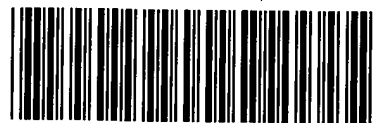




IQE PLC | ANNUAL REPORT AND FINANCIAL STATEMENTS 2014

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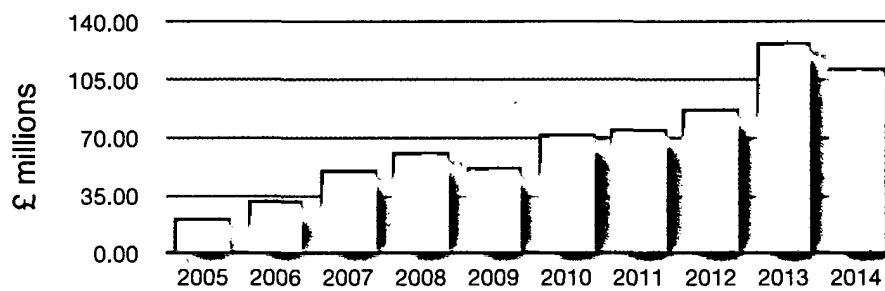
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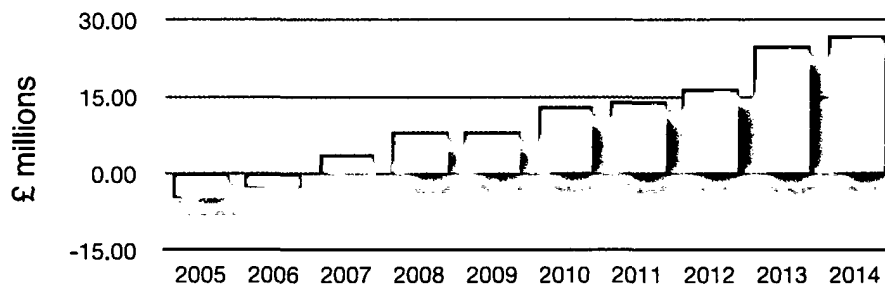
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COMPANIES HOUSE

Revenues 2005 - 2014



EBITDA 2005 - 2014



- ❖ Track record of more than 20% CAGR over last 10 years
- ❖ High operational gearing to transform revenues into profitability
- ❖ Operational and financial resilience
- ❖ Strong position in high-growth markets provides strong outlook

Five year financial summary

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Revenue	112,011	126,774	87,961	75,318	72,650
EBITDA (see below)	27,009	24,920	16,437	13,955	13,115
Operating profit					
- Adjusted*	17,618	14,556	9,202	8,657	8,510
- Reported	7,167	7,346	7,014	7,373	7,208
Profit after tax					
- Adjusted*	16,701	14,202	8,401	9,727	8,808
- Reported	1,996	6,126	6,631	8,443	7,506
Net cash flow from operations					
- Before exceptional cash flows	19,614	16,173	4,679	10,823	10,250
- Reported	14,861	12,762	4,109	10,823	10,250
Free cash flow**					
- Before exceptional cash flows	11,446	5,389	(1,569)	(8,585)	3,315
- Reported	6,693	1,978	(2,139)	(8,585)	3,315
Net (debt) / funds	(31,251)	(34,351)	(15,483)	(3,921)	7,021
Equity shareholders' funds	119,056	110,498	90,189	72,750	62,274
Basic EPS – adjusted*	2.51p	2.09p	1.47p	1.86p	1.91p
Basic EPS – unadjusted	0.25p	0.93p	1.16p	1.62p	1.63p
Diluted EPS – adjusted*	2.42p	2.00p	1.40p	1.74p	1.76p
Diluted EPS – unadjusted	0.24p	0.89p	1.10p	1.51p	1.50p

* The adjusted performance measures are reconciled in note 4 on page 63.

