387	18,387	18,387	-	**-**	-
Accruals	7,590	7,590	7,590	-	-	-
Bank borrowings	24,770	26,566	2,646	6,715	17,205	-
Lease liabilities	47,978	55,483	4,535	5,192	13,345	32,411
	98,725	**108,026**	**33,158**	**11,907**	**30,550**	**32,411**

Analysis of contractual cash flow maturities - Other financial liabilities at amortised cost 31 December 2018	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	36,186	36,186	36,186	-	**-**	-
Accruals	7,791	7,791	7,791			
	43,977	**43,977**	**43,977**	**-**	**-**	**-**

Company
Other financial liabilities at amortised cost include trade payables of £243,000 (2018: £970,000) with contractual cash flows of £243,000 (2018: £970,000) due within 12 months, amounts owed by group undertakings of £15,926,000 (2018: £15,106,000) with contractual cash flows of £16,720,000 (2018: £15,860,000) due within 12 months and accruals of £1,546,000 (2018: £1,613,000) with contractual cash flows due within 12 months.

Financial risk management

Market risk

Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Taiwanese dollar, Singapore dollar, Japanese yen and Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's presentational currency is sterling. The majority of the Group's sales are denominated in US dollars and 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 four 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.

Considering 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 2019 and 31 December 2018 there were no contracts in place.

The Group has certain investments in foreign operations in North America, Taiwan and Singapore, whose net assets are exposed to foreign currency translation risk. Translation exposures that arise on converting the results of overseas subsidiaries are not hedged. 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 £68,000 (2018: £13,000).

Cash flow and fair value 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.

The Group's interest rate risk arises from its cash and cash equivalents and its preference share financial assets and from its bank borrowings. Cash and cash equivalents, including foreign currency cash deposits earn interest at prevailing variable market rates of interest whilst the preference share debt earns interest at HSBC Bank Plc base rate.

The Group's bank borrowings consist of a variable rate asset finance loan secured against the assets to which it relates and a variable rate multi-currency revolving credit facility secured against the assets of the Group.

The variable rate UK sterling £30,000,000 asset finance facility, which has a principal outstanding of £25,000,000 (2018: £nil) has a five-year term and an interest rate margin of 1.65% per annum over base rate on any drawn balances. The loan is repayable by monthly instalment commencing on the first anniversary of the facility.

The variable rate US dollar $35,000,000 (£27,300,000) multi-currency revolving credit facility, which is undrawn has a three-year term and an interest rate margin of between 1.45 and 1.95 per cent per annum over LIBOR on any drawn balances.

The Group's policy is to regularly review its exposure to interest rate risk, and in particular the mix between fixed and floating rate financial assets and financial liabilities. The percentage of financial assets and financial liabilities bearing variable rate interest was 100% (2018: 100%).

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 on the interest-bearing financial assets held at 31 December 2019 would impact annual interest income by approximately £20,000 (2018: £40,000). A 50-basis point (0.5%) movement in interest rates on the interest-bearing liabilities held at 31 December 2019 would impact annual interest costs by approximately £125,000 (2018: £nil).

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 adjusts 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. Total capital at 31 December 2019 was £334,391,000 (2018: £288,471,000).

The Group monitors capital on the basis of a gearing ratio. The gearing ratio is calculated as net debt divided by total capital and was 19.1% at 31 December 2019 (2018: nil%).

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:

	2019 Carrying amount £'000	2019 Fair value £'000	2018 Carrying amount £'000	2018 Fair value £'000
Cash and cash equivalents	8,800	8,800	20,807	20,807
Trade receivables	20,499	20,499	18,615	18,615
Other receivables	4,624	4,624	5,280	5,280
Contract assets	4,883	4,883	12,173	12,173
Financial Assets (Preference share receivables)	-	3,951	7,937	7,704
Trade and other payables	(18,387)	(18,387)	(36,186)	(36,186)
	20,419	**24,370**	**28,626**	**28,393**

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.

Cash and cash equivalents

Cash and cash equivalents earn interest at prevailing variable market rates of interest such that the carrying value of cash and cash equivalents is deemed to reflect fair value.

