Solving tomorrow's challenges

Annual Report and Accounts 2023

Where innovation begins

As the world's leading compound semiconductor supplier, IQE is positioned at the forefront of technology to innovate for a better tomorrow.

Our Vision

Enabling a brighter future through the power of advanced semiconductors.

Our Mission

Our products are fundamental in the technologies we use in our everyday life. As leaders in semiconductor materials innovation, we are committed to responsibly powering the next generation of technology to drive society towards a sustainable, Net Zero future. We are enabling a global technology revolution to create a connected, safe and inclusive world.

Revenue

£115m

2022: £167m

Net operating loss

£(26)m

2022: £(73)m

Adjusted EBITDA

£4m

2022: £23m

Adjusted net debt

£(2)m

2022: £(15)m

Cash capital expenditure

£12m

2022: £9m

The nature and description of alternative performance measures are included in Note 5 on page 124. Adjusted net debt is defined on page 98.

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Our business at a glance

Who we are

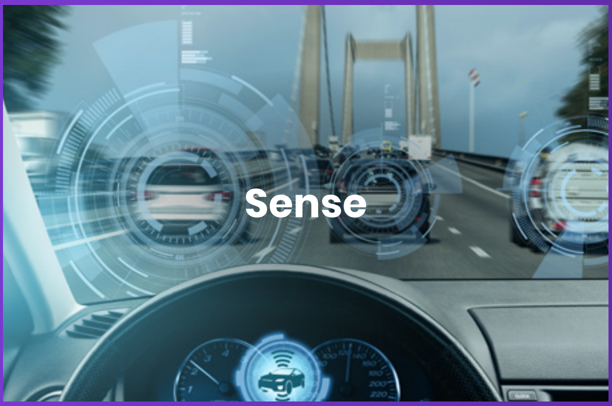
IQE is the world's only pure play epitaxy provider with a global footprint, strategically positioned with manufacturing facilities on three continents. We are committed to serving our customers in their respective geographies, providing world-class technology, flexibility and supply chain security.

What we do

IQE provides compound semiconductor manufacturing services, delivering powerful foundational technologies shaping the future of innovation. Compound semiconductors are critical for enabling the megatrends of the future thanks to their advanced performance characteristics, and we are proudly partnering with our customers to create the intelligently connected, low-carbon world of tomorrow.

Our growth potential

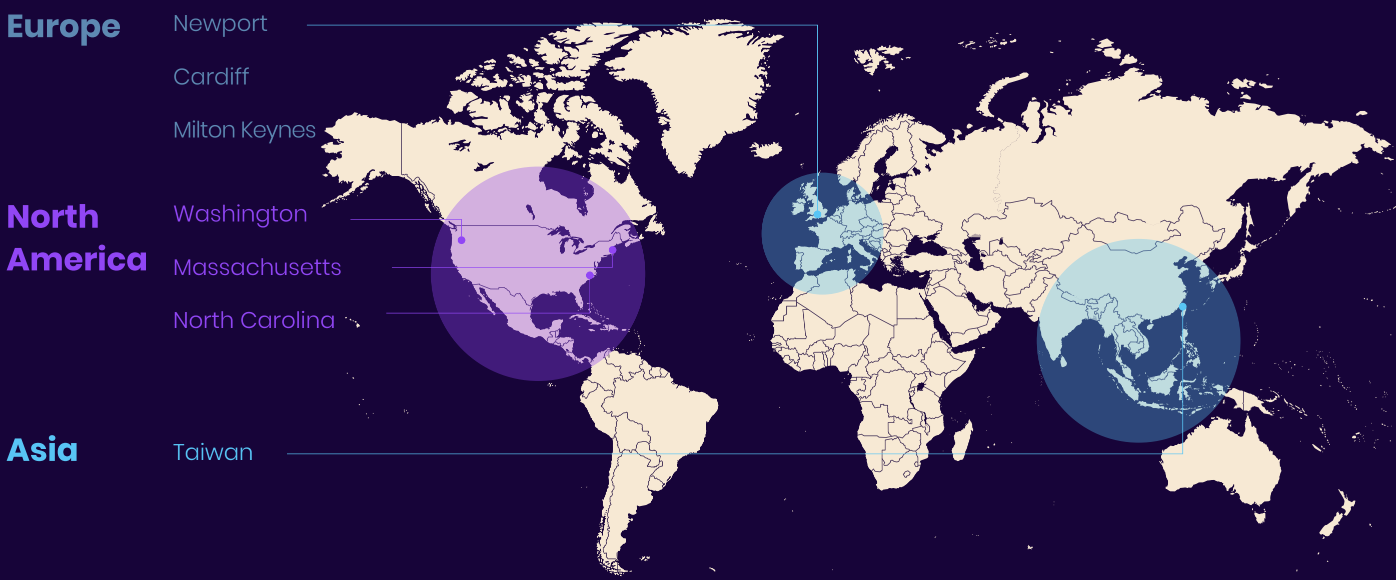
The digital world continues to evolve and we reside in an era where connectivity has become indispensable. From mobile devices and 5G communication systems, to intelligent gadgets in our households and vehicles, IQE's connectivity products facilitate high-performance wireless communication.

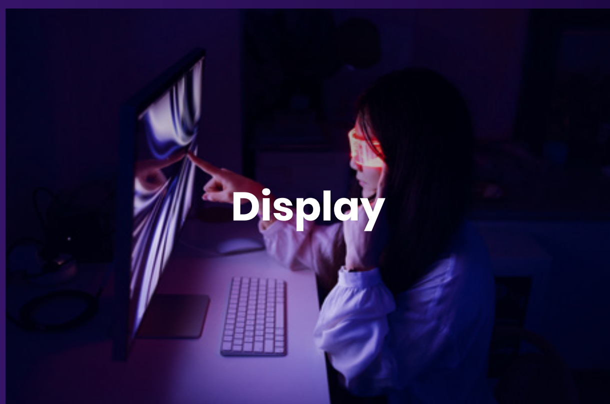


The global sensing market remains poised for substantial growth in the coming years, fuelled by the demand for smart connected devices capable of sensing and communicating with their surroundings. Leveraging an impressive background in 3D sensing, IQE sense technologies are focused on enabling healthcare wearables, LiDAR technology for autonomous vehicles, and industrial automation.

Our global footprint

Uniquely positioned for supply security and scalability





Energy is a cornerstone of both the digital landscape and our daily existence. To tackle global power-related challenges like climate change, the utilisation of compound semiconductors will be essential due to their performance and energy efficiency advantages. The growth of Power Electronics, particularly enabled by GaN, is serving the rising demand for electric vehicles, intelligent power grids, and efficient consumer applications - critical elements in the pursuit of achieving Net Zero.

Display technology will see notable evolution driven by the growing expectations of consumers and industries for more vivid and immersive display experiences. IQE is focused on contributing to the advancement of future display technologies through microLED to deliver enhanced performance and reduced power consumption, through collaboration with key strategic partners.

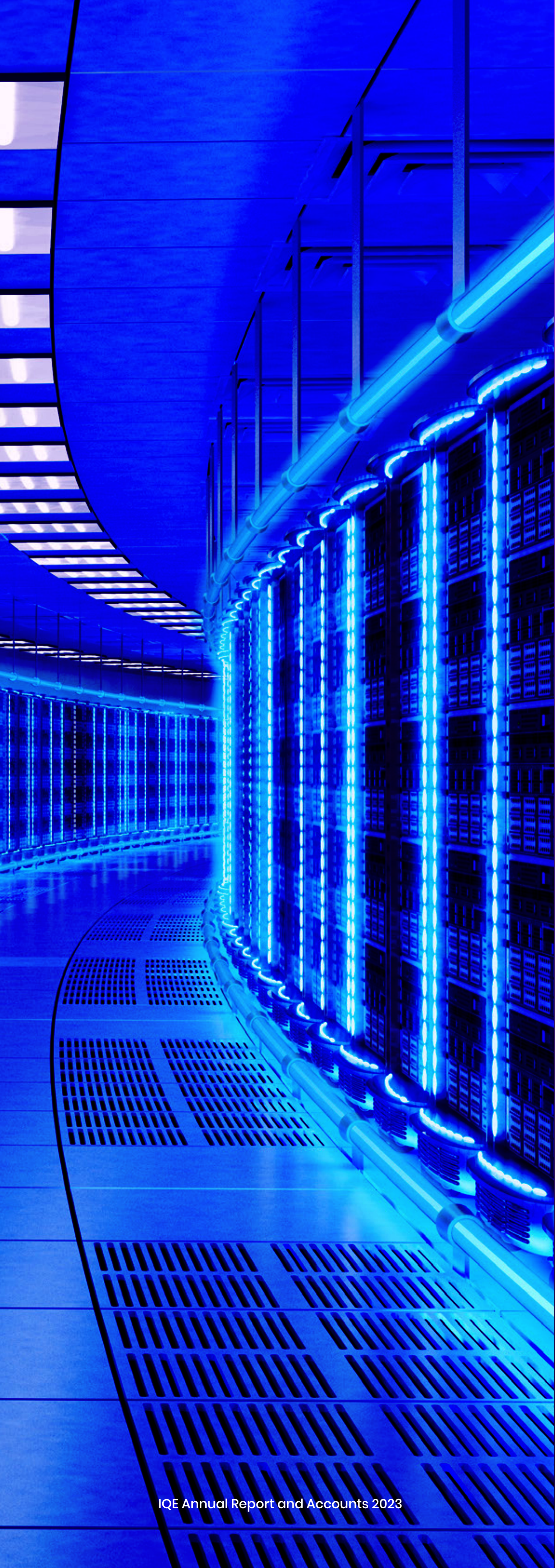
Purposeful & sustainable innovation

IQE has a market-led approach to solve tomorrow's technology challenges

GaN-led diversification strategy in action

Gallium Nitride (GaN) is an advanced material which is employed across a wide range of applications and which offers numerous performance advantages over traditional silicon-based semiconductors, as it enables smaller, more efficient devices. Today GaN underpins 5G/6G and advanced communication systems and it is emerging as a cornerstone material for Power Electronics applications, such as in high-end consumer electronic chargers, and it will enable key power sectors such as electric vehicles. In the longer term, GaN's optical properties will be exploited for efficient, ultra-high resolution displays (MicroLEDs).

IQE's GaN-led diversification strategy prioritises market-led growth opportunities, leveraging our established GaN pedigree. We have made strategic investments in our GaN capacity, with four new GaN reactors being added to our fleet in the US and UK. We are poised to add additional capacity as the market requires and the Company has a pipeline of GaN R&D projects focused on enabling both Power Electronic devices and next-generation display applications.



Q&A

Rodney Pelzel
Chief Technology Officer

How will IQE enable artificial intelligence in a Net Zero world?

The global technology sector is undergoing a rapid and transformational shift as it seeks to meet the demands of artificial intelligence (AI) and related applications. AI is not a new technology, but it has recently been thrust into the spotlight thanks to consumer recognition of, and growing demand for, generative AI.

With AI firmly in focus, demand for emerging AI applications is poised to fuel growth in the sector. Future use cases will require AI to operate on real-time, dynamic, high-fidelity inputs and outputs at the edge. This presents challenges for next generation sensing and display technologies. In addition, the need for high speed, ultra-reliable, low-latency, high-bandwidth connectivity will create bottlenecks as the amount of AI-generated data grows exponentially. Together with silicon, compound semiconductors will be needed to overcome these challenges and deliver the AI ecosystem of the future. Solutions will include GaAs and InP-based photonics for accurate sensing; GaN and GaAs-based microLEDs for efficient, ultra-high resolution displays and AR/VR environments; and GaN, GaAs and InP-based next-gen 5G/6G connectivity (both wired and wireless).

Scaling of AI will require large amounts of incremental power which will generate emissions which is at odds with energy efficiency targets and Net Zero objectives. Consequently, GaN-power devices will become essential for the achievement of AI in an environmentally responsible manner.

The future is faster, cleaner and more efficient with compound semiconductors; they are the cornerstone for enabling AI in a Net Zero world.

Solving tomorrow's challenges

Addressing the technological problems of the future requires new thinking, today. IQE is at the forefront of advanced compound semiconductor materials innovation offering leading-edge solutions and an unmatched customer experience.

Our key differentiators

1

Only global pure play epitaxy supplier

We are strategically positioned with the industry's most comprehensive product portfolio and unique three-continent footprint. We offer our customers unrivalled flexibility, scalability and supply security of the world's most advanced compound semiconductor products.

2

Market-led approach

We partner with our customers to create differentiated solutions to address market challenges using our scalable materials platforms.

3

Expansion capacity and scalability

In a market with high barriers to entry we have a significant first mover advantage for scaling our operations to meet future demand, with the potential to expand 3x within our current site footprint.

4

Unmatched expertise

As global epitaxy experts, IQE has over three decades of experience and an established track record of creating leading-edge technology with an unrivalled intellectual property portfolio.

5

Cornerstone of device technology

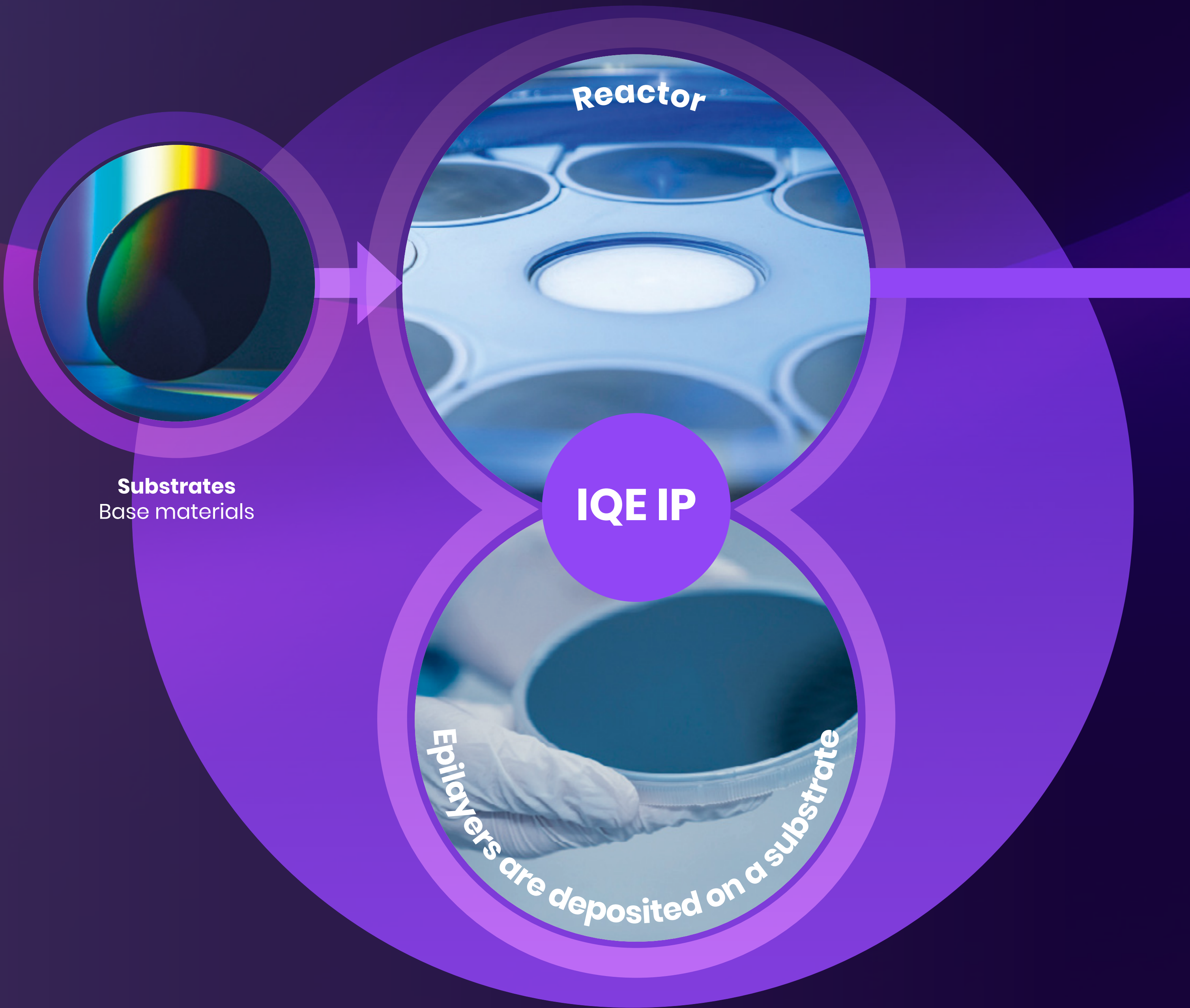
Due to their high performance and efficiency characteristics, compound semiconductors are essential for enabling an intelligently connected, immersive, low-carbon world.

6

Delivering value

We continue to transform our commercial and operational model to deliver sustainable growth for all of our stakeholders, including our customers, partners, employees and shareholders.

Strategically positioned in the global value chain



iQE

Epitaxy is where the value is created

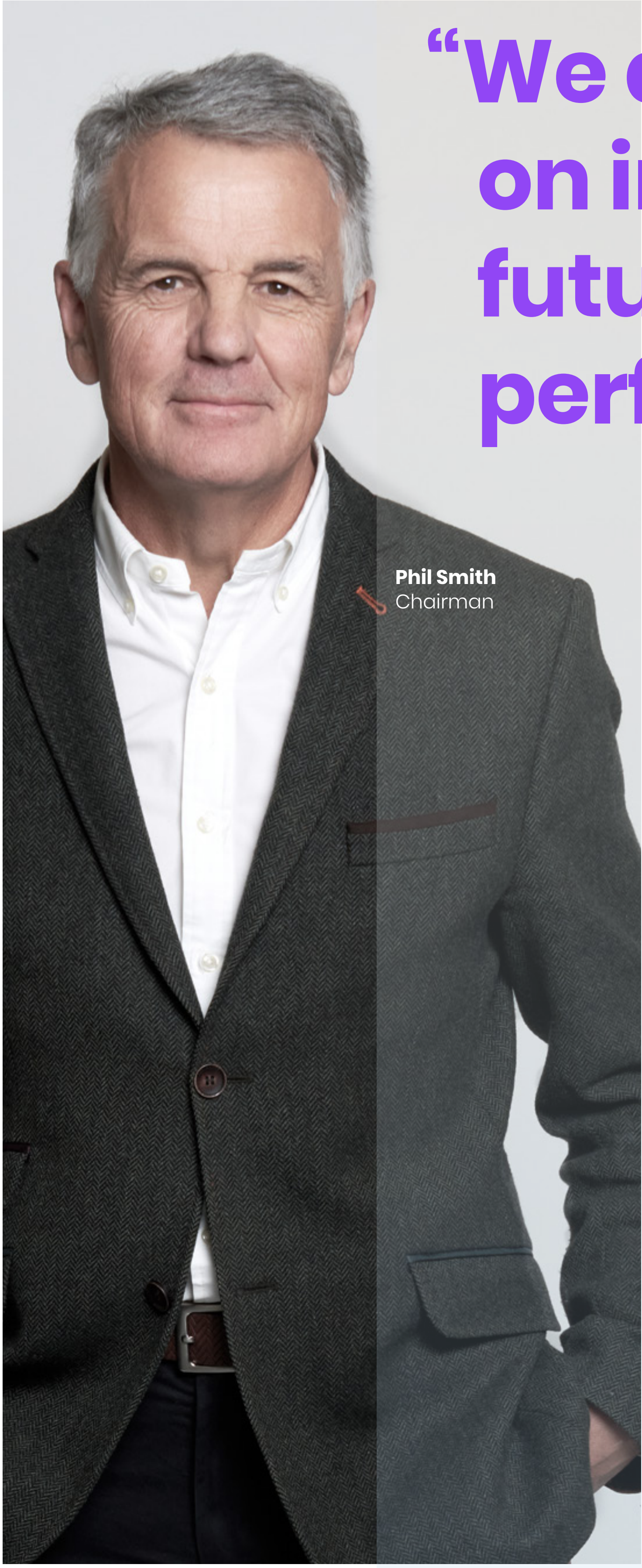
As the only pure play epitaxy provider with a global footprint, IQE remains uniquely positioned within the global semiconductor ecosystem.

Foundries
Device fabrication

Fabless
Design

Device makers
Device manufacture

+ Read more about our growth markets on page 18



Phil Smith
Chairman

"We are focused on improving future business performance"

With the passing of another year as Chairman of IQE, I am pleased to be able to reflect on an important period for the business. While it is true that IQE faced some significant challenges in 2023, it is equally important to recognise how the Company navigated through a dynamic and at times unpredictable macro environment. We remained steadfast in our commitment to delivering for our customers and stakeholders, and progressing our defend and diversify strategy. I would like to thank our teams for their resilience and hard work as we responded to these challenges. As we continue on the growth journey ahead, I am confident in our collective ability to overcome difficulties and emerge stronger, guided by our shared commitment to building a connected and sustainable future for all.

Trading performance

The Group's trading performance in 2023 reflects the challenging macro-economic environment that drove an industry-wide downturn, leading to a reduction in customer orders. Reported revenue for the period was £115m, a 31% reduction year-on-year.

In this challenging operating environment we took decisive action to manage costs and deliver immediate efficiencies and longer-term margin benefits, including making the difficult decision to reduce headcount and defer some capital expenditure to preserve our cash position. We also undertook a successful equity fundraise of £30m in May to strengthen our balance sheet and underpin this cost action. As 2023 progressed, we were able to achieve double-digit revenue growth in H2 2023 versus H1 2023, and we were profitable at an EBITDA level for the full year.

Board matters

I am pleased with the strengthening of IQE's Board following the appointment of Jutta Meier as Chief Financial Officer in January 2024. Jutta joined shortly after we welcomed both Bami Bastani and Maria Marced to the Board as Non-executive Directors, following the retirement of Sir Derek Jones. They collectively bring a wealth of experience from within the semiconductor industry to IQE. Also during 2023 we were fortunate to have Harmesh Suniara as another addition to the Board. Harmesh has significant capital markets experience as a representative of Lombard Odier, a major shareholder in IQE, and possesses a deep understanding and appreciation of the business.

Looking ahead

There are positive signs that the temporary semiconductor industry downturn is stabilising, and we saw continued pockets of recovery in H2 2023. This improvement is expected to continue into 2024 as supply chains normalise and customer demand recovers.

IQE has made significant progress implementing its diversification strategy and our strategic investment in GaN capacity in 2023 is anticipated to unlock further opportunities throughout 2024. There have been new customer design wins in GaN Power electronics and the MicroLED markets, whilst at the same time we are broadening our penetration into the China wireless market. As the business expands its customer base across the breadth of its product portfolio including for applications such as AI, and ramps in strategic growth areas, we are focused on improving future business performance and margins.

Phil Smith

Phil Smith
Chairman

9 April 2024

Q&A

Why is government engagement important for IQE?

We have seen repeatedly that government support is a critical element in underpinning a strong semiconductor ecosystem in many jurisdictions around the globe. For IQE, engaging with governments is essential for ensuring regulatory alignment and fostering an environment which is conducive to innovation. Whether it is in the UK, US or further afield, we are engaging with government on important policy reforms and investment incentives designed to propel the semiconductor industry forward, stimulating economic growth and technological advancement.

I was personally thrilled to see IQE mentioned in the UK Government Semiconductor Strategy which was released in May. This strategy will be significant in shaping the nation's technological future and global competitiveness, and we are proud to have Americo confirmed as a member of the UK Government Semiconductor Advisory Panel, to actively contribute his expertise towards the realisation of this strategy. Concurrently, IQE is also engaging with our counterparts on the US CHIPS Act, which also aims to bolster domestic semiconductor production and supply chain resilience, ensuring the nation's strategic autonomy and competitiveness in the global semiconductor market.

We are excited to witness the tangible benefits materialise from such important government initiatives, propelling IQE and the wider semiconductor industry towards a brighter and more resilient future.

Capturing value through a resilient business model

How we create value:

Market intelligence
IQE's success starts with a deep understanding of, and engagement with, the markets that require our cutting-edge capabilities to understand their needs today and in the future.

Research & development
Working in partnership with technology leaders across the supply chain as well as in academia, programmes of innovation are mapped to our core strengths to create leading capabilities and to win opportunities.

Product portfolio
Our differentiated technology is used to develop market-leading products with superior performance and quality characteristics, enabling the devices required by the connected, immersive, low-carbon world of today and tomorrow.

Manufacturing capacity at scale
Investment in mass production infrastructure in our foundries on three continents has created a manufacturing platform which is geopolitically resilient and can scale volume to capture superior economies of scale.

Customer qualification
Combining our superior product and manufacturing pedigrees with exacting quality standards enables broad product qualification with leading international customers.

Underpinned by:

Our people
IQE's strength lies in the expertise and diversity of our workforce and we have a deep culture of teamwork and collaboration. For over three decades we have been thinking big, driven by a relentless passion for what we do.

Our strategic goals
By investing in the future of compound semiconductors and scaling the business for growth, IQE is targeting expanding margins and cash flows. Integral to this is the development and mass production of advanced materials that are key to enabling macro trends such as the proliferation of 5G/6G communications, WiFi 6/7 connectivity, the Internet of Things, electrification of vehicles, healthcare wearables, AR/VR, the Metaverse and AI.

Sound governance and risk management
As a global operator with an over 30-year heritage, IQE prioritises risk mitigation to ensure continuity of operations. Oversight from our Board ensures the strategy and execution of our business through incorporation of best practice and proactive risk management while retaining the agility to operate in the dynamic, fast-paced semiconductor industry.

Responsible business operations
Our health and safety policies and procedures prioritise the health and safety of our people, the environment and the communities in which we operate. We view our global supply chain as an extension of our business and work closely with all partners as part of our commitment to operating responsibly.

What makes our model work

Strategic customer partnerships
IQE is a materials solutions provider, enabling advanced technologies throughout major global supply chains. We have well-established, trusted relationships with market-leading customers up and down the value chain.

Highly skilled and experienced people
IQE attracts and develops the top talent in the compound semiconductor industry. We use our wealth of technical expertise and superior product portfolio to enable our customers to lead in their markets.

Breadth of intellectual property
Over its 30+ year history, IQE has created a strategic patent portfolio and developed significant process IP, giving it an enviable and protected position within diverse technology markets.

Widely recognised technology leadership
As a materials specialist committed to innovation, IQE is at the forefront of new technology and has a track record of enabling major technological product trends, from R&D to mass production.

Global manufacturing footprint
Headquartered in the UK and with manufacturing operations on three major continents, IQE has broad market access, close customer proximity and global manufacturing flexibility and resilience.

Superior quality is a core competence
IQE has a reputation for manufacturing technologically complex and demanding products of the highest quality. Our wafers drive superior yields and unit economics for our customers.

The value we share

Customers
£3m

Technology-related development expenditure

2022: £4m

Employees
1,528

Hours of learning completed

2022: 2,064

Investors
£12m

Cash capital expenditure investment

2022: £9m

Communities
1 day

Annual paid employee volunteering leave entitlement

2022: 1 day

Environment
19,603 tCO_2e

Total GHG emissions

2022: 22,180 tCO_2e

"IQE is powering tomorrow's technology, today."

Americo Lemos
Chief Executive Officer

As I reflect on my second year with the business, I am pleased to share our accomplishments and progress in a year that brought both challenges and opportunities for IQE.

We entered 2023 reinvigorated and full of momentum off the back of our award-winning Capital Markets Day in November 2022, which saw us define a new strategic direction for the Company. While this was received very positively, the macro environment around us was not so welcoming and these conditions persisted throughout the year.

In January we announced we were seeing destocking in the wider industry which we foresaw might impact upon demand from existing customers. Unfortunately, the rate at which this accelerated was quicker than first anticipated, leading us to revise our H1 2023 numbers down in March. While this is no doubt disappointing, it was in line with what many others were experiencing during this cyclical industry-wide downturn. With the exceptions of those in Automotive and AI markets, many of IQE's peers in the semiconductor industry announced downward revisions to their full year 2023 estimates.

Against this backdrop, in May IQE raised £30m through a fundraise to deliver a robust balance sheet and headroom position, provide liquidity and fund investment to execute our strategy. We prioritised capital expenditure investment in Gallium Nitride (GaN) capacity in order to enable the business to continue its diversification into high-growth Power and Display markets. This was focused on the purchase of four GaN reactors which have been installed in our sites in both the UK and US.

Evidence of our GaN strategy in motion was the announcement in September that we had entered into a strategic collaboration with VisIC Technologies, a global leader in the provision of GaN power solutions to the automotive sector. Our partnership will develop the highest reliability power products for use in electric vehicle inverters. This technology promises to reduce power consumption, increase reliability and enhance performance in electric vehicles, key to achieving Net Zero.

Both industry and government are focused on enabling a low-carbon future, and during 2023 we were focused heavily on government engagement. We saw the delivery of the UK Government Semiconductor Strategy which named IQE and identified compound semiconductors as one of the areas in which the UK is world-leading, stating that maintaining this position in compound semiconductor innovation and manufacturing will be critical. In August I was fortunate to be invited to join the UK Government Semiconductor Advisory Panel, which is guided by the three key goals set out in the Semiconductor Strategy, namely growing the domestic semiconductor sector, mitigating the risk of supply chain disruptions and protecting national security.

As part of IQE being a global company that is critical to US supply chains, we are also engaged with the US government regarding CHIPS Act funding. In an era defined by rapid advancements in artificial intelligence, quantum computing and connectivity, semiconductors

Q&A

Why is GaN central to IQE's diversification strategy?

For IQE, developing our gallium nitride (GaN) capacity is crucial due to the rapid adoption of this material and growing global demand for Power Electronics. GaN offers numerous performance advantages over traditional silicon-based semiconductors, including improved energy efficiency and faster switching speeds. This results in significant reductions in power consumption and greenhouse gas emissions, making these 'third' generation semiconductors a vital contributor as we collectively work towards a Net Zero world. Of particular interest to IQE is GaN use in power electronics, enabling a wide range of energy efficient products across the automotive, communications infrastructure and telecommunications space.

IQE has a long history in GaN, creating the first GaN HEMT for RF applications in 1995. Recognising this heritage and the opportunities ahead, IQE has invested in our capacity to position ourselves as a competitive manufacturing force in GaN. By strengthening our capabilities, we have grown our ability to meet market demand whilst remaining at the forefront of this technology. Our strategic decision to diversify into GaN Power Electronics is a vital step towards driving innovation and sustainability as we work towards a low-carbon world.

"People are at the heart of semiconductor innovation."

are the backbone of innovation across industries. By fostering a robust semiconductor ecosystem, governments secure their position at the forefront of technological innovation and stimulate economic growth.

Talent is critical in our industry and we recognise that people are at the heart of semiconductor innovation. As such, we are partnering with universities around the globe to build a talent pipeline to fuel our growth. One example is our announcement in December of the extension of our long-term partnership with Cardiff University, focused on expanding research capacity in compound semiconductor technologies and skills provision at Postgraduate and Doctoral levels.

As we continue to build our commercial engine, we have strengthened our Board and Executive Leadership Team (ELT) to attract diverse individuals with significant industry experience. Peter Rabbeni was appointed as Senior Vice President, Communications Infrastructure and Security, in May 2023. Jutta Meier joined the Company as CFO in January 2024, and was joined by Rina Pal-Goetzen as Vice President of Government Affairs.

Operational performance

In 2023 we made good progress on our diversification strategy into Power Electronics. Having invested in GaN capacity, both in the UK and USA, we focused on the development of products for automotive, data centre and consumer markets. We delivered 650V (D-mode and E-mode) samples to Tier 1 customers. IQE witnessed a strong pull and investment in the Power Electronics ecosystem and we continued to expand our engagements with foundry, fabless and OEMs to deliver a full roadmap of GaN devices.

We demonstrated progress on our strategic commitment to diversify into GaN technologies for MicroLED, with the launch of new portfolio of 200mm (8") red, green and blue (RGB) epitaxy for microLED display qualification. IQE's differentiated microLED offering will provide customers with faster time-to-market options for display-level qualification and accelerate the deployment of microLEDs across many end applications.

In October we announced the industry's first 150 mm (6") Indium Phosphide (InP) platform enabling the scaled production of electro-optic devices at the core of artificial intelligence (AI), machine learning and cloud data centre networks, in collaboration with Kelvin Nanotechnology and the James Watt Nanofabrication Centre. By scaling our current laser materials technology to deliver a fab-ready service at this size, we are providing an immediate competitive advantage.

We continued to forge strong customer partnerships and were pleased to confirm the qualification of Raytheon at IQE's North Carolina site, for the manufacture of epitaxial wafers for use in advanced infrared sensing and imaging. As a strategic partner for over 15 years, IQE also received a Raytheon Premier Supplier Excellence Award, demonstrating the continued confidence that Raytheon has in IQE. Additionally, in 2023 we proudly received a Gold Tier Supplier Award from BAE Systems, the third such accolade received by the Company, in recognition of IQE's cutting-edge technology and high levels of service.

Financial performance

IQE's FY 2023 financial results serve as a reflection of the challenging operating environment we encountered throughout the year. The reduction in yearly revenues has been mitigated by a combination of our successful equity fundraise, careful working capital management, cash preservation measures including a reduction in headcount, and the deferral of certain capital expenditure in order to improve our net debt position. In May the Company also entered into an agreement with its lending bank, HSBC, to extend the term of its $35m revolving credit facility to May 2026.

Revenues from our Wireless business, which enables connectivity-related products, were significantly affected largely due to weakness in global handset demand and inventory surplus in supply chains. Wireless revenues for the period were down 29% at £53.9m (2022: £76.0m).

Our Photonics business, which is focused on our advanced sensing portfolio, also saw revenues decline primarily as a result of softness in the mobile handset market and a slowdown in Asian telecoms infrastructure programmes. Photonics revenues for the period were down 33% at £59.1m (2022: £88.7m).

CMOS++ revenues saw improvement in H1 2023 due to growth in silicon-based switches for power control, but overall we experienced a yearly decline of 20% with revenues of £2.3m (2022: £2.8m). Our Display and Power divisions were not reported separately in 2023.

Despite the prolonged weakness in the semiconductor industry, we delivered 22% growth from H1 to H2 2023 and a return to a positive adjusted EBITDA position.

ESG progress

We are developing frameworks and processes to adopt and align with the Task Force on Climate-related Financial Disclosures (TCFD) and I am proud that our first TCFD Statement is published in this Annual Report. During 2023 our ESG Committee was focused on developing emissions targets in accordance with the Science Based Targets initiative (SBTi), with IQE on track to submit targets within the 24 month commitment window.

Outlook

Having navigated the challenges of 2023, we entered 2024 with increasingly positive momentum that the semiconductor industry as a whole is beginning to see signs of recovery. Acknowledging the cyclicality of the sector and despite continuing uncertainties in the global economy, we remain confident in a return to growth.

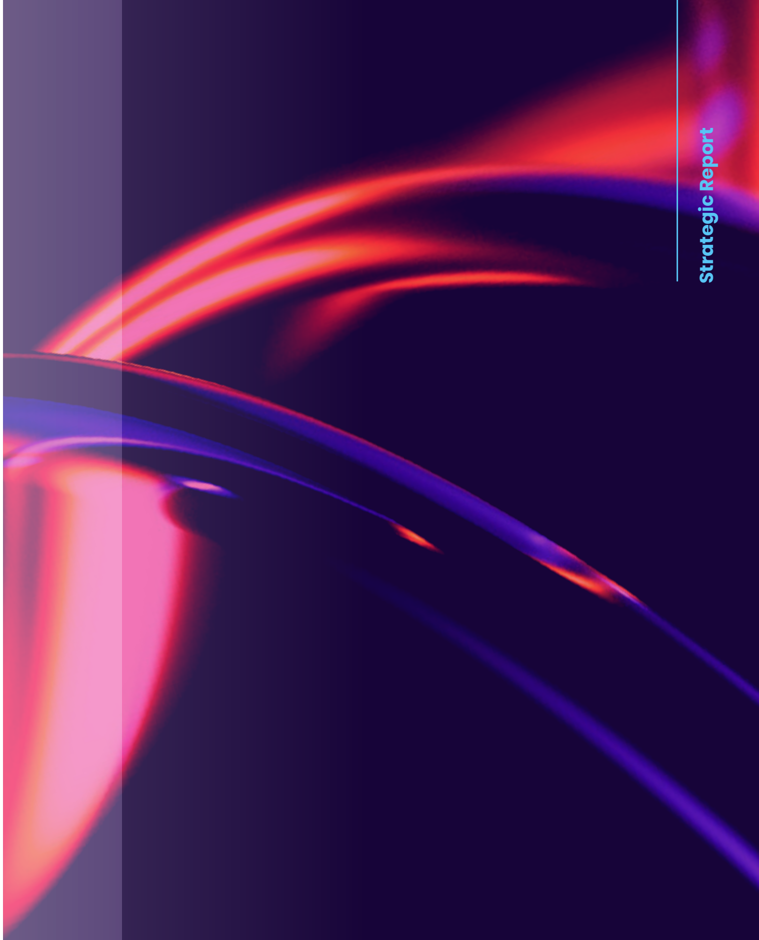
By leveraging the lessons learned during this difficult period, we are well positioned to adapt swiftly to changing market dynamics and capitalise on emerging opportunities. We continue to be focused upon reshaping our cost base by implementing cost control and cash preservation measures, in order to improve our margins.

Our commitment to innovation and customer excellence remains unwavering, providing a solid foundation for sustainable growth. Additionally, we are constantly exploring new avenues for expansion and diversification through close collaboration with market leaders and I am pleased with the strong pipeline of opportunities in front of us.

IQE is powering tomorrow's technology, today and I am confident in the vital role compound semiconductors, and therefore the Company, will play in the connected, immersive and responsible world of the future. We are prepared to navigate the major technological trends in the industry including AI and the drive to Net Zero, whilst our global footprint strategically positions us to positively respond to changing geopolitical situations. The significant value that semiconductors bring to our daily lives present growth opportunities to IQE as we implement our strategy and emerge as a stronger and more resilient business.

Americo Lemos
Chief Executive Officer

9 April 2024



"We have strengthened our Board and Executive Leadership Team to attract diverse individuals with significant industry experience."

Growth markets

Growth market	Market opportunity
Smart Connected Devices	**$5.5bn** device market size by 2027* Smart Connected Devices enrich our lives and enhance our interactions with the connected world. On-Device AI, smarter sensing and immersive displays are driving a resurgence in mobile platform growth. AR/VR devices will transform how we work, relying on IQE materials to see, compute and sense the fused physical and digital worlds. This will create an insatiable demand for data, which 5G+ mobile platforms and networks will transmit, enabled by IQE's next-generation wireless materials. With over six billion devices connected to the internet, nearly one device for every person on the planet, the Internet of Things is already transformational and is dependent on reliable and secure digital infrastructure powered by IQE materials.
Communications Infrastructure and Security	**$10.1bn** communications infrastructure device market size by 2027* Cutting-edge compound semiconductors enable the entire end-to-end data path. High-speed wireless and wireline networks guarantee rapid, reliable data transmission, ensuring that ever-increasing bandwidth and low-latency requirements can be met. Increasing need for data centres to support generative AI applications require power-intensive processing demanding improved efficiency to lower operating costs. Compound semiconductors also uniquely harness the power of light to enable high-performance imaging and detection across multiple aerospace, security and intelligence platforms. They are the backbone of the networks that our information security relies upon.
Automotive and Industrial	**32%** device market CAGR 2022-2027* Compound semiconductors that assist with sensing and power conversion are at the core of the digital chassis which is revolutionising vehicle functionality today. Our materials are being architected into multiple new automotive electronics platforms which include driver assistance (ADAS), wireless connectivity, multimedia and powertrain technologies. The car as we know it is evolving rapidly, with electric, autonomous and connected cars being the way of the future. Compound semiconductors are also allowing industrial and manufacturing sector challenges to be overcome by connecting the real world and digital domains together. Integrating technologies such as the Internet of Things, cloud computing and machine vision are revolutionising manufacturing and distribution of products. IQE's multi-platform materials solutions are a critical enabler of Industry 4.0.

* Sources: Yole Intelligence, IQE sources Q4 2022

IQE is focused on three strategic markets which offer significant growth potential due to the proliferation of technology megatrends. As these develop, the unique performance characteristics of compound semiconductors will be necessary to enable their success.

Megatrends and opportunities

Augmented/Virtual Reality and the Metaverse

AR/VR provides a new platform for compound semiconductor use, enabling spatial computing to change the way we live and work by fusing digital and physical worlds. This hardware development will create a plethora of opportunities for IQE, through leveraging our leadership position in 3D sensing and wireless connectivity, complemented by microLED displays. Generative AI will be required to compute vast amounts of AR/VR data faster, enabling new spatial environments to be built, powered by the networks which rely on IQE materials.

MicroLED displays

Smart devices require crystal clear displays to deliver a high-quality immersive experience. Panels constructed from compound semiconductor-based materials are transforming the display industry. Offering ultra-high resolution, low power consumption and the ability to construct flexible and transparent screens, MicroLED will become ubiquitous, launching in wearable and AR/VR platforms ahead of wider adoption in large format displays. The ability to manufacture at scale will be essential to address microLED market growth, and IQE has the ability to deliver this from its three-continent manufacturing footprint.

Healthcare wearables

Smart watches are now a critical enabler of new lifestyle functionality. As they evolve, the development of a miniaturised 'spectrometer' based upon compound semiconductor lasers and detectors will revolutionise how smart watches are used, becoming tomorrow's 'clinic on a wrist'. They will enable the detection of multiple biomarkers non-invasively. This technology will transform digital healthcare, enabling improvements in health and disease prevention on a global scale.

5G/6G

Businesses and individuals alike depend upon the reliability and performance provided by 5G communications. 5G mobile and fixed wireless access systems provide the fastest mobile data rates available today and are made possible by technologies pioneered by IQE. Compound semiconductors such as Gallium Arsenide (GaAs) transmit and convert data up to 100 times faster than silicon, providing greatly reduced network latency, increased data throughput and are more power efficient delivering all-day battery life. With data bandwidth needs growing exponentially, driven by the growth of the Metaverse, machine learning and connected intelligent devices, intermediary standards using C-band (FR3) and sixth generation (6G) networks will define the second datacom revolution and will leverage the benefits of compound semiconductors like GaAs, GaN and even InP to enable the efficient use of these new frequency bands. These products are now being developed with IQE materials.