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

EBITDA has been calculated as follows:

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Profit after tax	1,996	6,126	6,631	8,443	7,506
Tax	3,247	(934)	(503)	(1,551)	(1,172)
Interest	1,924	2,154	886	481	874
Share based payments	1,458	1,415	1,360	1,284	1,302
Profit & loss on disposal	15	-	-	-	-
Exceptional items	7,877	5,065	570	-	-
Depreciation	6,590	8,503	5,998	4,175	3,619
Amortisation of intangible assets	3,902	2,591	1,495	1,123	986
EBITDA	27,009	24,920	16,437	13,955	13,115

A black and white photograph of a man in a dark suit, white shirt, and patterned tie. He is wearing glasses and looking down at a tablet computer he is holding with both hands. The background is dark and out of focus.

The way we interact
with technology as
we and "things"
connect, is
changing - enabled
by compound
semiconductors

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Enabling advanced technologies



Chairman's statement

IQE is the world's leading manufacturer and supplier of advanced semiconductor wafer products.

Our enabling technology is found at the very heart of billions of smartphones, tablets and other advanced high-tech devices that are sold each year.



As we, and the world around us become increasingly connected, so too does demand increase for the compound semiconductor components that are based on IQE's wafer products. IQE's materials not only enable the wireless communications that drive the "Internet of Everything" revolution, but also the increasing number of sensors, display, gesture recognition and other advanced technologies upon which we are already dependent.

It is my pleasure to introduce IQE's Annual Report for 2014.

IQE is a global leader in the fast moving, highly dynamic world of semiconductor technology. We estimate that during 2014, more than one billion wireless chips and over two billion photonics chips containing IQE materials were shipped for use in a wide range of industrial and consumer applications including smartphones and tablets.

In terms of wireless components, IQE has a market share of more than 55% of the global demand for compound semiconductor wafers.

It is testament to the strength and robustness of IQE's business model that, despite the challenges of well documented inventory management corrections across our core customer base, the Group has delivered a 21% year on year increase in adjusted operating profit to £17.6m (reported operating profit £7.2m) and an increase of more than 20% in adjusted, fully diluted earnings per share (EPS) of 2.42p (reported fully diluted EPS 0.24p).

Improvements in operating efficiencies have contributed to our ability to generate improved profitability on lower revenues, as has the consolidation resulting from our strategic acquisitions in previous years which have been fully integrated into the Group to help yield significant cost savings during 2014.

All in all, the foundations are in place for a very exciting future. We have created a world class platform for the development and supply of advanced semiconductor materials evidenced by:

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

The wireless market, which accounts for approximately 80% of our sales, remains our key market.

Communications chips continue to evolve in order to meet the challenge of the exponential growth in data traffic, whilst bandwidth becomes increasingly more fragmented and trends to higher frequency. Our materials will continue to be the key enablers underpinning this evolution.

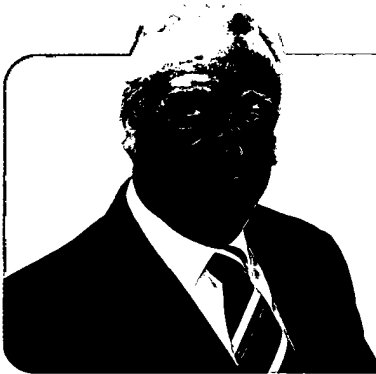
2014 has seen record growth in our photonics business units with demand outstripping supply in a number of market segments. Feedback from our customers indicates further significant growth in the photonics sector as the need for sensors, energy generation (CPV), heating, lighting and other energy efficient products come to the foreground.

United Nations Educational, Scientific and Cultural Organisation ("UNESCO") has designated 2015 as the International Year of Light in recognition of the growing importance of photonics. We believe that the increase in demand in this market sector will ensure that we continue to deliver strong growth from further diversified revenues over the coming years.

2014 proved to be a challenging year during which we made excellent progress with our organisational development programme. I would once again like to take this opportunity to thank the IQE management and staff for their commitment and dedication without which our current success and future plans would be impossible. We have a great team doing outstanding work.