Trade receivables, other receivables and contract assets

Trade receivables, other receivables and contract assets are short-term assets with a remaining life of less than one year such that the amortised cost carrying value of the assets is deemed to reflect fair value.

Trade and other payables

Trade and other payables are short-term liabilities with a remaining life of less than one year such that the amortised cost carrying value of the liabilities is deemed to reflect fair value.

Financial Assets (Preference share receivables)

The fair value of preference share receivables was calculated by reference to assumptions about forecast future financial performance of CSC and the associated level of expected credit losses.

23. Share capital

Group and Company	2019 Number of shares	2019 £'000	2018 Number of shares	2018 £'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	796,142,302	7,961	776,699,681	7,767

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

	2019 Number	2018 Number
At 1 January	776,699,681	756,050,549
Employee share schemes	19,442,621	16,386,876
Translucent equity consideration	-	4,262,256
At 31 December	**796,142,302**	**776,699,681**

19,442,621 ordinary shares (2018: 20,649,132 ordinary shares) were issued during the year as follows:

	2019 Number of shares	2019 Consideration	2018 Number of shares	2018 Consideration
Employee share schemes	19,442,621	Nil to 50.3p	16,386,876	Nil to 50.3p
Translucent consideration	-	-	4,262,256	83.7p
	19,442,621		**20,649,132**	

The share premium arising from consideration received from employee share scheme exercises of £712,000 (2018: £813,000) was £1,238,000 (2018: £1,694,000).

The share premium arising from the non-cash equity consideration paid to Translucent for the purchase of the cREO(TM) technology and IP portfolio in 2018 was £3,526,000. This amount, along with the share capital value of £42,623 was recognised as an intangible asset addition within patents (note 13).

24. Share based payments

The total amount credited to the income statement in 2019 in respect of share-based payments was £771,000 (2018: £1,044,000 credited).

Long-term incentive plan

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 long-term incentive awards over shares in the company to directors and employees of the Group.

Long-term incentive share awards are granted with contractual lives of between three and ten years with a fixed exercise price of 1 penny equal to the nominal value of the ordinary share.

Directors

Long-term incentive awards become exercisable between three and ten years from the date of grant subject to continued employment and achievement of performance conditions relating to growth in earnings per share and total shareholder return targets over a three-year vesting period that cannot be extended. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Details of the Directors long-term incentive plan are set out in the Remuneration Report.

Employees

Long-term incentive awards become exercisable between three and five years from the date of grant subject to continued employment and the achievement of performance conditions relating to growth in earnings per share targets over a three-year vesting period that cannot be extended. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Long term incentive awards are valued using either the Black-Scholes option-pricing model or the Monte Carlo simulation model with the total fair value of the award that is to be expensed charged to the income statement over the vesting period of the long-term incentive award.

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 ten 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.

Share options are valued using the Black-Scholes option-pricing model with the total fair value of the award that is to be expensed charged to the income statement over the vesting period of the share option.

The principal assumptions used in the calculation of the fair value of long-term incentive awards and share option awards are as follows:

Principal assumptions	2019	2018
Weighted average share price at grant date	**29.07**	**24.57p**
Weighted average exercise price	**11.02**	**7.40p**
Weighted average vesting period (years)	**3**	**3**
Option life (years)	**10**	**10**
Weighted average expected life (years)	**3**	**3**
Weighted average expected volatility factor	**56%**	**55%**
Weighted average risk-free rate	**0.9%**	**0.9%**
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 long-term incentive awards and share options granted during the year ended 31 December 2019 was £3,096,000 (2018: £1,672,000).

The movements on long-term incentive awards and share options during the year were as follows:

	2019 Number of options	2019 Average exercise price (pence)	2018 Number of options	2018 Average exercise price (pence)
At 1 January	38,793,878	11.02p	57,351,945	7.29p
Granted	7,004,639	1.80p	1,642,968	35.78p
Exercised	(18,105,303)	3.85p	(15,376,590)	4.73p
Cancelled/lapsed	(7,053,740)	1.34p	(4,824,445)	1.29p
At 31 December	**20,639,474**	**17.41p**	**38,793,878**	**11.02p**

The weighted average share price at the date share options were exercised was 12.78p (2018: 87.35p).