Optical networks

IQE is at the heart of fibre optic networks which satisfy our insatiable appetite for data. The adoption of 5G and 6G will see a rapid increase in fibre optical connections, linking new small cells to fronthaul networks, while 5G and 6G will also generate very significant increases in backhaul traffic over optical fibre. Scaling optical transport capacity will require new technologies such as Silicon Photonics which are enabled by IQE's materials solutions.

Data centres

AI is the focus of data centre transformation, combined with the insatiable consumption of data-intensive applications such as HD video streaming, the exponential growth in internet traffic over the next decade is driving rapid growth in new hyper-scale data centres requiring extreme data rates only achievable through compound semiconductors pioneered by IQE. As speeds increase, energy consumption also scales and these same systems will also require efficient power conversion sources. IQE's green photonics and Power electronic materials solutions keep energy consumption in check and allow the data revolution to be achieved in a sustainable manner.

Intelligent sensing

No other materials offer the same level of performance or functionality as compound semiconductors. Industry leadership through Full Spectrum coverage sees IQE engineered into a wide range of consumer, security, and defence sensing platforms. We enable our customers to image the world around us, with greater resolution and detection sensitivity, providing a competitive edge which enables them to 'see sooner' and manage threats. Additionally, our sensing technologies are employed to assess air pollution from space, utilising our multispectral infrared materials portfolio.

Power train

Drive cycle efficiency is at the forefront of vehicle powertrain design; increased range and faster charging times are only made possible with compound semiconductors. IQE's 'wide bandgap' power semiconductor solutions provide competitive advantage at scale, enabling customer cost competitiveness across multiple xEV segments and vehicle charging infrastructure platforms. The demand for power compound semiconductors will exceed that of incumbent silicon technology, positioning IQE at the forefront of transport electrification.

Advanced sensing

IQE is a pioneer in VCSEL technology used in consumer mobile 3D Sensing platforms. Sensing is evolving and new wavelengths are being unlocked which reveal richer levels of information. Sensing materials engineered for longer wavelength detection are expanding use cases which include spatial imaging to create virtual AR/VR worlds. Our portfolio of automotive LiDAR VCSELs are enabling all-weather imaging at high resolution, providing a scalable platform as high-level ADAS technology adoption levels rise.

Communications

We are at the cusp of a revolution in the use of AI-enabled communications systems. Adaptive networks will efficiently tailor network resources in high-traffic areas such as stadiums and shopping malls. Vehicles exchanging data with each other, the Cloud and surrounding infrastructure will revolutionise traffic safety and increase the efficiency of transport. Dedicated short-range communication and local cellular networks are creating new 5G exploitation paths for Vehicle to everything (V2X) communications. These use cases require compound semiconductor-based RF and optical devices due to their ultra-reliable, low-latency and high-sensitivity performance, enabling the rapid exchange of time-sensitive and safety-critical information for further processing and decision making. This data will be critical in enabling the next generation of automated driving and intelligent mobility.

Strategic progress

Maintain and grow IQE's position

Connect

Description	IQE has a long legacy in wireless technology, in applications ranging from smartphones to 5G infrastructure. We are committed to enabling the smart connected devices of the future and seamlessly aiding real time data exchange, enhancing efficiency and functionality.
Key objectives	• Protect existing business while diversifying customer base through the establishment of strategic partnerships • Leverage our technical leadership gained over decades of manufacturing leading-edge epitaxy for front-end modules
Progress in 2023	• Partnership with Asia based foundry to supply Tier 1 Android smartphone OEMs • Increased engagement with leading US wireless customers with sampling and product qualification • Launch of industry first 6" InP Laser Platform for AI and data centre applications
2024 objectives	• Increase share of GaAs HBT power amplifier business through penetration of APAC market and Android ecosystem • Leverage IQE's leadership in GaN epitaxy to grow our presence in wireless infrastructure and defence RF power application markets • Launch of high-speed datacoms VCSEL foundry service for AI dataserver prospect qualification

Sense

Description	Advanced sensing technologies utilise sophisticated methods to gather and interpret data with precision, enabling applications in fields such as autonomous vehicles, healthcare, 3D facial recognition, security and environmental monitoring for enhanced decision-making and situational awareness. As a leader in cutting-edge sensing technology, IQE is committed to maintaining technology leadership in this market to serve an expanding list of new applications.
Key objectives	• Maintain our market-leading position in 3D Sensing • Develop next-generation sensing products, focusing on larger wafer diameters and long-wavelength technology • Key engagements with partners who are integral to the LiDAR supply chain
Progress in 2023	• Multi-year strategic agreement with global Tier 1 consumer electronics OEM for the development of next-generation 3D Sensing applications • R&D partnerships with global market leaders for next-generation products
2024 objectives	• Secure new platform 3D Sensing design wins, enabled by a new generation of IQE long-wavelength sensing materials • Sample and qualify LiDAR VCSEL to automotive OEMs • Secure partnerships with Tier 1 OEMs to scale 8" platforms

IQE's strategy is focused on maintaining share in existing markets while diversifying into new growth areas. By collaborating with technology leaders we will achieve sustainable growth in order to capture value.

Diversify

Power

Description	A critical element of IQE's diversification strategy is to enter the power electronics market, which is forecasted to experience large growth. Power market applications span various industries including renewable energy systems, electric vehicles, consumer electronics, data centres and industrial automation, playing a crucial role in efficient energy conversion and control.
Key objectives	• Leverage longstanding Gallium Nitride (GaN) capability for RF applications • Develop leading-edge GaN-based power products for voltages up to 650 volts (E/D mode) • Standardise and scale to ensure cost-effective volume manufacture • Establish unique commercial engagements so that IQE products can enable virtual vertical integration • Engage with market leaders to create mutually beneficial agreements for improved value capture in power electronics
Progress in 2023	• Installed new GaN Power capacity in UK and US • Sampled multiple Tier 1 Power Electronics customers for 650 volt (E/D mode)
2024 objectives	• Sample and qualify 650 volt (E/D mode) product with multiple key Tier 1 customers • Expand GaN Power roadmap to 1200 volt GaN on Si for automotive market

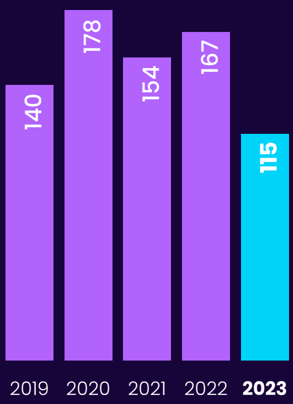
Display

Description	The microLED revolution is poised to transform display technology by offering unparalleled visual performance, enhanced energy efficiency, and compact form factors across a spectrum of applications, from consumer electronics to augmented reality. The display market is the second focus area of IQE's diversification strategy, and we have partnered with microLED technology customers to ensure we are enabling the future of display.
Key objectives	• Partner with technology leaders to create mutually beneficial agreements that enable value capture • Create a full portfolio of materials solutions for high-performance red-green-blue (RGB) displays • Diverse product offerings that enable both pick and place and tri-colour manufacturing • Focus on large diameter substrates (greater than or equal to 200mm) for GaAs and GaN-based products
Progress in 2023	• Demonstrated red and blue GaAs-based emitters on GaN and GaAs • Continued product development against technology roadmaps in conjunction with strategic industry partners
2024 objectives	• Launch 8" microLED reference wafer portfolio • Sample and qualify with Tier 1 display panel manufacturers

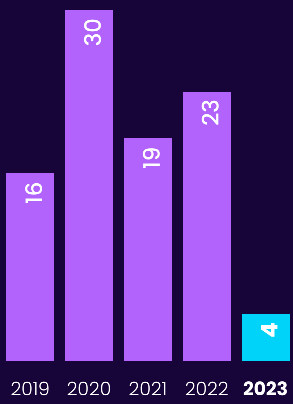
2023 performance review

Financial highlights

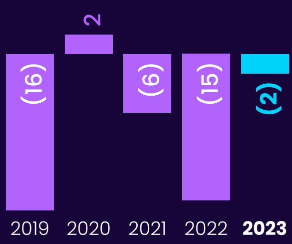
Revenue
(£m)



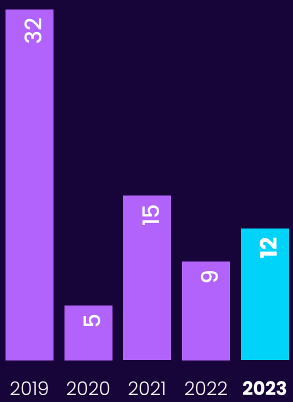
Adjusted EBITDA*
(£m)



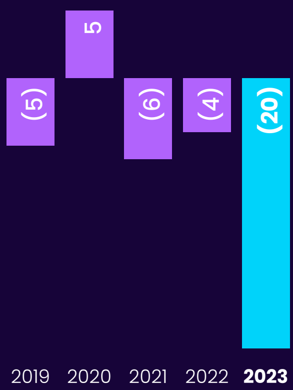
Adjusted net cash/(debt)**
(£m)



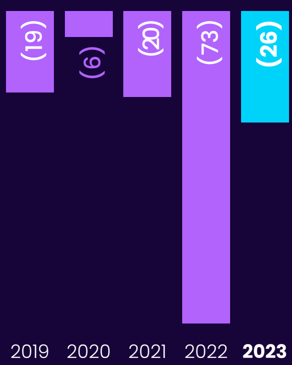
Cash capital expenditure
(£m)



Adjusted operating profit/(loss)*
(£m)



Operating loss
(£m)

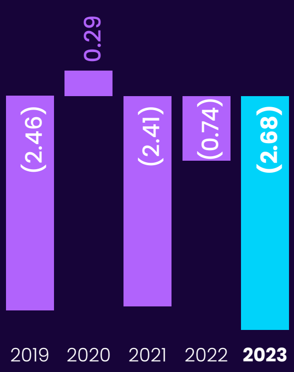


* The nature and description of alternative performance measures are included in Note 5 on pages 124 to 126.
** Adjusted net debt is defined on page 98.
*** The nature of adjusted diluted EPS is referenced in Note 12 on page 131.

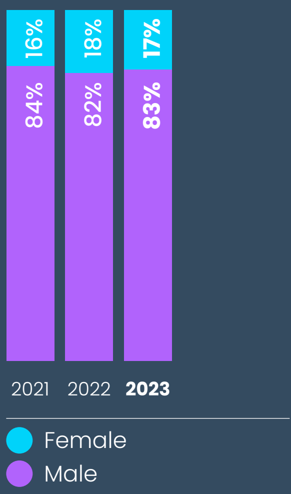
We acknowledge that our success is reliant upon not only on our financial performance, but also achieving our operational and social objectives.

Non-financial highlights

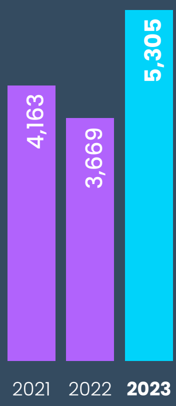
Adjusted diluted EPS
(£p)***



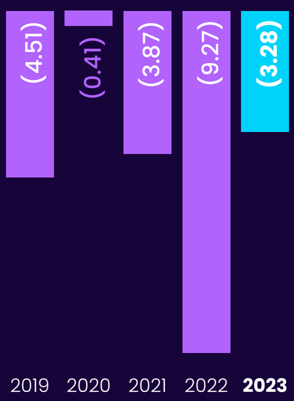
Gender diversity
Group level*



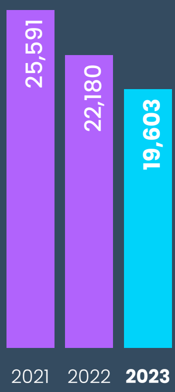
Safety course completions



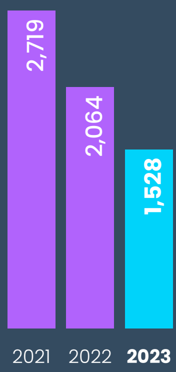
Diluted EPS
(£p)



Total GHG emissions
(tCO_2e)



Learning hours completed



* Read more in our Responsible Business section from page 31.

Jutta Meier
Chief Financial Officer

"Despite a difficult macro environment, the demand for semiconductor products remains high"

The Group reports financial performance in accordance with International accounting standards in conformity with UK adopted international accounting standards ('UK adopted 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 UK adopted IFRS GAAP performance measures are set out in note 5 to the financial statements.

Review of the year

The Group's trading in 2023 has been significantly impacted by the global semiconductor industry downturn. The industry downturn presented a temporary but significant challenge to sales volumes in Q1-Q3 2023 prior to a gradual improvement in market dynamics and customer demand in Q4 2023. Market dynamics and customer demand is expected to continue to improve throughout 2024.

Group revenue of £115,252,000 (2022: £167,494,000) has decreased by 31.2% and the Group has reported an operating loss of £25,779,000 (2022: £72,976,000).

During the year the Directors have taken steps to strengthen the Group's balance sheet, including the renewal of the Group's £27,300,000 ($35,000,000) multi-currency revolving credit facility provided by HSBC Bank plc and the successful £31,099,000 equity fundraise. These steps, combined with a number of cost rationalisation and cash preservation actions implemented by the Directors have provided the Group with the necessary liquidity to navigate the semiconductor market downturn and allow the Group to continue investing in its growth and diversification strategy.

Group revenue of £115,252,000 (2022: £167,494,000) has decreased 31.2% on a reported basis. The Group's Photonics business segment represents the largest proportion of the Group's revenue accounting for 51.3% (2022: 52.9%) of total wafer sales with Wireless representing 46.7% (2022: 45.4%) and CMOS++ representing 2.0% (2022: 1.7%).

Photonics wafer revenues decreased 33.3% to £59,098,000 (2022: £88,637,000). The decrease in photonics wafer revenues primarily reflects the softness in the handset market and a slowdown in Asian telecoms infrastructure programmes partially offset by strong performance in aerospace and security markets for infrared-related products.

Wireless wafer revenues decreased 29.1% to £53,877,000 (2022: £76,016,000). The decrease in wireless wafer revenues reflects a decline in wireless GaAs epiwafer sales and weakness in GaN epiwafer sales for 5G infrastructure. The reduction in wireless GaAs epiwafer sales in particular, has been impacted by softness in the broader smartphone handset market and build-up of inventory in supply chains.

Statutory gross profit decreased from £26,383,000 to £2,328,000. The decrease in gross profit reflects the reduction in sales and under-utilisation of capacity experienced across the Group as a result of the semiconductor industry downturn.

Selling, general and administrative ('SG&A') expenses have increased in the year from £31,211,000 to £32,486,000, excluding the separately disclosed impairment loss on intangible assets of £nil (2022: £65,821,000) and the impairment reversal of £1,808,000 (2022: £2,300,000 loss) related to a small number of customer specific receivables where the Group has successfully cash collected certain old outstanding trade receivable balances. Adjusted SG&A expenses, which exclude adjustments for share based payments, restructuring costs, Chief Executive Officer recruitment costs and Chief Financial Officer severance and recruitment costs have decreased from £26,780,000 to £26,167,000 (2.3%), primarily reflecting a combination of labour cost and discretionary expenditure savings implemented as part of actions to mitigate cost during the year.

Revenue

£115m

2022: £167m

Operating loss

£(26)m

2022: £(73)m

Adjusted EBITDA

£4m

2022: £23m

Cost rationalisation actions implemented during the year to mitigate the semiconductor industry downturn and reduction in customer volumes and revenues include a combination of the optimisation of manufacturing asset utilisation, including idling reactors to reduce cost and align capacity with lower customer volumes, the implementation of a Group-wide restructuring programme and associated reduction in headcount and labour cost, consolidation of the Group's US molecular beam epitaxy ('MBE') manufacturing capacity and closure of the Group's manufacturing facility in Pennsylvania and the implementation of a range of discretionary expenditure savings in areas including travel, marketing, legal and professional.

As part of the cost rationalisation and global footprint optimisation plan restructuring costs totalling £4,680,000 (2022: £4,152,000) have been incurred relating to redundancy costs associated with the group-wide restructuring programme and labour and site decommissioning costs associated with the closure of the Group's manufacturing facility in Pennsylvania, USA. Other significant infrequent costs incurred in the year relate to the new starter bonus, payable over three years, for the Chief Executive Officer and severance and recruitment fees following the departure of the former Chief Financial Officer.

A reported operating loss of £25,779,000 has been incurred (2022: £72,976,000). The 2022 operating loss was significantly impacted by the non-cash impairment of goodwill of £62,382,000. An adjusted operating loss of £20,199,000 in 2023 compares to an adjusted operating loss of £3,557,000 in 2022. The increase in the loss principally reflects the semiconductor industry downturn experienced within 2023 and the associated reduction in customer volumes and revenue. The segmental analysis in note 4 reflects the adjusted operating margins for the primary segments (before central corporate support costs). Photonics adjusted operating margins decreased from 12.6% in 2022 to a negative margin of 16.9% in 2023 reflecting the impact of the industry downturn and significant under-utilisation of capacity. Wireless adjusted operating margins, despite volume and revenue declines, increased from 6.2% in 2022 to 8.6% in 2023, primarily reflecting a combination of a reduction in manufacturing capacity and cost linked to the closure of the Group's Singapore site in 2022, cessation of manufacturing activities at the Group's Pennsylvania site in 2023 and the positive impact of certain working capital actions that resulted in the consumption of old aged inventory and the cash collection of certain previously impaired trade receivables.

Finance costs of £3,032,000 (2022: £2,427,000) reflect £1,810,000 (2022: £1,099,000) of bank and other interest costs and the interest expense on lease liabilities of £1,222,000 (2022: £1,328,000). Bank and other interest costs principally relate to the Group's HSBC Bank plc revolving credit and asset finance facilities with the increase in interest cost reflecting a combination of higher levels of facility utilisation and borrowing in H1 2023 and an increase in the interest rate as both the Bank of England Base Rate and the Sterling Overnight Index Average ('SONIA') interest rate benchmarks have increased during the year.

The tax charge of £567,000 (2022: £862,000 credit) consists of a current tax charge of £1,112,000 (2022: £89,000) primarily relating to taxable profits generated by the Group's Taiwanese operations and a deferred tax credit of £545,000 (2022: £951,000). Deferred tax asset recognition has been restricted in the UK to £nil to reflect future forecast profitability, an assessment that includes the impact of market softness in trading forecasts as a result of the industry-wide semiconductor downturn whilst US deferred tax asset recognition has been restricted to £nil to reflect lower future forecast profitability arising from a combination of market softness, the Group's consolidation of its US manufacturing operations and the continued shift in the balance of future forecast manufacturing and hence profits from the Group's US operations to its UK and Asian operations. The effective tax rate of 3.6% (2022: 1.1%) applicable to the tax charge of £192,000 (2022: £798,000) on adjusted items is less than the UK statutory tax rate of 25% primarily due to the non-recognition of deferred tax assets for current year UK and US trading losses which include the adjusted Chief Executive Officer recruitment costs, Chief Financial Officer severance and recruitment costs, Pennsylvania site closure costs and Group-wide restructuring programme costs.

The decrease in the loss for the year to £29,378,000 (2022: £74,541,000) principally reflects the impact of the prior year goodwill impairment charge of £62,382,000. At an adjusted level, the loss for the year has increased to £23,990,000 (2022: £5,920,000) reflecting a combination of the adverse underlying trading performance noted above, the impact of adjusted non-cash and other non-operational items and the acquisition, and subsequent consolidation of the Group's former joint venture, Compound Semiconductor Centre Limited ('CSC').

On 22 September 2023, the Group acquired the 50% equity shareholdings of its joint venture partner CSC taking control of the company and increasing its equity ownership to 100%. The acquisition was for total cash consideration of £2,979,000 deferred over a period extending until 1 January 2029 and will enable the Group to exploit technology and commercial relationships developed by CSC to create high-volume manufacturing and sales opportunities, directly align CSC's research and development activities and capabilities with the Group's strategy and take the necessary steps to restructure CSC's business operation and consolidate its activities within the Group.

Basic and diluted loss per share has decreased from a loss per share of 9.27p to a loss per share of 3.28p in the current year with adjusted basic and diluted loss per share of 2.68p (2022: 0.74p) reflecting the Group's loss at a statutory and adjusted profit level.

Cash generated from operations increased in the year to £10,074,000 (2022: £8,873,000) despite the decline in trading performance and profitability of the Group. The increase in cash generated from operations principally reflects strong working capital management, particularly in the areas of inventory and trade receivable management, which combined have contributed to positive working capital cash inflows of £11,076,000. The Group has continued to invest in growing capacity to meet demand with capital expenditure of £12,158,000

(2022: £9,438,000) principally focused in Taiwan, Newport and Massachusetts to support future growth opportunities, intangible asset expenditure of £3,113,000 (2022: £4,699,000) focused on a combination of intellectual property and the Group's multi-year strategic IT transformation programme and investment in targeted capitalised technology development of £2,852,000 (2022: £3,795,000).

The increase in cash generated from operations, combined with investing activity cash costs of £17,960,000 (2022: £10,729,000) and repayment of lease liabilities of £4,787,000 (2022: £4,926,000), net of the equity fund raise of £29,708,000 and net repayments of bank borrowings of £18,431,000 (2022: £9,558,000 proceeds), have combined to maintain a positive cash position of £5,617,000 (2022: £11,620,000) and a decrease in net debt (excluding lease liabilities and derivative financial instruments) from £15,248,000 to £2,228,000 as at 31 December 2023.

Equity shareholder funds total £169,785,000 (2022: £175,060,000) with the movement from 2022 primarily reflecting the loss for the year and funds raised within the equity fund raise.

Jutta Meier
Chief Financial Officer

9 April 2024

Q&A

What attracted you to IQE?

I was drawn to IQE as the leader in compound semiconductor technology, a sector which is forecast for huge growth in the coming years. IQE's products are vital for a myriad of cutting-edge technologies that touch nearly every aspect of modern life, from consumer electronics to healthcare, and automotive.

Despite a difficult macro environment, the demand for semiconductor products remains high, fuelled by evolving consumer needs and emerging technological trends. The rapid pace of innovation in the industry means there is never a dull moment; there's always a new challenge to tackle or opportunities to seize upon, keeping me engaged and motivated.

Joining IQE at such a pivotal time presents an exciting opportunity to be a part of the Company's transformative journey and play an important role in shaping the financial direction of the business. As CFO, I am excited to leverage my expertise in financial management and strategic planning to drive sustainable growth and deliver value to both shareholders and stakeholders alike.

Consistent engagement

Engaging with our stakeholders is critically important as we progress our strategic goals and develop our future plans for continued success.

Tom Dale
EVP, General Counsel and Company Secretary

Our impact on, and engagement with, our key stakeholder groups is considered within the implementation of our strategy, which is overseen by the Executive Leadership Team and supported by the Board of Directors. We consider the impact we have on our stakeholders, as well as what our stakeholders consider important when developing IQE's strategies for future success. We have set out below our key groups of stakeholders, the issues and factors relevant to those stakeholders and how we have engaged with those stakeholders over the past year.

How the Board has engaged with shareholders, the workforce and other stakeholders

Stakeholder	Stakeholder description	Material issues	How we engage
Customers	We provide the best advanced compound semiconductor materials solutions to our customers, supported by bespoke product offerings and personalised customer support. We have a wide and diverse range of customers serving end applications aligned with our three core markets of Smart Connected Devices, Automotive and Industrial and Communications Infrastructure and Security.	• Consistently high-quality products and technical expertise • High standard of business conduct • Continuous improvement • Fair pricing • Excellent ongoing customer support • Continuity of supply	• The Executive Leadership Team and other senior management frequently host and attend meetings with key customers around the world, both virtually and in person. These meetings provide management with meaningful opportunities to understand first hand, at a senior level of the organisation, how we can enhance our offering to customers by understanding their current and future needs. • The CEO and other members of the Executive Leadership Team provide the Board with feedback and trends from these meetings.
Employees	Our employees are fundamental to our business success and we have a responsibility to support their health, wellbeing and development. A highly capable and diverse workforce will also enable us to better understand our customers and markets. We continually invest in our people, developing the capabilities that we will need to succeed over the longer term. We are committed to being the company where the best in our sector want to work and strive to offer opportunities that will attract, motivate and retain talented employees, enabling them to give their best.	• Opportunities for personal development and career progression • Trust and encouragement to contribute to the success of the business • Consideration of their health, safety and wellbeing • Working as part of an equitable, inclusive and diverse culture • Clarity of expectation on how recognition and remuneration structures align with accountabilities	• The Board engaged with a broad range of employees throughout the year from the leadership conference to informal site-based meetings. The Board also considered the output of the Group's people survey. • The CEO hosts regular all-employee Town halls and site-based all-hands meetings to proactively engage with our people. • We continue to promote our 'Zero is possible' health and safety programme.

Stakeholder	Stakeholder description	Material issues	How we engage
Investors and Shareholders	We place considerable importance on the maintenance of regular and open dialogue with our shareholders. Our goal is to deliver our investors and shareholders with returns through profitable and sustainable growth with the efficient use of capital. Our investors and shareholders are also key contributors in the formation of our sustainability agenda.	• Current and future financial performance • Maximising opportunities for growth • Environmental, social and governance issues	• We actively engage with shareholders throughout the year to ensure they understand the performance of our business. Our ongoing programme includes numerous shareholder meetings and roadshows, which are facilitated alongside our full and half year results. • The Chair, Remuneration Committee Chair, Chief Executive Officer and Chief Financial Officer all directly engaged with a range of shareholders on key topics including the Group's financial performance, strategy and Executive Director Remuneration. • Virtual meetings with our largest shareholders to understand their priorities for the Group's sustainability agenda.
Partners and Suppliers	Our supply chain plays a vital role in supporting our products and broader business strategy and we recognise the value of our partners and suppliers. To meet the expectations of our customers, we develop strong working relationships with our suppliers and look for our suppliers to provide excellent, consistent quality and added value. Engaging with our supply chain is also crucial in the development and delivery of our Net Zero commitment and SBTi targets.	• Forecasting visibility • Product quality • Fair pricing • Long-term partnerships	• The Board received regular updates throughout the year regarding industry-wide supply chain challenges and the ongoing work to mitigate the impacts of these challenges. • Our Executive Leadership Team and other senior managers work closely with our supply chain partners to involve them in our planning processes and alignment with our strategy.
Society	We believe that our technology and products will benefit and advance society and provide a positive impact on the world's sustainability. We work hard to ensure that we have a positive impact on all those around us.	• Opportunities for local investment • Impact on local and wider environmental and social issues	• We use market data and insights to develop new products which will bring benefits to society. • Our ESG Committee has oversight of the Group's sustainability agenda and is focused on developing the Group's approach to climate change, amongst other things.

Section 172(1) statement

Engaging with our stakeholders and acting in a way that promotes the long-term success of the Group, while considering the impacts of our business decisions on our stakeholders, is central to our strategic thinking and our statutory duty in accordance with Section 172(1) of the Companies Act 2006. This constitutes our Section 172 Statement as required under the Companies (Miscellaneous Reporting) Regulations 2018.

The Board of Directors considers, both individually and collectively, that it has acted in a way that it considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the matters set out in Section 172 (a) to (f), in the decisions taken during the year.

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 our customers, employees, investors and shareholders, partners and suppliers and society.

As a Board, our intention is to behave responsibly and ethically at all times, in line with our Company values, and to ensure that our management teams operate the business in a responsible manner and to the highest standards of business conduct and good governance. As we act in a way which reflects our values, we will contribute to the long-term success of the Company and continue to develop our reputation as a responsible and successful Company that delivers stakeholder value.

Further information as to how the Board has had regard to the Section 172 factors:

Section 172 Factor	Key Examples	Page
A. Consequences of any decision in the long term	• Consideration of how IQE generates long-term value through the development of our Business Model and Strategy • Risk management	Page 12 Page 50
B. Interests of employees	• Participation in Diversity, Equity and Inclusion planning for the business • Promotion of employee wellbeing initiatives and benefits awareness • Participation in Town Halls and employee forums • Sustainability	Page 34
C. Fostering business relationships with suppliers, customers and others	• Building strong relationships with customers and suppliers within the Group's supply chain, which is essential for achieving the Group's long-term strategic goals	Page 32
D. Impact of operations on the community and the environment	• Consideration of Environmental, Social and Governance improvement strategies • Review of environmental performance, ISO 14001 Environmental management system and emission reduction initiatives • Sustainability	Page 40
E. Maintaining high standards of business conduct	• Promotion of responsible business operations, with a focus on the Group's Anti-bribery and Corruption, Confidentiality and Whistleblowing policies, and Anti-Slavery Statement	Page 33
F. Acting fairly between members of the Company	• Shareholder engagement • Investor information and the Annual General Meeting	Page 29

Responsible business approach and priorities

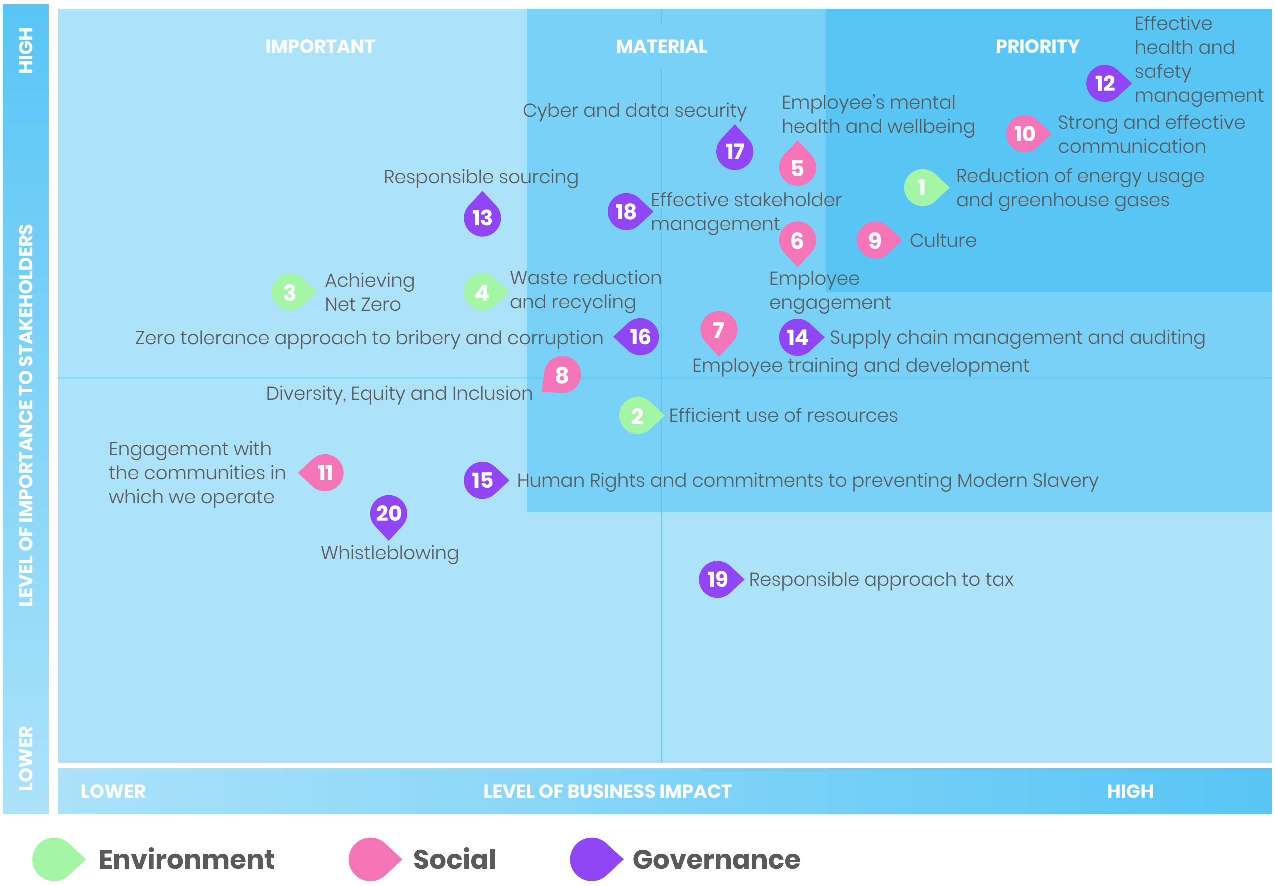
Through 2023 and early 2024 we conducted a formal materiality assessment to ensure we prioritise the sustainability issues with the greatest impact on our business, communities and the environment.

The materiality assessment was developed through several steps using a third party to ensure a thorough approach. We initially used a desktop survey as a pre-assessment to determine the key issues in current corporate reporting. We used that initial assessment as the basis for engaging a range of stakeholders, starting with interactive sessions with our global leadership team, site-based workshops and interviews with our major shareholders. We then used feedback from our customers and suppliers, through their own corporate reporting and requests or surveys to IQE, before reviewing the combined feedback with our Executive Leadership Team and the ESG Committee.

Once identified, the material issues were plotted on our materiality matrix and assessed against the level of business impact and level of concern to stakeholders. A copy of the final materiality matrix is shown below.

We will prioritise our efforts against the items towards the top right hand corner of the matrix.

A matrix of materiality impacts



Supply chain

A robust global supply chain is the backbone of our operational excellence. We work closely with our suppliers to enforce the highest standards to ensure our people and communities are protected.

David Bishop
Head of Global Supply Chain

IQE's responsible supply chain management prioritises the protection of both people and the environment, reflecting our ongoing commitment to doing business in a responsible manner. Our suppliers share this commitment to ethical sourcing practices and are key partners in our journey to achieving our vision and goals. We expect our supply chain partners to uphold the same high standards as IQE leaders and employees, and always to act in an ethical, efficient and transparent manner to safeguard the wellbeing of our people and communities.

2023 supply chain review

Creating advanced products for the world's leading technology companies brings its fair share of complexities and challenges from a supply chain perspective, and 2023 was no exception. After navigating through high energy pricing and stabilising supply chains in light of the ongoing war in Ukraine, we also witnessed the trading tensions intensify when China announced in July 2023 that it would be restricting the export of Gallium. Gallium is an essential component in compound semiconductor manufacturing, with China producing over 80% of the world's low-purity Gallium. Thankfully, our strategy to increase the recycling of such materials over the past few years means that circa. 60% of the Gallium IQE now consumes comes from recycled sources, with the overwhelming remainder being sourced outside of China. This ensured our IQE facilities continued to operate without any disruption from Gallium-related raw material supply restrictions.

IQE continues to drive towards a circular economy, in which more waste is recycled and reused, and our raw materials are manufactured in the most environmentally friendly manner. In 2023 we continued to recycle 100% of all our Gallium Arsenide (GaAs) and Indium Phosphide (InP) wafer waste, converting it back into high-purity raw materials that feed directly back into our supply chains.

As part of our SBTi commitment to Net Zero, we are working closely with our supply chain partners supporting the transition to cleaner manufacturing methods, particularly for our bulk gases, and we are working diligently to ensure that in the future our bulk gases will be produced from processes that generate zero emissions. At IQE we see every day as an opportunity to improve, and as a company in the business of innovation, we are working to build an even better future.

+ Read more at www.iqep.com/responsibility/supply-chain/

"IQE continues to drive towards a circular economy, in which more waste is recycled and reused, and our raw materials are manufactured in the most environmentally friendly manner. In 2023 we continued to recycle 100% of all our Gallium Arsenide (GaAs) and Indium Phosphide (InP) wafer waste."

David Bishop
Head of Global Supply Chain

Anti-bribery and corruption

IQE maintains a zero-tolerance approach to bribery and corruption. We have an established Anti-bribery and Corruption policy, which includes guidance on the giving and receiving of gifts and hospitality. A Gifts and Hospitality Register is also maintained to ensure transparency. Our Anti-bribery and Corruption policy applies throughout the Group and was updated in 2020 and is supported by appropriate training.

The key principles we expect everyone to follow include not offering or accepting bribes or improper payments; not improperly influencing any individual; and not participating in any kind of corrupt business activity, either directly or through a third party. Third-party agents and distributors are subject to additional due diligence checks.

Trade compliance

We have policies and processes to ensure we do business in accordance with all applicable trade compliance laws. Our policies and processes are standardised where possible and are regularly audited by our specialist trade compliance team.

Inside information and share dealing

We take steps to ensure our compliance with the obligations arising from the AIM Rules, Disclosure and Transparency Rules (where applicable) and the UK Market Abuse Regulations ('MAR') in relation to the dissemination of inside information to the market, which Includes our share dealing policy and procedures.

We have adequate procedures to identify and control access to inside information and, where necessary, to ensure that it is promptly disclosed to the market. We ensure that the Financial Conduct Authority is notified of any delayed disclosure on announcement of inside information to the market. We maintain secure lists of anyone who has access to inside information and ensure that those working for us do the same. We ensure that everyone on those lists is aware of and acknowledges the legal and regulatory duties required of them while on the list.

Whistleblowing

IQE offers staff a confidential reporting mechanism, overseen by the Group's General Counsel and Company Secretary, which enables employees to raise concerns of malpractice, non-compliance or unethical conduct. The options for raising concerns are widely communicated to employees and are clearly set out in our Whistleblowing policy.

Intellectual property and confidentiality

Our intellectual property (IP) is an important asset and key to our continued success. We have comprehensive policies and procedures to identify and protect our IP, whether that be through registered or unregistered IP rights.

Maintaining confidentiality is ingrained in our culture. Our policy and practice ensure 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.

We have established processes for the negotiation and signing of all confidentiality agreements and employees are able to access our standard templates and training modules.

Human Rights and Anti-Slavery Statement

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. IQE 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 Modern Slavery Act addresses the role of businesses in preventing modern slavery within their organisations and in their supply chains. IQE has developed and implemented policies to comply with the requirements of the UK's Modern Slavery Act and our Anti-Slavery Statement can be found at iqep.com.

+ Read more at iqep.com/responsibility

Our people

"Our people are pivotal to our success and integral to achieving our ambitious growth objectives; therefore, we are committed to attracting, developing, recognising, and retaining top talent from diverse backgrounds worldwide."


William Chin
Chief People Officer

Gender diversity

Board level

	Male	Female
2023	56%	44%
2022	71%	29%

Jutta Meier joined IQE's Board on 22 January 2024.

Group level

	Male	Female
2023	83%	17%
2022	82%	18%

Group-level recruitment

	Male	Female
2023	78%	22%
2022	70%	30%

Female
Male

Diversity, Equity, Inclusion and Belonging (DEIB)

IQE's population is made up of different races, genders, ethnicities, backgrounds, religions and beliefs across our global sites. IQE is committed to providing equal opportunity, fair treatment and inclusion for all, without regard to race, gender, age, religion, ethnicity, identity, sexuality, disability, genetic disposition, neurodiversity, veteran status, perspective, experience or any other aspect which makes an individual unique.

A central part of our DEIB commitment is our desire to demonstrate inclusive leadership and represent the diversity of our organisation and the communities where we live and work.

We recognise that gender diversity remains an ongoing issue within our industry; however, we are committed to improving our gender balance. We are supporting our Talent Acquisition Team to increase inclusion during the hiring process, with the aim of attracting, developing and retaining STEM talent and securing a more diverse pool of joiners.

We launched our Women's Network in 2023, a highly anticipated employee resource group. The network focuses on sharing information, supporting development, encouraging leadership, strengthening networks, uncovering opportunities and championing success for women across the IQE Group.

We continue to celebrate diversity through our cultural celebration calendar. Recognising the traditions and celebrations that are important to our employees acknowledges and embraces the diversity of our global team and fosters a positive and communicative environment. We published a series of employee cultural traditions during the United Nations World Day for Cultural Diversity.

We are also aiming to build strategic partnerships with diverse organisations and networks who share our commitment to DEIB and can support us with our evolving journey of effective and sustainable transformation.

In 2023, we improved our Board diversity with the hiring of Non-Executive Directors who possess differing gender, geographical and industry backgrounds and experiences. Our Board-level gender diversity was also improved in January 2024 when Jutta Meier joined the Board as CFO. In the same month, two women joined our Senior Leadership Team, namely the Vice President of Government Affairs and Director of Quality in Taiwan.

Employee wellbeing

IQE is focused on the physical and mental health of our employees, especially during a difficult year for our workforce which saw a headcount reduction. We routinely promote wellbeing support available through our employee benefits platforms and undertake benefits seminars to ensure our leaders, people managers and employees are aware of the assistance available to them.

We continuously review our benefit offerings to ensure our plans are attractive and market competitive for our employees and, where possible, their families. In 2023 we further enhanced our UK benefits offering with the launch of an electric car salary sacrifice scheme as well as a free mortgage brokering service for employees and their families.

We continue with our Employee Assistance Programmes (EAP) which offer 24/7 support and include bereavement assistance, counselling, legal and financial support. Early intervention assistance is provided through external specialists and employee wellness plans, mitigating absence and aiding return to work. We also trained a new cohort of Mental Health First Aiders and continue with regular health and safety training to ensure up-to-date safety procedures and processes for our employees.

Communication and engagement

In 2023 we continued our engagement with Best Companies, a leading employee engagement specialist which delivers data and insights to help bring about positive change in the workplace. We undertook our third formal employee engagement survey titled 'b-Heard', and were delighted to receive an 83% response rate. We achieved 'One to Watch' status for the third year running, which represents 'Good' levels of workplace engagement, as well as uncovering 3-, 2- and 1-Star functions amongst our Group. The b-Heard feedback encouraged us to create action plans where areas of improvement were identified. These were driven bottom-up, reflecting what our employees believe we do well, where they believe we could close engagement gaps whilst also sharing pockets of great practice. We are very proud of our One to Watch status which we will seek to retain and improve upon. We have a strong desire to achieve a star status and to excel in employee engagement.

Employee communications platform

We launched our new communications platform to engage and energise our employees. It brings community and conversations into the workplace. It is the place to ask questions, share knowledge and news. Our leaders and employees alike utilise the functionality to talk, share and generally engage with each other which allows us to maintain an all-important social connection.

Empowering and supporting our talent

IQE attracts the best and brightest global talent. While we were unable to offer employee pay increases across the board in 2023, we remain focused on recruiting, retaining and developing the best talent in our sector. We are continuing to use our Competence Management System which encompasses a formal learning and assessment process and various training and development forms, plans and logs. Training processes are now communicated within departments and formalised via our document control systems.

Our Talent Development team will continue to work with managers and employees to effectively identify, source and facilitate learning and development activities, supported, where possible, by government funding. This includes supporting professional development through formal qualifications, as well as enhancing on-the-job knowledge and skills.