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

CEO's statement



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

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

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

The Group has now established the platform for delivering this strategy, through the following USPs:

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

This platform supports both the continued robust growth potential available in our markets and enables us to continue to diversify our revenues over the coming years.

IQE has emerged as a market leader through a period of rapid change

The mobile communications industry has gone through a revolution over the past decade. Less than ten years ago, one in every two mobile phones sold was a Nokia, with RIM's Blackberry devices taking a strong second place in the market. Since that time, smartphones have taken the world by storm and communications technology has moved rapidly from 2G to 3G and now LTE/4G. Mobile data demand is growing exponentially, requiring ever more complex and high performance RF front end solutions, with increasing Compound Semiconductor content. Apple and Samsung now dominate the handset space, and the mobile revolution has spread to new types of devices including tablets and wearables, and is enabling the Internet of Things (IoT). Future handset designs will include more and more optical content for proximity sensing, auto focus, gesture recognition, sensing and displays.

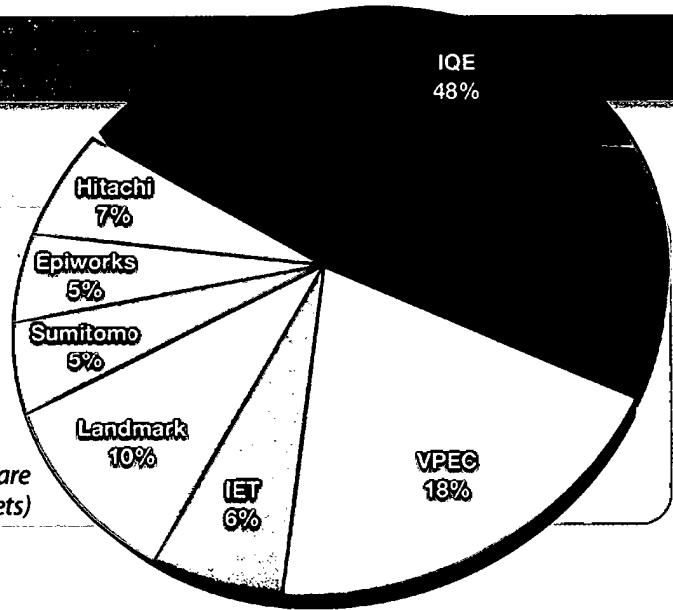
These changes have driven a revolution within the supply chain. Skyworks has emerged as the new leader in the chip space, as some chip companies have waned and others have consolidated to compete. Throughout this period of rapid change, IQE has also played a major role in reshaping the supply chain. Both through technological innovation, and through consolidating the materials space, IQE has emerged as the clear industry leader for advanced materials.

IQE is the global leader in the provision of wafers to the wireless chip industry, with an estimated market share of over 50%. The wireless market, which accounts for approximately 80% of the Group's sales, remains a key market driver for the Group. With the adoption of numerous optical devices in next generation handsets, this will continue to be a major part of the Group's future business.

Furthermore, IQE has developed an unparalleled depth and breadth of advanced materials technology which spans wireless, infrared, photonics, solar, power electronics and CMOS++. The market drivers for adoption of these technologies are very powerful: Big Data; IoT; Energy Efficiency (power generation and usage); Smart Cities; Industry 4.0; Space Technologies; Robotics and Autonomous Vehicles; and 5G. These will all drive increasing adoption of Compound Semiconductor Technologies. As a result, our non-wireless revenues are growing rapidly and increasing our overall revenue diversity.

In addition to our leadership position in the wireless sector, our market data indicates that IQE has almost 50% global share across all of today's markets for compound semiconductor wafers.

*Epiwafer market share
(all markets)*



Delivering progress through a challenging year

After several years of strong growth, in 2014 the wireless market paused for breath ahead of the next wave of hardware innovation. Combined with an industry wide de-stocking, this volatility created a short term challenge for the Group. We tackled this head on and delivered increasing underlying profitability and earnings, as well as strengthening our balance sheet as a result of lower deferred consideration and net debt.