As at 31 December 2019, the total number of long-term incentive awards and share options held by employees was 20,639,474 (2018: 38,793,878) as follows:

Option price pence/share	Option period ending	2019 Number of options	2018 Number of options
3.65p - 17.07p	31 December 2019	-	3,017,694
0.01p – 45.58p	31 December 2020	1,298,090	770,625
9.15p – 50.25p	31 December 2021	6,463,146	2,484,306
0.01p – 28.17p	31 December 2022	1,172,884	3,898,940
0.01p – 27.75p	31 December 2023	3,307,266	7,132,690
0.01p – 23.83p	31 December 2024	2,352,226	2,843,851
18.42p – 25.17p	31 December 2025	282,500	322,500
0.01p – 37.92p	31 December 2026	1,337,102	9,379,249
0.01p – 169.50p	31 December 2027	745,000	7,641,116
0.01p – 143.30p	31 December 2028	1,302,908	1,302,907
0.01p – 125.00p	31 December 2029	2,378,352	-
At 31 December		**20,639,474**	**38,793,878**

25. 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 £14,093,000 (2018: £2,304,000 profit).

26. Cash generated from operations

Group	2019 £'000	2018 £'000
(Loss)/Profit before tax	(24,948)	6,747
Finance costs	1,458	(87)
Depreciation of property, plant and equipment	10,477	6,773
Depreciation of right of use assets	3,590	-
Amortisation of intangible assets	8,222	6,109
Impairment of intangible assets	3,805	-
Impairment of property, plant & equipment	-	1,651
Impairment of right of use assets	1,623	-
Impairment of financial assets	4,134	-
Share of joint venture	3,951	-
Inventory write downs (note 17)	3,219	1,419
Profit on disposal of fixed assets	(245)	-
CSDC acquisition negative goodwill	(171)	-
Non-cash provision movements	-	5,495
Share based payments	(771)	(1,044)
Cash inflow from operations before changes in working capital	**14,344**	**27,063**
Increase in inventories	2,184	(2,806)
Increase in trade and other receivables	4,130	(4,032)
(Decrease) / increase in trade and other payables	(11,710)	(3,237)
Cash inflow from operations	**8,948**	**16,988**

Company	2019 £'000	2018 £'000
(Loss)/Profit before tax	(15,381)	5,982
Finance income	(5,987)	(6,299)
Finance costs	362	-
Foreign exchange	979	(1,861)
Depreciation of property, plant and equipment	14	13
Amortisation of intangible assets	145	66
Impairment of intangible assets	357	-
Share based payments	(1,374)	(1,898)
Cash outflow from operations before changes in working capital	**(20,885)**	**(3,997)**
Decrease / (Increase) in trade and other receivables	18,390	(28,425)
(Decrease) / Increase in trade and other payables	(2,681)	2,090
Cash outflow from operations	**(5,176)**	**(30,332)**

27. Reconciliation of net cash flow to movement in net funds / (debt)

	2019 £'000	2018 £'000
(Decrease)/increase in cash in the year	(11,867)	(25,292)
Increase in borrowings	(41,895)	-
Repayment of borrowings	17,125	-
Repayment of leases	3,651	-
Net movement resulting from cash flows	**(32,986)**	**(25,292)**
Net funds at 1 January	**20,807**	**45,612**
Adjustments on application of IFRS 16	(50,212)	-
Net (debt) / funds at 1 January	**(29,405)**	**45,612**
Net movement resulting from cash flows	(32,986)	(25,292)
Non-cash movements	(1,557)	487
Net cash at 31 December	**(63,948)**	**20,807**

Decrease in cash in the year includes £368,000 (2018: £66,000) of cash interest paid.

Non-cash movements include £1,238,000 (2018: £nil) of unwind of discounting on lease liabilities, £346,000 (2018: £nil) of new lease liabilities and the impact of foreign exchange of £27,000 (2018: £487,000).