IQE continued investment in leadership development with a focus on engagement, emotional intelligence and teamwork which resulted in ten of our first-line leaders graduating from a ten-module programme in 2023. The b-Heard survey supported our focus to develop our people and we continue to do so as we strive to create engagement opportunities for all.

Learning and Development

We upgraded our Learning Management System (LMS) in 2023. The new upgrade included a new interface, brand new features and an upgraded user experience.

Our teams initiated high-potential employees with the "9 Box" evaluation and started conversations and developing action plans to develop our senior leaders. Moreover, we enabled employee mobility and training through job rotation assignments. We assigned two engineers from Taiwan to Newport for training, helping as able engineering support for our Newport engineers.

We have been working with our global teams to create bespoke content tailored to our colleagues. Recently this has included a series of Risk and Governance courses, and Quality, Health and Safety Modules are being re-worked to raise awareness and mitigate risk. As a company with highly valued intellectual property, we rolled out three IP courses on our LMS to improve the understanding of IP for all IQE employees with the desired outcome of better identifying, protecting and exploiting our valuable IP.

Early careers

Over the past year, IQE has continued building relationships with local schools, colleges and universities, to provide education and knowledge to students and education leaders on the semiconductor industry and career offerings. In 2023, this included welcoming PhD students from the EPSRC Centre for Doctoral Training (CDT) and Leeds University, as well as holding a Futures Day for local PhD students. To bolster our talent pipeline, we have also held work experience opportunities, allowing students to rotate around and gain exposure to various IQE departments. This is an important step in raising awareness of STEM careers, particularly for students from diverse backgrounds, securing hires and building robust talent pipelines.

We continued investing in our engineering apprentices, with four more apprenticeship opportunities given to local students.

2023 also saw us attend US and UK careers fairs, which have been a great success. We have continued our partnership with a local university in South Wales to create content-specific courses to bridge the skills gap.

Board engagement

Our Board members continued to engage with staff through direct dialogue to understand employee views and to support the executive team with its People agenda. They participated in IQE's Leadership Conference through a panel presentation and discussion, and had informal interactions with IQE leaders during the dinner event. The Board also met twice in 2023 to review the People agenda and discussed employee engagement and culture strategy, leadership development and employee retention.

Communities and social review

We take pride in reflecting on the meaningful impact IQE has had within our communities. As stewards of social responsibility, we recognise the profound importance of not only driving economic growth but also fostering positive change and empowerment. All employees are encouraged to get involved in activities that give back to their communities throughout the year.

Giving Something Back

All of IQE's employees are entitled to one full or two half days volunteering leave annually. To support this at all of our global sites, IQE's Giving Something Back Committee was formed. We are focused on a global approach to giving, but with local execution, making sure we are supporting the engagements and initiatives that mean the most to our people and their communities.

Food bank donations

The Wafer Technology team in Milton Keynes collected tinned food and other non-perishables for both people and pets alike to help a food bank in Milton Keynes. Their donations made a difference to local families facing difficult times.

Taiwan beach clean up

IQE's team in Taiwan participated in a beach clean up in October as a way to give back to their community and make a difference. Fifteen employees and their family members joined in the event. The benefits of the beach clean up were felt by all, and it was a great way to make the beach a better place for everyone.

Angel Tree

IQE Massachusetts has participated in an 'Angel Tree' programme since 2021 for the students at Edward F Leddy Preschool in Taunton. In 2023 IQE dropped off $1,000 to be distributed to deserving families in the school community.

Trek26

In July a number of our employees took part in Trek26, a 26-mile trek in the heart of Brecon Beacons (Bannau Brycheiniog) to fundraise for the Alzheimer's Society. The team averaged a time of around 10 hours to complete the trek and while they had plenty of blisters and sore legs to show for it, they managed to raise over £4,300.

Pride in Pill

At our South Wales sites we collected toy donations for Pride in Pill MBE, supporting children in hospitals throughout Wales and England. It was a successful initiative which hopes to make hospital a more pleasant experience for children over the Christmas period.

Shoebox gifts

IQE Taiwan colleagues donated and participated in the purchase and packing of 22 shoebox gifts for children for Christmas. We hope these gift boxes sent blessings and warmth, as well as wonderful memories to children in need.

Intellectual property

IQE's technology is underpinned by our intellectual property (IP) portfolio. 2023 saw further streamlining of this portfolio to better match our strategic aims and technology projects. We have around 120 granted patents, with 2023 yielding 17 new grants and 12 new patent applications. We have many further applications planned in the future, with our portfolio development targeted to support the Company's future growth ambitions.

Our patents cover the breadth of our technology platforms and are aligned to our market verticals: Smart connected devices, Communications infrastructure, and Automotive and Industrial. Our process know how, the secrets of our trade which have been gained through more than 30 years in operation, enhances this work and is closely protected by IQE.

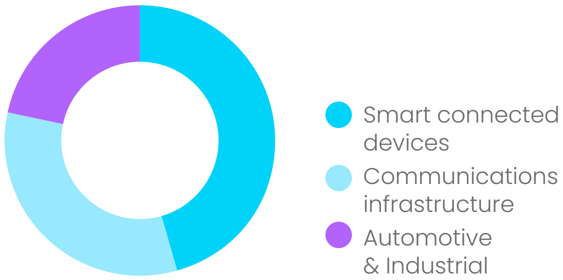
We have rigorous internal processes to identify and review inventions in our teams. Due to this, we are able to harvest these inventions efficiently and make strategic decisions over those that we protect by patent and those we protect by trade secrets and confidentiality. Training of our staff ensures that everyone understands the value of our IP in our technology and products.

2023 saw a record number of innovation disclosures made to the IP department. We are proud that IQE was fourth in the list of top UK companies filing patents in the H01L technical classification (semiconductor devices) at the end of 2023.

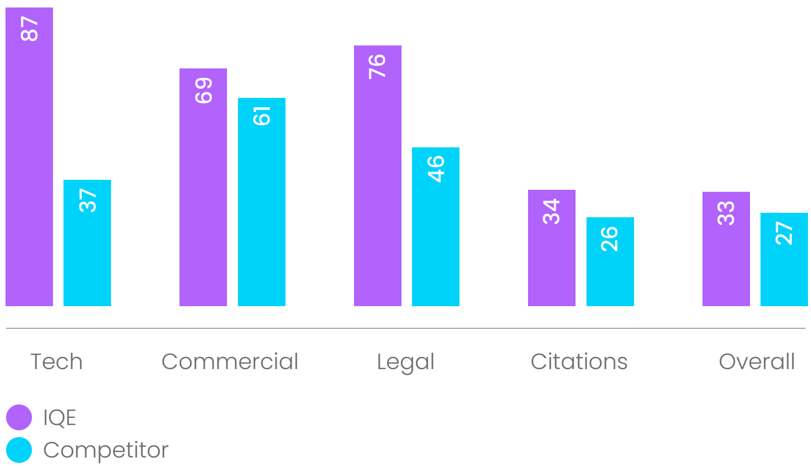
> **"2023 saw a record number of innovation disclosures."**

Victoria Yeomans
Head of IP

Innovation portfolio aligned to market verticals



Comparison of Patent Valuation Distribution



The above graph shows a third-party comparison of the valuation distributions of IQE's patent portfolio and that of a competitor (pure play epitaxy provider). IQE has higher valuations in all categories and is significantly higher in technical differentiation and legal strength.

Health and Safety review

During 2023 IQE's Environment, Health and Safety (EHS) programmes focused on continued improvement at pace to ensure our systems and processes are fit to support our future growth ambitions.

There was a continued focus on our Process Safety improvement programmes, an area in which we made solid progress in 2022. During the year we held our first internal Process Safety Awareness Training course and this was a step forward in embedding these processes and methodologies, and also increasing awareness across the organisation.

In our journey to align our systems and processes across the business we attained an ISO 45001 certification in two more of our sites, including a combined certificate across our operations in South Wales. Preparations are well advanced to move towards US certification of ISO 45001 during 2024. These advancements were actively enabled by moving to a centralised reporting structure for HSE personnel on operational sites.

Drive to World Class

To drive the journey to World Class performance, we focused on six key pillars which are critical to achieving our vision:

- Visible Leadership – increase the visibility and engagement of leadership to help develop a positive culture
- Governance – implemented, robust governance processes for EHS
- Compliance Assurance – implementing robust compliance assurance processes
- Competence – deploying a framework for demonstrable competence at all organisational levels
- Learning Organisation – deploying a framework to support sharing and learning from events and best practices across the organisation
- Continuous Improvement – Actively seek out best practices internally and externally to drive continuous improvement across EHS. We will also regularly review our existing processes to identify opportunities for improvement.

2023 Performance

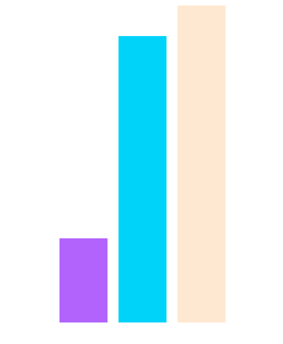
3
lost time injuries

17
all injuries

1,805
near miss reports/OFIs

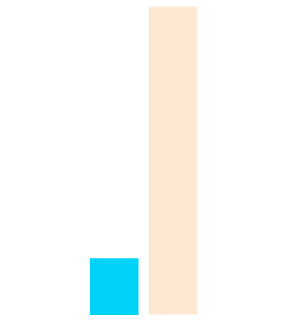
2
regulator reportable events

Near Miss/Opportunity for Improvement Reports 2021 vs 2022 vs 2023



2021 477
2022 1,630
2023 1,805

Positive conversations trend



2022 799
2023 4,383

Health and safety performance

Zero Is Possible

Over the past two years we have launched our 'Zero is Possible' cultural change programme. This is our roadmap to achieving zero injuries, safety events, environmental events, breaches, and any work-related ill health. It involves targeted campaigns, active engagement and awareness raising across the Group. Zero is Possible focuses on deploying the Company's HSE strategy to ensure robust foundations are in place alongside building mindsets within teams that performance improvement is within reach. This is done by engendering an open culture of collective ownership, engagement, respectful challenge and active reporting. As we continue to evolve the campaign in the coming years, we will transition the campaign to be "Zero Together".

2023 safety performance

During 2023 we maintained focus within the business on proactive reporting of opportunities for improvement and near miss events. These "free lessons" allow us to robustly act to remediate any deficiencies before any consequences are realised. Additionally, we launched a new proactive KPI focused on positive conversations on HSE topics as part of our cultural improvements. The total number of these conversations is recorded although they are informal and any outputs requiring further action are captured as opportunities for improvement. Promoting positive conversations with respectful challenge is a key element in driving a culture of openness and reporting in the organisation. To achieve this, education activities were completed across the business at senior management level and we plan on expanding this throughout the organisation in 2024.

In 2023 we recognised a 278% increase in reporting of near miss and opportunities for improvement reports across the business from the baseline year of 2021, with a further 10% improvement year-on-year from 2022 to 2023. Following the education programme relating to positive conversations a 448% increase was seen from the pilot year in 2022 (799 to 4,383). This represents a hugely positive step in IQE's environmental, health and safety maturity journey.

Three of our colleagues suffered lost time injuries during the year. This was consistent with the previous year, however, as an organisation we still see this as three too many incidents. All affected employees were supported following these events and were able to return to work on normal duties. Two of these injuries were reportable to the regulator after the injured employee was unable to attend work carrying out normal duties for seven days. No action was taken by the regulator.

The number of overall injuries fell year-on-year from 20 to 17 (including those which led to lost time). Within IQE we encourage reporting of all injuries, no matter how minor, in order that they can be robustly investigated to prevent re-occurrence. The majority of the injuries reported were minor and employees were able to return to work on normal duties during the same shift.

In March 2023, the Group's Massachusetts site experienced a fire contained to its mass vacuum room during the cleaning process for a particle filter. The site was evacuated and emergency services called under the Group's emergency protocol. The Group experienced significant damage to the mass vacuum room which has now been repaired and its fully operational again.

During 2023, in addition to our Taiwan and South Wales facilities, our Milton Keynes facility achieved certification to the internationally recognised ISO 45001 health and safety management standard, along with our Silicon site in South Wales. Work is well progressed to ensure we are positioned to attain certification across our US sites in the near future.

Key approach in 2024

During 2024 EHS will remain focused on continuing to deploy our strategy for driving a positive EHS culture from the top of the organisation to the bottom. Positive conversations will be a key tool to achieve this objective within the organisation, encouraging focus on three key questions:

1. Do we know what can go wrong?
2. Do we know what barriers we have to ensure that it doesn't go wrong?
3. Do we know that our barriers are effective and working properly?

The focus on our process safety improvement programme, standardisation, centralisation and preparing our sites and the EHS systems to scale also remain key elements.

2023 Safety performance

	2022	2023
Lost Time Injuries	3	**3**
All Injuries (inc. LTIs)	20	**17**

	2022	2023
Near Miss OFI	1,630	**1,805**
Average per site	163*	**181**

* Two sites operated for ~six months each so classed as one site for averaging purposes.

Environmental performance

2023 performance

Following our attainment of the independently-verified ISO 14064 GHG emissions reduction standard during 2021 and a commitment to the Science Based Targets Initiative (SBTi) made during 2022, IQE's ESG Committee has actively been working to ensure robust plans are in place to facilitate our emissions reduction journey. During 2023 work progressed on gathering data relating to Scope 3 emissions. This included engaging with our supply chain partners to, where possible, gather data relating to the impact of GHG emissions from transport and further processing. This activity will allow us to develop commitments to both near-term targets and to comply with the SBTi and achieve Net Zero by 2050. Key to SBTi involvement is the Company outlining how we will reduce our emissions over a set time period. These targets galvanise the action required for significant emissions reductions to be achieved by 2030.

Pleasingly, the focus outlined regarding reporting of Opportunities for Improvement and Near Misses across the business had a further positive effect on Environmental reporting across our sites. The average number of Environmental Opportunities or Near Misses reported increased in the past year from 12.6 average per site to 13.3. All of these were remediated and investigated to prevent re-occurrence.

Emissions performance

There has been a 13.51% reduction in absolute emissions for 2023 (five-year rolling average) in comparison to 2021 baseline (Scope/category 1 & 2). This is due to a number of factors, most notably with 2023 being the first full year without our Singapore and smaller Taiwanese sites included in the calculation due to their closure, along with the scaling down of the Pennsylvania facility's operations. These organisational consolidation exercises resulted in a significant drop in electricity and gas consumption. Other elements such as air travel witnessed significant rises during 2023 as the restrictions imposed as a result of COVID-19 continued to be lifted across the globe. These situations will continue to be monitored to ensure they remain controlled.

Certification

IQE successfully achieved certification to the ISO 14064-1 standard for a third consecutive year.

zero is possible

Emissions data

Inventory summary (mandatory ISO 14064 criteria) tCO_2e

Category (ISO 14064-1:2018)	Scopes (ISO 14064-1:2006)	2022	**2023**
Category 1: Direct emissions	Scope 1	3,334	**2,757**
Category 2: Indirect emissions from imported energy (location-based method)	Scope 2	16,751	**15,068**
Category 3: Indirect emissions from transportation	Scope 3	1,083	**968**
Category 4: Indirect emissions from products used by organisation	Scope 3	1,012	**811**
Category 5: Indirect emissions associated with the use of products from the organisation	Scope 3	0	**0**
Category 6: Indirect emissions from other sources	Scope 3	0	**0**
Total direct emissions		3,334	**2,757**
Total indirect emissions		18,845	**16,847**
Total gross emissions		22,180	**19,603**
Category 1 direct removals		0	**0**
Purchased emission reductions		0	**0**
Total net emissions		22,180	**19,603**

Emissions Intensity (Operating revenue/gross tCO_2e) (£m)

Total emissions	**170.46**

2023 Environmental performance

	2022	**2023**
Environmental incidents (reportable)	1	**1**
Environmental incidents (not reportable)	2	**1**
NM/OFI environmental	126	**133**
Average per site	12.6	**13.3**

Waste generation summary

Total waste generation (tonnes)	2022	**2023**
Landfill (non-hazardous) to land	102	**54**
Recycled	1,548	**1,670**
Hazardous	236	**266**
Energy (incineration)	47	**25**
Total waste	1,933	**2,015**

Water usage summary

Total water use (cubic metres)	2022	2023
Municipal supply	103,610	**133,516**
Recycled water	373	**0**
Purchased water	647	**608**
Total water used	104,630	**134,124**

Energy consumption summary

(kWh)	2022	2023
Gas	17,788,539	**9,260,578**
Electricity	50,015,055	**49,858,608**

0

Environmental breaches

TCFD Report

Task Force on Climate-related Financial Disclosures Statement for the year ended 31 December 2023.

Tom Dale
EVP, General Counsel and Company Secretary

Introduction

IQE has a unique opportunity to contribute to global efforts towards a sustainable future. Our products will enable the transition to clean energy, whether that be through the use of renewable energy, energy storage, efficient power inverters or the many other applications where compound semiconductors offer better and more efficient performance, and will play a leading role in societal changes in how we all live our lives. At IQE we are enthusiastic about the role we have to play in the greener future and we are embracing the environmental, social and governance ('ESG') considerations to running a modern, diverse global business.

Throughout 2023 and early 2024 we conducted an ESG materiality assessment with feedback from a broad range of internal and external stakeholders. More details on the materiality assessment are available on page 31. The materiality assessment identified that environment-related topics are, generally speaking, of a lower priority to IQE's stakeholders with the exception of the reduction of energy usage and greenhouse gases which was deemed to be a priority. We have therefore used the feedback from our materiality assessment to determine that climate-related disclosures beyond Scope 1 and Scope 2 would be material and should be included within this TCFD report.

Compliance Statement

IQE is registered on the AIM segment of the London Stock Exchange. We have complied with the requirements of The Companies (Strategic Report) (Climate-related Financial Disclosures) Regulations 2022 and reported on our Climate-related Financial Disclosures using the Task Force on Climate-related Financial Disclosures ('TCFD') framework.

The summary table on page 49 provides disclosure of our consistency with the 11 Recommended Disclosures as recommended by the TCFD.

We have structured our TCFD report in line with the four TCFD pillars: Governance, Strategy, Risk Management, and Metrics and Targets.

This is our first step towards aligning with the recommendations of the TCFD and the following report sets out our assessment of climate-related risks and opportunities. We are already well aligned to a number of the recommendations and are excited by the journey ahead as we seek to further align with the recommendations of the TCFD and our broader ESG responsibilities.

Where we are not yet fully consistent with the required disclosure, we have explained why and the steps we are intending to take to address these areas in the future and applicable timeframes for doing so. In completing this report, we have used the TCFD guidance materials including the TCFD Guidance on Metrics, Targets and Transition Plans, and the TCFD Guidance for All Sectors, to cover the four pillars and their underlying 11 recommended climate-related financial disclosures.

You will also note a number of cross references through our TCFD report to other sections in the Annual Report where additional relevant information is available.

"We are excited about the positive impact that our products can make in the world, including the key role they can play in reducing our energy consumption. We are also committed to reducing the impact of our operations on the environment."

Tom Dale
EVP, General Counsel and Company Secretary

TCFD Pillar	Recommended Disclosure	Status	Disclosure Locations
Governance: disclose the organisation's governance around climate-related risks and opportunities	A. Describe the Board's oversight of climate-related risks and opportunities		Page 44
	B. Describe management's role in assessing and managing climate-related risks and opportunities		Page 44
Strategy: disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	A. Describe climate-related risks and opportunities the organisation has identified over the short, medium and long term		Page 45
	B. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning		Page 45
	C. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario		Page 48
Risk management: disclose how the organisation identifies, assesses and manages climate-related risks	A. Describe the organisation's processes for identifying and assessing climate-related risks		Pages 48
	B. Describe the organisation's processes for managing climate-related risks		Page 49
	C. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management		Page 49
Metrics and targets: disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	A. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process		Page 49
	B. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks		Page 49
	C. Describe the targets used by the organisation to managed climate-related risks and opportunities and performance against targets		Page 49

Progress roadmap

Compliance Table

Disclosure Level:

- Full consistency with recommended disclosure
- Partial consistency with recommended disclosure

Governance

Board's oversight of climate-related risks and opportunities

IQE is committed to doing business in an ethical and transparent manner. In 2023, the Board and its Committees have been focused on three key areas related to our ESG strategy, which includes the climate and environment aspects relevant to this report, as set out below. The Board has not historically considered climate-related risks as part of its wider strategy development but has considered the climate-related opportunities as part of the five-year strategy developed as part of the Group's Capital Markets Day in late 2022. The Board intends to consider the Group's climate-related risks and opportunities as the Group's strategy is reviewed in the coming year.

The first area of focus has been in understanding the ESG matters that are most important to our stakeholders. Under the Board's oversight, we undertook a materiality assessment which aggregated internal and external input, from our employees to our customers and our investors, to identify the top issues. The materiality assessment identified that environment-related topics are, generally speaking, of a lower priority to IQE's stakeholders with the exception of the reduction of energy usage and greenhouse gases which was deemed to be a priority. Please refer to page 31 for further information on our materiality matrix.

Second, the Board has worked with management in the development of our Scope 1, Scope 2 and Scope 3 targets that will be submitted to the Science Based Targets initiative ('SBTi') later this year. The Board is committed to reducing the Group's emissions to at least the expectations of the SBTi and we look forward to updating you on our progress in future reports.

Finally, the Board has been rightly focused on this TCFD report, being IQE's first report under the recommendations of the TFCD.

The Board believes that IQE has made a positive start to its TCFD reporting obligations and looks forward to supporting management in delivering strong ESG performance aligned with our broader business ambitions.

Role of the Board and its Committees

The Board delegates the oversight of certain aspects of the Group's ESG strategy to its Committees and, where not all of the Board is present at the Committee meeting, the Board receives verbal updates from the Committees at the next Board meeting as part of IQE's overall governance arrangements relating to ESG, as summarised in the diagram on page 45.

The ESG Committee monitors and oversees the execution of IQE's sustainability strategy, and further details on the ESG Committee can be found on page 71. The Committee provides strategic guidance and scrutiny of management's assessment and management of climate-related risks and opportunities, and reports to the Board following each meeting of the Committee.

The Audit & Risk Committee reviews the impact of climate change when considering the Group's significant and emerging risks. Please see page 65 for more detail on the Audit & Risk Committee and its activities during 2023.

The Remuneration Committee considered the applicability of climate-related performance objectives for the long-term incentive awards made to Executive Directors in 2023 and it was agreed that these were not currently appropriate performance measures for the Executive Directors. The Remuneration Committee will reconsider the applicability of climate-related performance measures in determining performance measures for 2024. Further information is provided in the Remuneration Committee Report on page 72.

Role of management

The Executive Leadership Team ('ELT') has established a Group Risk Committee comprising members of the ELT and other key management stakeholders within the business. The Group Risk Committee considers climate-related risks and opportunities as part of its overall consideration of the Group's material risks and opportunities through the Group Risk Register, and reports to the Audit & Risk Committee. See page 65 for further detail.

Americo Lemos, Chief Executive Officer, is the Board Director with ultimate responsibility for the Group's climate change-related issues. Tom Dale, EVP, General Counsel & Company Secretary, is the ELT responsible member for the delivery of IQE's sustainability strategy and also chairs the Group Risk Committee. IQE has established a management working group which meets at least quarterly and comprises the EVP, General Counsel & Company Secretary, Group HSE Director, Chief People Officer and Head of Global Supply Chain and other stakeholders from across the Group as required on specific areas. The working group drives the day-to-day actions for IQE's ESG agenda.

Just like the Board, management has been focused in 2023 on understanding and developing IQE's obligations under the TCFD framework and in the development of our emissions targets for the SBTi. Climate-related opportunities have been considered as part of the Group's strategy and management intends to more fully integrate climate-related risks in those discussions during the coming year.

IQE's governance structure – climate-related focus

Strategy

Identified climate-related risks and opportunities

Climate-related risks and opportunities could potentially have a significant impact on our business, both positive and negative. Whilst we have not yet conducted our climate change scenario work (see page 48), we have conducted an initial management assessment of our significant climate-related risks and opportunities (see page 46) where significance was based on those items which could have a significant influence on our strategy over the short, medium and long term. We have not yet developed a monetary definition for significance and intend to begin our assessment for the quantification of the financial impact of climate-related risks and opportunities as we complete our climate change scenario work. We then intend to further develop our mitigation plans for the risks and the actions to capitalise on the opportunities so that these can then be fully integrated into our strategy and financial reporting processes. This will also help to inform our climate scenario analysis which we intend to complete in either 2024 or 2025.

We considered climate-related risks and opportunities across the short, medium and long term, defined as:

- Short term – the period up to 2028: a five-year period aligns with our short-term financial planning and viability assessment period
- Medium term – the period up to 2033: up to 2033 is chosen to align with industry technology cycles
- Longer term – the period 2031 to 2050: aligns with our longer-term Net Zero commitment

We intend to align the assessment of the Group's other risks and opportunities, as set out on pages 49 to 54, with these time periods in the coming year.

Management's initial review of climate-related risks and opportunities in 2023 identified those risks and opportunities which could significantly impact strategy and financial planning across our operations and business. We have considered both transitional risks and physical risks. Transitional risks are those associated with changes in the way markets operate and which may result from legal or regulatory changes or consumer habits as we transition to a lower-carbon economy. Physical risks are the exposure of our assets or value chain to physical hazards caused by the effects of climate change.

The Group is well placed to support our customers with the impact of climate change and the transition to a lower-carbon economy due to the performance and efficiency benefits provided by compound semiconductors. Risks to the Group's operations and assets are considered to be emerging risks and will continue to be assessed over the coming years.

Impact of climate-related risks and opportunities

Climate change continues to pose significant challenges to the environment. We are aware that the transition to a lower-carbon economy may entail changes to policy, legal, technological or other market changes which may cause varying levels of financial and reputational risks to IQE. The risks and opportunities were considered using the Group's existing risk governance framework (see pages 49 to 54).

As part of our review of climate-related risks and opportunities, we have identified both transition and physical risks to our business. It is important to acknowledge that, alongside these risks, that there are significant opportunities for the Group given the critical role that compound semiconductors have in the world's transition to a lower-carbon society (see page 21 for more).

The climate-related risks and opportunities set out on pages 46 to 48 are those which we consider to be the most relevant for us at present.

Physical risks

Risk	Risk description	TCFD category	Potential impact	Mitigating actions	Time horizon	Metrics & targets
Supply chain distribution (upstream and downstream)	Potential financial impact of disruption to the supply of raw materials and our products due to: (i) increased incidence and severity of extreme weather events; and (ii) transition of manufacturing methods to greener alternatives.	Acute/ Chronic	Financial: increased price of raw materials, particularly gases and substrates procured overseas and costs of transportation resulting in reduced profit margins. Supply Chain: disruption in supply of materials required for production causes interruptions and delays to the fulfilment of orders; delays to our own production of products and failure to meet customer expectations.	IQE has reviewed the resilience of its supply chain during 2023 to limit single-sourcing where possible and will continue to expand this review to include climate-related risks.	Medium to Long	**Metrics:** We are working to develop appropriate metrics and targets.
Business interruption; damage to assets; and harm to our people	Potential financial impact of damage to and temporary closure of IQE's sites caused by extreme weather.	Acute/ Chronic	Financial: reduced revenue due to closure of sites and disruption to production; increased repair and maintenance costs; increased insurance premiums (potential unavailability of suitable insurance cover); and reduced revenue and higher costs. Operations: disruption to production whilst sites are damaged or closed.	IQE has business continuity policies and procedures and appropriate policies of insurance. IQE will continue to review the steps it can take to minimise the impacts of extreme weather and will integrate climate-related risks in our business continuity plans.	Medium to Long	**Metrics:** Sites particularly prone to extreme weather events. **Targets:** No worsening of extreme weather risk assessments.

Transitional risks

Risk	Risk description	TCFD category	Potential impact	Mitigating actions	Time horizon	Metrics & targets
Energy use and climate reporting obligations	Potential financial and reputational impact if perceived by stakeholders as failing to meet climate reporting expectations/ requirements or reporting poor performance against climate commitments.	Policy & Legal/ Rep	Financial: additional costs due to increased reporting requirements and stakeholder demands. Loss of investor confidence if seen to be climate green washing, impacting access to capital. Reputation: damage to reputation and stakeholder confidence; and restricted access to market supply chains.	IQE has engaged external resources to ensure that we have good sight of changes that may impact the business.	Short to Medium	**Metrics:** Annual carbon inventory in line with SBTs GHG emissions, Scopes 1, 2 and 3 (IQE expects to submit its targets to the SBTi in early Q2 2024). **Targets:** 2028 SBTs.
Carbon taxes and short term carbon offsetting costs	Potential financial impact of: (i) current and future potential carbon taxes applied to our operations and supply chain; and (ii) short-term carbon offsetting.	Policy &Legal	Financial: in-crease in energy, water and waste costs and other associated operating costs; indirect carbon taxes passed through the supply chain; and increased crossborder transportation costs. In-creased costs may required increased prices, meaning customers are less willing to do business with us, or reduce profit margins. Operations: requirement for more comprehensive datasets and assurance of Scopes 1, 2 and 3 carbon emissions.	IQE has engaged external re-sources to ensure that we have good sight of changes that may impact the business. In addition, our commitment to SBT and Net Zero will mitigate any exposure to carbon taxes.	Medium	**Metrics:** Annual carbon inventory in line with SBTs GHG emissions, Scopes 1, 2 and 3. **Targets:** 2028 SBTs.

Opportunities

Opportunities	Opportunity description	TCFD category	Potential impact	Mitigating actions	Time horizon	Metrics & targets
Increased demand for products enabling improved efficiency and clean energy	Increased demand for compound semiconductors which enable more efficient applications, including GaN-based power semiconductors for renewable energy, energy storage, efficient inverters and other products required to transition the global economy to clean energy.	Market, Products and Services, Resource Efficiency	Financial: overall revenue growth from increased sales of GaN-based products. Operations: decrease in Scope 3 GHG emissions.	N/A	Short to medium	**Metrics:** Revenues from GaN-based products. **Targets:** This is not disclosed due to commercial sensitivity.

Resilience of IQE's strategy to climate-related scenarios

The Group announced its five-year strategy at the Capital Markets Day in late 2022. The Board does not consider there to be any material climate-related risks to the achievement of that strategy and has considered the opportunities available to the Group which will support the Group's diversification into Power and Display markets, as well as the broader proliferation of efficient compound semiconductor devices.

The Group believes that its operations are resilient against potential impacts of climate risks and that it is well placed to be able to support our customers with the impact of climate change and the transition to a lower-carbon economy. We will do this through the performance and efficiency benefits provided by compound semiconductors. Risks to the Group's operations and assets are considered to be emerging risks and will continue to be assessed over the coming years.

With the support of our external consultant, we intend to conduct a rigorous and more detailed qualitative Climate Scenario Analysis in the coming years to help to further develop our understanding of climate-related physical and transition risks and opportunities in light of a range of climate change scenarios, which could impact our business in the future.

We will work to determine the appropriate methodology and modelling tools to be used to complete this exercise and note that the approach may comprise stakeholder engagement and the prioritisation of climate-related risks and opportunities which may require deeper analysis via quantitative modelling and ultimately support our understanding of the resilience of our low-carbon transition plan under different climate change scenarios.

The outcomes from the Climate Scenario Analysis will be considered as part of our process for the assessment of climate change-related risks and will support our future climate-related financial planning.

Whilst the Group has not yet conducted a rigorous qualitative Climate Scenario Analysis, the Group has used its existing risk management processes to identify the Group's material climate-related risks and opportunities on the basis of pragmatic scenarios aligned to a 2°C increase and a 4°C increase. Under a 2°C increase the group expects an increase in the pace of change in the Group's transitional risks relating to energy use and carbon taxes, in addition to an acceleration in demand for the Group's products which contribute to improved energy efficiency. This results in the potential risks and opportunities outlined on pages 46 and 47 and the impact to our business strategy of relevant risks is described within these tables.

Under a 4°C increase scenario, the Group would expect adverse weather events, such as tropical cyclones, severe flooding events, heatwaves and fires, that would occur more often and cause more significant disruption to the Group's supply chain and business operations in the areas identified in the risks and opportunities on pages 46 and 47.

Whilst we have more work to do in improving our qualitative Climate Scenario Analysis and a deeper analysis of the resilience of our business model, the Group's currently considers that climate-related risks and opportunities are emerging and not currently material to the achievement of the Group's strategy.

Risk management

Identifying and assessing climate-related risks, and integration with IQE's overall risk management

The Group understands the importance of monitoring and assessing its climate-related risks. We have made good progress in the adoption of our existing risk management processes to integrate our climate-related risks within the Group's risk reporting processes. More detail on the structure of the Group's risk management processes can be found on pages 49 to 54.

This year, an ESG working group, led by the General Counsel and Company Secretary, was established to drive the Group's TCFD agenda and the development of our submission for the SBTi. The working group engaged in a number of workshop sessions with the Group's external ESG advisers, Asesoria Group, to understand the Group's requirements under the TCFD recommendations and in the development of our sustainability strategy and targets. The ESG group intends to work closely with the ESG Committee and the Group Risk Committee in the coming year to further develop the Group's sustainability strategy beyond TCFD and SBTi.

The ESG working group developed an initial proposal for the Group's significant climate-related risks and opportunities which were then reviewed at the Group Risk Committee in order to assess their applicability and significance to the Group. The Group Risk Register was then updated with the inclusion of those climate-related risks and opportunities and the Group Risk Register was provided to and reviewed with the Audit & Risk Committee. The Group's climate-related risks and opportunities are outlined on pages 46 to 47. We expect to refine our reporting of climate-related risks and opportunities as we complete our climate change scenario analysis referenced on page 48.

We intend to further develop our processes for identifying and assessing climate-related risks and opportunities by developing site-specific risk registers which will align with the bottom-up approach incorporated into the Group's risk management processes. This was process may result in the identification of additional or revised significant climate-related risks and opportunities.

Managing climate-related risks

Our climate-related risks and opportunities form part of the Group's risk management process The Group intends to enhance its assessment of climate-related risks through quantitative analysis and this will better allow the Group Risk Committee to determine whether the considerations are adequately reflected in the Group's strategy. Climate-related risks and opportunities will be reviewed by the Group Risk Committee at each meeting in 2024.

As we enhance our assessment of climate-related risks on a site-by-site basis, we will also aim to develop more detailed mitigation plans for each climate risk.

Metrics and targets

Our metrics and targets

In 2021 we made our commitment to achieve Net Zero carbon neutrality across our operations by 2050 and we will be submitting our Scope 1, Scope 2 and Scope 3 targets to the SBTi by the end of May 2024. We will align our metrics relating to the reduction in greenhouse gas emissions (GHGs) with our planned submission to the SBTi and will be able to provide specific metrics for our TCFD report next year. Whilst we currently monitor certain mandatory categories of Scope 3 emissions as part of our IS0 14064 certification (see pages 40 and 41, our SBTi submission will have considered the 15 categories required by the SBTi. We also intend to supplement our GHG reduction-based metrics with metrics relating to our waste and recycling, as well as a reduction in our water usage. We will continue to investigate additional metrics and targets that would help us monitor our climate-related risks and opportunities. Of course, whilst we currently report within certain emissions categories under Scopes 1, 2 and 3, we want to ensure that our TCFD metrics are aligned with our approved SBTi commitments.

The risk and opportunities table on pages 46 to 48 provides further information on the metrics and targets we have identified so far and how these are relevant to the tracking and mitigation of those risks and opportunities.

Following the certification of our SBTi targets and the development of our specific metrics for TCFD reporting, will use these targets for managing the transitional climate-related risks and the activities required to set and meet our targets, including our longer-term ambition to be Net Zero by 2050. We will also develop our reporting in future years to include trend data to allow comparison of our metrics against prior years.

Our approach to Scope 1, Scope 2 and Scope 3 GHGs

Direct GHG emissions are from our manufacturing operations through combustion of fuels (Scope 1) and purchased energy from the grid (Scope 2). We also have indirect GHG emissions throughout the value chain because of our purchase of materials to make our products, and the use of our products in semiconductor devices around the world. We are committed to working with our partners to reduce our Scope 3 emissions and have begun engagement with our supply chain partners, upstream and downstream, to better understand our Scope 3 emissions.

We are actively addressing all three Scopes and are engaging with our partners to reduce the GHG emissions arising, directly and indirectly, from our business. Please refer to pages 40 and 41 for our GHG reporting for the 2023 calendar year. We report our GHG emissions according to the Greenhouse Gas Protocol, published by the WBCSD and the WRI.

Our approach and appetite for risk

We recognise risk as an inherent part of our business operations and we approach risk with the same deliberate, strategic consideration as other aspects of the business. The effective management of risk contributes significantly to the successful delivery of the Group's strategic plans and objectives. The Group Risk Committee monitors the risk environment, in particular those risks identified as principal or emerging risks on a regular basis, and the Audit & Risk Committee reviews the Group's financial controls and systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems. Please see page 69 for further information on the Group's review of its financial controls. The Board is responsible for the overall stewardship of risk management and internal control.

The Group Risk Committee considers risks using a top-down and bottom-up approach, with the committee members obtaining input from around the business, which together with oversight and support from the Audit & Risk Committee and the Board, creates an effective system for monitoring, planning and developing a Group-wide culture and approach to risk. The Group Risk Committee periodically reports to the Audit & Risk Committee on the Group's principal risks and the mitigating actions being taken to address those risks.

In 2023, the Group integrated processes for the identification, evaluation and reporting of climate-related risks and opportunities, as set out in the Task Force on Climate-related Financial Disclosures statement on pages 42 to 48. This is the Group's first assessment of its climate-related risks and opportunities and was conducted using a top-down approach. We intend to develop this process through 2024 to capture more granular and

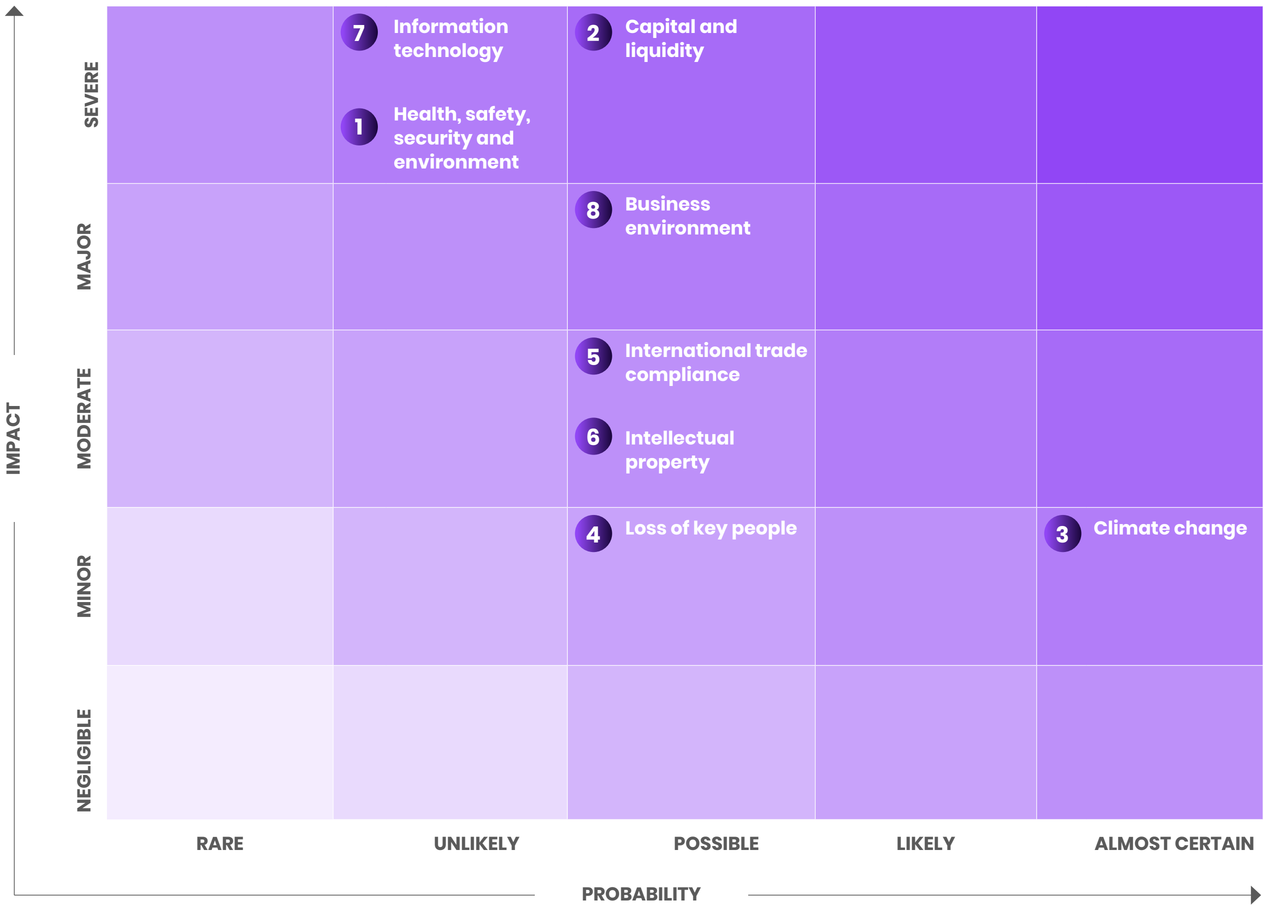
The Group continues to develop its risk management framework towards a 'Three Lines of Defence' model. The Group is focused on establishing the necessary processes and internal expertise for the first and second lines of defence and will thereafter look to establish an internal audit function.

site-specific risks and opportunities. The Group successfully integrated the review of climate-related risks and opportunities within the Group Risk Committee and Audit & Risk Committee and key risks have been included within the Group's risk register.

The Group Risk Committee is responsible for the maintenance and regular updating of a risk register which articulates the Group's principal risks and the actions being taken to address those risks. The risk register is in a standardised format and includes the likelihood of a risk materialising, and an assessment of that risk both before and after the Group's mitigation activities.

Principal risks and uncertainties

We have mapped the Group's principal risks and uncertainties to a probability and impact matrix to assist meaningful comparison of the relative importance of those principal risks and uncertainties. We have then included arrows to indicate the change in the risk in comparison to the prior year's assessment. We have used the residual risk for the purposes of this mapping exercise, being the probability of the risk occurring and the potential Impact it may have, taking into account any mitigating actions that will be implemented. The most significant risks are shown in the top right quadrant of the chart.