We also made solid progress in line with our strategic plan, including:

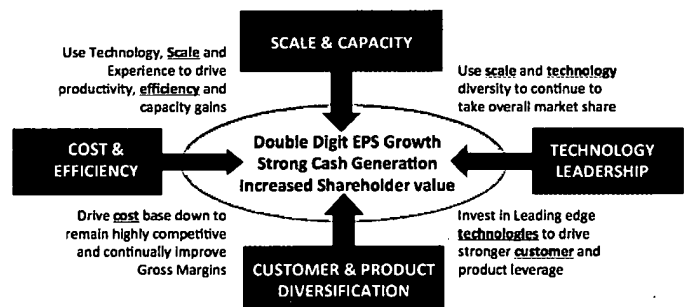
- ❖ Our photonics business delivered year on year growth of 23% (in constant currency) driven primarily by the increasing adoption of VCSEL technology into a wide range of applications from data centres through to industrial processes. This ramp is at an early stage and has a long and sustainable future.
- ❖ Our solar energy business (CPV) moved into production in early 2015, with our material now being deployed into the field. Although this was later than originally anticipated, the future for this business remains bright as end market pull should see this ramp through 2015/16.
- ❖ Conversely, our power business has progressed more rapidly than we originally expected. A number of major technical milestones and commercial partnerships are positioning the Group in a strong position to commercialise this technology.
- ❖ The Group made excellent progress with its Organisational Development Programme which included collaboration between IQE, WIN Semiconductors and Nanyang Technological University in the formation of the Compound Semiconductor Development Centre ("CSDC"), which has emerged from the Group's Singapore operation, referred to in the operational highlights section on page 22.

Positioned for continued strong growth over the next decade

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

We have established a global manufacturing platform that has the capacity to be able to take advantage of the opportunities in our markets. The Board remains focussed on increasing throughput, which with the operational gearing is expected to deliver improving margins and cash generation.

This provides a bright outlook for IQE, which through its broad technology portfolio has developed a solid foundation in the wireless market; a high growth photonics business; and transformational opportunities in Solar energy and Power electronics. The Board believes that this creates a platform for future growth as well as increasing the diversity of the Group's revenues.



Our vision

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

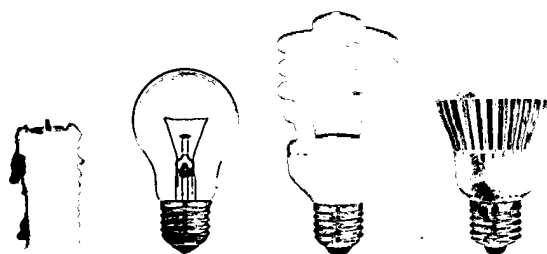
Our strategy

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

Our delivery

Number one provider of compound semiconductor wafer products by market share and scale and clear technology leader with an unparalleled breadth of technology. Leading the advancement of new materials

Why compound semiconductors?



Evolution in materials

Mankind's ability to master materials is inextricably linked to advances in technology to such an extent that key milestones throughout human history are identified by the dominant material of each era. From the stone age, through the iron and bronze ages, innovation in materials has played a key role in technological development. We now live in the semiconductor age.

The elements

Every material in the universe is made from one or more of the fundamental elements. There are 118 known elements. The periodic table is the most common way of representing the elements by arranging them in Groups according to their properties.

The semiconductor age

Elements in groups III, IV and V of the periodic table exhibit some important electronic properties that can be made to conduct or not conduct an electrical current. These materials are known as semiconductors.

By harnessing the properties of semiconducting materials, scientists and engineers have enabled the electronics revolution that has transformed our lives since the early 1960s.

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

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

Compound semiconductors

Most people will be unaware that atomically engineered combinations of semiconductor elements called compound semiconductors, have already revolutionised their lives and are set to do so even more over the coming years and decades.

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

The future's bright

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

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

All major chip companies include advanced semiconductor materials on their product roadmaps for future generations of high performance components.