28. Analysis of net funds / (debt)

	At 1 January 2019 £'000	Adjustments on application of IFRS 16 £'000	Cash flow £'000	Other non-cash movements £'000	At 31 December 2019 £'000
Bank borrowings due after one year	-	-	(22,736)	-	(22,736)
Bank borrowings due within one year	-	-	(2,034)	-	(2,034)
Lease liabilities due after one year	-	(48,115)	-	3,220	(44,895)
Lease liabilities due within one year	-	(2,097)	3,651	(4,637)	(3,083)
Total borrowings	-	(50,212)	(21,119)	(1,417)	(72,748)
Cash and cash equivalents	20,807	-	(11,867)	(140)	8,800
Net funds / (debt)	**20,807**	**(50,212)**	**(32,986)**	**(1,557)**	**(63,948)**

Cash and cash equivalents at 31 December 2018 and 31 December 2019 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 £1,238,000 (2018: £nil) of unwind of discounting on lease liabilities, £346,000 (2018: £nil) of new lease liabilities and the impact of foreign exchange of £27,000 (2018: £487,000).

The reclassification in lease liabilities due after one year and within one year principally relates to one property where the lease liabilities become payable from Q3 2020.

29. Subsidiary undertakings

Name of company	Class of capital	Proportion of shares held	Activity	Country of incorporation	Registered Office
IQE (Europe) Limited	Ordinary shares of £1	100%*	Manufacture of advanced semiconductor materials	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
IQE Inc	Common stock of $0.001	100%*	Manufacture of advanced semiconductor materials	USA	119 Technology Drive, Bethlehem, PA 18015, USA
IQE KC LLC	Limited liability company	100%*	Manufacture of advanced semiconductor materials	USA	200 John Hancock Road, Taunton, MA 02780, USA
IQE Taiwan ROC**	Ordinary shares of NT$10	90%	Manufacture of advanced semiconductor materials	Taiwan	No. 2-1, Li-Hsin Road Hsinchu Science Park Hsinchu 300, Taiwan
IQE RF LLC	Limited liability company	100%*	Manufacture of advanced semiconductor materials	USA	265 Davidson Avenue Somerset, NJ 08873, USA
IQE Silicon Compounds Limited	Ordinary shares of £1	100%	Manufacture of silicon epitaxy	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
MBE Technology Pte Ltd	Preferred shares of S$1 Ordinary shares of S$1	100% 100%	Manufacture of advanced semiconductor materials	Singapore	30 Tampines industrial Avenue 3 Singapore 528775
CSDC Private Limited	Common stock of $1 par value	100%*	Research, development and Manufacture of semiconductor materials	Singapore	30 Tampines industrial Avenue 3 Singapore 528775
Wafer Technology Limited	Ordinary shares of £1	100%*	Manufacture of semiconductor compounds and ultra high purity materials	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
NanoGaN Limited	Ordinary shares of £0.001	100%	Development of advanced semiconductor materials	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
Galaxy Compound Semiconductors Inc	Common stock of $0.00 par value	100%*	Manufacture of semiconductor compounds and ultra high purity materials	USA	9922 E Montgomery Avenue, #7, Spokane, WA 99206, USA
EPI Holding Limited	Ordinary shares of £1	100%	Dormant holding company	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
KTC Wireless LLC	Limited liability company	100%	Dormant holding company	USA	119 Technology Drive, Bethlehem, PA 18015, USA
IQE USA Inc	Limited liability company	100%	Dormant holding company	USA	119 Technology Drive, Bethlehem, PA 18015, USA
IQE Solar LLC	Limited liability company	100%*	Dormant company	USA	119 Technology Drive, Bethlehem, PA 18015, USA
IQE Properties Inc	Limited liability company	100%*	Property holding company	USA	119 Technology Drive, Bethlehem, PA 18015, USA
Wafer Technology International Limited	Ordinary shares of £1	100%	Dormant holding company	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK

* Indirect holdings
** The consolidated results of the Group include revenue of £27,893,000 (2018: £32,400,000), EBITDA of £6,538,000 (2018: £6,235,000) and net assets of £38,500,000 (2018: £35,480,000) relating to IQE Taiwan ROC.