1 Health, Safety, Security and Environment

Context	The Group operates a number of manufacturing sites which utilise potentially harmful gases, materials and equipment
Risk	• Major incident at an IQE site
Possible impact	• Injuries and potential loss of life • Environmental harm • Loss or suspension of required permits • Disruption to operations and business activities • Reputational damage
Mitigation	• Health and safety strategy aligned with the business' cultural development • Strong internal controls, including technical and engineering controls • Focus on process safety, barrier management and layered protection • Continuous improvement of management systems • Continuous auditing and monitoring of productions processes and equipment
Change in the year	• No change

2 Capital and liquidity

Context	The Group has been exposed to the semiconductor industry-wide downturn and inventory correction cycle through late 2022, 2023 and into 2024.
Risk	• Insufficient liquidity for day-to-day or to support the execution of IQE's strategy
Possible impact	• Damage to business operations • Breach of banking covenants • Financial loss • Reputational damage
Mitigation	• Five year plan with scenario modelling • Annual Group and departmental budgets to define the envelope of affordability and direct the capital management and liquidity management strategy of the business • Monthly cash flow forecasts • Budgetary, expenditure and cost controls • Procurement policy • Delegated authority policy and limits
Change in the year	• No change

3 Climate change

Context	Climate change generates both risks and opportunities for IQE and is an emerging risk area for the Group.
Risk	• The Group has physical risks relating to the disruption of our supply chains and business operations from extreme weather events and transitional risks relating to the failure to meet our climate reporting obligations and increased energy-related costs
Possible impact	• Disruption to the Group's operations • Disruption to the operations of our customers and suppliers • Increased production and transportation costs • Reputational damage or loss of investment from failure to meet climate-change commitments
Mitigation	• Assessment of risks at a Group and individual site level • Assessment of the Group's baseline emissions • Implementation of climate-related considerations in strategy and operational business decision making • Prioritisation of climate-related strategy to stakeholder priorities identified in materiality assessment
Change in the year	• New risk

4 Loss of key people	
Context	IQE's people are fundamental to its future success and there are a number of individuals in key roles. The Group operates in a highly competitive Industry for talent
Risk	• Loss of key human capital capabilities • Inability to attract talent
Possible impact	• Degradation in workforce output, from product quality to technology development • Wage inflation
Mitigation	• Regular workforce planning including talent reviews • People development and retention plans • Compensation to market reviews • Development of diverse workforce
Change in the year	• No change

5 International trade compliance	
Context	IQE operates across multiple jurisdictions in a highly regulated industry impacted by extra-jurisdictional controls on products, software and technology
Risk	• Failure to comply with international export control laws
Possible impact	• Significant regulatory fines and penalties • Financial loss • Damage to reputation
Mitigation	• Implementation of Group-wide technology control plan • Employee training • Group-wide policies and processes to identify end use and end user • Development of products and technology that are not impacted by international export controls
Change in the year	• Increase in probability

6 Intellectual property	
Context	The semiconductor industry is highly competitive with competing intellectual property rights in the major jurisdictions
Risk	• IQE infringes the intellectual property rights of a third party • A third party infringes, or without authorisation obtains, IQE's intellectual property rights
Possible impact	• Loss of competitive position • Financial loss • Significant legal costs • Reputational damage
Mitigation	• Implementation of robust terms and conditions to protect IQE's intellectual property rights • Employee training on intellectual property rights and protecting confidential information • Implementation of intellectual property strategies aligned to the Group's business strategy
Change in the year	• No change

Key: **Likelihood** Low Medium High

Trend Increased risk Decreased risk No change to risk New risk

Impact Low Medium High

7 Information technology

Context	The Group primarily functions using its information technology systems
Risk	• Cyber attack on the Group's IT infrastructure • Ransom-ware/spread of viruses or malware • Legacy system failure or cessation
Possible impact	• System failure, data loss and sustained disruption to production operations • Loss of business-critical data • Financial and reputational damage
Mitigation	• Technical protection through active scanning and monitoring of the Group's internal and external network • User training to improve cyber security knowledge • Periodic testing • Upgrading of aged IT infrastructure and devices • Network separation
Change in the year	• No change

8 Business environment

Context	Demand from the Group's current and future customer bases may be reduced if there is a contraction in investment, continued upward pressure on global inflation, changes in expected customer demand and/or disruption due to the geopolitical environment
Risk	• Lower demand for the Group's products • Increases in key cost drivers such as people, energy and raw materials • Disruption in the supply of raw materials and other production inputs • Undermining of IQE's strategy
Possible impact	• Decrease in sales volumes • Increased cost of production leading to a reduction in margins if not offset by sufficient price increases • Failure to achieve longer-term business targets
Mitigation	• Proactive management of inflationary pressures through cost control and customer management • Strategic focus on key growth markets • Product, market and customer diversification
Change in the year	• No change

Global conflict

The ongoing conflicts between Russia and Ukraine and in Gaza are demonstrative of the increasingly contested geopolitical environment. IQE has been, and will continue to be, impacted by higher energy prices which are, in part, a result of the conflict between Russia and Ukraine. The Group has not been materially impacted by the conflict in Gaza but continues to monitor the impact of the ongoing conflict. Higher inflation and the higher nominal interest rates used by national governments to combat inflation are expected to have an impact on IQE consistent with the effects felt globally.

Key: **Likelihood** Low Medium High
Trend Increased risk Decreased risk No change to risk New risk
Impact Low Medium High

Long-term viability

Viability statement

As required by provision 31 of the UK Corporate Governance Code 2018, the Board has assessed the prospects of the Company over a five-year period, considering the Group's current financial position, business strategy and the results of it performing a robust assessment of emerging and principal risks (see pages 50 to 54).

The Board believes that a five-year period is an appropriate time frame for assessing the Group's longer-term viability. This period is covered by the Group's strategic planning horizon and considers the nature of the Group's principal risks. The Board believes that a five-year period reflects a period of time over which information and forecasts concerning demand for the development, qualification and production of compound semiconductor wafers, is considered reasonably reliable. In making this assessment, the Directors have taken account of the Group's current strategy, funding arrangements and ability to raise new finance in most market conditions if required and includes the Board's view that the Group will be able to renew or refinance its existing £27,300,000 ($35,000,000) revolving credit facility agreement which expires in May 2026.

The Board's key criteria for considering the Group's viability is the maintenance of a net cash position or the ability to operate within agreed debt arrangements, demonstrating that the Group would be able to meet its liabilities as they fall due.

Whilst all of the risks identified on pages 50 to 54 of this Annual Report could have an impact on the Group's performance, in making this assessment, the Directors have considered the following issues which could threaten the business model, future performance, solvency and liquidity of the Group and which, given the magnitude of their potential impact, the Board considers appropriate for the purposes of this assessment:

- The current semiconductor industry downturn and economic outlook, which the Directors' believe continues to present a temporary challenge to the business during a period when market dynamics and customer demand is expected to improve ahead of a full market recovery in 2025.
- A material degradation in the Group's business environment.

The Group has experienced weaker customer demand and lower customer orders in 2023 as a result of the semiconductor industry downturn which has resulted in a 31% decline in reported revenue, a loss for the year of £29,378,000 and a net debt position (excluding lease liabilities and fair value gains/losses on derivative instruments) of £2,228,000. In order to mitigate the impact of the semiconductor industry downturn and ensure IQE continues to be well positioned to exploit opportunities within an industry that is forecast to continue to grow in accordance with strong historical long-term industry trends, the Directors' have taken steps to strengthen the balance sheet of the business during 2023. These steps have included the refinancing of the Group's £27,300,000 ($35,000,000) multi-currency revolving credit facility and the successful £31,099,000 equity fundraise, actions implemented to provide the Group with the necessary liquidity to continue trading during the semiconductor market downturn, provide sufficient headroom to protect against a later than forecast recovery from the market downturn and to allow the Group to continue to invest in its growth and diversification strategy.

Alongside the steps taken to strengthen the balance sheet the Group has also taken a number of actions to rationalise cost in order to help create sufficient funding headroom to maintain appropriate investment and delivery of the Group's strategic priorities, including a combination of the ongoing strategic consolidation of the Group's manufacturing sites, capital investment in gallium nitride (GaN) manufacturing capacity and investment in next-generation compound semiconductor research and development.

Cost rationalisation has primarily focused on labour savings, operational efficiencies and reductions in areas of discretionary expenditure across the Group whilst the completed closure of the Group's Singapore facility and the announced closure of the Pennsylvania (US) facility, with the resultant consolidation of molecular beam epitaxy (MBE) capacity into the Group's North

Carolina (US) site, will deliver improved production efficiency and margins in the medium to long term. Capital investment in manufacturing capacity at the Group's sites in Newport (UK), Massachusetts (US) and Hsinchu (Taiwan), combined with the previously announced ongoing capital investment in GaN related manufacturing capabilities, provides capacity for growth that is aligned with the Group's strategy and its technology and product roadmap. This ongoing investment in GaN capability will underpin the Group's diversification into advanced displays and power electronics segments of the compound semiconductor market.

Stress tests and scenario analyses to determine the Group's viability have been performed as part of the assessment. The assessment takes account of the actions implemented by the Directors to strengthen the balance sheet of the business during 2023 and to rationalise cost. In performing these tests, the Group considered a severe but plausible downside scenario in which the Group's business performance is adversely affected by a slower recovery in the broader semiconductor industry aligned with its going concern review and a reverse stress test extended over the longer five-year plan period. The Board have signed off on a five-year plan to grow and diversify revenues over the five-year period. This growth will be generated from a combination of the Group's existing manufacturing capacity and the Group's committed investment into new GaN manufacturing capacity. The Board believes funding for this capital expenditure can be raised from a variety of sources. Over the period to 2028, a reverse stress test demonstrates that in the event that operational cash flows or funding for investment in new capacity beyond the going concern review period to 30 June 2025 is not available, forecast revenue generated from existing manufacturing capacity could fall by 30% before a typical leverage covenant test of 3x would be breached.

The Board confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period to 31 December 2028.

This Strategic Report has been approved by the Board and signed on their behalf by:

Phil Smith.

Phil Smith
Chairman

9 April 2024

Leading the way

Phil Smith CBE, FREng, FIET (66)
Chairman

E N R

Phil Smith joined the IQE Board in 2016 and took over as Chairman in April 2019 and Executive Chairman from September 2021 to January 2022.

Phil is the Chairman of IQE as well as an adviser, mentor and speaker. As former Chief Executive and Chairman of Cisco UK and Ireland, Phil is passionate about innovation, skills, technology, digitisation and leadership. Phil is also the Chairman of Streeva, a Fintech-based growing payments company, and Chairman of Appyway which is leading on smart mobility In the broader innovation and skills space. Phil is also the former Chair of Innovate UK, the Government's innovation agency as well as former Chair of Techskills , an employer-led organisation championing digital skills. In his industry and government roles he is co-Chair of the Digital Skills Council and is on the board of the Digital Economy Council. Additionally, Phil also sits on a number of advisory boards in organisations as diverse as Coventry University and the National Theatre.

Americo Lemos (56)
Chief Executive Officer

Americo Lemos joined IQE as Chief Executive Officer in January 2022.

Americo Lemos joined IQE from the executive team at GlobalFoundries (GF), one of the world's leading semiconductor manufacturers. As GF's Senior Vice President of Business Development for Asia Pacific and China Country President, Americo was responsible for driving the business's efficiency and growth in these critical markets. Prior to this, he was Senior Vice President at Qualcomm, responsible for its data center business. Before joining Qualcomm, Americo was Vice President of Platform Engineering at Intel, responsible for strategic ventures with China semiconductor companies from 2009 to 2015. Before Intel, he held leadership roles with Texas Instruments, Quanta Computer in Taiwan and Skyworks. Americo holds a Master of Sciences, Electronics and Computers degree from École Nationale Supérieure de Sciences Appliquées et de Technologie (ENSSAT) in Lannion, France.

Jutta Meier (58)
Chief Financial Officer

Jutta Meier joined IQE as Chief Financial Officer in January 2024.

Jutta is an experienced finance executive who has held senior positions at global semiconductor companies for over 25 years. She joined IQE in January 2024 from Intel Corporation, where she served as a Senior Finance Director at Intel Foundry Services, supporting Intel's Foundry business transformation. Prior to joining Intel, Jutta served as Vice President of Finance at GlobalFoundries Inc, a global leader in semiconductor manufacturing and she also held various positions at Advanced Micro Devices Inc. (AMD), a multinational semiconductor company. She holds an MBA from Technische Universität Dresden.

Carol Chesney FCA (61)
Senior Independent Director

A R N

Carol Chesney joined IQE's Board in May 2019 and was appointed as Senior Independent Director in November 2020.

Since October 2012, Carol has served as a Non-Executive Director and Chair of the Audit Committee of Renishaw plc. In addition, she is a Non-Executive Director and Chair of the Audit Committees of Imagination Technologies, Hunting plc and Biffa plc. Until 2018 Carol served as the Company Secretary of Halma plc, a FTSE 100 health, safety and environmental technology group, having also served as the group's Financial Controller. During her time at Halma, Carol'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. Carol is a Fellow of the Institute of Chartered Accountants in England and Wales, and qualified with Arthur Andersen in the UK.

Dr Drew Nelson OBE, BSc, PhD, FREng (69)
President and Non-Executive Director

E

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, Drew 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 until September 2021. Drew has held several Non-Executive Directorship roles, 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.

Key for Committee membership

A Audit & Risk Committee

R Remuneration Committee

N Nomination Committee

E Environmental, Social & Governance Committee

Chair of Committee

Victoria Hull
(61)
Non-Executive Director

R N A

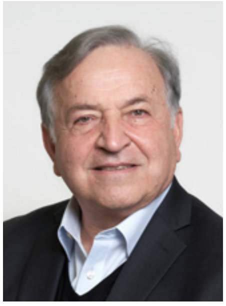
Victoria Hull joined IQE as a Non-Executive Director in August 2021. An experienced Non-Executive Director, Victoria Hull is currently serving Non-Executive Directorship and Remuneration Committee roles for listed technological companies including Alphawave IP Group plc and Network International.

She is an experienced Non-Executive Director, and is currently serving NED Directorship and Remuneration Committee roles for listed technology companies including Alphawave IP Group and Network International Holdings plc. Victoria is also the Senior Independent Director for Ultra Electronics Holdings plc. Prior to these appointments, Ms Hull held an executive directorship at Invensys, now Schneider Electric. Having worked in a variety of global companies at Executive Committee or Board level, she brings an extensive understanding of legal, commercial and governance matters. Victoria has a strong background in corporate finance and began her career as a trainee solicitor at Clifford Chance LLP.

Harmesh Suniara
(53)
Non-Executive Director

Harmesh Suniara has over 15 years' experience of working in investment management, with a particular focus on UK small and mid-cap equities including the technology and life sciences sectors.

He brings a wealth of expertise in active engagement with companies that Lombard Odier has invested in, joining IQE's Board in June 2023. Since 2017 he has worked as a Portfolio Manager at Lombard Odier 1798 Volantis, and prior to this he was an Investment Manager at Henderson Volantis Capital and Gartmore Investment Management. Lombard Odier 1798 Volantis is a major shareholder in IQE.



Bami Bastani
(70)
Non-Executive Director

A E

Bami Bastani has a wealth of experience in the semiconductor industry.

He joined IQE's Board in January 2024 after spending seven years at GlobalFoundries, first as Senior VP and GM of the Mobile & Wireless Infrastructure Business Unit and then as Senior VP and Senior Advisor to the CEO as well as GlobalFoundries' board member at the Global Semiconductor Alliance (GSA). Prior to GlobalFoundries Bami held President, CEO and Board member roles at Meru Networks, Trident Microsystems and ANADIGICS. Bami brings over 20 years of serving on Boards of Directors of public and private companies. Dr Bastani holds a PhD and a Master of Science in Solid State Electronics from The Ohio State University and a Bachelor of Science in Electrical Engineering from University of Arkansas.

Maria Marced
(69)
Non-Executive Director

E R

Maria Marced is a highly experienced executive within the semiconductor sector.

She joined IQE's Board in January 2024 and is also currently the President of Taiwan Semiconductor Manufacturing Company ("TSMC") Europe, a role she has held for over 16 years. Prior to that, Maria held Senior Vice President roles at NXP Semiconductors and spent 19 years as Vice President and EMEA General Manager at Intel Corp. Maria holds a PhD in Telecommunications Engineering from the Polytechnic University of Madrid.

Chairman's Governance overview

I am pleased to introduce IQE's Governance Report on behalf of the Board. The Board is collectively responsible for IQE's long-term success and hence committed to conducting business responsibly, maintaining high standards of corporate governance, and to aspiring to the highest levels of quality in everything it does.

I am confident the Board's continued focus on these areas will support IQE's performance and its position in the market, and will enable it to grow and embrace its opportunities as they arise.

The Board is committed to driving IQE's long-term objectives and to overseeing IQE's operations to ensure competent and prudent management. The approach to governance is set by the Board, charging the Executive Leadership Team with the responsibility to ensure that the approach is effectively implemented across IQE's global business.

The year 2023 was challenging for the global semiconductor industry as inventory levels were reduced to normalised levels and the global economy was challenged by higher interest rates, inflation and conflict. Despite this, IQE returned to growth in the second half of 2023 and made significant progress in its diversification strategy which underpins the five-year plan launched at the Capital Markets Day on 9 November 2022. The Board is well-placed to oversee the delivery of IQE's strategy.

Board changes in 2023 and early 2024

I am delighted to welcome Jutta Meier as the Group's new Chief Financial Officer. Jutta joined IQE on 22 January 2024 from Intel Foundry Services. Jutta brings wide-ranging financial leadership and semiconductor industry experience to the Board and the

Executive team at IQE. I was also very pleased to welcome Harmesh Suniara and later Bami Bastani and Maria Marced to the IQE Board, again significantly enhancing the Board's capability and experience particularly within the semiconductor industry. I believe that the refreshed Board composition will enhance the Board's oversight of the execution of the Group's strategic direction and I look forward to working with them over the coming years.

Finally, Sir Derek Jones KCB stepped down from the Board as Non-Executive Director on 31 December 2023. Derek joined the Board in December 2017 and had been an integral part of IQE's Board during this time.

Board evaluation

The Board has a well-established process for undertaking an annual review of the performance of the Board, its Committees and the Chair. This year, the Board completed an internal evaluation.

More details on the findings from the evaluation are outlined on page 63.

I encourage all of our shareholders to engage with us ahead of the AGM which will be held on Tuesday 25 June 2024. Notice of, and details of the arrangements for, the AGM will be provided to shareholders at the usual time.

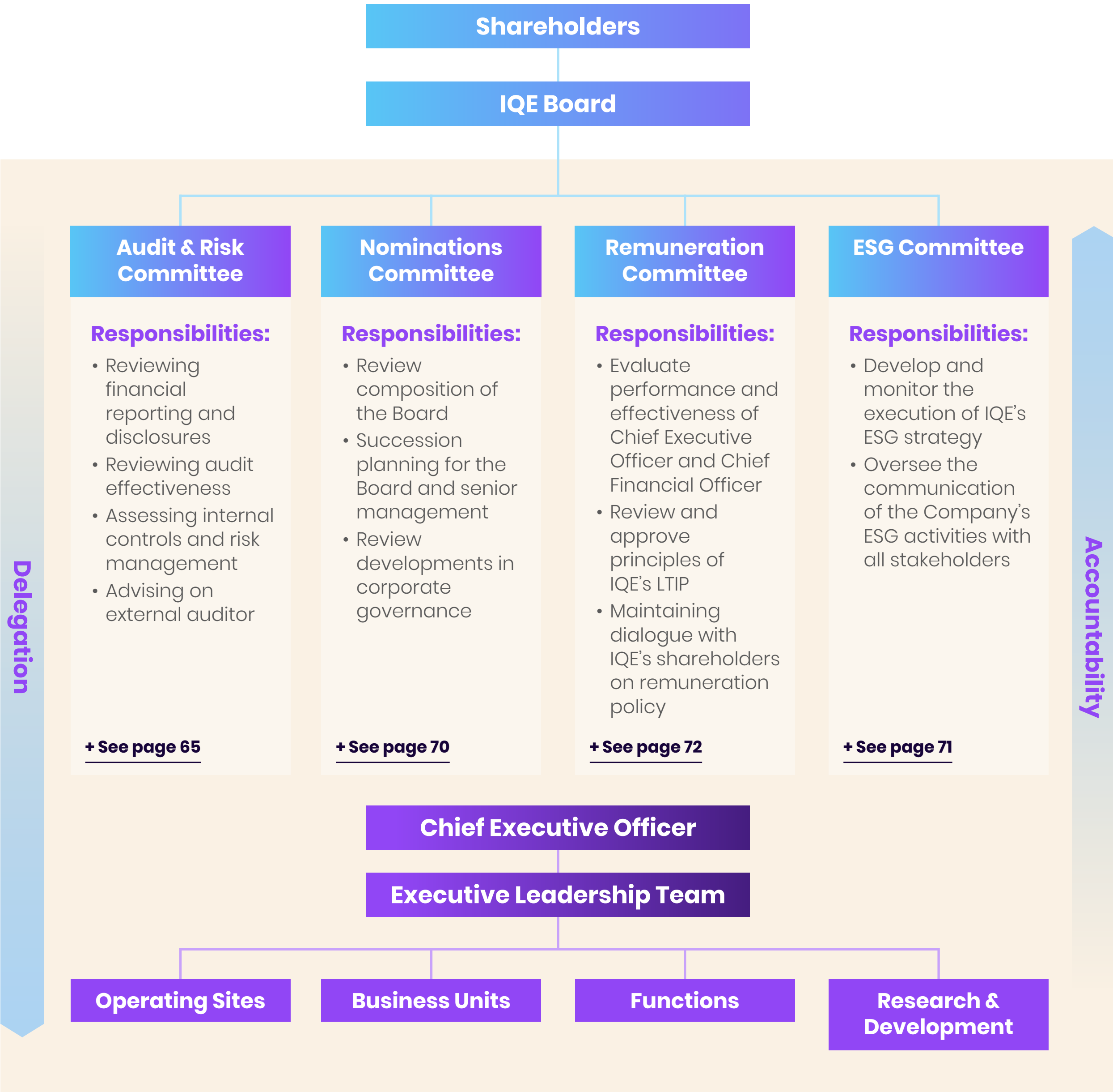
I am confident that the steps we have taken through 2023 will make a strong positive contribution to IQE as we drive to achieve the vision and goals we have set.

Phil Smith
Chairman

9 April 2024

"The Board is well-placed to oversee the delivery of IQE's strategy."

Governance structure



Role of the Board

The Board is responsible for the overall conduct of IQE's business and the Directors have responsibilities under both the Company's Articles of Association and UK company law. The Board delegates day-to-day management of IQE to the Chief Executive Officer and the Executive Leadership Team.

The primary tasks of the Board in 2023 included:

Strategy

- Assessed progress against the Group's strategy for the period to 2027
- Regular reviews of key business decisions and their impact on the Group's strategy

Operations

- Regularly received operational, including health, safety and environment, updates at scheduled meetings
- Monitored performance and provided challenge in key areas of operations

Leadership and people

- Concluded search for a new Chief Financial Officer
- Concluded search for two new Non-Executive Directors

Finance

- Oversaw the Group's £31m equity raise and $35m refinancing with HSBC

Board and Committee attendance

	Board	Audit & Risk Committee	Remuneration Committee	Nominations Committee	ESG Committee
Number of meetings in 2023	18	5	5	*	1
Attendance					
Executive					
Mr Americo Lemos	18	■	■		■
Mr Tim Pullen[1]	11	■	■		■
Non-Executive					
Mr Phil Smith	18	■	5		1
Mrs Carol Chesney	18	5	5		■
Sir Derek Jones	18	5	5		1
Ms Victoria Hull	15	4	5		■
Dr Andrew Nelson	17	■	■		1
Mr Harmesh Suniara[2]	6	■	■		■
Other					
Mr Neil Rummings[3]	7				

* The Nominations Committee met on an informal basis throughout the year, often following the conclusion of Board meetings.
■ Not a member of the Committee or not required to attend meetings.
1. Tim Pullen left IQE on 6 June 2023.
2. Harmesh Suniara joined the Board on 30 June 2023.
3. Neil Rummings was Interim CFO from 6 June 2023 until 22 January 2024, when Jutta Meier joined as permanent CFO.

- Reviewed, approved and monitored progress against the financial plan for the 2023 financial year
- Monitored, challenged and approved capital expenditure ('capex')
- Approved the Annual Report, half-year results and interim trading updates
- Considered and approved IQE's going concern and viability statements

Governance and ethics

- Carried out an internal Board evaluation
- Received and reviewed feedback from institutional investors
- Reviewed the requirements of the 2018 UK Corporate Governance Code and areas of non-conformity
- Regular meetings between the Non-Executive Directors only

Independence

The Board considers that, with the exception of Andrew Nelson and Harmesh Suniara, all of the Non-Executive Directors are independent in character and judgement and free from any business or other relationship that could materially interfere with exercising that judgement. Andrew Nelson was appointed as President and Non-Executive Director in 2021 following his transition from Chief Executive Officer and Harmesh Suniara was appointed as the representative of Lombard Odier.

The Board is also satisfied that there is no compromise to the independence of, and nothing which would give rise to conflicts of interest for, those Directors who serve as Directors on other company boards or who hold other external appointments. The Board considers potential for conflicts of interest at every Board meeting and ensures that Directors present sufficient information for those to be reviewed.

Appointment and time commitment

The Chairman and each of the other Non-Executive Directors have letters of appointment.

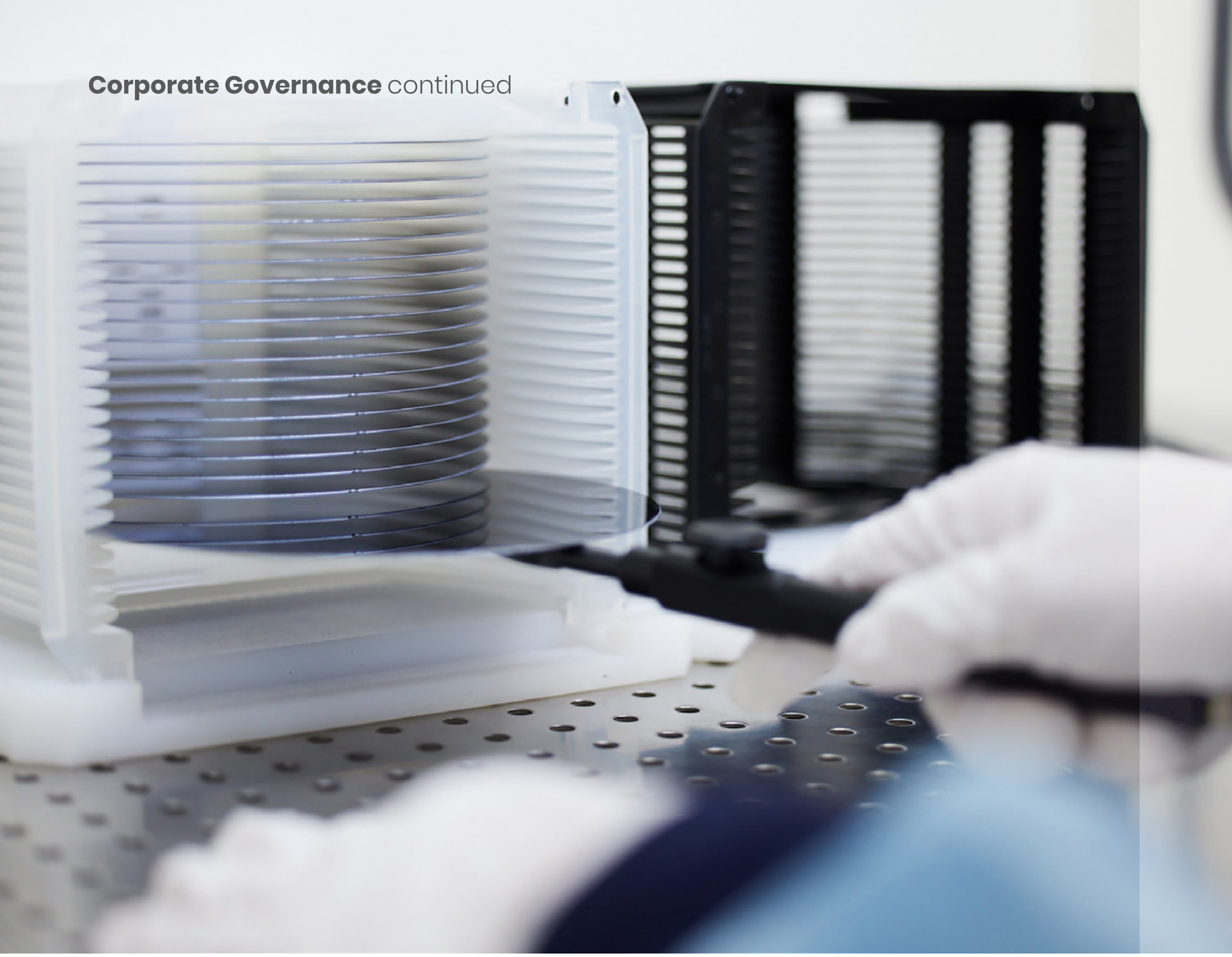
The Chairman's letter of appointment sets out the time commitment expected of him. The other Non-Executive Directors' letters of appointment set out a minimum expected time commitment but do not set out a fixed time commitment.

The Non-Executive Directors are expected to allocate appropriate time to IQE to perform their duties and to make themselves available for all regular and ad hoc meetings. The Board believes each of the Non-Executive Directors has sufficient time to perform their duties.

Board evaluation

The Chair and Company Secretary facilitated an internal review of the Board during 2023. The process identified the following key areas for action and attention:

- Refine Board KPIs on operational and financial performance to improve the Board's visibility of business performance and to focus discussions on areas of strategic importance
- Opportunity for greater alignment between the Board's areas of focus and priorities of the Executive Leadership Team
- Focus on identifying key talent and succession plans
- More Board focus on the organisation's people strategy and culture
- Improved summaries for the Board and continued work on Board papers.



UK Corporate Governance Code compliance

IQE complied throughout 2023 with the principles and provisions of the UK Corporate Governance Code 2018 except in the following areas:

Provision 17

IQE does not currently maintain a succession plan for the Company Secretary or all senior management immediately below Board level. IQE will work to develop such plans based on merit and objective criteria. 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.

Provision 33

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 policy, level and structure of remuneration for senior management. However actual remuneration for senior management and the Company Secretary (noting that the Company Secretary is part of the Executive Leadership Team and senior management) is set and determined by the CEO in consultation with the Group's Chief People Officer and appropriate external advice and benchmarking.

Provision 36

Share options granted to the Executive Directors under IQE's LTIP are subject to total vesting and holding periods of three years, opposed to five years. In addition, Executive Directors are subject to a minimum holding requirement equal to 200% of their base salary and will have a post-employment shareholding requirement for two years. The minimum holding will be equal to 200% of base salary in the first year post-employment, reducing to 100% of base salary in the second year.

IQE's approach aligns with market practice across IQE's peer group on AIM and the Remuneration Committee considers the current holding periods to be the right balance between incentivising Executive Directors and aligning with the interests of the Group's stakeholders

A copy of the 2018 UK Corporate Governance Code is available at frc.org.uk.

Audit & Risk Committee Chair's introduction

Carol Chesney
Chair

"The Audit Committee continues to play a vital role in ensuring the integrity of our financial statements, in reviewing the effectiveness of our risk management processes and internal controls, and in evaluating the performance of the external audit process."

I am pleased to present the Report of the Audit Committee, which provides a summary of the Committee's role and activities during the 2023 financial year. The Board considers the maintenance of high standards in its governance and management of the affairs of IQE as fundamental to the discharging of its stewardship responsibilities. Accordingly, both the Board and the Audit & Risk Committee continue to keep under review IQE's whole system of internal control, which comprises not only financial controls, but also business and operational controls, compliance and risk management.

The Committee works with IQE's internal finance function and external auditors discussing, assessing and challenging financial reporting and going concern assessments. The Committee used its structured meeting schedule to ensure that it provides robust challenge in the areas relating to financial reporting, internal controls and risk management, the external auditors and other issues pertinent to IQE.

In addition to the Committee's structured meeting schedule, the Committee's work during the year also focused on several key areas of governance:

- The Group's available financial resources and the Group's ability to trade throughout the industry-wide inventory correction cycle
- The Group's financial controls and addressed opportunities for improvement with the management team
- The integration of the Group's identification, evaluation and reporting on climate-related risks and opportunities.

Carol Chesney
Chair

9 April 2024

Role of the Committee

The Audit & Risk Committee is responsible for monitoring the effectiveness of IQE's financial reporting, internal controls and risk management systems and processes and the effectiveness and independence of IQE's external auditors.

Key responsibilities

- Reviewing the effectiveness of IQE's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk
- Reviewing significant financial reporting issues and judgements including the potential for asset impairment and assessment of viability and going concern
- Monitoring the integrity of IQE's financial statements and any formal announcements relating to IQE's financial performance
- Keeping the relationship with the external auditors under review, including their terms of engagement, fees and independence
- Reviewing and monitoring the need to establish a dedicated internal audit function
- 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 IQE'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, considering the relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvement or action required
- Reporting to the Board on how it has discharged its responsibilities

Membership

- Carol Chesney – Chair
- Victoria Hull
- Bami Bastani

Carol Chesney is Chair of the Audit & Risk Committee. Carol is a Chartered Accountant and has also held a number of senior finance roles. The Board is satisfied that Carol is the Committee member with recent and relevant financial experience as required by the UK Corporate Governance Code 2018. The Board is also satisfied that the Committee as a whole, including invited attendees as necessary, has a mix of experience and competencies to assess the issues facing the Group within the semiconductor industry.

Bami joined the Audit & Risk Committee on 22 January 2024 following the retirement of Derek Jones at the end of 2023.

Meetings and attendance

The Audit & Risk Committee meets at least quarterly, with additional meetings as required. There were five meetings in 2023 and all of the Committee members (as at the date of the meeting) attended each meeting, with the exception of the meeting on 14 December 2023 which Victoria Hull was unable to attend for personal reasons.

The meetings are also regularly attended by the Chairman, Chief Executive Officer, Chief Financial Officer, EVP, General Counsel & Company Secretary and other senior members of the finance team.

IQE's external auditors attend every meeting and time is allowed at the end of each meeting for the Audit & Risk Committee to discuss issues with the external auditors without management being present. The Chair also holds at least one separate meeting with the audit partner ahead of each Committee meeting.

Activities during 2023

The Committee continues to oversee a range of risk areas that are key to IQE's long-term success and compliance with applicable laws and regulations.

The majority of the Committee's work derives from a structured programme that is designed to fulfil its responsibilities as set out in its terms of reference, with additional focus areas in 2023 as set out on page 69. The table below summarises the key activities at each meeting during 2023:

Agenda item	28 April	4 May	15 May	7 September	14 December
Review financial performance with focus on liquidity and covenant strength	•	•	•	•	•
Review of financial statements, going concern assumption and compliance with accounting standards	•	•	•	•	
Review and recommend for approval year-end and half-year announcements	•			•	
Review of significant reporting issues and material judgements	•	•	•	•	
Review of key business risks	•	•	•	•	•
Consider requirements for internal audit function		•			•
Consider any material breach of law				•	•
Review Whistleblowing policy and procedures for preventing fraud, bribery and corruption					•
Review of insurance programme, policies and material judgements				•	
Review representation letter for full-year and half-year	•			•	
Review effectiveness of Audit & Risk Committee					•
Review of auditor quality and independence					•
Consider audit effectiveness	•	•			
Review accounting and corporate governance developments	•			•	•
Committee-only meeting with external auditor	•	•		•	•

The UK Corporate Governance Code 2018 requires the Directors to prepare the Annual Report and Accounts and to state that they consider them, taken as a whole, to be fair, balanced and understandable and provide the information necessary for shareholders to assess IQE's position and performance, business model and strategy. The Board requested that the Audit & Risk Committee advise it as to whether the Annual Report and Accounts meet those requirements.

This work formed part of the review of the draft financial statements that was undertaken by the Committee in September 2023 and April 2024.

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

- Judgemental areas and significant matters relating to the financial statements as set out on pages 98 to 158.
- Whether the expected future cash flows of IQE support the carrying value of the Group's cash generating units, 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

Through consideration of reports by independent tax specialists assessing IQE's 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 IQE, taking account of IQE's trading and cash flow forecast together with available funding headroom to assess the appropriateness of the going concern assumption.

Significant matters relating to the financial statements

The Committee performs a review of significant matters that relate to the financial statements. The matters that the Committee considers are significant are set out below:

- Going concern and the appropriateness of the disclosure contained within the significant accounting polices note relating to the application of the going concern basis of accounting in the financial statements;
- Compliance with financial covenants contained within the Group's committed bank facilities and the associated availability of the Group's bank facilities;
- Impairment review of cash generating units and the revenue growth rates and discount factors applied in business unit value in use calculations that support the carrying value of the Group's cash generating units;
- Intangible development cost carrying values and associated markets, end use applications and customer demand for the technologies which support asset carrying values;
- Judgements associated with the application of the Group's accounting policies for its joint venture, Compound Semiconductor Centre Limited, in the period prior to the acquisition of the joint venture (see note 32);
- Revenue recognition and any judgements associated with the satisfaction of performance obligations for significant transactions; and
- Presentation and disclosure of adjusted performance measures including appropriate clarity of reconciliation between each GAAP and non-GAAP measure.

External Auditors

The Audit & Risk Committee has developed an 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 has a policy on the provision of non-audit services by the external auditor in line with the Financial Reporting Council's Revised Ethical Standard 2019. The Group has a policy prohibiting the use of the Group's auditors for the provision of non-audit services other than an interim half-year review.

The Audit & Risk Committee also monitors the effectiveness of the external 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 provides 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.

KPMG LLP	2023 £'000	2022 £'000
Fees payable to the Company's auditor and its associates for the audit of parent company and consolidated financial statements	**671**	547
Additional fees payable in relation to the audit of the parent company and consolidated financial statements for the year ended 31 December 2022	**134**	–
Fees payable to Company's auditor and its associates for other services:		
• The audit of the Company's subsidiaries	**25**	20
• Audit-related assurance services	**–**	–
• Tax and other advisory services	**–**	–
Total KPMG LLP (Group auditors)	**830**	567

Ernst and Young (auditors of MBE Technology Pte & CSDC)	2023* £'000	2022 £'000
• Subsidiary company's audit	**–**	39
• Tax services	**–**	12
Total Ernst and Young (auditors of MBE Technology Pte & CSDC)	**–**	51
Total	**–**	618

* A statutory audit was not required to be conducted in 2023 due to the closure of the Group's Singapore site in 2022.

Internal audit and controls

The Audit & Risk Committee reviewed the effectiveness of IQE'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 IQE's assets 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.

The key procedures that IQE has 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 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 IQE's risks, taking steps to monitor and mitigate these wherever possible
- Where appropriate, taking out insurance cover
- Approval by the Audit & Risk Committee of audit plans and, on behalf of the Board, receipt of reports on IQE'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 reports any material exceptions to the Audit & Risk Committee.

In the current year, the Group has undertaken a review of its internal financial control procedures. Given the size of the Group, in some locations there is limited segregation of duties which is considered a key internal control in minimising the occurrence of errors or fraud. As such, there have been a greater number of adjustments required to finalise the external reporting than would be ideal. During the year and as part of the audit process, the Audit Committee has relied on the transparent dialogue between financial reporting personnel, the external auditors and members of the Committee to understand the derivation of adjustments and how controls can be improved to reduce the frequency of adjustments. A resource dedicated to updating the Group's understanding of controls and its documentation was added to the finance team during 2023 and the Committee has had regular reports on progress. The Committee is pleased with the output and will ensure the recommended improvements are embedded during 2024.

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

In completing its review of the effectiveness of IQE'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.

Risk Management

The Group Risk Committee identifies, reviews, assesses and tracks IQE's key risks and mitigating actions. The Group Risk Committee documents its approach through a risk register which is shared and discussed with the Audit & Risk Committee.

Key risk management activities performed by IQE are summarised on page 50. The Committee takes an active role in the risk management process that includes a regular review of IQE's risk register and 'deep dives' into specific areas of risk.

IQE's principal risks and uncertainties are set out on pages 51 to 54. While many of the key risks identified recur from year to year, the relative importance evolves over time and may require IQE to refocus its assurance activities. In the year ahead, the Committee will continue to work with the Board, Executive Leadership Team and other senior management to ensure that there is appropriate focus on the most significant risk areas together with the associated plans for mitigating their impact.

The Audit & Risk Committee will also be working closely with IQE's ESG Committee and IQE staff to understand, assess and mitigate climate-related risks.

Anti-bribery and corruption

IQE maintains a zero-tolerance approach to corruption. It has an established Anti-bribery and Corruption policy, which includes guidance on the giving and receiving of gifts and hospitality. This policy applies throughout IQE's business. A Gifts and Hospitality Register is maintained to ensure transparency.

Whistleblowing

IQE operates a confidential reporting mechanism, overseen by IQE's General Counsel and Company Secretary, which enables employees to raise concerns of malpractice, non-compliance or unethical conduct. The options for raising concerns are widely communicated to employees. These channels are clearly set out in IQE's Whistleblowing Policy. IQE's reporting policy and procedures provide a framework for protected disclosure.

Nominations Committee Chair's introduction

Phil Smith
Chair

"The Nominations Committee is committed to finding and hiring the best talent globally. Our world-class Board will play a critical role in ensuring IQE achieves its long-term vision, thanks to the industry knowledge, technical experience and broader skills of our leadership group."

Phil Smith became Chair of the Nominations Committee in January 2021 and has overseen a number of changes to IQE's Board since his appointment.

In 2023 the Committee worked with the Chief Executive Officer and Chief People Officer in the search for a new Chief Financial Officer, with Jutta Meier joining the Group on 22 January 2024. Jutta is a seasoned financial professional with many years' experience within the semiconductor industry and I am looking forward to the experience she will bring to IQE.

The Committee was also successful in its search for new Non-Executive Directors who would add international and semiconductor experience to the Board. The search led to the appointment of Maria Marced and Bami Bastani, two industry veterans, who bring a wealth of experience to the Board. I am delighted to welcome both Maria and Bami to the Board.