Integration is inevitable

Of course, the mass adoption of new technologies is more than just a function of what is possible - it is a function of cost versus performance.

Compound semiconductors will continue to gather momentum in their own right as the industry continues to increase scale which is enabling multiple technologies to advance whilst reducing overall costs.

As silicon integration has been a key feature in increasing performance and reducing costs, so too with the integration of silicon with compound semiconductor technologies. Better performance, higher efficiencies and reduced costs will only be achieved by combining the advanced properties of compound semiconductors with

Global leader global presence



North America
Bethlehem, PA
Greensboro, NC
Somerset, NJ
Spokane, WA
Taunton, MA

Europe
Bath, UK
Cardiff, UK
Cardiff, UK
Milton Keynes, UK

Asia
Singapore
Taiwan

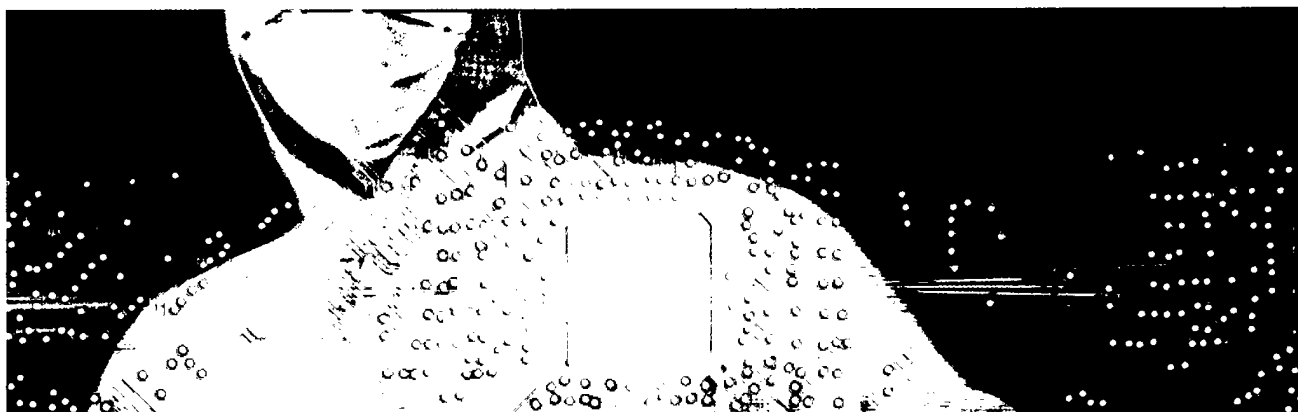
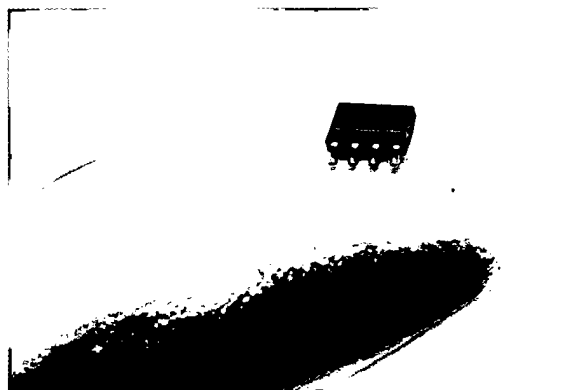
What we do

Our core IP is "Epitaxy"

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

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

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



The supply chain

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

We manufacture atomically engineered wafer products to exacting technical specifications required by our customers.