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 a statutory guarantee to these subsidiaries in accordance with section 479C of the Companies Act 2006.

30. Joint Ventures

The Group holds investments in one joint venture as follows:

Name of company	Class of capital	Proportion of shares held	Activity	Country of incorporation	Registered Office
Compound Semiconductor Centre Limited	Common stock of £1 par value	50%*	Research, development and Manufacture of semiconductor materials	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK

* Indirect holdings

Compound Semiconductor Centre Limited ('CSC')
On 9 July 2015 the Group entered into a joint venture agreement with Cardiff University to create the CSC in the United Kingdom. The shareholder agreement establishes that the CSC is jointly controlled by the shareholders who have an equal share of the voting rights such that the Group's investment in the joint venture is accounted for using the equity method in accordance with the accounting policies set out in note 2 and note 3.

The commercial purpose of the CSC is the research, development and manufacture by metal organic vapour phase epitaxy ('MOVPE') of advanced compound semiconductor materials in Europe.

The business was set-up by the joint venture partners to provide a bridge between early stage research and high volume manufacturing and was established in a manner to provide the CSC with the capability to deliver specialist compound semiconductor product development, prototyping and early stage manufacturing services to academic and industrial customers from its own compound semiconductor foundry.

On the formation of the joint venture the Group contributed fixed assets, independently valued at £12,000,000, transferred employees and licensed intellectual property to establish the CSC's manufacturing and technical capability whilst at the same time entering into an agreement with CSC that conveys to the Group the right to use the assets of the CSC for a minimum five year period following formation of the joint venture (see note 3a). Cardiff University contributed cash.

The intellectual property license relates to technical know-how and is licensed to the CSC under the terms of a perpetual licence that can only be terminated in a limited number of circumstances, none of which currently apply as the CSC is not in breach of the license agreement. The Group has no obligation to enhance or develop the licensed intellectual property. The licence fee of £20,000,000, mutually agreed by the Group and Cardiff University was recognised as license income in accordance with the Group's revenue recognition policy for perpetual licenses (see note 2) in 2015 and 2016 when the intellectual property was transferred to the CSC.

The contractual right granted by the CSC to the Group to use its assets provides the Group with access to manufacturing capacity and de-risks the initial establishment of the CSC as the Group operates as a cornerstone customer during the early stages of the development of the CSC's business when it is required to fund running costs associated with its foundry whilst developing its business and own independent revenue streams.

Costs associated with the right to use the assets of the CSC are charged to the Group at a mutually agreed price by the Group and Cardiff University. The price reflects the Group's right to use the assets and is variable based on the CSC's cash cost of production (including direct labour, materials and other foundry costs) providing the CSC with a low cost, low risk route to build its business whilst covering its manufacturing related operating costs.

The arrangements between the joint venture parties, structured in the first five years to provide the Group with its required level of manufacturing capacity and to provide the CSC with sufficient flexibility to develop its business envisaged that reliance on the Group as the cornerstone customer will reduce. The CSC continues to achieve key business milestones, including the development of its own independent commercial customer relationships and funded collaborative research and development projects which has resulted in its reliance on the Group reducing as these independent relationships and revenue streams continue to increase in number and value with external revenue totalling £1,482,000 (2018: £1,104,000).
The CSC's financial year end is 31 December which is co-terminus with the Group and has been used to prepare the consolidated Group financial statements and the summary CSC financial information set out on the next page. No dividend has been received by the Group from the CSC (2018: £nil).