The Committee engaged Lygon Group to assist with the search for the new Chief Financial Officer and Non-Executive Directors.

Role of the Committee

The Nominations Committee is responsible for leading the process for the selection and appointment of Directors and for ensuring plans are in place for an orderly succession of Board and senior management positions.

Key responsibilities

- Review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes
- Identify, evaluate and recommend candidates for appointment as Directors
- Succession planning for Directors and other senior management
- Review developments in law, regulation and best practice relating to corporate governance and make recommendations to the Board on appropriate action

Membership

- Phil Smith – Chair
- Carol Chesney
- Victoria Hull

Meetings and attendance

The Committee meets regularly on an ad hoc basis, often following the conclusion of scheduled Board meetings. All members attended each meeting.

Phil Smith
Committee Chair

9 April 2024

ESG Committee Chair's introduction

Phil Smith
Chair

"IQE is deeply committed to responsible business practices and our ESG Committee is driving our approach to Environmental, Social and Governance matters. We are working to position IQE as a sustainability champion, through both compliance and technology leadership, as compound semiconductor products are vital to achieving to Net Zero. We are progressing on our journey and want to demonstrate transparency whilst we work to embed ESG deeply within our culture."

The Environmental, Social and Governance (ESG) Committee was established on 24 January 2022 to enhance the Board's oversight of ESG matters. The ESG Committee is responsible for developing and monitoring the execution of IQE's sustainability strategy and the communication of IQE's activities with our stakeholders. The ESG Committee is also responsible for monitoring the Board's engagement with IQE's people, with Victoria Hull and Bami Bastani acting as the Board's workforce representatives.

The ESG Committee is working with the Executive Leadership Team and colleagues within IQE to develop IQE's sustainability strategy. In 2023 and early 2024, the Committee was focused in supporting management with the development of the Group's first report under the Task Force for Climate-related Financial Disclosures and in the development of the Group's targets for the Science Based Targets initiative, which the Group committed to in May 2022.

In 2024, the Committee intends to focus on driving momentum and providing guidance in the development of the Group's broader sustainability strategy and its alignment with IQE's strategic objectives.

Role of the Committee

The ESG Committee is responsible for developing and monitoring the execution of IQE's ESG strategy and the communication of that strategy to IQE's stakeholders.

Key responsibilities

- Ensure that IQE has a fit-for-purpose ESG strategy and drive momentum behind the development and implementation of that strategy
- Be responsible for communicating IQE's position on Environmental, Social and Governance issues
- Ensure that the strategy meets IQE's short- and long-term business objectives
- Review the effectiveness of the strategy and the governance for its successful delivery
- Approve ESG reporting and specifically any reporting and data included in IQE's Annual Report
- Report to the Board about the Committee's work and progress against the strategy

Membership

- Phil Smith – Chair
- Drew Nelson
- Maria Marced
- Bami Bastani

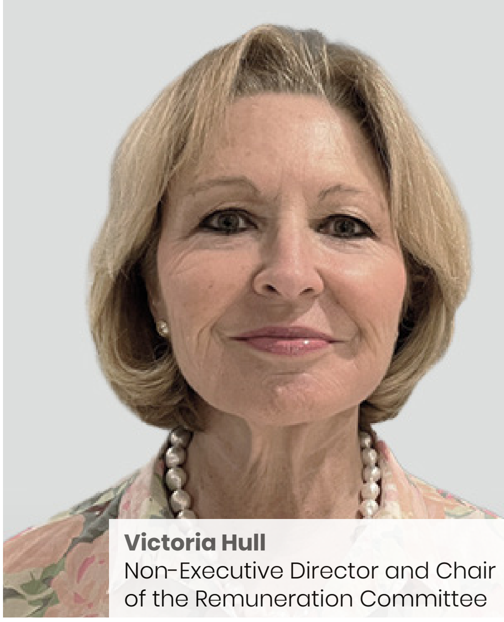
Meetings and attendance

The ESG Committee aims to meet at least twice a year. In 2023 the Committee met once to allow management to focus on the near-term objectives of reporting under the TCFD and our SBTi targets submission.

Phil Smith
Committee Chair

9 April 2024

Remuneration Committee Chair's introduction



Victoria Hull
Non-Executive Director and Chair of the Remuneration Committee

"Over the last 12 months the Company's employees have responded positively to the headwinds faced by IQE and the global semiconductor industry caused by the slowdown in demand for semiconductors. The Company has continued to make progress in terms of customer relationships, new strategic partnerships and a focus on diversification into new markets and delivery against longer-term financial goals."

On behalf of the Board I present the Remuneration Report for the Company. Over the last 12 months the Company's employees have responded positively to the headwinds faced by IQE and the global semiconductor industry caused by the slowdown in demand for semiconductors, and has continued to make progress in terms of customer relationships, new strategic partnerships and a focus on diversification into new markets and delivery against longer-term financial goals. As a result, while IQE's financial performance was adversely impacted by (largely) macro environmental factors, the Company remains well-positioned for growth in 2024 and beyond.

2023 incentive awards and outturns

During 2023, following the downturn in global demand for semiconductors, the Committee reviewed the terms of the LTIPs originally proposed to be granted to the Executive Directors in 2023 in order to ensure that the awards were appropriate in the circumstances and focus executive management on a recovery in performance. The Committee then consulted extensively with the Company's principal shareholders on the terms of the award to the Chief Executive before making the grant in December 2023. Having taken account of the feedback received during the consultation, Americo Lemos was granted an award of performance shares with a face value of 200% of salary. This award will only vest if stretching TSR goals related to a recovery in IQE's share price (plus reinvested dividends) are met over the three financial years ending 31 December 2025.

The annual bonus for 2023 was based on a combination of EBITDA, revenue and non-financial strategic and personal performance targets. Performance against the financial metrics was below threshold and, while a number of the non-financial goals were met, the Committee determined it would not be appropriate to pay any bonus.

The LTIPs awarded in 2021 with performance periods ending on 31 January 2023 lapsed as the applicable performance conditions were not met.

Executive changes

Tim Pullen, Chief Financial Officer, stepped down from his role in the Group with effect from 6 June 2023. Under the terms of his departure he received a cash sum equal to his basic salary in respect of his notice period and accrued holiday, and was treated as a good leaver under the incentive arrangements. However, as noted above the outturn of the 2023 annual bonus and vesting of the LTIPs with performance periods ending on 31 January 2023 was nil.

Jutta Meier joined the Board as the new Chief Financial Officer with effect from 22 January 2024. As part of the terms of her recruitment, she was granted a share award with a market value of £200,000 on 28 February 2024 to buy out awards forfeited at her previous employer. This award will vest in two equal tranches on the first and second anniversary of grant subject to her remaining employed by the Company. Details of her package on appointment are set out later in this report.

2024 remuneration

At the time of the finalisation of this report the Committee had not yet completed its review of the Directors remuneration arrangements for 2024. A particular focus remains the approach to long-term incentive provision, which is a key competitive issue for the Company given that IQE operates in a global marketplace where the majority of the Company's competitors grant long-term incentives that are both higher in quantum and typically consist of a mix of performance-vested and time-vested shares. The Committee will update shareholders on its thinking in due course once this review has been completed.

Victoria Hull
Non-Executive Director and Chair of the Remuneration Committee

9 April 2024

Remuneration at a glance

	Purpose and link to strategy	Key features	Implementation in 2023
Salary	Supports the attraction and retention of the best global talent with capability to deliver IQE's strategy.	Reviewed annually Salaries take account of external market and internal employee context.	No increase for CEO or previous CFO. This was in line with the approach for the wider workforce whose salaries were frozen for 2023.
Allowance and benefits	Provision of market-competitive and cost-effective benefits to support attraction and retention of talent.	Provision of competitive benefits linked to local market practice. Maximum Company pension contribution is 10% of salary.	Allowances and benefits unchanged from prior year.
Annual incentive	Incentivises delivery of IQE's financial and strategic targets. Provides focus on key financial metrics and the individual's contribution to IQE's performance.	Maximum is 120% of salary with 50% of the maximum payable for target performance. Performance measures, weightings and stretching targets set annually. Normally paid in cash after end of the financial year, save that any payout above 100% of salary will normally be made in the form of share grant. Subject to malus and clawback provisions.	The 2023 annual bonus payout for the CEO and CFO was nil.
Long-term incentives	Provides alignment with shareholders by ensuring a significant percentage of remuneration is delivered in shares and rewards long-term performance in line with IQE's strategy.	Normal annual awards of up to 200% of salary may be granted under IQE's LTIP. The normal maximum award may be exceeded in exceptional circumstances, such as recruitment. Three-year performance period. Performance measures, weightings and stretching targets reviewed annually. Subject to malus and clawback provisions.	The LTIP awards granted to the previous Executive Directors in 2021 lapsed as the applicable performance conditions were not met.
Shareholding requirement	Ensures alignment between the interests of Executive Directors and shareholders.	Minimum shareholding requirements: • CEO 200% of salary • CFO 200% of salary New joiners given time to reach threshold and not expected to self-fund.	CEO shareholding as at 31 December 2023 equal to approximately 419% of salary.

Directors' Remuneration Policy

IQE aims to attract, retain and motivate high calibre executives in a highly competitive global industry, whilst recognising the need to be cost effective, and to incentivise significant industry out-performance. The Remuneration Committee established the current Remuneration Policy with the aim of balancing these factors, taking account of investor feedback and prevailing best practice.

This Policy section of the Directors' Remuneration Report sets out the Policy for Executive Director remuneration which the Committee intends to operate for 2024. As an AIM quoted company, IQE is not required to put its Policy to a binding shareholder vote, however, in developing the new Policy the Committee has sought to comply with the main best practice expectations for UK companies while ensuring the Policy is sufficiently competitive compared to IQE's sector, talent markets and ambitions for growth.

As disclosed last year, the Remuneration Committee has been reviewing the remuneration arrangements of the Executive Directors and members of the ELT, with a view to ensuring that the arrangements are competitive in the relevant marketplace for each senior role and incentivise and reward exceptional performance against IQE's strategy over the longer-term. In particular, this review is focused on the approach to long-term incentives for senior executives, which are key to IQE's ability to attract senior talent, for whom many of our principal competition is headquartered in the US. The current award levels are significantly lower than the levels seen in our principal competition, who also typically grant a mix of performance-vested and time-vested share awards. This review remains ongoing and the Committee will update investors in due course as to its outcome.

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 normally reviewed annually, with reference to market levels, individual contribution, the experience of each Executive and increases across the Group. Any adjustments normally become effective on 1 April.	It is anticipated that salary increases will normally be no higher than 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. This aligns with the pension arrangements for IQE's employees who can receive matching contributions from IQE of up to 10% of salary.	n/a

Function	Operation	Opportunity	Performance metrics
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, life assurance, long-term disability insurance and reimbursement for fuel, although may include other benefits that the Remuneration Committee deems appropriate in the circumstances. Relocation and expatriation-related benefits may also be provided where appropriate.	Benefits may vary according to role and individual circumstances. Eligibility for benefits and the cost of benefits are reviewed periodically. The cost of benefits is dependent on market rates and is not capped.	n/a
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 the objectives have been achieved. Bonus payments are delivered in cash and any payment above 100% of salary will normally be made in the form of a share grant. Clawback (of any bonus paid) may be applied during employment or for two 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. The bonus pays 0% at Threshold, 50% at Target and 100% at stretch, with straight-line vesting between these levels.	Performance is assessed on an annual basis against a scorecard of 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 normally represent between 70% and 100% of the scorecard. Personal objectives will normally have a weighting of between 0% and 30% of the maximum opportunity. These will be set annually to capture expected individual contributions to IQE's strategic plan. The payout for any personal element will be reduced by 50% in the event the thresholds for a majority of the 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 with 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.

Function	Operation	Opportunity	Performance metrics
LTIP To provide alignment with shareholders and competitive rewards by delivering a significant proportion of remuneration in company shares and incentivise sustained long-term performance that supports the creation of shareholder value.	Under the long-term incentive plan (LTIP) annual awards of shares or nominal-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 two 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.	Normal awards of up to 200% of salary may be granted under the LTIP. In exceptional circumstances, including but not limited to recruitment, normal awards may be exceeded. Up to 25% of PSP awards granted under the LTIP will be paid for achieving Threshold performance, normally increasing on a straight-line basis to full vesting for achieving Stretch performance.	Vesting of PSP awards granted under the LTIP is subject to achieving performance conditions and continued employment. Performance conditions are normally measured over three consecutive financial years with awards vesting three years after grant. The Remuneration Committee has limited discretion to amend the performance conditions provided that the amended performance condition is not materially easier to satisfy than the original condition. 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 and personal contributions to delivering the strategic plan. The performance conditions for new LTIP awards are selected to reflect IQE's long-term objectives which support the creation of shareholder value.

Targets applying to the bonus and 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

IQE provides all employees with a consistent package of benefits that includes private medical insurance, life assurance, long-term disability insurance and reimbursement for fuel.

All employees are eligible to participate in a discretionary annual bonus and receive awards under the LTIP. The same principles apply to the assessment of performance for determining the individual component of bonuses for all employees. For other employees, grants under the LTIP are subject to a pre-grant minimum personal performance condition and normally vest in annual tranches over three years subject to the employee remaining employed by the Group.

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 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, although the Remuneration Committee will exercise appropriate discretion where Executive Directors have been impeded from building up the requisite shareholding due to business performance. Details of the Executive Directors' current shareholdings are provided in the Annual Report on Remuneration at page 85.

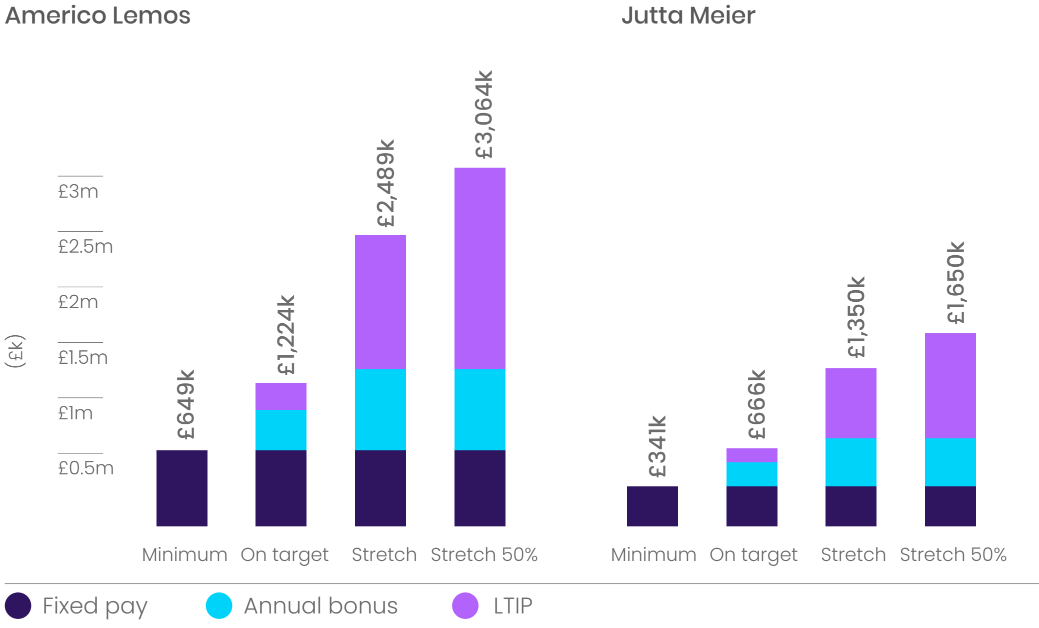
Non-Executive Director remuneration

Non-Executive Director	Date of appointment letter	Remuneration per annum
Phil Smith	19 December 2016	£125,000
Carol Chesney	13 May 2019	£50,000
Victoria Hull	1 August 2021	£50,000
Bami Bastani	1 January 2024	$62,000
Maria Marced	1 January 2024	€57,000
Andrew Nelson	30 October 2021	£75,000

Subject to re-election by shareholders, Non-Executive Directors are appointed by the full Board and retire annually in accordance with the Company's Articles of Association. The remuneration of Non-Executive Directors is a matter reserved for the full Board, subject to an individual 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 IQE's performance-related bonus plan, long-term incentive plans or pension arrangements. Copies of the Non-Executive Directors' appointment letters are available for inspection at the Company's registered office during normal business hours.

2024 Executive Director remuneration



* 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, and benefits, 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 April 2024, while those for taxable benefits are based on the latest single figure table for 2023. The 'On-Target' scenario reflects fixed remuneration as above, plus a target bonus payout of 50% of maximum and threshold vesting for the PSPs of 20% of maximum. The 'Stretch' scenario reflects fixed remuneration, plus full payout of the annual bonus (120% of salary) plus full vesting of LTIPs. For illustrative purposes given that the actual 2024 LTIP award levels have not yet been determined the chart assumes 2024 LTIP grants at the normal maximum limit of 200% of salary. The 'Stretch + 50%' reflects the 'Stretch' scenario plus an assumed 50% share price appreciation over the LTIP performance period.

Approach to recruitment remuneration

External appointments

When 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
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 those outlined in the policy table but may also include additional benefits consistent with market practice in their home location (if based outside of the UK).
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.
LTIP	New appointees will be granted awards under the LTIP on the same terms as other executives, as described in the policy table.

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.

This may be granted in addition to the ongoing remuneration elements outlined in the table above. In doing so, the Remuneration Committee will consider relevant factors, including the value and form of the award, time to vesting, performance conditions attached to awards, and the likelihood of these conditions being met.

Any 'buyout' awards will typically be made under the existing annual bonus and LTIP schemes, although in exceptional circumstances the Remuneration Committee may make awards using a different structure.

Any 'buyout' awards would have a fair value no higher than the awards forfeited.

Internal appointments

Internal promotions to the Board will be appointed on terms in line with the Policy. Any existing entitlement made prior to their appointment to the Board, which are not consistent with the Policy may be allowed to continue on their original terms.

Non-Executive Directors

In recruiting a new Non-Executive Director, the Remuneration Committee will utilise the Policy as set out on pages 74 to 79.

Service contracts and treatment for leavers and change of control

Executive	Date of service contract
Americo Lemos	10 January 2022
Jutta Meier	22 January 2024

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 six 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.
Resignation	Outstanding awards lapse
LTIP	
'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. A 'good leaver' is 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 Remuneration Committee receives 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 consulted with shareholders on the adoption of the new all-employee LTIP plan, which included best practice compliant leaver and change of control provisions. During 2023, the Committee engaged extensively with investors on the terms of the CEO's 2023 LTI grant, with the feedback received on the quantum and performance conditions being reflected in the terms of the award.

Annual Report on Remuneration

Role of the Committee

The Remuneration Committee has responsibility for determining the policy for Executive Director remuneration and setting remuneration for the Company Chair and Executive Directors.

Key responsibilities

- Recommending the remuneration policy for Executive Directors, whilst considering the remuneration for the Executive Leadership Team and remuneration policies for employees below the Board
- Approving the principles of IQE's long-term incentives and the parameters, including performance conditions, for the annual awards under long-term incentives
- Maintaining appropriate dialogue with shareholders on remuneration matters
- Preparing the annual remuneration report to shareholders to show how the remuneration policy has been implemented.

Membership

- Victoria Hull – Chair
- Phil Smith
- Derek Jones*
- Carol Chesney
- Maria Marced*

* Derek Jones left the Remuneration Committee on cessation of his directorship on 31 December 2023. Maria Marced joined the Remuneration Committee on 22 January 2024.

Meetings and attendance

The Remuneration Committee met five times in 2023. All members attended each meeting. The Chief Executive Officer and Chief Financial Officer attended meetings to present proposed performance ratings for the Executive Directors and Executive Leadership Team and remuneration policy's principles for the workforce. The Chief Executive Officer and Chief Financial Officer did not attend those parts of the Committee meetings relating to the Committee's decisions on their own performance and 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:

- Evaluated the performance of the Chief Executive Officer and Chief Financial Officer;
- Assessed the annual bonus outcomes for the Executive Directors and the Executive Leadership Team in 2022;
- Reviewed salary increases for IQE's employees, including the Executive Directors and the Executive Leadership Team and implemented a salary freeze;
- Evaluated the proposed awards under the Company's LTIP;
- Reviewed and approved performance conditions for LTIP awards;
- Updated the rules of the Long-Term Incentive to reflect changes to ensure that the leaver provisions that apply to grants of time-vested restricted share awards below Board are consistent with best practice;
- Determined performance targets for the Executive Directors' 2023 annual bonus and LTIP awards in line with IQE's strategic plan;
- Determined the leaver arrangements for Tim Pullen and remuneration for Jutta Meier on her appointment, including approving her buyout awards;
- Considered proposed workforce policies on performance rating and workforce pay increases;
- Drafted the Directors' Remuneration Report; and
- Considered benchmarking and advice from independent remuneration consultants, Mercer.

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 independent Non-Executive Directors.

Mercer provides independent advice to the Remuneration Committee. Mercer 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).

Fees of £79,818 inclusive of VAT were paid to Mercer in respect of services it provided to the Company in 2023. The Committee considers that Mercer 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.

Board changes

Tim Pullen stepped down as Chief Financial Officer with effect from 6 June 2023. Under the terms of his departure he received a cash sum equal to his basic salary in respect of his notice period and accrued holiday, and was treated as a good leaver under the incentive arrangements. However, as noted above the outturn of the 2023 annual bonus and vesting of the LTIPs with performance periods ending on 31 January 2023 was nil.

Jutta Meier was appointed to the Board with effect from 22 January 2024. As part of the terms of her appointment she receives the following:

- Base salary: £300,000
- Benefits comprising: permanent health insurance, life assurance, private medial insurance
- Cash allowance in lieu of salary of 10% of salary
- Maximum bonus opportunity of 120% of salary
- Eligibility to participate in the long-term incentive on an annual basis

In addition, as part of the terms of her appointment she was awarded a grant of time vested nominal priced options with a face value of £200,000 as compensation for remuneration forfeited at her previous employer. These awards will vest in two equal tranches on the first and second anniversaries of grant.

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 2023 and the prior year:

	Mr Americo Lemos[8]		Mr Tim Pullen[6]		Mr Phil Smith[7]		Total	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000
Salary	**575**	564	**160**	370	–	6	735	940
Benefits[1]	**16**	27	**5**	11	–	–	21	38
Pension[2]	**58**	56	**12**	37	–	–	70	93
Buy out – cash[3]	**400**	400	**–**	–	–	–	400	400
Buy out – shares[4]	**–**	200	**–**	–	–	–	–	200
Total fixed	**1,049**	1,247	**177**	418	–	6	1,226	1,671
Annual bonus	**–**	–	**–**	–	–	–	–	–
Long term incentive[5]	**–**	–	**–**	–	–	–	–	–
Total variable	**–**	–	**–**	–	–	–	–	–
Total Executive Remuneration	**1,049**	1,247	**177**	418	–	6	1,226	1,671
Non-executive fees	**–**	–	**–**	–	125	125	125	125
Total Director Remuneration	**1,049**	1,247	**177**	418	125	131	1,351	1,796

1. Benefits consist of health cover, private medical insurance, life assurance, long term disability insurance, car allowance and travel allowance.
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.
3. Cash award of £800,000 agreed as part of Americo Lemos' recruitment arrangements. £200,000 was paid on 28 February 2022 and £200,000 was paid on 31 July 2022. The final £400,000 was paid on 31 January 2023. The cash award is subject to 3 year clawback provisions.
4. Equity award of 583,709 shares with a fair value at grant of £200,000 as part of Americo Lemos' recruitment arrangements. The shares were issued on 10 January 2022. The share award is subject to 3 year clawback provisions.
5. No long-term incentives vested.
6. Tim Pullen was entitled to payments in lieu of notice totalling £195,000 which were paid within the year. Tim Pullen also provided the Group with consultancy services during the year ended 31 December 2023 and was paid an aggregate amount of £75,000.
7. Mr Phil Smith took on an executive role for the period 7 September 2021 to 9 January 2022 to support the CEO transition from Dr Andrew Nelson to Americo Lemos. Executive fees in the table above reflect the additional time commitment associated with the executive role performed by Phil Smith in the period 1 January 2022 to 9 January 2022. Non-Executive fees relate to Mr Phil Smith's role as Non-Executive Chairman following the appointment of Mr Americo Lemos as the group's Chief Executive Officer on 10 January 2022.
8. Americo Lemos' annual salary is £575,000. The 2022 salary figure reflects his start date of 10 January 2022.

Incentive outcomes for year ending 31 December 2023

Annual bonus

The annual bonus for 2023 was determined by a combination of revenue and adjusted EBITDA targets and non-financial personal/strategic targets. The Committee set stretching performance targets for 2023 which were linked to the strategy and financial performance of the Group. Financial performance for 2023 was below threshold resulting in no payment in respect of the financial element for the Chief Executive Officer. Whilst a number of the non-financial goals had been met, the Committee felt that it would not be appropriate to pay bonuses to Executive Directors in the current circumstances and exercised its discretion to reduce the bonus payout to nil.

The Committee is satisfied the policy has operated as intended and has concluded that there are no circumstances arising where it would need to exercise discretion to adjust any of the variable pay outcomes.

Long-term incentive plan

753,236 LTIP options awarded to Tim Pullen and 1,118,938 LTIP options awarded to Drew Nelson, both in 2021 with a performance period ending on 31 December 2023, have not satisfied the applicable performance criteria and have lapsed.

Percentage change in CEO remuneration

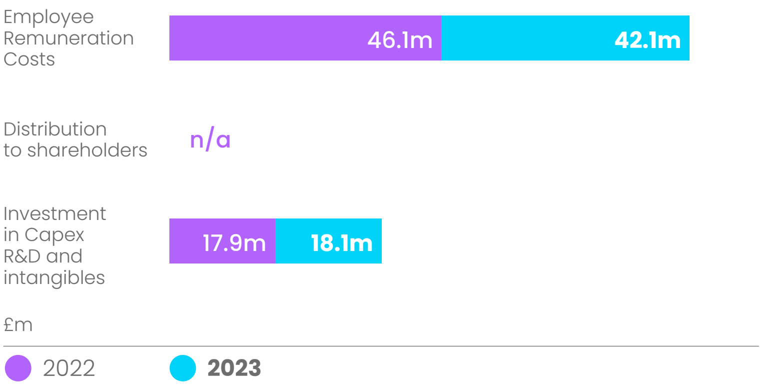
The table below shows the percentage change in CEO remuneration from the prior year compared to the average percentage change in remuneration for other employees. The CEO's annual remuneration includes base salary, taxable benefits and annual bonus. The percentage change in annual remuneration for other employees is calculated using the average increase in the earnings of all employees who were employed in the UK throughout 2022 and 2023. 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.

	Americo Lemos[1]			All UK Employees
	2023 £'000	2022[1] £'000	Increase %	Increase %
Salary	**575**	564	0%	2.7%
Benefits	**74**	79	-6.8%	-5.0%
Annual bonus	**0**	0	N/A	N/A
Total	**649**	643		

1. Americo Lemos was appointed as the Group's Chief Executive Officer on 10 January 2022 with an annual salary of £575,000. The 2022 salary figure has been pro-rated to reflect his start date on 10 January 2022.

Relative importance of spend on pay

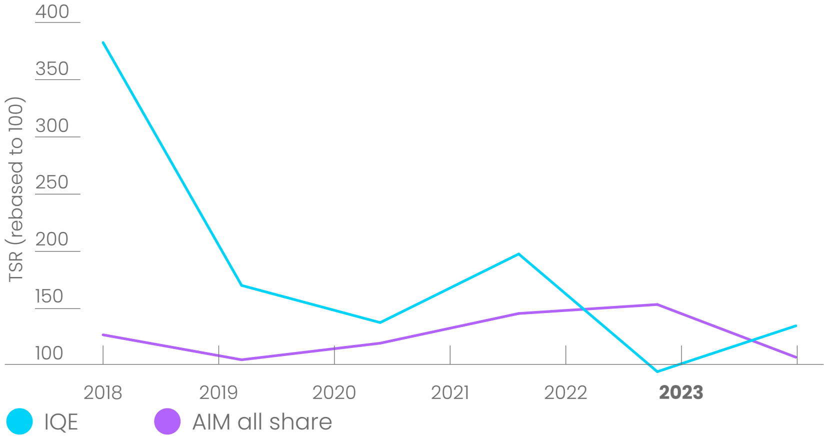
The graph below shows shareholder distributions (i.e. dividends and share buybacks), total employee pay expenditure and investment in capital expenditure, research & development and intangibles for the financial years ended 31 December 2021 and 31 December 2022.



Review of past performance

The following graph charts the Total Share Return ('TSR') of the Company and the FTSE AIM Index (of which IQE is a member) over the period from 1 January 2018 to 31 December 2023. The table below details the Chief Executive's single figure remuneration over the same period.

Historical TSR performance



Historical CEO remuneration

	2023	2022	2021	2020	2019
CEO single figure of remuneration (£'000)	**649**	643	507	1,110	599
STI award as a % of maximum opportunity	**0%**	0%	0%	79%	0%
LTI award as a % of maximum opportunity	**0%**	0%	0%	0%	0%

Scheme interests awarded in 2023 (audited information)

Following discussions with the Company's largest institutional shareholders, a grant to Americo Lemos was awarded 5,750,000 nominal priced share options. The award is subject to a three-year performance period to 31 December 2025 and is also subject to a two-year hold period following vesting. Vesting is determined by the Total Shareholder Return.

Executive Director	Award type	Date of award	# shares awarded	Face value	End of performance period
Americo Lemos	Nil-cost option	29 November 2023	5,750,000	–	31 December 2025

The face value of the award was based on a share price of 20p, slightly higher than the average price over the three days prior to the date of grant, to match the issue price in the Group's equity placing in May 2023.

Performance measure	Weighting (% of award)	Threshold (25% vesting)	Pro-rata between 25% and 60% vesting	60% vesting	Stretch (100% vesting)
Absolute TSR (share price in the 3 months ending 31 December 2025 plus dividends if any)	100%	40p	40p to 60p	60p to 70p	70p

Absolute TSR performance is measured as the 3-month average share price for the period ending 31 December 2025 plus the value of dividends (if any) paid during the performance period.

Exit payments made in the year

Tim Pullen, Chief Financial Officer, stepped down from his role in the Group with effect from 6 June 2023. Under the terms of his departure he received a cash sum equal to his basic salary in respect of his notice period and accrued holiday and was treated as a good leaver under the incentive arrangements with his inflight long-term incentive awards pro-rated for time up to the date of his cessation of employment. However, in light of the performance of the Company and as noted above, his 2023 annual bonus was nil and the performance against the targets for his 2021 LTIP award resulted in nil vesting.

Payments to past Directors

Tim Pullen received £75,000 under the terms of a consultancy agreement with IQE.

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 2023 and the prior year:

	NED fees		Other		Total	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000
Phil Smith[1]	**125**	125	**0**	6	**125**	131
Carol Chesney	**50**	50	**0**	0	**50**	50
Sir Derek Jones	**50**	50	**0**	0	**50**	50
Andrew Nelson[2]	**75**	75	**0**	0	**75**	75
Victoria Hull	**50**	50	**0**	0	**50**	50
Total	**350**	350	**0**	6	**350**	356

1. Phil Smith took on an executive role for the period 7 September 2021 to 9 January 2022 to support the CEO transition from Dr Andrew Nelson to Americo Lemos. Other fees in the table above reflect the additional time commitment associated with the executive role performed by Phil Smith in the period 1 January 2022 to 9 January 2022.
2. Dr Andrew Nelson provided the Group with consultancy services in the period 1 January 2022 to 31 December 2022 and was paid an aggregate amount of £72,000.

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 2023 is set out below.

Since 1 January 2023 there have been the following changes in Directors' interests in shares:

2023	Shares owned as at 1 Jan 2023	Shares owned as at 1 Jan 2024	Shareholding requirement % salary/fee	Current shareholding % salary/fee
Americo Lemos	970,457	9,837,469	200%	419%
Tim Pullen	–	–	200%	N/A
Phil Smith	40,000	140,000		
Carol Chesney	40,000	90,000		
Dr Andrew Nelson	40,567,234	44,867,587		
Sir Derek Jones	–	–		
Victoria Hull	231,192	281,192		

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

As first announced on 6 August 2019, Andrew Nelson has entered into a sale and repurchase agreement with Equities First Holdings pursuant to which 12,121,711 Ordinary Shares are held subject to the Agreement. Andrew Nelson, including persons closely associated with him, maintains a beneficial interest in 45,567,234 Ordinary Shares, representing approximately 4.7% of the Company's issued share capital.

Directors outstanding share awards

2023	Unvested and subject to continued performance	Unvested and subject to continued employment	Vested but unexercised	Vested during year	Lapsed during year	Exercised during year
Americo Lemos	5,940,591	–	–	–	–	–
Tim Pullen	2,231,542	–	–	–	–	–
2022						
Americo Lemos	3,065,591	–	–	–	–	–
Tim Pullen	3,328,789	–	–	–	1,097,247	–

1,097,247 LTIP options awarded to Mr Tim Pullen in 2020 were due to vest on 31 December 2022. The performance criteria for these awards were not met and these options have lapsed in 2023.

Summary of shareholder voting at the 2023 AGM

Results of the vote on the Remuneration Report at the IQE's AGM on 29 June 2023 are as below:

	Total number of votes	% of votes cast
For (including discretionary)	577,911,062	99.91
Against	543,965	0.09
Total votes cast (excluding withheld votes)	578,455,027	–
Votes withheld	49,141	–
Total votes cast (including withheld votes)	578,504,168	–

Directors' Report

The Directors present their Annual Report and the Financial Statements for IQE plc (the "Company") for the year ended 31 December 2023.

Principal Activities and Future Development

The Company is the ultimate holding company of a group of subsidiary undertakings (the "Group") engaged in the research, design, development, manufacture and sale of compound semiconductor materials. An overview of our principal activities and an indication of likely future developments in the Group is given in the Strategic Report.

Strategic Report

The Strategic Report is set out on pages 2 to 57 of the Annual Report.

Directors & Directors' Interests

Biographies of all of the Company's Directors at the date of this Annual Report, including Non-Executive Directors, appear on pages 58 and 59 of the Annual Report. Jutta Meier was appointed as the Group's new Chief Financial Officer and a Director on 22 January 2024.

The beneficial interests of the Directors in the Company's share capital is shown on page 85 of the Remuneration Report. The beneficial interests of Americo Lemos, CEO, have changed during the year as he participates in the Company's LTIP.

No Director was beneficially interested in the shares of any subsidiary company at any time during the year.

In the year to 31 December 2023, no Director had a material interest in any contract of significance with the Company or any of its subsidiaries.

Insurance and Indemnities

The Group maintains insurance to cover its Directors and officers against their costs in defending themselves in legal proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings. In addition, to the extent permitted by UK law, the Group indemnifies its Directors and officers for liabilities arising from such proceedings. Neither the insurance nor the indemnity provides cover for situations where the Director has acted fraudulently or dishonestly.

Risk Management and Principal Risks

A description of risk management and the principal risks facing the business are set out on page 50 of the Annual Report.

Relationship with Suppliers and Customers

Our relationships with our customers are explained throughout the Annual Report, particularly on page 28. Our relationships with our suppliers are specifically covered on page 29 of the Annual Report.

The Group seeks to agree favourable credit terms with its suppliers where possible. Payment is made in accordance with the agreed terms.

Auditor and Disclosure of Information to the Auditor

The Company's auditor throughout the period of this Annual Report was KPMG LLP, who were appointed in December 2017.

As at the date of the approval of this Annual Report, as far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all such steps as he or she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Share Capital

The Company's share capital is made up of one class of ordinary shares of 1p each which each carry one vote at general meetings of the Company. Except as set out in the Articles of Association or in applicable legislation, there are no restrictions on the transfer of shares in the Company and there are no restrictions on the voting rights in the Company's shares. The full rights and obligations attaching to the Company's ordinary shares, as well as the powers of the Directors, are set out in the Company's Articles of Association, a copy of which is available on the Company's website. These can also be obtained from Companies House or by writing to the General Counsel and Company Secretary.

The Company is not aware of any agreements entered into between any shareholders in the Company which restrict the transfer of shares or the exercise of any voting rights attached to the shares.

The Company has not acquired any of its own shares during 2023 (2022: nil).

Substantial shareholdings

As at 29 February 2024, the following are beneficial interests of 3% or more (where the holding is direct) or of 5% or more (where the holding is indirect) which have been notified to the Directors of the Company.

Shareholder	Shares	Issued Capital %
Lombard Odier Investment Managers	141,593,743	14.73
Canaccord Genuity Wealth Management	128,443,495	13.36
T Rowe Price Global Investments	83,009,803	8.63
Mr Richard Griffiths*	72,771,120	7.56
Hargreaves Lansdown	60,199,848	6.26
Interactive Investor	47,490,915	4.94
Dr Andrew W Nelson	46,266,881	4.81
Citigroup	42,079,861	4.38
M&G Investments	32,726,624	3.40

* Source: Equiniti Investor Analytics as at 29 February 2024. Richard Griffith's shareholding has been calculated from a TR1 notification received by IQE advising he crossed the disclosable threshold on 1 March 2024.

Going Concern

In the twelve months to 31 December 2023, reported revenue declined 31% and the group made a loss for the year of £29,378,000. The cash impact of the loss for the year has been mitigated by a combination of the Group's successful equity fund raise, careful working capital management and the deferral of certain capital and intangible asset expenditure resulting in an improvement in the Group's net debt position (excluding lease liabilities and fair value gains/losses on derivative instruments) to £2,228,000 (2022: £15,248,000). At 31 December 2023 the Group had undrawn committed funding of £23,363,000 ($29,953,000) available under the terms of its credit facilities.

In assessing the going concern basis of preparation the Directors have reviewed financial projections to 31 December 2025 ('the going concern assessment period'), containing both a 'base case' and a 'severe but plausible downside case'. The review period extends beyond the minimum required 12-month period from the date of approval of the financial statements to protect against the recovery in the semiconductor market occurring later than forecast by the Directors.

The Group's 'base case' and 'severe but plausible downside' cash flow forecasts and projections, in conjunction with the level of assessed covenant headroom on the Group's committed bank facilities illustrate that the Group and the Company have adequate cash resources to continue operating and to meet its liabilities as they fall due for a period up to and including 31 December 2025, such that the directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Details of the going concern assumption and basis of accounting is set out in note 2.2 to the financial statements.

Dividends

The Directors do not recommend the payment of a dividend (2022: £nil).

Research and Development

The Group continues to devote significant resources to the research and development and the updating and expansion of its range of products in order to remain at the forefront of its world markets. Further information on the expenditure on research and development is contained in Note 6 of the Financial Statements. The amount of research and development expenditure capitalised, and the amount amortised, in the year, are given in Note 6 of the Financial Statements.

Employment Policies

A review of the Group's employment policies is provided on pages 34 to 35 of the Annual Report.

Political Donations

The Group has a policy of not making political donations and no political donations were made during the year (2022: nil).

Climate Change, Greenhouse Gas and Energy Emissions

The Group recognises Climate Change is a key challenge for the world and is working to minimise its environmental impact through a rigorous environmental management system, in order to minimise greenhouse gas (GHG) and energy emissions. We recognise that as a technology leader, IQE is in a unique position to be able to improve energy efficiency through our products.

Our approach to environmental protection is underpinned by our Environmental Policy and Environmental Management System, which ensures all our sites operate in compliance with ISO 14001 requirements. We target minimisation of GHG and energy emissions, as well as focusing on waste, water and recycling initiatives.

Details of our GHG and energy emissions figures, as well as the measures we are undertaking to promote energy efficiency, including incorporating energy-saving features into facility design, can be found on page 40.

In January 2022 the Group formed an Environment, Social and Governance Committee in recognition of the importance of ESG to IQE's stakeholders and the wider environment. The Committee is chaired by me and is responsible for ensuring that the Group has a fit-for-purpose ESG strategy and for supporting management with building momentum behind that strategy. We look forward to bringing further updates on ESG matters through 2024.

Phil Smith
Chairman, IQE plc

9 April 2024

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

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's financial statements in accordance with UK adopted international accounting standards 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 UK adopted international accounting standards;
- 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 intend either 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 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.

Approved by the Board and signed on its behalf by:

Phil Smith
Chairman, IQE plc.

9 April 2024

Non-Financial and Sustainability Information Statement

The table below outlines how we meet the non-financial and reporting requirements set out in the Companies Act 2006. Our business model is set out on pages 12 and 13. Our vision and mission statements are described on page 1, and on pages 31 to 55 we set out how we act as a responsible business.