Summary information for Compound Semiconductor Centre Limited

Summary income statement	2019 £'000	2018 £'000
Revenue	8,379	7,759
EBITDA	154	59
Loss from continuing operations	(6,070)	(5,796)
Loss for the period	(6,070)	(5,796)
Total comprehensive expense for the period	**(6,070)**	**(5,796)**

Summary balance sheet	2019 £'000	2018 £'000
Non-current assets	24,696	30,034
Current assets	308	592
Current Liabilities	(1,399)	(1,784)
Non-current Liabilities	(21,072)	(20,239)
Equity attributable to Joint Venturers	**2,533**	**8,603**

Carrying value of equity interest in CSC Ltd	2019 £'000	2018 £'000
Net assets of CSC Ltd	2,533	8,603
Proportion of the Groups ownership interest	50%	50%
Groups share of net assets	1,266	4,302
Elimination of unrealised gains on transactions with CSC Ltd	(12,000)	(12,000)
Absorption of JV losses against long term JV preference share debt (note5)	3,951	-
Cumulative unrecognised losses	6,783	7,698
Carrying amount of the Groups interest in the JV	**-**	**-**

Summary of cumulative unrecognised losses	2019 £'000	2018 £'000
Unrecognised losses brought forward	(10,412)	(7,566)
Unrecognised unrealised gains on transactions with CSC Ltd	-	-
Unrecognised losses in the year	(3,035)	(2,846)*
Absorption of JV losses against long term JV preference share debt (note5)	3,951	-
Cumulative unrecognised losses carried forward	**(9,496)**	**(10,412)****

Comparative financial information has been adjusted to reflect the final audited 2018 CSC financial statements.
* Includes share of total comprehensive expense for the period £3,035,000 (2018: £2,898,000) and share of CSC transactions with owners recognised directly in equity £nil (2018: £52,000).
** Includes £2,714,000 (2018: £2,714,000) prior period unrecognised unrealised gains on transactions with CSC.

Compound Semiconductor Development Centre Private Limited ('CSDC')

On 23 March 2015 the Group entered into a joint venture agreement with an existing customer, WIN Semiconductors Corp ('WIN') and Nangyang Technological University and four representatives of the University ('NTU') to create the CSDC in Singapore. The shareholder agreement established that CSDC was jointly controlled by the shareholders with the Group's investment in the joint venture accounted for using the equity method in accordance with the accounting policies set out in note 2.

On 10 October 2019 the Group acquired the shareholdings of WIN and NTU in CSDC taking control of the business and increasing its equity ownership to 100%. The Group's investment in CSDC has been consolidated with CSDC treated as a subsidiary from the date of acquisition of the third-party shareholdings (see note 31).

Summary financial information for CSDC up to the date of acquisition on 10 October 2019 is set out on the next page.

Summary information for CSDC Private Ltd

Summary income statement	1 January to 10 October 2019 £'000	1 January to 10 October 2019 SG$'000	2018 £'000	2018 SG$'000
Revenue	4,051	6,984	4,428	7,908
LBITDA	(1,970)	(3,396)	(4,791)	(8,556)
Loss from continuing operations	(1,974)	(3,404)	(5,006)	(8,939)
Loss for the period	(1,974)	(3,404)	(5,006)	(8,939)
Total comprehensive expense for the period	**(1,974)**	**(3,404)**	**(5,006)**	**(8,939)**

Summary balance sheet	2018 £'000	2018 SG$'000
Non-current assets	-	-
Current assets	2,374	4,165
Current Liabilities	(1,236)	(2,169)
Non-current Liabilities	(9,944)	(17,446)
Deficit attributable to Joint ventures	**(8,806)**	**(15,450)**

Carrying value of equity interest CSDC Private Ltd	2018 £'000	2018 SG$'000
Net liabilities of CSDC Private Limited	(8,806)	(15,450)
Proportion of the Groups ownership interest	51%	51%
Groups share of net liabilities	(4,491)	(7,880)
Share of losses recognised in income statement	2,000	3,571
Cumulative unrecognised losses	2,491	4,309
Carrying amount of the Groups interest in the JV	**-**	**-**

Summary of cumulative unrecognised losses	2018 £'000	2018 SG$'000
Cumulative unrecognised losses brought forward	(1,826)	(3,320)
Unrecognised losses in the year	(665)*	(989)
Cumulative unrecognised losses carried forward	**(2,491)**	**(4,309)**

31. Acquisitions

On 10 October 2019, the Group acquired the 49% equity shareholdings of its joint venture partners in CSDC taking control of the company and increasing its equity ownership to 100%.

The acquisition was for a nominal fee of USD$1 to WIN Semiconductors Corp and SGD$1 to each of the other five third party shareholders, settled in cash.

CSDC was formed on 23 March 2015 as a joint venture between IQE's Singaporean subsidiary MBE Technology Pte Limited (51%), WIN Semiconductors Corp (25%), Nanyang Technological University (18%) and four individuals of the NanYang University (6%). CSDC was established as a vehicle for the development and commercialisation of compound semiconductor technologies for academic and industrial customers based on Molecular Beam Epitaxy (MBE) technologies in Asia.

Since formation of CSDC, the landscape for compound semiconductors has changed significantly with increasing localisation of Asian technology supply chains and significant opportunities emerging within the China 5G market. By acquiring CSDC and taking control of the operation, the Group is best placed to:

- Take the necessary steps to restructure the operation which has been loss-making in the period immediately prior to acquisition as a result of under-utilisation of assets and property lease obligations; and

- Pursue Asian market sales opportunities for MBE-based products to return the operation to profitability.

In the period, post-acquisition, CSDC has contributed a net loss of £184,000 to the consolidated net loss for the year.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Recognised values on acquisition £'000
Acquiree's net assets at the acquisition date:	
Inventories	462
Trade and other receivables	1,579
Cash and cash equivalents	10
Trade and other payables	(1,880)
Net identifiable assets and liabilities	**171**
Consideration paid	
Cash consideration	-
Settlement of pre-existing relationships	-
Total consideration	**-**
Negative goodwill	**171**

The Group incurred no significant acquisition related costs.

Fair values for inventory, trade and other receivables and trade and other payables have been determined on a provisional basis.

The Group and CSDC were parties to an IP licence and equipment lease agreement as well as an ordinary trading relationship. At the acquisition date these pre-existing relationships were effectively settled as part of the acquisition. The fair value of these items was determined to be negligible on the acquisition due to the short remaining contractual term (less than 3 months), resulting in no changes to the fair value of consideration.

32. Related party transactions

The Group incurred professional fees and expenses during the year of £nil (2018: £31,250) payable to Horton Corporate Finance. Dr G H H Ainsworth, who was a director of IQE Plc during the year, is the managing partner of Horton Corporate Finance.

The Group purchased services during the year from Newport Wafer Fab Limited totalling £105,705 (2018: £97,000). Newport Wafer Fab Limited is wholly owned by Neptune 6 Limited. Dr AW Nelson is a director of Neptune 6 Limited and in conjunction with his close family Dr AW Nelson owns a controlling interest in Neptune 6 Limited.

Transactions with Joint Ventures

Compound Semiconductor Development Centre Private Limited

CSDC was established by the Group and its joint venture partners as a centre of excellence for the development and commercialisation of advanced compound semiconductor wafer products in Asia and on its formation entered into an agreement to license certain intellectual property and plant and equipment from the Group. On 10 October 2019 the Group acquired the shareholdings of its joint venture partners in CSDC taking control of the business and increasing its equity ownership to 100% (see note 31).

The activities of CSDC include research and development into advanced compound semiconductor wafer products and the provision of contract manufacturing services for compound semiconductor wafers to a subsidiary of the IQE plc Group, MBE Technology Pte Limited.

CSDC operates from space within the Group's manufacturing facility in Singapore. During the period prior to the acquisition of CSDC the Group sub-let space at its manufacturing facility to CSDC for £515,000 (2018: £565,000) at a rental cost per square foot equivalent to the cost paid by the Group on the head lease associated with the property.

Prior to the acquisition the Group also licensed intellectual property and equipment to the joint venture and recognising revenue of £nil (2018: £nil) in the period and purchased advanced compound semiconductor wafer products from CSDC for £4,051,000 (2018: £4,429,000). Intellectual property and equipment was licensed to CSDC and wafer products were procured from CSDC at prices mutually agreed by the Group, WIN and NTU.