	Information necessary to understand our business	Key policies
Environmental Matters	Our Group policies that support environmental matters help keep our people and communities safe. Sustainability - see pages 31 to 55. Task Force on Climate-related Financial Disclosures - see pages 42 to 49.	Environmental Policy Code of Conduct
Colleagues	IQE promotes a safe working culture where all of our colleagues, whichever their diverse background, feel welcomed and belong. Our HR and ethics policies help to support this ambition.	Code of Conduct Health and Safety Policies Dignity at Work Policy Paternity Leave Policy Whistleblowing Policy Flexible Working Policy
Social Matters	Our Code of Conduct helps our people to do the right thing and is a framework for responsible business practices. Ethical standards - page 33. Community engagement - page 38. Health and Safety - pages 38 and 39. Environmental performance - page 40.	Code of Conduct Environment Policy Health and Safety Policies
Human Rights	We consider our value chain when considering human rights, including our own operations, suppliers and customers. Suppliers - page 32. Anti-Slavery Statement - page 33. Whistleblowing and speak-up Statement - page 33.	Code of Conduct Anti-Slavery Statement Data Protection Policy Whistleblowing Policy
Anti-corruption and anti-bribery	Our Group global policies support compliance with international laws relating to anti-bribery and corruption. Ethical standards - page 33.	Code of Conduct Anti-Bribery and Corruption Policy Gifts and Hospitality Policy
Climate-related financial disclosures	We are committed to reducing the impact of our operations on the environment. TCFD Report - pages 42 to 49.	Environment Policy

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 2023 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 2023 and of the Group's loss for the year then ended;

— the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;

— the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards 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 the 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	£0.9m (2022:£1.4m) 0.8% (2022: 0.8%) of revenue	
Coverage	85% (2022:88%) of group revenue	
Key audit matters		**vs 2022**
Recurring risks	Carrying amount of Cash Generating Units	◀▶
	Revenue recognition	◀▶
Parent Company Only	Recoverability of parent company's investments in subsidiaries and group debtor balances	◀▶
Event driven risk	**Going concern**	▲

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

Key audit matters are those matters that, in our professional judgement, 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, in decreasing order of audit significance, were as follows:

	The risk	Our response
Going concern *Refer to note 2.2 (accounting policy and financial disclosure)*	**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. The assessment of the entity's ability to continue as a going concern involves significant judgement with respect to future cashflows. These cashflows then impact the ability of the entity to remain liquid and meet its obligations as they fall due. The judgement in respect of the future cashflows is based on an evaluation of the inherent risks associated with the ongoing uncertainty in the semiconductor market following the significant industry downturn in 2023. Whilst the industry is expected to return to growth in 2024 and beyond, there is uncertainty as to the timing and extent of the growth. In addition, the Group is forecasting the commencement of a new product line in late 2024, ramping up through to 2025, and there is uncertainty as to the timing and execution of this new product line. Together, these circumstances give rise to uncertainty in the Group's cashflow forecasts, that may cast significant doubt on the entity's ability to continue as a going concern and may indicate the existence of a material uncertainty. The risk for our audit is whether or not these facts amount to a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Where a material uncertainty exists then that fact would need to be disclosed in the financial statements.	We considered whether these risks could plausibly affect the liquidity of the Group in the going concern period by assessing the director's sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking into account the severe but plausible adverse effects which could arise from these risks. Our procedures included: — **Sensitivity analysis:** We challenged the assumptions in the base case as well as requesting the directors to apply a more severe but plausible downside scenario. — **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of plausible, but not unrealistic, adverse effects which could arise from these risks, both individually and collectively. — **Benchmarking assumptions:** We have benchmarked the key assumptions behind the cashflow forecasts to customer forecasts where available and customer demand trends to analyst expectations for those customers. We also benchmarked to wider market commentary and market research reports. — **Evaluating Director's intent**: We evaluated the achievability of the mitigating actions the Directors consider they would take to improve the Group's financial position, should further risks materialise, which include delays on discretionary personnel spend, delays to certain CAPEX expenditure, further restructuring, reduction of Research and Development expenditure, taking into account the extent to which the Directors are able to control the timing and outcome. — **Historical comparisons:** We considered forecasting accuracy when preparing forecast data by performing retrospective review of historical forecasts to actuals. — **Assessing transparency:** We considered whether the going concern disclosures in note 2.2 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks, dependencies and related sensitivities.

	The risk	Our response
Carrying amount of Wireless and Photonics cash generating units (Wireless - £89.1 million; 2022: £91.9 million Photonics - £131.9 million; 2022: £153.3 million) *Refer to note 2.5 and 2.8 (accounting policy), note 3.1 (accounting estimate) and note 13 (financial disclosures)*	**Forecast based assessment** The carrying amount of the Wireless and Photonics cash generating units are at an increased risk of irrecoverability due to the impact of current market conditions on the timing and level of cashflows. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. The current market capitalisation is below total gross assets. This is therefore a potential impairment indicator which also increases the associated risk. The effect of these matters is that there is a high degree of uncertainty and involvement of subjective key assumptions, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 13) disclose the sensitivity estimated by the Group.	Our procedures included: — **Benchmarking assumptions:** Comparing the Group's assumptions, in particular those relating to forecast revenue growth and inflation to externally derived data, such as independent market reports and customer communications where available. — **Valuation expertise:** We derived a reasonable range of appropriate discount rates independently, with the support of our valuation specialist and compared these with those calculated by the Group. — **Sensitivity analysis:** We performed reasonably foreseeable scenario analysis on the discount rate and growth assumptions included in the forecast; — **Personnel interviews:** We held discussions with the Group's Chief Technology officer and the Group Vice President of Sales to corroborate our understanding of future uses for technologies and routes to market. — **Comparing valuations:** Comparing the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cashflows; and — **Assessing transparency:** Assessing whether the Group's disclosures about the sensitivity of the outcome of impairment assessment to changes in key assumptions reflected the risks inherent in the recoverable amount of goodwill and intangible assets. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.
Revenue recognition (£115.3 million; 2022: £167.5 million) *Refer to note 2.22 (accounting policy) and note 4.3 (financial disclosures).*	**Revenue recognised in the incorrect period** There are pressures on achieving internal and external expectations of results, in particular Revenue and Adjusted EBITDA targets and therefore, depending on the full year's results there may be an incentive to accelerate or delay the recognition of revenue in the current year.	Our procedures included: — **Test of detail:** We agreed a sample of sales transactions arising around the year end based on their financial significance, to purchase order and external delivery confirmation, to assess whether the performance obligation has been met and that revenue has not been over- or understated in the year. — **Test of detail:** We agreed a sample of post year end credit notes, based on their financial significance, to sales order and external delivery confirmation, to assess that revenue has not been overstated to date. We performed the detailed tests above rather than seeking to rely on any of the group's controls because our knowledge of the design of these controls indicated that we would be unlikely to obtain the required evidence to support reliance on controls.

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

Parent company: Recoverability of parent company's investments in subsidiaries and group debtor balances (Investments: £60.2 million; 2022: £76.2 million, Receivables: £165.4 million; 2022: £135.5 million) *Refer to notes 2.10 and 2.29 (accounting policy) and notes 16 and 18 (financial disclosures).*	**Forecast based assessment** The carrying amount of the parent company's investments in subsidiaries and receivables from its subsidiaries represents 96% (2022: 96%) of the company's total assets. The recoverable amount of these assets is subjective due to the inherent uncertainty involved in forecasting and discounting future cashflows however ,this is not considered to be at a high risk of significant misstatement. Due to their size in the context of the parent company financial statements, this is considered to be the area which has the greatest impact on the parent company audit.	Our procedures included: — **Test of detail:** We compared the carrying amount of 100% of the investments and receivables with the associated subsidiaries' balance sheet to identify whether their net assets exceeded the carrying amount, as this is the most appropriate approximation of their minimum recoverable amount. We also assessed whether those subsidiaries have been profitable historically. — **Assessing subsidiary audit:** We assessed the work performed by the component auditor of the relevant subsidiary and considered the results of that work on the subsidiary's profit and net assets; — **Comparing valuations:** For the investments and receivables where the carrying amount exceeded the net asset value, we compared their carrying amount with the expected value of the business based on the subsidiaries' forecast profitability and cashflows. — **Test of details**: For each intra-group debtor counterparty, we have evaluated the likely risk of default with reference to the Company's definition of default and those subsidiaries' performance against forecasts and forecasts of future profitability. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

We continue to perform procedures over the commercial feasibility criteria to be capitalised as development intangibles not yet available for use. However, given the incentive to capitalise intangible fixed assets and increasing the metric on which management is appraised has reduced significantly this year as bonus targets are unlikely to be met, we have not separately identified in our report this year.

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 £940,000 (2022: £1.4 million), determined with reference to a benchmark of Group revenue of which it represents 0.8% (2022: 0.8%).

Materiality for the parent Company financial statements as a whole was set at £930,000 (2022: £1.39 million), determined with reference to a benchmark of Company total assets, of which it represents 0.39% (2022: 0.63%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2022: 65%) of materiality for the financial statements as a whole, which equates to £611,000 (2022: £900,000) for the Group and £604,000 (2022: £901,000) for the parent Company. We applied this percentage in our determination of performance materiality based on the level of identified misstatements and control deficiencies identified in the prior year.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £47,000 (2022: £65,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 18 (2022: 18) reporting components, we subjected 6 (2022: 6) to full scope audits for group purposes and 1 (2022: 1) to specified risk-focused audit procedures. The latter was 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 8% (2022: 10%) of total Group revenue, 8% (2022: 14) of total Group assets is represented by 10 (2022: 11) of reporting components, none of which individually represented more than 6% (2022: 2%) of any of total Group revenue or total Group assets. For the 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 work on 1 of the 6 components (2022: 1 of the 6 component) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

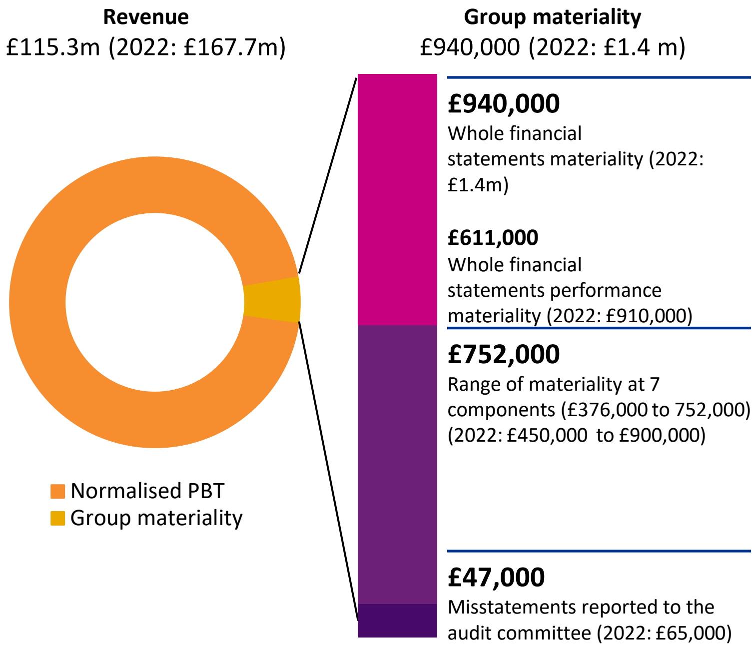
The Group team issued audit instructions to component auditors on the scope of their work, including minimum procedures to perform in their audit of revenue.

The Group team approved the component materialities which ranged from £376,000 to £752,000 (2022: £450,000 to £900,000) having regard for the mix, size and risk profile of the Group across the components.

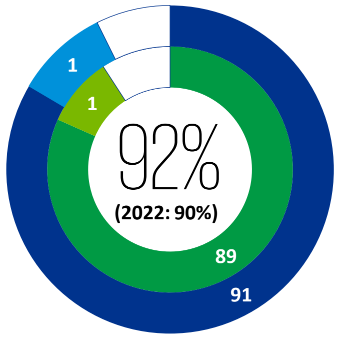
The Group team visited 3 (2022: 2) component locations to assess audit risks and strategy.

Video and teleconference meetings were held with the component auditor, At these meetings, the findings reported to the Group team were discussed in more detail and any further work required by the Group team was then performed by the component auditor.

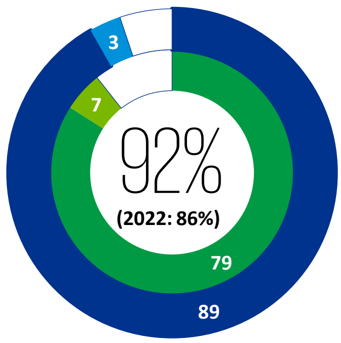
The scope of the audit work performed was predominantly substantive as we placed limited reliance on the Group's internal control over financial reporting.

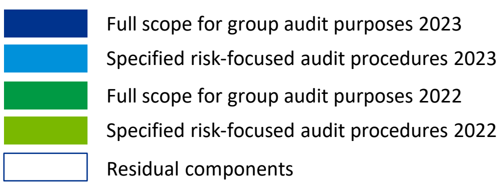


Group revenue



Group total assets





4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company'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 15 months from the date of approval of the financial statements ("the going concern period").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

• we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

• we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and

• we have nothing material to add or draw attention to in relation to the directors' statement on page 88 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 the going concern period, and we found the going concern disclosure in note 2.2 to be acceptable.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

— Enquiring of directors, the Audit Committee and the Company Secretary and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.

— Reading Board, Audit Committee and Remuneration Committee meeting minutes.

— Considering remuneration incentive schemes and performance targets for directors and management including bonus targets and Long Term Incentive Plan EPS growth targets for director and management remuneration.

We communicated identified fraud risks throughout the audit and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to the one full scope component audit team of relevant fraud risks identified at the Group level and request to the full scope component audit team to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet profit targets and revisions to market guidance, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is overstated or understated through recording revenue in the wrong period.

5. Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement due to fraud (continued)

We did not identify any additional fraud risks.

Further detail in respect of this risk is set out in the key audit matter disclosures in section 2 of this report.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls. We also performed procedures including:

— Identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to revenue and cash accounts with an unusual account pairing.
— Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

We discussed with the Audit Committee matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and others within management (as required by auditing standards) and discussed with the directors and others within management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit . This included communication from the Group audit team to the one full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for the full scope component auditor to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety and hazardous material legislation, export control legislation, anti-bribery, employment law and certain aspects of company legislation, recognising the nature of the Group's global manufacturing and development activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

5. Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations (continued)

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. 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.

Directors' remuneration report

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the directors have decided to prepare as if the Company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, as if those requirements applied to the Company.

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

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing further material to add or draw attention to in relation to:

— the directors' confirmation within the Viability Statement page 56 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 Significant and emerging risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and

— the directors' explanation in the 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.

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 judgements 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.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

— 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;

— 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, and how these issues were addressed; and

— the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

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 this respect.

7. 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

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 88, 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.

9. 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 2006 and the 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 the further matters we are required to state to them in accordance with the terms agreed with the Company, 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.

Kate Teal

Kate Teal

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

66 Queen Square

Bristol

BS1 4BE

09 April 2024

Five-year financial summary

	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Revenue	**115,252**	**167,494**	**154,096**	**178,016**	**140,015**
Adjusted EBITDA (see below)	**4,313**	**23,365**	**18,679**	**30,101**	**16,246**
Operating (loss)/profit					
• Adjusted*	(20,199)	(3,557)	(6,454)	5,386	(4,676)
• Reported	(25,779)	(72,976)	(19,978)	(5,517)	(18,802)
(Loss)/profit after tax					
• Adjusted*	(23,990)	(5,920)	(19,281)	2,702	(19,010)
• Reported	(29,378)	(74,541)	(31,002)	(2,893)	(35,128)
Net cash flow from operations					
Adjusted* (note 5)	15,744	15,652	17,940	36,324	16,530
Reported	10,074	8,873	18,883	35,457	8,948
Free cash flow**					
Before adjusted* cash flows	(3,128)	4,148	(1,640)	24,929	(25,445)
Reported	(8,798)	(2,631)	(697)	24,062	(33,027)
Adjusted net (debt)/cash***	**(2,228)**	**(15,248)**	**(5,804)**	**1,923**	**(15,970)**
Equity shareholders' funds	**169,785**	**175,060**	**234,621**	**260,435**	**266,593**
Basic EPS – adjusted******	**(2.68p)**	**(0.74p)**	**(2.41p)**	**0.29p**	**(2.46p)**
Basic EPS – unadjusted	**(3.28p)**	**(9.27p)**	**(3.87p)**	**(0.41p)**	**(4.51p)**
Diluted EPS – adjusted******	**(2.68p)**	**(0.74p)**	**(2.41p)**	**0.29p**	**(2.46p)**
Diluted EPS – unadjusted	**(3.28p)**	**(9.27p)**	**(3.87p)**	**(0.41p)**	**(4.51p)**

* The adjusted performance measures for 2023 and 2022 are reconciled in note 5. The adjusted performance measures for 2019-2021 are reconciled in those financial statements.

** Free cash flow is defined as net cash outflow of £5,409,000 (2022: £53,000) before cash inflows from financing activities of £6,631,000 (2022: £4,732,000) and net interest paid of £3,242,000 (2022: £2,154,000).

*** Adjusted net (debt)/cash is defined as cash less borrowings but excluding lease liabilities and fair value gains/losses on derivative instruments.

**** Adjusted EPS measures exclude the impact of certain non-cash charges, non-operational items and significant infrequent items that would distort period on period comparability (see note 12).

Adjusted EBITDA has been calculated as follows:

	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Loss after tax	**(29,378)**	**(74,541)**	**(31,002)**	**(2,893)**	**(35,128)**
Tax charge / (credit)	**567**	**(862)**	**8,811**	**(1,001)**	**10,180**
Interest expense	**3,032**	**2,427**	**2,213**	**2,165**	**1,458**
Share based payments	**2,565**	**332**	**1,691**	**265**	**(771)**
(Profit)/Loss on disposal of PPE and intangibles	**(152)**	**(688)**	**(77)**	**182**	**(245)**
Adjusted items	**3,015**	**70,403**	**11,833**	**6,850**	**18,463**
Depreciation of PPE	**13,186**	**14,529**	**13,309**	**12,983**	**10,477**
Depreciation of right of use asset	**3,790**	**3,981**	**3,854**	**3,681**	**3,590**
Amortisation of intangible assets	**7,688**	**7,784**	**8,047**	**7,869**	**8,222**
Adjusted EBITDA	**4,313**	**23,365**	**18,679**	**30,101**	**16,246**

Consolidated income statement

for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Revenue	4	**115,252**	**167,494**
Cost of sales		(112,924)	(141,111)
Gross profit		**2,328**	**26,383**
Selling, general and administrative expenses		(32,486)	(31,211)
Impairment loss on intangible assets	5	–	(66,155)
Impairment reversal/(loss) on trade receivables and contract assets	23	1,808	(2,300)
Gain on acquisition of remaining interest in CSC	32	2,419	–
Profit on disposal of intangible assets and property, plant and equipment	5	152	688
Other losses	6	–	(381)
Operating loss	6	**(25,779)**	**(72,976)**
Finance costs	8	(3,032)	(2,427)
Adjusted loss before income tax		**(23,231)**	**(5,984)**
Adjustments	5	(5,580)	(69,419)
Loss before income tax		**(28,811)**	**(75,403)**
Taxation	9	(567)	862
Loss for the year		**(29,378)**	**(74,541)**
Loss attributable to:			
Equity shareholders		(29,378)	(74,541)
		(29,378)	**(74,541)**
Loss per share attributable to owners of the parent during the year			
Basic loss per share	12	(3.28p)	(9.27p)
Diluted loss per share	12	(3.28p)	(9.27p)

Adjusted basic and diluted loss per share are presented in note 12.

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

The notes on pages 107 to 158 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2023

	2023 £'000	2022 £'000
Loss for the year	(29,378)	(74,541)
Exchange differences on translation of foreign operations*	(8,088)	14,500
Total comprehensive expense for the year	**(37,466)**	**(60,041)**
Total comprehensive expense attributable to:		
Equity shareholders	(37,466)	(60,041)
	(37,466)	**(60,041)**

* 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 is disclosed in note 9.

The notes on pages 107 to 158 form an integral part of these consolidated financial statements.

Consolidated balance sheet

as at 31 December 2023

	Note	2023 £'000	2022 £'000
Non-current assets			
Intangible assets	13	35,378	37,014
Property, plant and equipment	14	129,553	127,055
Right of use assets	15	37,895	41,432
Deferred tax assets	10	–	–
Total non-current assets		**202,826**	**205,501**
Current assets			
Inventories	17	24,577	34,161
Trade and other receivables	18	38,220	44,828
Cash and cash equivalents		5,617	11,620
Assets held for resale	19	2,274	–
Total current assets		**70,688**	**90,609**
Total assets		**273,514**	**296,110**
Current liabilities			
Trade and other payables	20	(42,572)	(37,545)
Current tax liabilities		(531)	(690)
Bank borrowings	21	(4,153)	(6,225)
Derivative financial instruments	23	–	(381)
Lease liabilities	21	(5,865)	(4,843)
Provisions for other liabilities and charges	22	(2,998)	(1,625)
Total current liabilities		**(56,119)**	**(51,309)**
Non-current liabilities			
Trade and other payables	20	(2,208)	–
Bank borrowings	21	(3,692)	(20,643)
Lease liabilities	21	(40,435)	(46,026)
Deferred tax liabilities	10	(604)	(1,065)
Provisions for other liabilities and charges	22	(671)	(2,007)
Total non-current liabilities		**(47,610)**	**(69,741)**
Total liabilities		**(103,729)**	**(121,050)**
Net assets		**169,785**	**175,060**
Equity attributable to the shareholders of the parent			
Share capital	24	9,615	8,048
Share premium		155,844	154,720
Retained earnings		(47,466)	(45,246)
Exchange rate reserve		32,447	40,535
Other reserves		19,345	17,003
Total equity		**169,785**	**175,060**

The notes on pages 107 to 158 form an integral part of these consolidated financial statements. The financial statements on pages 98 to 158 were authorised for issue by the Board of Directors and approved on 9 April 2024 and were signed on its behalf.

Ms J Meier **Mr A Lemos**

Consolidated statement of changes in equity

for the year ended 31 December 2023

	Share capital £'000	Share premium £'000	Retained earnings / (losses) £'000	Exchange Rate reserve £'000	Other reserves £'000	Total equity £'000
At 1 January 2023	**8,048**	**154,720**	**(45,246)**	**40,535**	**17,003**	**175,060**
Comprehensive expense						
Loss for the year	–	–	(29,378)	–	–	(29,378)
Other comprehensive expense for the year	–	–	–	(8,088)	–	(8,088)
Total comprehensive expense for the year	**–**	**–**	**(29,378)**	**(8,088)**	**–**	**(37,466)**
Transactions with owners						
Share based payments	–	–	–	–	2,484	2,484
Tax relating to share options	–	–	–	–	(142)	(142)
Proceeds/(charge) from shares issued	1,567	1,124	(1,342)	–	28,500	29,849
Transfer of merger reserve to retained earnings (see note 24)	–	–	28,500	–	(28,500)	–
Total transactions with owners	**1,567**	**1,124**	**27,158**	**–**	**2,342**	**32,191**
At 31 December 2023	**9,615**	**155,844**	**(47,466)**	**32,447**	**19,345**	**169,785**

	Share capital £'000	Share premium £'000	Retained earnings/ (losses) £'000	Exchange Rate reserve £'000	Other reserves £'000	Total equity £'000
At 1 January 2022	**8,036**	**154,632**	**29,295**	**26,035**	**16,623**	**234,621**
Comprehensive expense						
Loss for the year	–	–	(74,541)	–	–	(74,541)
Other comprehensive expense for the year	–	–	–	14,500	–	14,500
Total comprehensive expense for the year	**–**	**–**	**(74,541)**	**14,500**	**–**	**(60,041)**
Transactions with owners						
Share based payments	–	–	–	–	289	289
Tax relating to share options	–	–	–	–	91	91
Proceeds from shares issued	12	88	–	–	–	100
Total transactions with owners	**12**	**88**	**–**	**–**	**380**	**480**
At 31 December 2022	**8,048**	**154,720**	**(45,246)**	**40,535**	**17,003**	**175,060**

Other reserves relate to share based payments.

The notes on pages 107 to 158 form an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Cash flows from operating activities			
Adjusted cash inflow from operations		**15,744**	**15,652**
Cash impact of adjustments	5	(5,670)	(6,779)
Cash generated from operations	27	**10,074**	**8,873**
Interest paid		(3,242)	(2,154)
Income tax paid		(912)	(775)
Net cash generated from operating activities		**5,920**	**5,944**
Cash flows from investing activities			
Purchase of property, plant and equipment		(12,158)	(9,438)
Purchase of intangible assets		(3,113)	(4,699)
Capitalised development expenditure		(2,852)	(3,795)
Proceeds from disposal of property, plant and equipment and intangible assets		553	7,203
Acquisition of subsidiary, net of cash received		(390)	–
Adjusted cash used in investing activities		**(17,960)**	**(16,802)**
Cash impact of adjustments – proceeds from disposal of property, plant and equipment and intangible assets		–	6,073
Net cash used in investing activities		**(17,960)**	**(10,729)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		31,239	100
Expenses associated with issue of ordinary shares		(1,390)	–
Proceeds from borrowings	28	9,932	15,814
Repayment of borrowings	28	(28,363)	(6,256)
Payment of lease liabilities	28	(4,787)	(4,926)
Net cash generated from financing activities		**6,631**	**4,732**
Net decrease in cash and cash equivalents		**(5,409)**	**(53)**
Cash and cash equivalents at 1 January		11,620	10,791
Exchange losses on cash and cash equivalents		(594)	882
Cash and cash equivalents at 31 December		**5,617**	**11,620**

The notes on pages 107 to 158 form an integral part of these consolidated financial statements.

Parent company balance sheet

for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Non-current assets			
Intangible assets	13	7,664	5,315
Property, plant and equipment	14	17	389
Investments	16	60,169	76,248
Deferred tax assets	10	–	–
Trade and other receivables	18	165,422	135,464
Total non-current assets		**233,272**	**217,416**
Current assets			
Trade and other receivables	18	2,217	605
Cash and cash equivalents		–	2,436
Total current assets		**2,217**	**3,041**
Total assets		**235,489**	**220,457**
Current liabilities			
Trade and other payables	20	(37,193)	(29,753)
Bank borrowings	21	(857)	–
Derivative financial instruments	23	–	(381)
Provisions for other liabilities and charges	22	(195)	(573)
Total current liabilities		**(38,245)**	**(30,707)**
Non-current liabilities			
Bank borrowings	21	(3,692)	(16,529)
Provisions for other liabilities and charges	22	(671)	(909)
Total non-current liabilities		**(4,363)**	**(17,438)**
Total liabilities		**(42,608)**	**(48,145)**
Net assets		**192,881**	**172,312**
Shareholders' equity			
Share capital	24	9,615	8,048
Share premium		155,844	154,720
Retained earnings/(losses)		7,928	(7,468)
Other reserves		19,494	17,012
Total equity		**192,881**	**172,312**

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 parent company's (registered number: 03745726) loss for the financial year amounted to £11,762,000 (2022: £9,297,000 loss).

The notes on pages 107 to 158 form an integral part of these consolidated financial statements.

The financial statements on pages 98 to 158 were authorised for issue by the Board of Directors and approved on 9 April 2024 and were signed on its behalf.

Ms J Meier **Mr A Lemos**

Parent company statement of changes in equity

for the year ended 31 December 2023

	Share capital £'000	Share premium £'000	Retained earnings / (losses) £'000	Other reserves £'000	Total Equity £'000
At 1 January 2023	**8,048**	**154,720**	**(7,468)**	**17,012**	**172,312**
Comprehensive expense					
Loss for the year	–	–	(11,762)	–	(11,762)
Total comprehensive expense	**–**	**–**	**(11,762)**	**–**	**(11,762)**
Transactions with owners					
Share based payments	–	–	–	2,484	2,484
Tax relating to share options	–	–	–	(2)	(2)
Proceeds/(charge) from shares issued	1,567	1,124	(1,342)	28,500	29,849
Transfer of merger reserve to retained earnings (see note 24)	–	–	28,500	(28,500)	-
Total transactions with owners	**1,567**	**1,124**	**27,158**	**2,482**	**32,331**
At 31 December 2023	**9,615**	**155,844**	**7,928**	**19,494**	**192,881**

	Share capital £'000	Share premium £'000	Retained earnings/ (losses) £'000	Other reserves £'000	Total Equity £'000
At 1 January 2022	**8,036**	**154,632**	**1,829**	**16,724**	**181,221**
Comprehensive expense					
Loss for the year	–	–	(9,297)	–	(9,297)
Total comprehensive expense	**–**	**–**	**(9,297)**	**–**	**(9,297)**
Transactions with owners					
Share based payments	–	–	–	289	289
Tax relating to share options	–	–	–	(1)	(1)
Proceeds from shares issued	12	88	–	–	100
Total transactions with owners	**12**	**88**	**–**	**288**	**388**
At 31 December 2022	**8,048**	**154,720**	**(7,468)**	**17,012**	**172,312**

Other reserves relate to share based payments.

The notes on pages 107 to 158 form an integral part of these consolidated financial statements.

Parent company cash flow statement

for the year ended 31 December 2023

	Note	**2023 £'000**	2022 £'000
Cash flows from operating activities			
Cash outflow from operations	27	(17,453)	(11,004)
Interest (paid)/received		(1,025)	1,244
Net cash used in operating activities		**(18,478)**	**(9,760)**
Purchase of intangible assets		(2,767)	(3,683)
Purchase of property plant and equipment		(3)	(297)
Proceeds from disposal of property, plant and equipment and intangible assets		351	–
Net cash used in investing activities		**(2,419)**	**(3,980)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		31,239	100
Expenses associated with issue of ordinary shares		(1,390)	–
Proceeds from borrowings		9,932	15,814
Repayments of borrowings		(22,177)	–
Net cash generated from financing activities		**17,604**	**15,914**
Net (decrease)/increase in cash and cash equivalents		**(3,293)**	**2,174**
Cash and cash equivalents at 1 January		2,436	262
Cash and cash equivalents at 31 December		**(857)**	**2,436**

The notes on pages 107 to 158 form an integral part of these consolidated financial statements.

Notes to the financial statements

for the year ended 31 December 2023

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. Material 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.

2.1 Basis of preparation

The financial statements have been prepared and approved by the Directors in accordance with UK adopted international accounting standards ("UK adopted IFRS"). The financial statements have been prepared under the historical cost convention except where fair value measurement is required by IFRS. The Group applies fair value measurement in its accounting for derivative foreign currency financial instruments (see note 2.19).

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 has experienced weaker customer demand and lower customer orders in 2023 compared to 2022 as a result of the global semiconductor industry downturn. The industry downturn presented a temporary but significant challenge to sales volumes in Q1-Q3 2023 prior to a gradual improvement in market dynamics and customer demand in Q4 2023. Market dynamics and customer demand is expected to continue to improve, aligned with external market views, in 2024, ahead of a full market recovery by 2025.

The Directors have taken steps to strengthen the balance sheet of the Group during 2023 in order to mitigate the financial impact of the semiconductor industry downturn. Actions taken include:

- The successful refinancing of the Group's £27,300,000 ($35,000,000) multi-currency revolving credit facility provided by HSBC Bank plc on 16 May 2023. The tenor of the facility has been extended to 1 May 2026 with quarterly leverage and interest cover covenant tests applicable to the facility, commencing at December 2023
- The successful £31,098,546 equity fund raise completed on 18 May 2023 in order to ensure that the Company can continue to invest to execute on its strategy, meet its near-term liquidity requirements and deliver a sustainable balance sheet position going forward
- The implementation of cost cutting actions, including staff redundancies, operational efficiencies and reductions in areas of discretionary expenditure which are under the control of the Directors
- Deferral of capital and intangible asset expenditure under the control of the Directors

In the twelve months to 31 December 2023, reported revenue declined 31% and the group made a loss after tax for the year of £29,378,000. The liquidity impact of the loss for the year has been mitigated by a combination of the Group's successful equity fund raise, careful working capital management and the deferral of certain capital and intangible asset expenditure resulting in an improvement in the Group's adjusted net debt position (net debt excluding lease liabilities and fair value gains/losses on derivative instruments) to £2,228,000 (2022: £15,248,000) At 31 December 2023 the Group had undrawn committed funding of £23,363,000 ($29,953,000) available under the terms of the Group's revolving credit facility.

In assessing the going concern basis of preparation the Directors have reviewed financial projections to 30 June 2025 ('the going concern assessment period'), containing both a 'base case' and a 'severe but plausible downside case'. The review period extends beyond the minimum required 12-month period from the date of approval of the financial statements to take account of a minimum liquidity position that is forecast shortly after the 12-month period.

2. Material accounting policies continued

Base Case

The base case is derived from Group's latest Board approved 2024 budget and 2025 forecasts. The base case incorporates an expected improvement in market dynamics and the impact of cost cutting actions already implemented by the Board.

The base case was prepared with the following key assumptions:

- Revenue for 2024 in line with current analyst consensus, with a forecast return to year-on-year growth in 2024 with a full market recovery forecast in 2025
- Commencement of the new PowerGaN business in late 2024 ramping up through 2025 with mid teen £'m revenue forecast in H1 2025. This revenue has been restricted to current committed capacity and the forecasts do not include further capital expenditure that would be required to exploit the wider market opportunity.
- Direct wafer product margins for 2024 and 2025 consistent with 2023
- Labour inflation in 2024 in line with labour market norms
- Cost inflation in 2024 operating and administrative costs in line with the current inflationary environment
- A high-teen digit £'m of capital expenditure in 2024 and in 2025 which includes investment in committed Gallium Nitride (GaN) related manufacturing capacity, enabling diversification into the high-growth power electronics and advanced display (uLED) markets
- Sale of the Group's freehold manufacturing site in Pennsylvania following cessation of manufacturing activities in 2023

In the base case the Group is forecast to maintain liquidity headroom and to comply with its leverage and interest cover banking covenants throughout the going concern assessment period. Liquidity headroom falls to ~£8.0m in October 2024 with adjusted net debt of £20.1m (net debt excluding lease liabilities and fair value gains/losses on derivatives).

Severe but plausible downside case

The severe but plausible downside case was prepared using the following key assumptions:

- Revenue is assumed at 6% down on the base case for the remainder of H1 2024, 16% down on the base case for H2 2024 and 18% down for 2025 reflecting a combination of greater uncertainty the further out into the future, a delay in market recovery and a delay in the new PowerGan business which is forecast to ramp up in 2025
- In line with the revenue reduction in both years, there is a reflective reduction in variable operating costs for 2024 and 2025
- The removal of the proceeds from sale of the manufacturing site in Pennsylvania
- The application of mitigations in the form of further labour savings, reductions in certain non-manufacturing related discretionary expenditure and deferred investment in capital expenditure and technology asset development over and above those reflected in the base case. These costs savings and cash management actions have already been identified, are in the control of management and are actionable readily

In the severe but plausible downside case the Group's liquidity is reduced to less that £1.0m in May 2025 with adjusted net debt of £27.7m (net debt excluding lease liabilities and fair value gains/losses on derivatives). The Group is forecast to comply with its leverage and interest cover banking covenants throughout the going concern assessment period.

Whist acknowledging that under the severe but plausible scenario liquidity headroom is tight, the Directors believe that the Company and Group will have adequate cash resources to continue operating for the foreseeable future and to meet their liabilities as they fall due for the going concern assessment period, such that the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the Company and Group 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 2023:

- IFRS 17 'Insurance contracts' which establishes the principles for the recognition, measurement and presentation and disclosure of insurance contracts and supersedes IFRS 4 'Insurance contracts'.
- Amendments to IAS 1 'Presentation of financial statements' and the disclosure of accounting policies which requires disclosure of material rather than significant accounting policies.
- Amendment to IAS 8 'Accounting policies, changes in accounting estimates and errors' to introduce a new definition for accounting estimates which clarifies that an accounting estimate is a monetary amount in the financial statements that is subject to measurement uncertainty.
- Amendment to IAS 12 'Income taxes' to clarify the accounting treatment for deferred tax on certain transactions with a narrowing of the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences (see note 10).

The adoption of these standards, amendments and interpretations has not had a material impact on the financial statements of the Group or parent company.

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 2024 and have not been applied in preparing these consolidated financial statements:

- Amendments to IAS 1 'Presentation of financial statements' on classification of liabilities which is intended to clarify that liabilities are classified as either current or non-current depending upon the rights that exist at the end of the reporting period.
- Amendment to IFRS 16 'Leases' which confirms the initial and subsequent recognition principles for variable lease payments as a liability in a sale and leaseback transaction.
- Amendment to IAS 7 'Statement of Cash Flows' and IFRS 7 'Financial Instruments: Disclosures' related to the disclosure and transparency of supplier finance arrangements.
- IFRS S1 'General Requirements for Disclosure of Sustainability related Financial Information' and IFRS S2 'Climate related Disclosures'.

The Directors anticipate that at the time of this report none of the new standards, amendments to standards or interpretations are expected to have a material 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 joint venture.

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.

2. Material accounting policies continued

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 a 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 the 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 it 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. Amortisation is charged to selling and general administration expenses in the income statement.

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 refer 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 ranges 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. Amortisation is charged to selling and general administration expenses in the income statement.

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 ranges between 3 and 10 years. Amortisation is charged to selling and general administration expenses in the income statement.

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.

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	10 to 40 years
Short leasehold improvements	5 to 30 years
Plant and machinery	3 to 15 years
Fixtures and fittings	3 to 10 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.

Assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The carrying value of property, plant and equipment is reviewed for potential impairment if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement.

2.7 Leases

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. 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.

2. Material accounting policies continued

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.

2.8 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.

Indicators that impairment losses might have reversed are assessed annually.

2.9 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.

2.10 Trade receivables

Trade receivables are amounts due from customers for goods 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.

2.11 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. Bank overdrafts are presented within cash and cash equivalents where the Group has a right of set-off under its treasury arrangements that are pooled by territory.

2.12 Assets held for resale

Assets held for resale are not depreciated, are measured at the lower of carrying amount and fair value less costs to sell and are presented separately in the statement of financial position.

2.13 Preference share debt instruments

Preference share financial assets are debt instruments due from a related party (see note 33). 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.

2.14 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;
- 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 2.10), cash and cash equivalents (note 2.11) and contract assets (note 2.23).

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 and contract assets 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.

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. 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 and moves to stage 3.

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.

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.

2. Material accounting policies continued

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. 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.

2.15 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 as 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 2.16), borrowings (note 2.17) and lease liabilities (note 2.7) in the consolidated balance sheet.

2.16 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.

2.17 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.

2.18 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.

2.19 Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

Cash flow hedges and derivatives that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other gains/(losses).

Cash flow hedges and derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other gains/(losses).

Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other gains/(losses). Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

2.20 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.

2.21 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.

2.22 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.
- Warranty provisions comprise the replacement cost of wafers expected to be returned under warranty

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.

2.23 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. 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 provisions. 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, performance obligations have been satisfied and 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. Revenue is recognised on an input basis by reference to the stage of completion of the manufacturing process, a process which includes an epitaxial wafer manufacture stage and a metrology and wafer test stage which are both typically completed within a limited number of days.

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 provisions. 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.

Assets and liabilities arising from contracts with customers are separately identified. Contract assets relate to consideration recognised for work completed but not billed at the balance sheet date. Contract liabilities relate to obligations to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

2. Material accounting policies continued

Reactor Rental

Reactor rental revenue relates to the sale of reactor capacity to customers, primarily for development purposes. Revenue is recognised on a straight line basis over the time period to which the capacity sold relates.

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 at a point in time when the following conditions are met:

- 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.

2.24 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.

2.25 Finance income and finance costs

The Group's finance income and finance costs 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.

Interest income or expense associated with cash and cash equivalents, bank borrowings and lease liabilities is treated as an operating activity cashflow in the consolidated cashflow statement.

2.26 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.

2.27 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.

2.28 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.

2.29 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.

2.30 Investment in subsidiaries

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

2.31 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.

2.32 Alternative performance measures

Income Statement

Alternative income statement performance measures are disclosed separately in the financial statements after a number of adjusted non-cash items, non-operational items and significant infrequent items that would distort period on period comparability, where it is deemed necessary by the Directors 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.

Balance Sheet

Alternative balance sheet performance measures for net debt are disclosed separately in the financial statements after adjustments to exclude lease liabilities and fair value gains/losses on derivative instruments where it is deemed necessary by the Directors to do so to provide further understanding of the financial position, gearing and liquidity of the Group.

Cashflow Statement

Alternative cash flow statement performance measures are disclosed separately in the financial statements that reflect the cash impact of adjusted items included in alternative income statement performance measures. Adjusted items are material items of income or expense that have been shown separately due to the significance of their nature or amount. Details of the adjusted items are included in note 5.

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.

The Shareholder Agreement established that the CSC was 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 had equal Board representation and voting rights.

On 22 September 2023, the Group acquired the 50% ordinary equity shareholdings and the preference shareholdings of its joint venture partner in CSC taking control of the company and increasing its equity ownership to 100% (see note 32). The following critical accounting judgements are therefore only applicable up until the date of acquisition.

Prior to its acquisition on 22 September 2023, the Group did not control the CSC, such that its 50% equity investment in the joint venture was accounted for using the equity method in accordance with the accounting policies set out in note 2.

Joint Venture – 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, which has subsequently been extended, for the right to use the assets of the joint venture. This agreement, which contains rights attaching to the use of the joint venture's assets, met the definition of a lease. In the Group's judgement, due to the variable nature of the lease payments, which were directly linked to the actual usage of the assets, the lease payments were 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 up to the date of acquisition of the CSC on 22 September 2023 (see note 32).

Joint Venture – Classification of preference share debt

Prior to the acquisition of CSC on 22 September 2023, the Group classified 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 was on the basis that these preference shares, redeemable at par, contingent on the generation of cash by CSC, were 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 required that any surplus cash generated by the CSC was 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.

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

Intangible assets – Technology development assets not yet available for use

Intangible assets include development cost assets not yet available for use of £2,992,000 (2022: £4,278,000) which have been reviewed for impairment as at the reporting date.

The Group is committed to the technical completion and commercialisation of each of its technology development assets which are governed and controlled by reference to a combination of technical development objectives and market and customer related commercial plans. The recoverable amount of each technology development project is 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 comprise assumptions that include cost to complete forecasts for each technology development and commercial forecasts relating to the expected level of market penetration, revenue and cost of production for each technology.

Adjustments to profit

Alternative performance measures are disclosed separately in the financial statements after a number of adjusted non-cash, non-operational or significant and infrequent items that would distort period on period comparability, where it is deemed necessary by the Directors 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 Cash Generating Unit impairment testing

At the end of each reporting period, the Group assesses whether there is any indication of impairment of non-current assets allocated to the Group's CGU's. 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 non-current assets are tested for impairment by grouping operational sites and production assets into CGUs based on type of production.

In the twelve months to 31 December 2023, the global semiconductor industry downturn has negatively impacted the Group's results with a loss for the year of £29,378,000 and operating losses in each of its Wireless and Photonics CGU's. As a result of this, non-current assets allocated to the Wireless and Photonics CGUs have been tested for impairment.

Photonics

The recoverable amount of the Photonics CGU of £138,389,000, determined based on value in use calculations is greater than the carrying amount (£131,899,000) of the associated intangible assets, property, plant and equipment, right of use assets and working capital allocated to the CGU such that no impairment of Photonics CGU assets has been identified.

Key assumptions and sensitivity analysis in respect of the recoverable amount of the Photonics CGU is presented in note 13.

Wireless

The recoverable amount of the Wireless CGU of £111,916,000, determined based on value in use calculations is greater than the carrying amount (£89,101,000) of the associated intangible assets, property, plant and equipment, right of use assets and working capital allocated to the CGU such that no impairment of Wireless CGU assets has been identified. Key assumptions in the value in use calculations include a risk adjusted discount rate of 18.5% and revenue growth assumptions that for years 1 and 2 reflect the latest board-approved forecasts, with subsequent growth of 7.2%, 4.8% and 4.2% in years 3, 4 and 5 followed by a long-term growth rate of 2%.