During the period prior to acquisition payments of £737,000 (2018: £2,000,000) have been made on behalf of CSDC which in accordance with the Group's accounting policy (see note 2.4) has been recognised in the income statement as the Group's share of losses in CSDC exceeds the carrying value of its investment.

Compound Semiconductor Centre Limited

CSC was established by the Group and its joint venture partner as a centre of excellence for the development and commercialisation of advanced compound semiconductor wafer products in Europe. On its formation the Group contributed assets to the joint venture valued at £12,000,000 as part of its initial investment.

The activities of CSC include research and development into advanced compound semiconductor wafer products, the provision of contract manufacturing services for compound semiconductor wafers to certain subsidiaries within the IQE plc Group and the provision of compound semiconductor manufacturing services to other third parties.

CSC operates from its manufacturing facilities in Cardiff, United Kingdom and leases certain additional administrative building space from the Group. During the year the CSC leased this space from the Group for £115,000 (2018: £115,000) and procured certain administrative support services from the Group for £235,000 (2018: £235,000). As part of the administrative support services provided to CSC the Group procured goods and services, recharged to CSC at cost, totalling £3,468,000 (2018: £3,130,000).

CSC granted the Group the right to use its assets following its formation for a minimum five year period. Costs associated with the right to use the CSC's assets are treated by the Group as operating lease costs (see note 3a). Costs are charged by the CSC at a price that reflects the CSC's cash cost of production (including direct labour, materials and site costs) but excludes any related depreciation or amortisation of the CSC's property, plant and equipment and intangible assets respectively under the terms of the joint venture agreement between the parties. Costs associated with the right to use the CSC's assets totalled £6,656,000 (2018: £6,655,000) in the year.

At 31 December 2019 an amount of £222,000 (2018: £586,000 owed from) was owed from the CSC at year end.

In the Groups year-end balance sheet 'A' Preference Shares with a nominal value of £8,800,000 (2018: £8,800,000) are included in financial assets at an amortised cost of £3,951,000 (2018: £7,937,000) and the Group has a shareholder loan of £239,000 (2018: £237,000) due from CSC.

33. Commitments

The Group had capital commitments at 31 December 2019 of £nil (2018: £11,500,000) primarily relating to plant and equipment purchased for the Group's manufacturing site at Newport, United Kingdom, its manufacturing site at Hsinchu, Taiwan and its manufacturing site in Massachusetts, United States of America.

34. Post Balance Sheet Events

The World Health Organisation declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. The Directors of the Company have assessed the impact that COVID-19 may have on the ability of the Group to continue as a going concern. The Group has determined that the COVID-19 pandemic and its related impacts are non-adjusting subsequent events. Accordingly, the consolidated financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact.

Officers and advisers

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

Directors
Mr P Smith BSc, Hon LLD, DUniv., CEng, FIET (Non-Executive Chairman)
Mr T N Pullen BA (Hons), ACA (Chief Financial Officer)
Dr A W Nelson OBE, BSc, Ph.D, FREng (President and Chief Executive Officer)
Carol Chesney (Non-executive Director, Chair of Audit Committee)
Sir David Grant CBE PhD FREng FLSW CEng FIET (Non-Executive Director)
Sir Derek Jones KCB (Non-executive Director)
Dr G H H Ainsworth - retired 25 June 2019
Dr H Williams - retired 30 August 2019

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Glossary of terms:

cREO™ .... Crystalline Rare Earth Oxide

DFB................ Distributed Feedback Laser

Epitaxy........... See page 8

GaAs.............. Gallium arsenide

GaSb .... Gallium antimonide

GaN .... Gallium Nitride

InP.................. Indium phosphide

InSb .... Indium antimonide

MBE............... Molecular Beam Epitaxy

MOCVD.......... Metal Organic Chemical Vapour Deposition

NIL .... Nano Imprint Lithography

PQC .... Photonic Quasi Crystals

RF................... Radio Frequency

VCSEL............ Vertical Cavity Surface Emitting Laser