3. Critical accounting judgements and key sources of estimation uncertainty continued

Growth rates in the value in use calculations take account of continuing market demand for compound semiconductors and associated technology advancement, driven by macro trends of 5G and connected devices where 5G network infrastructure and 5G mobile handsets are being enabled by next generation wireless compound semiconductor material.

The Group has carried out a sensitivity analysis on the impairment test for the Wireless CGU, using various reasonably plausible scenarios focused on changes in business segment growth rates, direct wafer product margins and changes in the discount rate applied in the value in use calculations.

- A decrease in the aggregated compound annual revenue growth rate used of 1.5% would eliminate all headroom between the value in use recoverable amount and the carrying value of the Wireless CGU.
- A decrease in direct wafer product margins by 1.5% would eliminate all headroom between the value in use recoverable amount and the carrying value of the Wireless CGU.
- An increase in the discount rate of 3.7% would eliminate all headroom between the value in use recoverable amount and the carrying value of the Wireless CGU.

3.2 Going Concern

The Group has prepared the financial statements adopting the going concern basis of accounting. As set out in note 2.2, there is ongoing uncertainty in the semiconductor industry following the significant industry downturn in 2023. Whilst the industry is expected to return to growth in 2024 and beyond, there is uncertainty as to the timing and extent of the growth. In addition, the Group is forecasting the commencement of a new product line in late 2024, ramping up through to 2025, and whilst significant customer engagement exists there is uncertainty as to the timing and execution of this new product line. Together, these circumstances give rise to uncertainty in the Group's cashflow forecasts, the Directors have concluded that these circumstances do not indicate the existence of a material uncertainty.

c) Other accounting estimates and sources of estimation uncertainty

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 £19,063,000 (2022: £22,968,000). The amortisation charge for development cost intangible assets in the current year is £5,996,000 (2022: £6,767,000). 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 £855,000 (2022: £1,227,000) to £6,851,000 (2022: £7,994,000).

3.4 Valuation of lease liabilities and right of use assets

The application of IFRS 16 requires the Group to make judgements 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 at the date of inception or modification of the lease, assessed as 2.25%-6.90% depending on the lease characteristics for existing historic leases.

If the incremental rate of borrowing decreased by 0.10%, the impact would be to increase the lease liability by £156,000 (2022: £205,000).

3.5 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 £713,000 (2022: £2,030,000) greater in 2023 if it were assumed that all performance criteria for existing awards would be met.

4. Segmental analysis

4.1 Description of segments and principal activities

The Chief Operating Decision Maker is defined as the Executive Leadership Team. The Executive Leadership Team, consisting of the Chief Executive Officer, Chief Financial Officer, Chief Operations Officer, Chief Technology Officer, Chief People Officer, Executive VP Global Business Development, SVP of Communications Infrastructure and Security Business Unit, VP US Sales, Director of Corporate Marketing, VP US EPI Operations and Substrates, VP Asia and Europe EPI Operations, Chief of Staff and the Executive VP General Counsel & Company Secretary, consider the group's performance from a product perspective and have identified three primary reportable segments:

- Wireless – this part of the business manufactures and sells compound semiconductor material for the wireless market which includes radio frequency devices that enable wireless communications.
- Photonics – this part of the business manufactures and sells compound semiconductor material for the photonics market which includes applications that either transmit or sense light, both visible and infrared.
- CMOS++ – this part of the business manufactures and sells advanced semiconductor materials related to silicon which include the combination of the advanced properties of compound semiconductors with those of lower cost silicon technologies.

The Executive Leadership Team primarily use revenue and a measure of adjusted operating profit to assess the performance of the operating segments. Measures of total assets and liabilities for each reportable segment are not reported to the Executive Leadership Team and therefore have not been disclosed.

4.2 Adjusted Operating Loss

Adjusted operating loss excludes the effects of significant non-cash, non-operational or significant and infrequent items of income and expenditure which may have an impact on the quality of earnings, such as restructuring costs, CEO recruitment costs, CFO settlement and recruitment costs and impairments where the impairment is the result of an isolated, non-recurring event. Adjusted operating loss also excludes the effects of equity settled share based payments and the gain on deemed disposal as part of the acquisition accounting for the group's former joint venture (see note 32).

Finance costs are not allocated to segments because treasury and the cash position of the group is managed centrally.

Revenue	**2023 £'000**	2022 £'000
Wireless	53,877	76,016
Photonics	59,098	88,637
CMOS++	2,277	2,841
Revenue	**115,252**	**167,494**
Adjusted operating loss		
Wireless	4,638	4,705
Photonics	(9,988)	11,162
CMOS++	(2,269)	(1,513)
Central corporate costs	(12,580)	(17,911)
Adjusted operating loss	**(20,199)**	**(3,557)**
Adjusted items (see note 5)		
Wireless	(1,004)	(63,754)
Photonics	(2,445)	(5,438)
CMOS++	(45)	(10)
Central corporate costs	(2,086)	(217)
Operating loss	**(25,779)**	**(72,976)**
Finance costs	(3,032)	(2,427)
Loss before tax	**(28,811)**	**(75,403)**

4. Segmental analysis continued

4.3 Revenue – Disaggregation of segmental revenue from contracts with customers

The group derives revenue from the transfer of goods, services and intellectual property over time and at a point in time. Revenues from external customers derive from the sale of standard or bespoke compound semiconductor material, or from the sale or licensing of intellectual property.

Disaggregate Segment Revenue	Wireless 2023 £'000	Photonics 2023 £'000	CMOS++ 2023 £'000	Total 2023 £'000
Timing of revenue recognition				
At a point in time				
Standard customer products	–	8,982	–	8,982
Intellectual property licenses	–	–	–	–
Over time				
Bespoke customer products	53,877	50,116	2,277	106,270
Total revenue	**53,877**	**59,098**	**2,277**	**115,252**

Disaggregate Segment Revenue	Wireless 2022 £'000	Photonics 2022 £'000	CMOS++ 2022 £'000	Total 2022 £'000
Timing of revenue recognition				
At a point in time				
Standard customer products	–	14,493	–	14,493
Intellectual property licenses	–	1,500	–	1,500
Over time				
Bespoke customer products	76,016	72,644	2,841	151,501
Total revenue	**76,016**	**88,637**	**2,841**	**167,494**

Included within bespoke customer product revenue is revenue of £50,712,000 (2022: £62,571,000) 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.

Revenues of approximately £45,961,000 (2022: £97,199,000) are derived from three customers (2022: three) who each account for greater than 10% of the Group's total revenues:

Customer	Segment	2023 £'000	2023 % revenue	2022 £'000	2022 % revenue
Customer 1	Wireless	18,268	16%	37,721	23%
Customer 2*	Photonics	N/A	N/A	21,964	13%
Customer 3	Photonics	13,625	12%	18,501	11%
Customer 4	Photonics & Wireless	14,067	12%	19,013	11%

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

*Disclosed as exceeded disclosure threshold in 2022.

4.4 Geographical information

Revenue by location of customer

	2023 £'000	2022 £'000
Americas	**54,520**	**112,295**
United States of America	54,448	112,284
Rest of Americas	72	11
Europe, Middle East & Africa (EMEA)	**16,226**	**16,409**
France	1,319	2,104
Germany	1,853	3,286
Israel	3,826	3,080
United Kingdom	7,490	4,578
Rest of EMEA	1,738	3,361
Asia Pacific	**44,506**	**38,790**
People's Republic of China	2,157	5,961
Japan	14,326	13,937
Taiwan	25,174	13,221
Rest of Asia Pacific	2,849	5,671
Total revenue	**115,252**	**167,494**

Non-current assets by location

	Property, plant and equipment		Intangible assets		Right of use assets	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
USA	44,733	46,584	17,849	20,826	8,354	10,060
Taiwan	32,495	32,044	1,623	1,506	433	516
UK	52,325	48,427	15,906	14,682	29,108	30,856
	129,553	**127,055**	**35,378**	**37,014**	**37,895**	**41,432**

5. Adjusted performance measures ('APM')

The Group's results report certain financial measures before a number of adjusted items that are not defined or recognised under IFRS, including adjusted earnings before interest, tax, depreciation and amortisation, adjusted earnings before interest, tax, depreciation and amortisation margin, adjusted operating loss, adjusted loss before income tax and adjusted losses per share. The Directors believe that the adjusted performance measures provide a 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, non-operational items and significant infrequent items that would distort period on period comparability. The Group uses these adjusted performance 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 performance measures and the impact on the Group's reported financial performance.

	Adjusted Results £'000	Adjusted Items £'000	2023 Reported Results £'000	Adjusted Results £'000	Adjusted Items £'000	2022 Reported Results £'000
Revenue	**115,252**	**–**	**115,252**	**167,494**	**–**	**167,494**
Cost of sales	(111,244)	(1,680)	(112,924)	(140,962)	(149)	(141,111)
Gross profit/(loss)	**4,008**	**(1,680)**	**2,328**	**26,532**	**(149)**	**26,383**
SG&A	(26,167)	(6,319)	(32,486)	(26,780)	(4,431)	(31,211)
Impairment of intangibles	–	–	–	–	(66,155)	(66,155)
Impairment reversal/(loss) on receivables	1,808	–	1,808	(2,300)	–	(2,300)
Other losses	–	–	–	(381)	–	(381)
Gains on acquisitions	–	2,419	2,419	–	–	–
Profit on disposal of PPE and intangibles	152	–	152	(628)	1,316	688
Operating loss	**(20,199)**	**(5,580)**	**(25,779)**	**(3,557)**	**(69,419)**	**(72,976)**
Finance costs	(3,032)	–	(3,032)	(2,427)	–	(2,427)
Loss before tax	**(23,231)**	**(5,580)**	**(28,811)**	**(5,984)**	**(69,419)**	**(75,403)**
Taxation	(759)	192	(567)	64	798	862
Loss for the period	**(23,990)**	**(5,388)**	**(29,378)**	**(5,920)**	**(68,621)**	**(74,541)**

	Pre-tax Adjustment £'000	Tax Impact £'000	2023 Adjusted Results £'000	Pre-tax Adjustment £'000	Tax Impact £'000	2022 Adjusted Results £'000
Share based payments	(2,520)	192	**(2,328)**	(223)	(200)	(423)
Share based payments – CEO recruitment	(45)	–	**(45)**	(109)	–	(109)
CEO recruitment	(300)	–	**(300)**	(96)	–	(96)
CFO severance & recruitment	(454)	–	**(454)**			
Impairment - goodwill	–	–	**–**	(62,716)	–	(62,716)
Impairment – other intangibles	–	–	**–**	(3,439)	724	(2,715)
Gain on deemed disposal of JV	2,419	–	**2,419**			
Restructuring	(4,680)	–	**(4,680)**	(4,152)	–	(4,152)
Restructuring – profit on disposal of PPE	–	–	**–**	1,316	274	1,590
Total	**(5,580)**	**192**	**(5,388)**	**(69,419)**	**798**	**(68,621)**

The nature of the adjusted items is as follows:

Current year

- Share based payments – The charge (2022: charge) relates to share based payments recorded in accordance with IFRS 2 'Share based payment' of which £1,680,000 (2022: £149,000) has been classified within cost of sales in gross profit and £840,000 (2022: £74,000) has been classified as selling, general and administrative expenses in operating loss. No cash has been defrayed in the year (2022: £nil) in respect of employer social security contributions relating to unapproved employee share options. Share based payments which arise each financial year are classified as an APM due to the non-cash charge being partially outside of the Group's control as it is based on factors such as share price volatility and interest rates which may be unrelated to the performance of the Group during the period in which the expense occurred.
- Chief Executive Officer recruitment – The Chief Executive Officer's starting bonus of £1,000,000, of which £200,000 relates to a share-based payment award and £800,000 relates to a cash award is payable over the first three years of employment. The charge of £345,000 (2022: £205,000) includes share award and cash costs associated with the new Chief Executive Officer's starting bonus of £345,000 (2022: £435,000), settlement costs and legal fees of £nil (2022: £nil) associated with the transition of the former Chief Executive Officer to a non-executive role and a credit of £nil (2022: £230,000 credit) relating to external recruitment fees. Cash costs defrayed in the period total £463,000 (2022: £715,000).
- Chief Financial Officer severance & recruitment - The charge of £454,000 (2022: £nil) consists of settlement costs and legal fees in relation to the former Chief Financial Officer and recruitment costs in relation to the newly appointed Chief Financial Officer. Cash costs defrayed in the period total £454,000 (2022: £nil).
- Restructuring – The charge of £4,680,000 (2022: £4,152,000) relates to restructuring costs associated with the announced closure of the Group's manufacturing facility in Pennsylvania, USA and a Group wide restructuring programme to reduce labour costs in order to mitigate the impact of the industry wide semiconductor downturn.
    - Restructuring charges of £3,390,000 (2022: £1,136,000) consist of employee related costs of £1,789,000 (2022: £1,136,000) and site decommissioning costs of £1,601,000 (2022: £nil) relating to the announced closure of the Group's manufacturing facility in Pennsylvania, USA in 2024. The charge was classified as selling, general and administrative expenses within operating loss. As at 31 December 2023, cumulative restructuring charges of £5,346,000 have been incurred. Cash costs totalling £4,037,000 have been incurred to date with £3,087,000 (2022: £606,000) defrayed in the current year with a further £1,608,000 expected in 2024.
    - Restructuring charges of £1,290,000 (2022: £nil) relate to labour costs associated with a group wide restructuring programme and associated employee redundancies (excluding costs relating to the closure of the group's manufacturing facility in Pennsylvania). The charge was classified as selling, general and administrative expenses within operating loss. Cash costs defrayed in the period total £1,290,000 (2022: £nil).
- Gain on acquisitions of £2,419,000 (2022: £nil) relates to the gain recognised on acquisition of the remaining shares in the Group's joint venture, CSC, increasing its shareholding to 100% (see note 32). Cash costs defrayed in the period total £nil (2022: £nil).

The cash impact of adjusted items in the consolidated cash flow statement of £5,670,000 (2022: £6,779,000) represent costs associated with the recruitment of the group's Chief Executive Officer (£463,000), the recruitment and severance of the group's Chief Financial Officer (£454,000), onerous contract royalty payments related to the Group's cREO™ technology (£256,000), payment of employee related costs associated with labour cost reductions within the Group (£1,290,000), payment of employee and site related decommissioning costs associated with the announced closure of the Group's site in Pennsylvania (£3,087,000) and payment of employee and site related decommissioning costs associated with the closure of the Group's manufacturing facility in Singapore (£120,000).

Prior period

- Restructuring charges of £nil (2022: £3,016,000) consist of employee related costs of £nil (2022: £220,000), site decommissioning costs of £nil (2022: £1,512,000), asset write downs of £nil (2022: £863,000) and asset transfer costs of £nil (2022: £421,000) relating to the closure of the Group's manufacturing facility in Singapore in June 2022. The prior period charge was classified as selling, general and administrative expenses within operating loss. Cash costs defrayed in the period total £120,000 (2022: £5,088,000).
- Restructuring profits on disposal of £nil (2022: £1,316,000) consist of the sale of assets in Singapore following the cessation of trade in 2022 and the sale of assets in North Carolina to facilitate the consolidation of the Group's manufacturing operations from Pennsylvania. Proceeds received in the year total £nil (2022: £6,073,000) with a profit on disposal of £nil (2022: £1,316,000) classified within 'Profit on disposal of intangible assets and property, plant and equipment'.
- Impairment of goodwill – The non-cash charge of £nil (2022: £62,716,000) relates to impairment costs associated with the Wireless CGU of £nil (2022: £62,382,000) and the Photonics CGU of £nil (2022: £334,000) – see note 13.
- Impairment of other intangibles – The non-cash charge of £nil (2022: £3,439,000) relates to the impairment of certain technology development costs and intellectual property patent assets.
- The prior year non-cash impairment charge of £3,439,000 relates to the impairment of distributed feedback laser technology development costs where the Group has taken the decision to discontinue the development and commercialisation of the technology.

5. Adjusted performance measures ('APM') continued

Adjusted EBITDA (adjusted earnings before interest, tax, depreciation, amortisation and profit/loss on disposal of PPE and intangibles) is calculated as follows:

	2023 £'000	2022 £'000
Loss attributable to equity shareholders	**(29,378)**	**(74,541)**
Finance costs	3,032	2,427
Tax	567	(862)
Depreciation of property, plant and equipment	13,186	14,529
Depreciation of right of use assets	3,790	3,981
Amortisation of intangible fixed assets	7,688	7,784
(Profit)/loss on disposal of PPE and intangibles*	(152)	628
Adjusted Items	5,580	69,419
Share based payments	2,520	223
Share based payments - Chief Executive Officer recruitment	45	109
Chief Executive Officer recruitment	300	96
Chief Financial Officer severance & recruitment	454	–
Gain on deemed disposal of JV	(2,419)	–
Restructuring	4,680	4,152
Restructuring – profit on disposal of PPE	–	(1,316)
Impairment of intangibles	–	66,155
Adjusted EBITDA	**4,313**	**23,365**
Adjusted EBITDA margin	**4%**	**14%**

* Excludes the adjustment 'Restructuring – profit on disposal of PPE' which is separately disclosed as part of the groups adjusted items.

6. Operating loss

	2023 £'000	2022 £'000
The operating loss is stated after charging/(crediting):		
Depreciation of property, plant and equipment	13,186	14,529
Depreciation of right of use assets	3,790	3,981
Amortisation of intangible assets	7,688	7,784
Services provided by auditors	830	567
Expenses relating to variable lease payments not included in the measurement of the lease liability	4,818	6,822
Research and development	1,823	1,127
Exchange (gains)/losses	(1,108)	1,331
Cost of raw materials consumed	43,412	62,693
Profit on disposal of fixed assets	(152)	(688)
Other losses – fair value movements on derivative financial instruments	–	381
Adjusted items (see note 5)	5,580	69,419
Impairment of intangible assets	–	66,155
Gain on deemed disposal of JV	(2,419)	–
Restructuring	4,680	2,836
Share based payments	2,520	223
Share based payments - Chief Executive Officer recruitment	45	109
CEO recruitment	300	96
CFO severance & recruitment	454	–

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 were payable to the Group's joint venture, CSC, associated with the Group's right of use of the joint venture's assets. The Group acquired its joint venture, CSC, on 22 September 2023 (note 32).

	2023 £'000	2022 £'000
Services provided by auditors		
Fees payable to the company's auditor and its associates for the audit of the parent company and consolidated financial statements	671	547
Additional fees payable in relation to the audit of the parent company and consolidated financial statements for the year ended 31 December 2022	134	-
Fees payable to the company's auditor and its associates for other services:		
• Audit of the company's subsidiaries	25	20
Total KPMG LLP (group auditors)	**830**	**567**

7. Employee costs

	2023 £'000	2022 £'000
Employee costs (including Directors' remuneration)		
Wages and salaries	33,960	39,410
Social security costs	3,566	4,040
Other pension costs	2,024	1,969
Share based payments	2,565	332
	42,115	**45,751**

	2023 Number	2022 Number
Average number of employees (including Directors)		
Manufacturing	446	531
Selling, general and administrative	131	134
	577	**665**

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 where the relevant disclosures have been highlighted as audited. Audited tables include 'Single total figure of remuneration for Executive Directors' on page 81, 'Scheme interest awarded in 2023' on page 83, 'Exit payments made in the year' on page 84, 'Single total figure of remuneration for Non-Executive Directors' on page 84, and 'Share Options' on page 85.

Key management within the Group comprises members of the Executive Leadership Team and Non-Executive Directors. Compensation to key management in 2023 totalled £4,212,000 (2022: £3,578,000), consisting of emoluments and other benefits in kind of £4,106,000 (2022: £3,409,000) and pension contributions of £106,000 (2022: £169,000). The charge for share based payment awards to key management totalled £1,001,000 (2022: £132,000). A charge for termination costs payable to key management who have left the business totalled £424,000 (2022: £150,000).

8. Finance costs

	2023 £'000	2022 £'000
Bank and other loans	(1,810)	(1,099)
Interest expense on lease liabilities	(1,222)	(1,328)
	(3,032)	**(2,427)**

9. Taxation

Income tax expense	2023 £'000	2022 £'000
Current tax on profits for the year	1,112	89
Total current tax charge	**1,112**	**89**
Origination and reversal of temporary differences	(407)	(713)
Adjustment in respect of prior years	(138)	(238)
Total deferred tax credit	**(545)**	**(951)**
Total tax charge/(credit)	**567**	**(862)**

The tax on the Group's loss before tax differs from the theoretical amount that would arise from applying the standard rate of corporation tax in the UK of 23.5% (2022: 19.0%) as follows:

	2023 £'000	2022 £'000
Loss on ordinary activities before taxation	(28,811)	(75,403)
Tax charge at 23.5% thereon (2022: 19.0%)	6,771	14,327
Effects of:		
Expenses not deductible for tax purposes	(2,366)	(14,105)
Overseas tax rate differences	126	2,262
Tax losses for which no deferred tax asset was recognised	(4,787)	(2,159)
Share option schemes	(449)	(263)
Adjustments in respect of prior years	138	800
Total tax (charge)/credit for the year	**(567)**	**862**

Recognition of deferred tax assets is based on an assessment of future cash flow forecasts and the associated profitability of the Group's operations, an assessment which has restricted the ability of the Group to recognise deferred tax assets for current year UK, US and Singapore trading losses.

Deferred tax asset recognition has been restricted in the UK to reflect future forecast profitability, an assessment that includes the impact of softness in trading forecasts as a result of the industry-wide semiconductor downturn. As a result, lower utilisation of UK deferred tax assets is projected, which has restricted the ability to recognise deferred tax assets for current year losses.

Deferred tax asset recognition has been restricted in the US to reflect future forecast profitability, an assessment that includes the impact of softness in trading forecasts as a result of the industry-wide semiconductor downturn and the Group's consolidation of its US manufacturing operations. As a result, lower utilisation of US deferred tax assets is projected which has restricted the ability to recognise deferred tax assets for current year losses.

Deferred tax asset recognition has been restricted in Singapore due to the closure of the manufacturing site in 2022.

The share option schemes amount shown above represents the change in the expected tax impact on the exercise of options, principally reflecting the reduction in future corporation tax deductions associated with a movement in the number of options where performance criteria are expected to be achieved and a reduction in the Group share price.

The Group's results report certain financial measures after a number of adjusted items with a tax impact of £192,000 (2022: £798,000) as detailed in note 5. The tax impact of adjusted items, excluding share based payments, is £nil due to the restricted recognition of deferred tax assets.

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.

Any closing UK deferred tax asset or liability in the financial statements has been recognised in accordance with the rate enacted as part of the Finance Act 2021 with any timing differences recognised at a corporation tax rate of 25%.

Amounts recognised directly in equity	2023 £'000	2022 £'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	(142)	91
Total tax (charge)/credit to equity for the year	**(142)**	**91**

10. Deferred Taxation

Deferred tax	2023 £'000	2022 £'000
At 1 January	(1,065)	(2,060)
Income statement credit recognised in the year	545	951
Tax charge recognised directly in equity	(142)	91
Exchange differences	58	(47)
At 31 December	**(604)**	**(1,065)**

The amount of deferred tax assets expected to unwind within the next twelve months is £nil (2022: £nil) 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	(Restated)** Right of Use Asset £'000	Accelerated Capital Allowances £'000	Intangibles £'000	(Restated) Total £'000
At 1 January 2022	**(10,699)**	**(11,370)**	**(4,155)**	**(26,224)**
(Charge)/credit to income statement	854	(596)	990	1,248
Exchange differences	(283)	(488)	(18)	(789)
At 31 December 2022	**(10,128)**	**(12,454)**	**(3,183)**	**(25,765)**
(Charge)/credit to income statement	708	968	(29)	1,647
Exchange differences	139	223	42	404
At 31 December 2023 before set-off	**(9,281)**	**(11,263)**	**(3,170)**	**(23,714)**
Set-off of tax*				23,110
At 31 December 2023 after set-off				**(604)**

Deferred tax assets	(Restated) Leases £'000	(Restated) Tax Losses £'000	Other £'000	(Restated) Total £'000
At 1 January 2022	**12,966**	**10,729**	**469**	**24,164**
Charged to income statement	(780)	621	(138)	(297)
Charged to equity	–	–	91	91
Exchange differences	293	448	1	742
At 31 December 2022	**12,479**	**11,798**	**423**	**24,700**
Charged to income statement	(957)	(761)	616	(1,102)
Charged to equity	–	–	(142)	(142)
Exchange differences	(146)	(186)	(14)	(346)
At 31 December 2023 before set-off	**11,376**	**10,851**	**883**	**23,110**
Set-off of tax*				(23,110)
At 31 December 2023 after set-off				**–**

* Deferred tax assets and deferred tax liabilities can only be offset in the statement of financial position if the entity has the legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same taxing authority on the same entity or different entities that intend to realise the asset and settle the liability at the same time.

** 2022 deferred tax balances have been restated to incorporate the amendment to IAS 12 'Income Taxes' that came into effect for periods commencing on or after 1 January 2023. The adjustment to the disclosure has had no impact on the Group's consolidated loss for the year, total net assets or cash position.

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 assesses future forecast taxable profit as probable by reference to its five-year plan, using underlying cash flow forecasts based on those used in the Group's goodwill impairment review. Any potential deferred tax asset assessed by reference to the level of future forecast taxable profit over this five-year period has, in the current year, been restricted to the extent of taxable temporary differences due to the Group's current financial performance and recent history of taxable losses in its UK, US and Singapore operations.

The Group did not recognise deferred tax assets of £52,968,000 (2022: £33,238,000) in respect of tax losses amounting to £228,197,000 (2022: £146,304,000) that can be carried forward against future taxable income. The tax losses include £39,823,000 of tax losses acquired as part of the acquisition of Compound Semiconductor Centre Limited on 22 September 2023 (see note 32). The deferred tax asset can be recognised if sufficient profits from the same trade arise in future periods.

The Group did not recognise deferred tax assets of £1,997,000 (2022: £1,627,000) in respect of carried forward notional tax credits on the R&D Expenditure Credit Scheme in the UK.

Tax losses in the UK totalling £135,278,000 (2022: £75,610,000) have no date of expiry. Tax losses in Singapore totalling £39,713,000 (2022: £31,880,000) 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 £96,858,000 (2022: £96,100,000) losses amounting to £8,525,000 and £1,261,000 expire in 2024 and 2025.

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, as such amounts are permanently reinvested.

A credit of £1,660,000 (2022: £657,000) has been recognised within operating loss 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 2022	–	113	14	127
(Charged)/credited to income statement	744	(40)	(830)	(126)
Charged to equity	–	(1)	–	(1)
At 31 December 2022	**744**	**72**	**(816)**	**–**
(Charged)/credited to income statement	777	19	(794)	2
Charged to equity	–	(2)	–	(2)
At 31 December 2023	**1,521**	**89**	**(1,610)**	**–**

11. Dividends

No dividend has been paid or proposed in 2023 (2022: £nil).

12. Loss per share

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

Diluted loss per share is calculated by dividing the loss 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. The Directors believe that the adjusted earnings per share measure provides a useful comparison of performance and allows 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, non-operational items and significant infrequent items that would distort period on period comparability. The adjustments are detailed in note 5.

	2023 £'000	2022 £'000
Loss attributable to ordinary shareholders	(29,378)	(74,541)
Adjustments to loss after tax (note 5)	5,388	68,621
Adjusted loss attributable to ordinary shareholders	**(23,990)**	**(5,920)**

	2023 Number	2022 Number
Weighted average number of ordinary shares	896,744,318	804,466,357
Dilutive share options	10,155,464	8,797,413
Adjusted weighted average number of ordinary shares	**906,899,782**	**813,263,770**
Adjusted basic loss per share	(2.68p)	(0.74p)
Basic loss per share	(3.28p)	(9.27p)
Adjusted diluted loss per share	(2.68p)	(0.74p)
Diluted loss per share	(3.28p)	(9.27p)

13. Intangible assets

Group	Goodwill £'000	Patents £'000	Development costs £'000	Software £'000	Customer contracts £'000	Total £'000
Cost						
At 1 January 2023	72,128	8,860	92,271	13,882	8,330	195,471
Additions	–	124	2,852	2,643	–	5,619
Acquired through business combination	204	–	–	–	1,490	1,694
Disposals	–	(651)	–	–	(8,029)	(8,680)
Foreign exchange	(4,146)	(15)	(3,461)	(76)	(301)	(7,999)
At 31 December 2023	**68,186**	**8,318**	**91,662**	**16,449**	**1,490**	**186,105**
Accumulated amortisation and impairment						
At 1 January 2023	64,472	7,852	69,303	8,500	8,330	158,457
Charge for the year	–	167	5,996	720	805	7,688
Disposals	–	(651)	–	–	(8,029)	(8,680)
Foreign exchange	(3,685)	(13)	(2,700)	(39)	(301)	(6,738)
At 31 December 2023	**60,787**	**7,355**	**72,599**	**9,181**	**805**	**150,727**
Net book value						
At 31 December 2023	**7,399**	**963**	**19,063**	**7,268**	**685**	**35,378**
At 31 December 2022	7,656	1,008	22,968	5,382	–	37,014

Group	Goodwill £'000	Patents £'000	Development costs £'000	Software £'000	Customer contracts £'000	Total £'000
Cost						
At 1 January 2022	64,293	8,926	83,206	10,332	7,427	174,184
Additions	–	261	3,795	3,422	–	7,478
Disposals	–	(354)	–	–	–	(354)
Foreign exchange	7,835	27	5,270	128	903	14,163
At 31 December 2022	**72,128**	**8,860**	**92,271**	**13,882**	**8,330**	**195,471**
Accumulated amortisation and impairment						
At 1 January 2022	–	7,983	55,262	7,646	7,427	78,318
Charge for the year	–	200	6,767	817	–	7,784
Disposals	–	(354)	–	–	–	(354)
Impairment	62,716	–	3,439	–	–	66,155
Foreign exchange	1,756	23	3,835	37	903	6,554
At 31 December 2022	**64,472**	**7,852**	**69,303**	**8,500**	**8,330**	**158,457**
Net book value						
At 31 December 2022	**7,656**	**1,008**	**22,968**	**5,382**	–	**37,014**
At 31 December 2021	64,293	943	27,944	2,686	–	95,866

Customer contract intangible assets relate to customer contracts acquired as part of business combinations.

The amortisation charge of £7,688,000 (2022: £7,784,000) has been classified within 'selling, general and administrative expenses' in the Consolidated Income Statement. The impairment charge of £nil (2022: £66,155,000) has been classified within 'impairment loss on intangible assets' in the Consolidated Income Statement. Development costs include £2,992,000 (2022: £4,278,000) and Software costs include £6,722,000 (2022: £4,105,000) of assets not subject to amortisation.

Photonics operating segment development cost impairment charges of £3,439,000 in 2022 relate to the impairment of the Group's distributed feedback laser technology development costs. The net book value of the assets were impaired to £nil with the charge recognised in 'selling, general and administrative expenses' in the Consolidated Income Statement in 2022.

Impairment tests for goodwill

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. Corporate assets are allocated to CGUs in proportion to the value of production assets and facilities related to each CGU.

	2023 Cost £'000	**2023 Acquired on business combination £'000**	**2023 Foreign exchange £'000**	**2023 NBV £'000**	2022 Cost £'000	2022 Impairment £'000	2022 Foreign exchange £'000	2022 NBV £'000
Allocation of goodwill by CGU								
Wireless	–	–	–	–	64,138	(62,382)	(1,756)	–
Photonics	7,656	204	(461)	7,399	7,990	(334)	–	7,656
Total Goodwill	**7,656**	**204**	**(461)**	**7,399**	**72,128**	**(62,716)**	**(1,756)**	**7,656**

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% (2022: 2%) in line with The Bank of England's and the US Federal Reserves monetary policy 2% inflation target.

Value in use calculations are based on the Group's latest Board approved 2024 and 2025 forecasts and five-year cash flow forecasts which have been adjusted to exclude the impact of expansionary capital expenditure and certain linked earnings and cash flows. The Group has experienced weaker customer demand and lower customer orders. Revenue assumptions in year 1 reflect an expected improvement in market dynamics and customer demand aligned with external market views with a full market recovery forecast in year 2. Revenue assumptions in the adjusted cash flow projections for years 3, 4 and 5 have typically been extrapolated from year 2 using business segment growth rates that take account of industry trends and external market research.

The calculation of the recoverable amount of each CGU in the value in use calculations is highly sensitive to small changes in the following key assumptions applied in the 2023 cash flow forecast:

2023	**Year 1 %**	**Year 2 %**	**Year 3 %**	**Year 4 %**	**Year 5 %**	**5 Year CAGR %**
Risk adjusted discount rate	18.5%	18.5%	18.5%	18.5%	18.5%	N/A
Photonics revenue growth rate	Adjusted Board approved forecast*	Adjusted Board approved forecast*	8.6%	17.6%	11.9%	20.2%

* Adjusted Board approved forecast relates to the Group's Board approved 2024 budget and latest five year cash flow forecasts adjusted to exclude earnings and cash flows associated with expansionary capital expenditure

2022	Year 1 %	Year 2 %	Year 3 %	Year 4 %	Year 5 %	5 Year CAGR %
Risk adjusted discount rate	18.7%	18.7%	18.7%	18.7%	18.7%	N/A
Photonics growth rate	Adjusted Board approved forecast*	Adjusted Board approved forecast*	39.9%	12.9%	17.9%	13.8%
Wireless growth rate	Adjusted Board approved forecast*	Adjusted Board approved forecast*	12.7%	16.7%	13.4%	10.8%

13. Intangible assets continued

The assumptions and growth rates contained in the Group's value in use calculations have been updated in 2023 to reflect the Board approved 2024 budget and latest five-year cash flow forecasts which have been adjusted to exclude the impact of expansionary capital expenditure and certain linked earnings and cash flows. The updated cashflow forecasts in the current year reflect improvements in market dynamics following the industry wide semiconductor downturn and latest industry trends and external market research. The value in use calculations comprise revenue, material costs and site manufacturing labour and overhead cost forecasts that have been assessed and updated by reference to a combination of customer and supplier specific information and market growth assumptions. The risk adjusted discount rate has been adjusted to reflect the risk associated with the Group's growth forecasts given the current financial performance of the business.

Photonics CGU

The recoverable amount of the Photonics CGU of £138,389,000, determined based on value in use calculations is greater than the carrying amount (£131,899,000) of the associated intangible assets, property, plant and equipment, right of use assets and working capital allocated to the CGU such that no impairment of Photonics CGU assets has been identified.

The Group has carried out a sensitivity analysis on the impairment test for the Photonics CGU, using various reasonably plausible scenarios focused on changes in business segment growth rates, direct wafer product margins and changes in the discount rate applied in the value in use calculations.

- Growth rates in the value in use calculations take account of continuing market demand for compound semiconductors and associated technology advancement, driven by macro trends of 5G and connected devices, and the increasing proliferation of 3D and advanced sensing end user applications that require enabling compound semiconductor material. If the aggregated compound annual revenue growth rate used in the value in use calculations to determine the recoverable amount was to decrease by 1.0%, the magnitude of the adverse impact on the recoverable amount of Photonics CGU non-current assets would be £16,868,000.
- If direct wafer product margins for all products used in the value in use calculations to determine the recoverable amount were reduced by 1.0%, the magnitude of the adverse impact on the Photonics CGU impairment would be £16,162,000.
- If the discount rate used in the value in use calculations to determine the recoverable amount was to increase by 0.5%, the magnitude of the adverse impact on the recoverable amount of Photonics CGU non-current assets would be £5,206,000.

Company	Patents £'000	Software £'000	Total £'000
Cost			
At 1 January 2023	7,715	5,000	12,715
Additions	124	2,643	2,767
At 31 December 2023	**7,839**	**7,643**	**15,482**
Accumulated amortisation			
At 1 January 2023	6,782	618	7,400
Charge for the year	211	207	418
At 31 December 2023	**6,993**	**825**	**7,818**
Net book value			
At 31 December 2023	**846**	**6,818**	**7,664**
At 31 December 2022	933	4,382	5,315

Company	Patents £'000	Software £'000	Total £'000
Cost			
At 1 January 2022	7,454	1,578	9,032
Additions	261	3,422	3,683
At 31 December 2022	**7,715**	**5,000**	**12,715**
Accumulated amortisation			
At 1 January 2022	6,614	475	7,089
Charge for the year	168	143	311
At 31 December 2022	**6,782**	**618**	**7,400**
Net book value			
At 31 December 2022	**933**	**4,382**	**5,315**
At 31 December 2021	840	1,103	1,943

14. Property, plant and equipment

Group	Land and buildings £'000	Short leasehold improvements £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 January 2023	18,916	35,550	15,705	210,513	280,684
Additions	–	3,534	1,876	13,812	19,222
Acquired through business combination	–	–	37	3,493	3,530
Transfer to assets held for resale (note 19)	(5,086)	–	–	–	(5,086)
Other transfers	–	672	–	(3,355)	(2,683)
Disposals	–	–	(174)	(2,722)	(2,896)
Foreign exchange	(466)	(1,868)	(763)	(9,169)	(12,266)
At 31 December 2023	**13,364**	**37,888**	**16,681**	**212,572**	**280,505**
Accumulated depreciation					
At 1 January 2023	7,720	21,408	7,712	116,789	153,629
Charge for the year	941	2,997	940	8,308	13,186
Transfer to assets held for resale (note 19)	(2,812)	–	–	–	(2,812)
Other transfers	–	–	–	(3,191)	(3,191)
Disposals	–	–	(174)	(2,321)	(2,495)
Foreign exchange	(144)	(1,017)	(317)	(5,887)	(7,365)
At 31 December 2023	**5,705**	**23,388**	**8,161**	**113,698**	**150,952**
Net book value					
At 31 December 2023	**7,659**	**14,500**	**8,520**	**98,874**	**129,553**
At 31 December 2022	11,196	14,142	7,993	93,724	127,055

Property, plant and equipment includes assets in the course of construction with a net carrying value of £28,983,000 (2022: £21,091,000).

Group	Land and buildings £'000	Short leasehold improvements £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 January 2022	18,507	38,347	13,272	202,842	272,968
Additions	26	100	2,159	10,155	12,440
Disposals	–	(6,671)	(56)	(15,997)	(22,724)
Foreign exchange	383	3,774	330	13,513	18,000
At 31 December 2022	**18,916**	**35,550**	**15,705**	**210,513**	**280,684**
Accumulated depreciation					
At 1 January 2022	6,621	23,457	6,538	106,622	143,238
Charge for the year	952	2,623	1,005	9,949	14,529
Disposals	–	(6,671)	(57)	(9,481)	(16,209)
Foreign exchange	147	1,999	226	9,699	12,071
At 31 December 2022	**7,720**	**21,408**	**7,712**	**116,789**	**153,629**
Net book value					
At 31 December 2022	**11,196**	**14,142**	**7,993**	**93,724**	**127,055**
At 31 December 2021	11,886	14,890	6,734	96,220	129,730

Other transfers relate to a reclassification of inventory to tangible fixed assets of £508,000 (2022: £nil) and reclassifications between cost and accumulated depreciation totalling £3,191,000 (2022: £nil) within short leasehold improvements and plant and machinery. The reclassifications have had no impact on net assets, loss after tax or total cash flow for 2023.

Company	Fixtures and fittings £'000
Cost	
At 1 January 2023	538
Additions	3
Disposals	(351)
At 31 December 2023	**190**
Accumulated depreciation	
At 1 January 2023	149
Charge for the year	24
Disposals	–
At 31 December 2023	**173**
Net book value	
At 31 December 2023	**17**
At 31 December 2022	389

Company	Fixtures and fittings £'000
Cost	
At 1 January 2022	241
Additions	395
Disposals	(98)
At 31 December 2022	**538**
Accumulated depreciation	
At 1 January 2022	134
Charge for the year	15
Disposal	–
At 31 December 2022	**149**
Net book value	
At 31 December 2022	**389**
At 31 December 2021	107

15. Right of use assets

Group	Land and buildings £'000	Fixtures and Fittings £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2023	55,064	26	782	55,872
Additions	798	62	–	860
Disposals	–	(4)	–	(4)
Foreign exchange	(884)	(3)	(47)	(934)
At 31 December 2023	**54,978**	**81**	**735**	**55,794**
Accumulated depreciation				
At 1 January 2023	13,856	12	572	14,440
Charge for the year	3,620	10	160	3,790
Disposals	–	(4)	–	(4)
Foreign exchange	(288)	(1)	(38)	(327)
At 31 December 2023	**17,188**	**17**	**694**	**17,899**
Net book value				
At 31 December 2023	**37,790**	**64**	**41**	**37,895**
At 31 December 2022	41,208	14	210	41,432

Group	Land and buildings £'000	Fixtures and Fittings £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2022	60,849	23	729	61,601
Disposals	(8,230)	–	(21)	(8,251)
Foreign exchange	2,445	3	74	2,522
At 31 December 2022	**55,064**	**26**	**782**	**55,872**
Accumulated depreciation				
At 1 January 2022	16,970	5	359	17,334
Charge for the year	3,782	6	193	3,981
Disposals	(8,166)	–	(21)	(8,187)
Foreign exchange	1,270	1	41	1,312
At 31 December 2022	**13,856**	**12**	**572**	**14,440**
Net book value				
At 31 December 2022	**41,208**	**14**	**210**	**41,432**
At 31 December 2021	43,879	18	370	44,267

16. Investments

Company	Investments in subsidiaries £'000	Total £'000
Cost		
At 1 January 2023	124,458	124,458
Subsidiaries share based payments charge	1,548	1,548
At 31 December 2023	**126,006**	**126,006**
Provisions for impairment		
At 1 January 2023	48,210	48,210
Impairment charge	17,627	17,627
At 31 December 2023	**65,837**	**65,837**
Net book value		
At 31 December 2023	**60,169**	**60,169**
At 31 December 2022	76,248	76,248

Company	Investments in subsidiaries £'000	Total £'000
Cost		
At 1 January 2022	124,279	124,279
Subsidiaries share based payments charge	179	179
At 31 December 2022	**124,458**	**124,458**
Provisions for impairment		
At 1 January 2022	48,210	48,210
At 31 December 2022	**48,210**	**48,210**
Net book value		
At 31 December 2022	**76,248**	**76,248**
At 31 December 2021	76,069	76,069

Details of the company's subsidiaries are set out in note 30.

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.

The Group's value in use calculations prepared as part of the Group's goodwill impairment review has identified an impairment trigger event (2022: none) for the Company's investment in its sub-group, headed by Wafer Technology International Limited, where current and forecast future financial performance has declined. The decline in forecast future profitability, assessed by reference to the Group's value in use cash flow forecasts has resulted in a £15,239,000 impairment in the Company's investment in its Wafer Technology sub-group. There has also been an impairment trigger event for the Company's investment in its sub-group, headed by EPI Holdings Limited. This has occurred as a result of the subsidiary, IQE (Europe) Limited, becoming a primarily R&D focused site leading to a decline in future profitability and an impairment of £2,388,000 of the investment in the EPI Holdings sub-group.

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 (2022: none).

17. Inventories

Group	2023 £'000	2022 £'000
Raw materials and consumables	17,796	24,800
Work-in-progress and finished goods	6,781	9,361
	24,577	**34,161**

The Directors are of the opinion that the replacement values of inventories are not materially different to the carrying values stated above. The carrying values are stated net of impairment provisions of £13,638,000 (2022: £14,233,000). £522,000 (2022: £2,811,000) of inventories were written down during 2023 and an expense recognised in the income statement.

Included in inventory is consignment stock bespoke to individual customer of £nil (2022: £1,052,000).

18. Trade and other receivables

Current	2023 Group £'000	2023 Company £'000	2022 Group £'000	2022 Company £'000
Trade receivables	15,421	–	21,638	–
Other receivables	2,894	121	3,143	173
Contract assets	16,349	–	17,898	–
Prepayments	3,556	2,096	2,149	432
	38,220	**2,217**	**44,828**	**605**

Non-current	2023 Group £'000	2023 Company £'000	2022 Group £'000	2022 Company £'000
Amounts owed by group undertakings	–	165,422	–	135,464
	–	**165,422**	**–**	**135,464**

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 contract assets from 2022, excluding a balance of £1,202,000, have been transferred to receivables during 2023.

Amounts owed by Group undertakings are unsecured and repayable on demand. Interest is charged at a rate of 5% per annum (2022: 5% per annum).

The estimated fair values of trade receivables, other receivables, contract assets and amounts owed by group undertakings are set out in note 23.

19. Assets held for resale

Current	2023 Group £'000	2023 Company £'000	2022 Group £'000	2022 Company £'000
Freehold property held for resale	2,274	–	–	–
	2,274	**–**	**–**	**–**

In September 2020, management committed to a plan to close the Group's Pennsylvania manufacturing facility and consolidate the trade and assets into its North Carolina manufacturing site by 2024. Manufacturing activity at the Pennsylvania site ceased in 2023 and management has now committed to a plan to sell the site and associated freehold property following completion of all site decommissioning activities. Efforts to sell the freehold property have started and a sale is expected in 2024.

20. Trade and other payables

Current	2023 Group £'000	2023 Company £'000	2022 Group £'000	2022 Company £'000
Trade payables	15,243	1,306	17,007	1,704
Amounts owed by group undertakings	–	24,068	–	23,272
Other taxation and social security	377	70	206	282
Other payables	11,137	3,195	5,747	3,195
Accruals and deferred income	15,750	8,554	14,585	1,300
Deferred consideration	65	–	–	–
	42,572	**37,193**	**37,545**	**29,753**

Accruals and deferred income include contract liabilities of £618,000 (2022: £1,454,000).

Amounts owed to group undertakings are unsecured and repayable on demand. Interest is charged at a rate of 5% per annum (2022: 5% per annum).

Non-Current	2023 Group £'000	2023 Company £'000	2022 Group £'000	2022 Company £'000
Deferred consideration	2,208	–	–	–
	2,208	**–**	**–**	**–**

Deferred consideration of £2,273,000 (2022: £nil) is payable to Cardiff University in relation to the acquisition of CSC in instalments over a period up to 1 January 2029 (see note 32).

21. Borrowings

	2023 Group £'000	2023 Company £'000	2022 Group £'000	2022 Company £'000
Non-current borrowings				
Bank borrowings	3,692	3,692	20,643	16,529
Lease liabilities	40,435	–	46,026	–
	44,127	**3,692**	**66,669**	**16,529**
Current borrowings				
Bank borrowings	4,153	857	6,225	–
Lease liabilities	5,865	–	4,843	–
	10,018	**857**	**11,068**	**–**
Total borrowings	**54,145**	**4,549**	**77,737**	**16,529**

Bank Borrowings	2023 Group £'000	2023 Company £'000	2022 Group £'000	2022 Company £'000
Bank borrowings fall due for repayment as follows				
Within one year	4,153	857	6,225	–
Between one and five years	3,692	3,692	20,643	16,529
	7,845	**4,549**	**26,868**	**16,529**

On 17 May 2023, the Company refinanced its £27,300,000 ($35,000,000) multi-currency revolving credit facility, provided by HSBC Bank plc. The refinancing has been treated as a debt modification. The facility is secured on the assets of IQE plc and its subsidiary companies with a committed term to 1 May 2026. Interest on the facility is payable at a margin of between 2.50 and 3.50 per cent per annum over SONIA on any drawn balances and the facility is subject to quarterly leverage and interest cover covenants tests which commenced at 31 December 2023. The facility was £3,937,000 ($5,047,000) utilised at 31 December 2023 (2022: £16,529,000).

On 29 August 2019 a subsidiary of the Group agreed a new £30,000,000 asset finance facility, provided by HSBC Bank plc, which 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.

The Group's bank facilities provided by HSBC Bank plc are subject to certain leverage and interest cover financial covenants. The Group has complied with all the financial covenants of its borrowing facilities during 2023 and 2022.

21. Borrowings continued

Lease liabilities	2023 £'000	2022 £'000
Lease liabilities fall due for repayment as follows		
Within one year	5,865	4,843
Between one and five years	36,007	15,056
After five years	4,428	30,970
	46,300	**50,869**

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default. Lease liabilities principally relate to property.

22. Provisions for other liabilities and charges

Group	Restructuring £'000	Onerous Contract £'000	Warranty Provision £'000	Other £'000	2023 Total £'000	Restructuring £'000	Onerous Contract £'000	Warranty Provision £'000	Other £'000	2022 Total £'000
As at 1 January	1,252	1,332	898	150	3,632	3,434	1,702	–	–	5,136
Charged to the income statement	1,132	–	467	–	1,599	2,868	–	31	150	3,049
Transfers*	–	–	–	–	–	265	–	854	–	1,119
Utilised during the year	(735)	(413)	(164)	(150)	(1,462)	(5,694)	(370)	(9)	–	(6,073)
Foreign exchange	1	(53)	(48)	–	(100)	379	–	22	–	401
As at 31 December	**1,650**	**866**	**1,153**	**–**	**3,669**	**1,252**	**1,332**	**898**	**150**	**3,632**

* Transfers in 2022 relate to £265,000 of restructuring provisions reclassified from accruals and £854,000 of warranty provisions reclassified from trade receivables within the year.

Group	Restructuring £'000	Onerous Contract £'000	Warranty Provision £'000	Other £'000	2023 Total £'000	Restructuring £'000	Onerous Contract £'000	Warranty Provision £'000	Other £'000	2022 Total £'000
Current	1,650	195	1,153	–	2,998	162	415	898	150	1,625
Non-current	–	671	–	–	671	1,090	917	–	–	2,007
Total	**1,650**	**866**	**1,153**	**–**	**3,669**	**1,252**	**1,332**	**898**	**150**	**3,632**

The restructuring provision relates to costs relating to the announced closure of the Group's manufacturing facility in Pennsylvania, USA and the Group's manufacturing facility in Singapore.

- The restructuring provision of £1,608,000 (2022: £1,090,000) associated with the announced closure of the Group's manufacturing facility in the USA relates to employee related costs that are expected to be utilised over a period up to 31 March 2024.
- The restructuring provision of £42,000 (2022: £162,000) associated with the closure of the Group's manufacturing facility in Singapore relates to employee related costs of £nil (2022: £54,000) and site closure costs of £42,000 (2022: £108,000) that are expected to be utilised over a period up to 30 June 2024.

The onerous contract provision represents the cost of minimum guaranteed future royalty payments associated with cREO™ technology acquired from Translucent Inc that is no longer being commercialised. The onerous contract provision is expected to be utilised over a period up to 28 February 2027.

The warranty provision relates to the costs of expected returns under warranty that are expected to be utilised over a period up to 30 June 2024.

The other provision in 2022 related to a charge for termination costs payable to a member of key management who left the business in early 2023.

Company	Onerous Contract £'000	Other £'000	2023 £'000	Onerous Contract £'000	Other £'000	2022 £'000
As at 1 January	1,332	150	1,482	1,702	–	1,702
Charged to the income statement	–	–	–	–	150	150
Utilised during the year	(413)	(150)	(563)	(370)	–	(370)
Foreign exchange	(53)	–	(53)	–	–	–
As at 31 December	**866**	**–**	**866**	**1,332**	**150**	**1,482**

Company	2023 £'000	2022 £'000
Current	195	573
Non-current	671	909
As at 31 December	**866**	**1,482**

The onerous contract provision represents the cost of minimum guaranteed future royalty payments associated with the cREO™ technology acquired from Translucent Inc. The onerous contract provision is expected to be utilised over a period up to 28 February 2027.

The other provision in 2022 related to a charge for termination costs payable to a member of key management who left the business in early 2023.

23. 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. Financial instruments are classified as level 2 per the fair value hierarchy.

Derivatives (forward exchange contracts) are classified as derivatives used for hedging and accounted for at fair value through profit and loss in 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 and contract assets due 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.

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.

Trade receivables and contract assets

The credit quality of trade receivables and contract assets that are not impaired have been assessed based on historical information about the counterparty default rate.

23. Financial Instruments continued

Cash at bank

The credit quality of cash has been assessed by reference to external credit ratings based on reputable credit agencies' long-term issuer ratings. The Group has cash at bank balances totalling £5,617,000 (2022: £10,486,000) with banks with A1 credit ratings and cash at bank balances totalling £nil (2022: £1,134,000) with A2 credit 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	2023 Group £'000	2023 Company £'000	2022 Group £'000	2022 Company £'000
Carrying amount				
Cash and cash equivalents	5,617	–	11,620	2,436
Trade receivables	15,421	–	21,638	–
Amounts owed by group undertakings	–	165,422	–	135,464
Other receivables excluding prepayments	19,243	121	21,041	173
	40,281	**165,543**	**54,299**	**138,073**

Included in other receivables are contract assets of £16,396,000 (2022: £17,898,000).

The Group is exposed to credit concentration risk with its two (2022: three) largest customers which represent 32% (2022: 46%) 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. Events of default have been limited and when incurred principally relate to smaller independent customers. The Group monitors customer credit ratings and has experienced low levels of defaults in the past.

Group	Gross 2023 £'000	Provision 2023 £'000	Net 2023 £'000	Gross 2022 £'000	Provision 2022 £'000	Net 2022 £'000
Not past due	11,319	–	11,319	15,933	–	15,933
Past due 0-30	3,202	–	3,202	4,621	–	4,621
Past due more than 30	2,065	(800)	1,265	3,797	(2,713)	1,084
	16,586	**(800)**	**15,786**	**24,351**	**(2,713)**	**21,638**

Allowance for bad and doubtful debt	2023 £'000	2022 £'000
At 1 January	2,713	415
(Credited)/charged to the income statement	(1,808)	2,300
Utilised during the year	–	–
Foreign exchange	(105)	(2)
	800	2,713

As at 31 December 2023, 68% (2022: 65%) of trade receivables were within terms. Of the other trade receivables, 61% (2022: 55%) were less than 30 days past due. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £800,000 (2022: £2,713,000). 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 limiting the exposure of the Group to movements in foreign exchange rates. Based on the balances held at 31 December 2023 a one cent movement in the US dollar to Sterling rate would impact the net value of these instruments by £115,000 (2022: £142,000).

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 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 £28,363,000 (2022: £17,295,000).

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

Contractual cash flow maturities – Other financial liabilities at amortised cost 31 December 2023	**Group Carrying amount £'000**	**Group Contractual Cash flows £'000**	**Group Less than 12 months £'000**	**Group 1–2 Years £'000**	**Group 2–5 Years £'000**	**Group 5+ Years £'000**
Trade and other payables	28,653	29,294	26,570	350	1,813	561
Accruals	15,750	15,750	15,750	–	–	–
Bank borrowings	7,845	8,214	4,277	–	3,937	–
Lease liabilities	46,300	50,882	6,115	5,998	34,728	4,041
	98,548	**104,140**	**52,712**	**6,348**	**40,478**	**4,602**

Included in accruals are contract liabilities of £618,000 (2022: £1,454,000).

Contractual cash flow maturities – Other financial liabilities at amortised cost 31 December 2022	Group Carrying amount £'000	Group Contractual Cash flows £'000	Group Less than 12 months £'000	Group 1–2 Years £'000	Group 2–5 Years £'000	Group 5+ Years £'000
Trade and other payables	22,754	22,754	22,754	–	–	–
Accruals	14,585	14,585	14,585	–	–	–
Bank borrowings	26,868	26,950	6,250	20,700	–	–
Lease liabilities	50,869	56,437	6,069	6,065	18,038	26,265
	115,076	**120,726**	**49,658**	**26,765**	**18,038**	**26,265**

Contractual cash flow maturities – Other financial liabilities at amortised cost 31 December 2023	**Company Carrying amount £'000**	**Company Contractual Cash flows £'000**	**Company Less than 12 months £'000**	**Company 1–2 Years £'000**	**Company 2–5 Years £'000**	**Company 5+ Years £'000**
Trade and other payables	4,571	4,571	4,571	–	–	–
Amounts owed to group undertakings	24,068	24,068	24,068	–	–	–
Bank borrowings	3,692	3,937	–	3,937	–	–
Accruals	8,554	8,554	8,554	–	–	–
	40,885	**41,130**	**37,193**	**3,937**	**–**	**–**

Contractual cash flow maturities – Other financial liabilities at amortised cost 31 December 2022	Company Carrying amount £'000	Company Contractual Cash flows £'000	Company Less than 12 months £'000	Company 1–2 Years £'000	Company 2–5 Years £'000	Company 5+ Years £'000
Trade and other payables	4,899	4,899	4,899	–	–	–
Amounts owed to group undertakings	23,272	23,272	23,272	–	–	–
Bank borrowings	16,529	16,529	–	16,529	–	–
Accruals	1,300	1,300	1,300	–	–	–
	46,000	**46,000**	**29,471**	**16,529**	**–**	**–**

23. Financial Instruments continued

Financial risk management

Market risk – Foreign Exchange Risk

The Group operates internationally with operations in the United Kingdom, United States of America and Taiwan, and is exposed to foreign exchange risk arising from various currency exposures, primarily relating to fluctuations in exchange rates between UK sterling, US dollars and Taiwanese dollars. The Group's presentational currency is sterling and foreign exchange risk arises from a combination of future commercial transactions, recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity and net investments in the Group's foreign operations.

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 US dollar and UK Sterling and Taiwanese dollar exchange rates given that the Group is required to fund certain costs at its operations in the United Kingdom and Taiwan in local currencies. Foreign exchange risk of this nature is managed using a combination of the natural currency hedge within the Group's operating model given that a significant proportion of the Group's costs, including the purchase of certain key raw materials, are denominated in US dollars, and via the use of derivative foreign currency forward exchange contracts.

Derivative foreign currency forward exchange contracts are only used for economic hedging purposes and not as speculative investments. Derivative foreign currency forward exchange contracts that do not meet the hedge accounting criteria are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. These derivative instruments are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period. As at 31 December 2023, the fair value of foreign currency forward exchange contracts held for trading was £nil (2022: £381,000 liability). The foreign currency forward exchange contracts are classified as Level 2 financial instruments. The fair value of Level 2 financial instruments has been determined using observable market data based on quoted market prices or market quotes for similar instruments. If all significant inputs required to fair value the instrument are observable, the instrument is included in level 2. The group's accounting policy for its cash flow hedges is set out in note 2.19.

The Group has certain investments in foreign operations in North America and Taiwan, 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 £161,000 (2022: £665,000).

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. Historically, the Group has not undertaken any hedging activity in this area, although the Board keeps this under regular review.

The Group's interest rate risk arises from its cash and cash equivalents and from its bank borrowings. Cash and cash equivalents, including foreign currency cash deposits, earn interest at prevailing variable market rates of interest.

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 £4,169,000 (2022: £10,416,000) 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 and commenced 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 £3,937,000 ($5,047,000) (2022: $20,000,000 (£16,393,000)) utilised at 31 December 2023, has a committed term to 17 May 2026. Interest on the facility is payable at a margin of between 2.50 and 3.50 percent per annum over SONIA.

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 0% (2022: 0%) and 21% (2022: 54%) respectively.

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 2023, would impact annual interest income by approximately £nil (2022: £nil). A 50-basis point (0.5%) movement in interest rates on the interest-bearing liabilities held at 31 December 2023 would impact annual interest costs by approximately £39,000 (2022: £134,000).

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 2023 was £218,313,000 (2022: £241,558,000). The Group monitors capital on the basis of a gearing ratio. The gearing ratio is calculated as net debt divided by total capital and at 31 December 2023 was 22.2% (2022: 27.5%).

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

Fair values

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

Group	**2023 Carrying amount £'000**	**2023 Fair value £'000**	2022 Carrying amount £'000	2022 Fair value £'000
Cash and cash equivalents	5,617	5,617	11,620	11,620
Trade receivables	15,421	15,421	21,638	21,638
Other receivables	2,894	2,894	3,143	3,143
Contract assets	16,349	16,349	17,898	17,898
Financial Assets (Preference share receivables)	–	–	–	163
Trade and other payables	(28,653)	(28,653)	(22,754)	(22,754)
Bank borrowings	(7,845)	(7,845)	(26,868)	(26,898)
Derivative financial instruments	–	–	(381)	(381)
	3,783	**3,783**	**4,296**	**4,429**

Company	**2023 Carrying amount £'000**	**2023 Fair value £'000**	2022 Carrying amount £'000	2022 Fair value £'000
Cash and cash equivalents	–	–	2,436	2,436
Amounts owed by group undertakings	165,422	165,422	135,464	135,464
Other receivables	121	121	173	173
Amounts owed to group undertakings	(24,068)	(24,068)	(23,272)	(23,272)
Trade and other payables	(4,501)	(4,501)	(4,899)	(4,899)
Derivative financial instruments	–	–	(381)	(381)
	136,974	**136,974**	**109,521**	**109,521**

23. Financial Instruments continued

Basis for determining fair value

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

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.

Financial Assets (Preference share receivables)

The fair value of preference share receivables was calculated in 2022 by reference to assumptions about forecast future financial performance of CSC and the associated level of expected credit losses.

Amounts owed by group undertakings

Amounts owed by group undertakings are long-term assets with a remaining life of greater than one year with outstanding balances accruing interest at a rate of 5% per annum 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.

Bank borrowings

The carrying value of bank borrowings is deemed to reflect fair value as interest payable on bank borrowings is charged at a variable rate assessed as close to current market rates.

Derivative financial instruments

The fair value of derivative foreign currency forward exchange contracts was determined using observable market data based on quoted market prices or market quotes for similar instruments.

24. Share capital

Group and Company	2023 Number of shares	2023 £'000	2022 Number of shares	2022 £'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	961,518,692	9,615	804,841,965	8,048

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

	2023 Number	2022 Number
At 1 January	804,841,965	803,555,756
Employee share schemes	1,183,997	702,500
Chief Executive Officer's starting bonus – share award	–	583,709
Placing	150,000,000	–
Retail offer	5,492,730	–
At 31 December	**961,518,692**	**804,841,965**

156,676,727 ordinary shares (2022: 1,286,209 ordinary shares) were issued during the year as follows:

	2023 Number of shares	2023 Consideration	2022 Number of shares	2022 Consideration
Employee share schemes	1,183,997	1.0p–23.0p	702,500	1.0p–23.0p
Chief Executive Officer's starting bonus – share award	–	–	583,709	1.0p
Placing	150,000,000	20.0p	–	–
Retail offer	5,492,730	20.0p	–	–
	156,676,727		**1,286,209**	

The share premium arising from consideration received from employee share scheme exercises and the Chief Executive Officer's starting bonus share award was £129,000 (2022: £88,000).

On 17 May 2023, IQE plc raised funds by way of a Placing and a Retail Offer to all existing shareholders. In each case these were offered at an issue price of 20 pence per share (the 'Issue Price'). The Placing utilised a cashbox structure and therefore the premium on the ordinary shares and associated costs, in accordance with section 612 of the Companies Act 2006, were initially recognised within the merger reserve (incorporated within 'Other reserves'). The investment in the newly incorporated subsidiary utilised within the cashbox structure has been dissolved in the period and the merger reserve has subsequently been transferred into retained earnings as it is determined to be distributable in accordance with the Companies Act 2006. The Placing and Retail Offer raised net funds of £29,708,000 from the issue of 155,492,730 ordinary shares.

25. Share based payments

The total amount charged to the income statement in 2023 in respect of share based payments was £2,565,000 (2022: £332,000).

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 one 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.

25. Share based payments continued

Employees

Long-term incentive awards become exercisable between one and ten years from the date of grant, subject to continued employment and for awards prior to 2022 the achievement of performance conditions relating to a combination of:

- growth in earnings per share targets over a three-year vesting period that cannot be extended;
- growth in earnings per share and total shareholder return targets over a three-year vesting period that cannot be extended; and
- achievement of strategic group wide and personal objectives.

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 either the market value of the shares under option at the date of grant or 1p. Options become exercisable between one and ten years from the date of grant, subject to continued employment and for awards prior to 2022 the achievement of performance conditions, including growth in adjusted 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	2023	2022
Weighted average share price at grant date	31.85	41.22
Weighted average exercise price	2.33	4.41
Weighted average vesting period (years)	2	3
Option life (years)	10	10
Weighted average expected life (years)	2	3
Weighted average expected volatility factor	68%	73%
Weighted average risk-free rate	3.2%	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 2023 was £3,821,000 (2022: £4,803,000).

The weighted average fair value of long-term incentive awards granted during the year ended 31 December 2023 was 17.1p (2022: 33.8p).

The movements on long-term incentive awards and share options during the year were as follows:

	2023 Number of options	**2023 Average exercise price (pence)**	2022 Number of options	2022 Average exercise price (pence)
At 1 January	28,970,530	4.41p	24,408,115	5.99p
Granted	22,427,892	1.00p	14,213,210	1.00p
Exercised	(1,183,997)	11.88p	(699,694)	14.05p
Cancelled/lapsed	(11,544,609)	3.97p	(8,951,101)	2.59p
At 31 December	**38,669,816**	**2.33p**	**28,970,530**	**4.41p**

The weighted average share price at the date share options were exercised was 31.0p (2022: 36.0p).

As at 31 December 2023, the total number of long-term incentive awards and share options held by employees was 38,669,816 (2022: 28,970,530) as follows:

Option price pence/share	**Option period ending**	**2023 Number of options**	2022 Number of options
1.00p – 27.75p	31 December 2023	–	3,511,811
1.00p – 23.83p	31 December 2024	2,247,373	2,840,474
18.42p – 25.17p	31 December 2025	2,798,180	3,871,827
1.00p – 37.92p	31 December 2026	7,493,226	193,500
1.00p – 169.50p	31 December 2027	300,000	362,500
1.00p – 143.30p	31 December 2028	45,000	240,000
1.00p – 125.00p	31 December 2029	2,500	7,500
1.00p	31 December 2030	–	4,655,709
1.00p	31 December 2031	2,487,464	3,301,783
1.00p	31 December 2032	8,984,712	9,985,426
1.00p	31 December 2033	14,311,361	–
At 31 December		**38,669,816**	**28,970,530**

26. 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 £11,762,000 (2022: £9,297,000 loss).

27. Cash generated from operations

Group	2023 £'000	2022 £'000
Loss before tax	(28,811)	(75,403)
Finance costs	3,032	2,427
Depreciation of property, plant and equipment	13,186	14,529
Depreciation of right of use assets	3,790	3,981
Amortisation of intangible assets	7,688	7,784
Impairment of intangible assets	–	66,155
Inventory write downs (note 17)	522	2,811
Non-cash movement on trade receivable expected credit losses (note 23)	(1,808)	2,300
Non-cash provision movements	1,599	3,049
Gain on deemed disposal of JV	(2,419)	–
Profit on disposal of fixed assets	(152)	(688)
Share based payments	2,565	332
Cash (outflow)/inflow from operations before changes in working capital	**(808)**	**27,277**
Decrease/(increase) in inventories	7,503	(2,904)
Decrease/(increase) in trade and other receivables	6,601	(5,534)
Decrease in trade and other payables	(1,760)	(3,893)
Decrease in provisions	(1,462)	(6,073)
Cash inflow from operations	**10,074**	**8,873**

Company	2023 £'000	2022 £'000
Loss before tax	(11,764)	(9,171)
Finance income	(6,649)	(5,748)
Finance costs	1,222	595
Foreign exchange	(813)	2,464
Depreciation of property, plant and equipment	24	15
Amortisation of intangible assets	418	311
Impairment of investments	17,627	–
Non-cash movement on trade receivable expected credit losses	(6,814)	15,494
Share based payments	963	123
Cash (outflow)/inflow from operations before changes in working capital	**(5,786)**	**4,083**
Increase in trade and other receivables	(19,199)	(12,406)
Increase/(decrease) in trade and other payables	7,532	(2,681)
Cash outflow from operations	**(17,453)**	**(11,004)**

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

	2023 £'000	2022 £'000
Decrease in cash in the year	(5,409)	(53)
Increase in borrowings	(9,932)	(15,814)
Repayment of borrowings	28,363	6,256
Repayment of leases	4,787	4,926
Net movement resulting from cash flows	**17,809**	**(4,685)**
Net debt at 1 January	**(66,498)**	**(60,191)**
Net movement resulting from cash flows	17,809	(4,685)
Net movement on fair value of derivative instruments	381	(381)
Other non-cash movements	(220)	(1,241)
Net debt at 31 December	**(48,528)**	**(66,498)**

Other non-cash movements include £860,000 of lease additions (2022: £64,000 lease disposals) and the impact of foreign exchange of £639,000 (2022: £1,305,000).

29. Analysis of net debt

	At 1 January 2023 £'000	Cash flow £'000	Other non-cash movements £'000	At 31 December 2023 £'000
Bank borrowings due after one year	(20,643)	(9,932)	26,883	(3,692)
Bank borrowings due within one year	(6,225)	28,363	(26,291)	(4,153)
Lease liabilities due after one year	(46,026)	–	5,591	(40,435)
Lease liabilities due within one year	(4,843)	4,787	(5,809)	(5,865)
Total borrowings	(77,737)	23,218	374	(54,145)
Fair value of derivative instruments	(381)	–	381	–
Cash and cash equivalents	11,620	(5,409)	(594)	5,617
Net debt	**(66,498)**	**17,809**	**161**	**(48,528)**

Cash and cash equivalents at 31 December 2023 and 31 December 2022 comprised balances held in instant access bank accounts and other short-term deposits with a maturity of less than 3 months.

Other non-cash movements include £860,000 of lease additions (2022: £64,000 lease disposals) and the impact of foreign exchange of £639,000 (2022: £1,305,000).

Notes to the financial statements continued

for the year ended 31 December 2023

30. 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	100%	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%	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 Holdings 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%	Holding company	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
Compound Semiconductor Centre Limited	Preferred A and B shares of £1 Ordinary shares of £1	100%*	Research, development and manufacture of semiconductor materials	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK

* Indirect holdings

The proportion of voting rights of subsidiaries held by the Group is the same as the proportion of shares held. All UK subsidiaries are exempt from the requirements to file audited financial statements by virtue of section 479A of the Companies Act 2006. In adopting the exemption, IQE plc has provided a statutory guarantee to these subsidiaries in accordance with section 479C of the Companies Act 2006.

IQE (Jersey) Limited was incorporated as part of the cashbox structure utilised within the equity fund raise during the year (see note 24). The wholly owned subsidiary was dissolved within the year.

31. Joint Venture

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 established that the CSC was jointly controlled by the shareholders, who had an equal share of the voting rights, such that the Group's investment in the joint venture was accounted for using the equity method in accordance with the accounting policies set out in note 2.

On 22 September 2023, the Group acquired the shareholdings of Cardiff University in CSC taking control of the business and increasing its equity ownership to 100%. The Group's investment in CSC has been consolidated with CSC treated as a subsidiary from the date of acquisition of Cardiff University's shareholding (see note 32).

Summary financial information for CSC is set out below. The information for 2023 includes the results of CSC only for the period from 1 January to 22 September 2023 because from the 22 September 2023 CSC became a subsidiary of the Group.

Summary information for Compound Semiconductor Centre Limited

£'000	**1 January to 22 September 2023 £'000**	2022 £'000
Revenue	6,516	8,519
EBITDA	9	12
Loss from continuing operations	(1,356)	(1,778)
Loss for the period	(1,356)	(1,778)
Total comprehensive expense for the period	**(1,356)**	**(1,778)**

Summary balance sheet	2022 £'000
Non-current assets	4,173
Current assets	2,198
Current Liabilities	(2,443)
Non-current Liabilities	(10,670)
Equity attributable to Joint Ventures	**(6,742)**

31. Joint Venture continued

Carrying value of equity interest in CSC Ltd	2022 £'000
Net liabilities of CSC Ltd	(6,742)
Proportion of the Group's ownership interest	50%
Group's share of net liabilities	(3,371)
Elimination of unrealised gains on transactions with CSC Ltd	(12,000)
Cumulative absorption of JV losses against long term JV preference share debt	163
Cumulative unrecognised losses	15,208
Carrying amount of the Group's interest in the JV	**–**

Summary of cumulative unrecognised losses	1 January to 22 September 2023 £'000	2022 £'000
Unrecognised losses brought forward	(17,921)	(17,032)
(Loss) in the period / year	(678)	(889)
Cumulative unrecognised losses carried forward	**(18,599)**	**(17,921)**

Comparative financial information has been adjusted to reflect the final audited 2022 CSC financial statements. The adjustment to the disclosure has had no impact on the Group's consolidated loss for the year, total net assets or cash position.

32.Acquisitions

On 22 September 2023, the Group acquired the 50% equity shareholdings of its joint venture partner in Compound Semiconductor Centre (CSC) taking control of the company and increasing its equity ownership to 100%.

The acquisition was for total cash consideration of £2,979,000 deferred over a period extending until 1 January 2029. The cash consideration has been discounted using the Group's incremental borrowing rate at the acquisition date.

CSC was formed on 9 July 2015 as a joint venture between IQE and Cardiff University. CSC was established as a centre of excellence for the development and commercialisation of advanced compound semiconductor wafer products. Since the formation of CSC, the landscape for compound semiconductors and compound semiconductor research and development has changed significantly with increasing localisation of technology supply chains and associated research and development. By acquiring CSC 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;
- Directly align research and development activities and capabilities with the Group's strategy; and
- Exploit technology and commercial relationships developed by CSC to create high volume manufacturing and sales opportunities for the Group.

In the period post-acquisition, CSC has contributed revenue of £1,397,000 and a net loss of £595,000, including amortisation of £805,000 on the acquired customer contract intangible asset, to the consolidated revenue and net loss of the Group for the year.

Effect of acquisition

The acquisition had the following effect on the Group's loss for the year, assets and liabilities.

To account for the step acquisition, there is a deemed disposal at acquisition date of the existing investment in joint venture at fair value:

	£'000
Deemed disposal of equity interest in joint venture at fair value (50%)	2,419
Carrying value of investment in joint venture	–
Gain on deemed disposal of Joint Venture	**2,419**

The gain on deemed disposal of £2,419,000 has been recognised in gain on acquisitions in the consolidated income statement.

Fair value of net identifiable assets and liabilities

The fair value of identifiable assets and liabilities in the acquiree at the date of acquisition is illustrated in the table below:

	Fair value on acquisition £'000
Acquiree's net assets at the acquisition date:	
Intangible fixed assets – customer contracts	1,490
Tangible fixed assets	3,530
Trade and other receivables	529
Cash and cash equivalents	(390)
Trade and other payables	(320)
Net identifiable assets and liabilities	**4,839**
Consideration	
Cash consideration (discounted)	2,222
Settlement of pre-existing relationships	402
Total consideration	**2,624**
Fair value of previously held interest in joint venture	2,419
Fair value of net identifiable assets	(4,839)
Goodwill	**204**

The fair value of tangible fixed assets was assessed by an independent third-party valuer, Liquidity Services Limited. The valuers utilised a combination of market and cost approaches to assess the fair value of the tangible fixed assets (less costs to sell).

The Group incurred no significant acquisition related costs. Goodwill is not deductible for tax purposes.

The Group and CSC were parties to an intellectual property licence, a contractual agreement that provided the Group with the right to use CSC's assets 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 £402,000.

33. Related party transactions

Group

Transactions with Joint Venture - Compound Semiconductor Centre Limited

CSC was formed on 9 July 2015 as a joint venture between IQE and Cardiff University. On 22 September 2023, IQE acquired the 50% shareholding of Cardiff University increasing the Group's equity ownership in CSC to 100%. The disclosure below relates to the transactions between IQE and CSC in the period prior to acquisition of CSC on 22 September 2023.

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. Up to the date of acquisition, the CSC leased this space from the Group for £84,000 (2022: £115,000) and procured certain administrative support services from the Group for £171,000 (2022: £235,000). As part of the administrative support services provided to CSC the Group procured goods and services, recharged to CSC at cost, totalling £3,117,000 (2022: £4,031,000).

CSC entered into an agreement with the Group following its formation that conveyed to the group the right to use the assets of the joint venture for a minimum period which had been extended to 31 March 2024. 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 CSC's assets totalled £4,818,000 (2022: £6,822,000) up to the date of acquisition.

At 31 December 2022, an amount of £137,000 was owed from the CSC.

In the Group's balance sheet at 31 December 2022, 'A' Preference Shares with a nominal value of £8,800,000 were included in financial assets at an amortised cost of £nil and the Group had a shareholder loan of £244,000 due from CSC.

33. Related party transactions continued

Company

Transactions with Group Companies

2023	Income £'000	Expense £'000	Trade Receivable £'000	Trade Payable £'000	Loan Receivable £'000	Loan Payable £'000
IQE (Europe) Limited	842	(145)	598	(194)	7,036	–
IQE Silicon Compounds Limited	1,548	–	4,429	(102)	41,206	–
Nanogan Limited	–	–	–	–	–	(1,750)
Wafer Technology International Limited	–	–	–	–	–	–
Wafer Technology Limited	244	(20)	190	–	–	(2,874)
IQE USA Inc	–	–	–	–	9,447	–
IQE Inc	874	(12)	620	(45)	108,471	–
IQE KC LLC	4,084	(3)	4,546	(1)	–	(10,055)
IQE RF LLC	–	–	–	–	64	–
KTC Wireless LLC	–	–	–	–	–	(19,100)
Galaxy Compound Semiconductors Inc	86	–	68	–	–	(8,598)
IQE Taiwan ROC	50	–	331	–	–	–
MBE Technology Pte Limited	1	–	–	–	–	–
CSDC Private Limited	–	–	–	–	–	–
Compound Semiconductor Centre Limited	8	–	6	–	251	–

IQE plc has a fully impaired loan receivable of £7,794,000 (2022: £9,232,000) due from MBE Technology Pte Limited.

IQE plc has a fully impaired loan receivable of £7,714,000 (2022: £8,337,000) due from CSDC Private Limited.

IQE plc has recognised a reversal of expected credit loss of £6,814,000 (2022: £15,494,000 charge) in respect of loan receivables from Group companies. IQE plc has recognised a total expected credit loss of £13,794,000 (2022: £20,608,000).

2022	Income £'000	Expense £'000	Trade Receivable £'000	Trade Payable £'000	Loan Receivable £'000	Loan Payable £'000
IQE (Europe) Limited	734	(106)	597	(217)	8,224	–
IQE Silicon Compounds Limited	913	–	1,012	(49)	25,329	–
Nanogan Limited	–	–	–	–	–	(1,750)
Wafer Technology International Limited	9,263	–	253	–	–	–
Wafer Technology Limited	230	(51)	–	–	–	(1,936)
IQE USA Inc	–	–	–	–	8,987	–
IQE Inc	673	(54)	564	(46)	114,364	–
IQE KC LLC	3,653	(3,237)	3,635	(5)	–	(4,588)
IQE RF LLC	–	–	–	–	38	–
KTC Wireless LLC	–	–	–	–	–	(19,268)
Galaxy Compound Semiconductors Inc	84	–	69	–	–	(7,526)
IQE Taiwan ROC	21	–	–	–	–	–
MBE Technology Pte Limited	13	–	–	–	–	–
CSDC Private Limited	–	–	–	–	–	–

34. Commitments

The Group had capital commitments at 31 December 2023 of £553,000 (2022: £1,740,000).

Glossary

Artificial intelligence (AI)	A simulation of human intelligence in machines, including machines which are programmed to mimic human action or exhibit humanistic traits such as learning or problem-solving
Augmented Reality (AR)	A technology that superimposes a computer-generated image on a user's view of the real world to provide a composite view
Compound semiconductor	A semiconductor formed from more than one element, typically comprising a mixture of elements from Groups III and V of the Periodic Table
Cloud computing	A network of remote servers hosted on the internet to store, manage and process data
CMOS++	Compound materials on Silicon
CMD	Capital Markets Day
CVD	Chemical Vapour Deposition. IQE's technique for making Advanced Silicon/Group IV epiwafers, characterised by using compound sources flowed across a hot wafer where they are "cracked" (reacted) to get the desired material
Device structure	The term used to describe the particular series of epitaxial layers on a substrate crystal. They are typically specified by their thickness, composition, electrical and opto-electronic properties
Dilute Nitride	A material where small amounts of Nitrogen are added to GaAs in order to enable GaAs to be used in applications typically reserved for InP
Epitaxy (epitaxial growth)	Deposition of high-quality, crystalline layers on a substrate. By specifically choosing the composition and sequence of the layers in epitaxial growth, the optical and electrical properties of the epiwafer are able to be tuned and these individual layers are referred to as 'epilayers'
Epiwafer or epitaxial wafer	The term used to describe the substrate crystal with epitaxial layers deposited thereon (see also "wafer")
GaAs	Gallium Arsenide
GaN	Gallium Nitride
GaSb	Gallium Antimonide
Ge	Germanium
InP	Indium Phosphide
Internet of Things (IoT)	Network of physical objects – "things" which are able to collect and transfer data over a wireless network without human intervention
IQepiMo™	A template technology developed by IQE for RF filters and other applications requiring low-resistance buried electrodes
IQGeVCSEL 150™	A technology developed by IQE for 6" VCSELs on Germanium
IQDN-VCSEL	A technology developed by IQE for the growth of long wavelength (> 1300 nm) VCSELs on GaAs substrates
IR	Infrared
LiDAR	Light detection and ranging – a method for measuring distances by illuminating the target with a laser light
MBE	Molecular Beam Epitaxy. One of IQE's primary techniques for making compound semiconductor epiwafers, characterised by deposition using elemental sources impinging on a hot wafer where a reaction occurs to get the desired material. MBE occurs at extremely low pressure (known as ultra-high vacuum) which is comparable to that of outer space

MIMO	Multiple-input, multiple-output. Two or more transmitting or receiving antennas are used on a wireless device to optimise the speed, range and reliability of that device
MOCVD	Metal Organic Chemical Vapour Deposition. One of IQE's primary techniques for making compound semiconductor epiwafers, characterised by deposition using compound sources that are flowed across a hot wafer where they are "cracked" (reacted) to get the desired material. MOCVD occurs at much higher pressures than MBE and also goes by the name MOVPE (Metal Organic Vapour Phase Epitaxy)
OEM	Original equipment manufacturer
Opto-electronic device	A device or structure in which light and electricity interact to produce, detect or manipulate light
PHEMT	Pseudomorphic High Electron Mobility Transistor. A commonly used device for high-speed switching for wireless communications
Reactor	The equipment used to produce epitaxial layers on a substrate
RGB	Red, Green, Blue emitter technology (LED) for display applications
RF	Radio frequency
Semiconductor	A material with resistivity which lies somewhere between that of a conductor and an insulator
Si	Silicon
SiC	Silicon Carbide
Structured light scanner	A 3D scanning device which measures an object using projected light patterns and a camera system
Substrate	The term used to describe the base wafer used for the epitaxial substrate crystal growth process
Time of Flight (ToF) camera	A camera which calculates the distance between the subject by measuring the trip time of an artificial light signal emitted by a laser or LED
VCSEL	Vertical Cavity Surface Emitting Laser, an opto-electronic component used in a variety of applications
Wafer	The term used to describe the substrate crystal in the form of thinly sliced discs or the substrate disc with one or more epitaxial layers deposited upon it
WiFi 6	Sixth generation of wireless local area networking technologies characterised by improved performance characteristics
3D Sensing	Three-dimensional depth sensing technology which is enabled by IQE's VCSELs
5G	5th generation mobile network designed to provide enhanced connectivity and higher speeds

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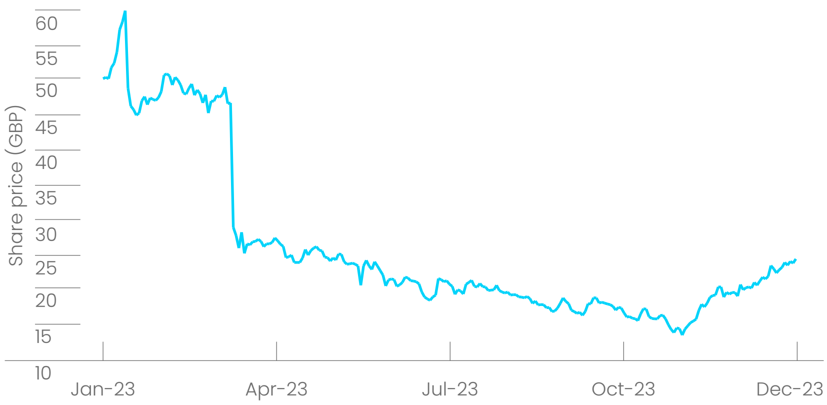
Share price information

Exchange: London Stock Exchange
FTSE AIM Index
Ticker: IQE:LN
ISIN: GB0009619924

Share price performance

as at 31 December 2023
Loss per share: (3.28p)



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