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

IQE:

Materials specialists

We make advanced semiconductor wafers in high spec cleanrooms using sophisticated tools and extensive IP

Our customers:

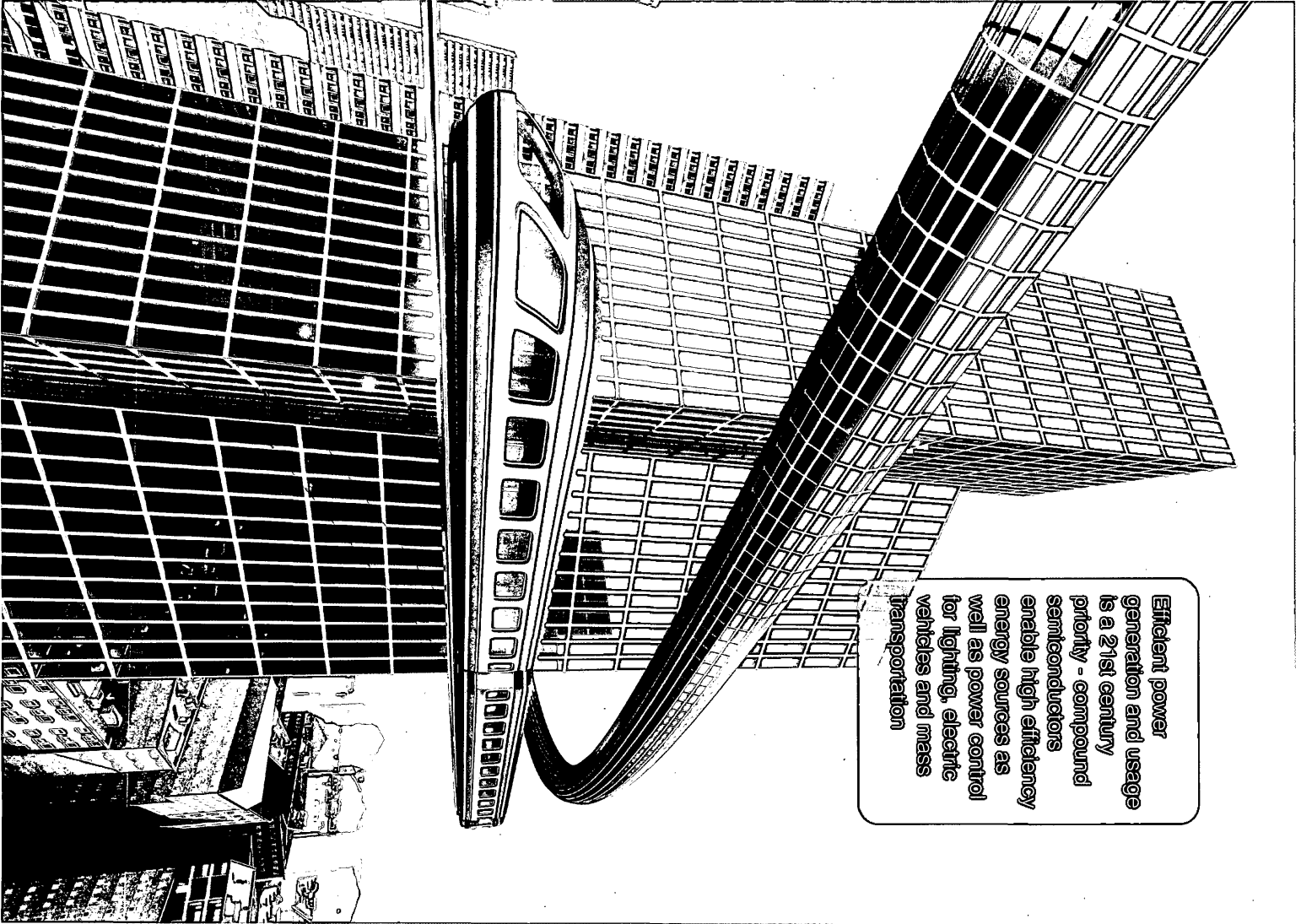
Chip specialists

Our customers fabricate our wafers into chips

OEMs:

System specialists

OEMs utilise these chips to make devices and systems



Efficient power
generation and usage
is a 21st century
priority - compound
semiconductors
enable high efficiency
energy sources as
well as power control
for lighting, electric
vehicles and mass
transportation

Strategic report

OUR COMPETITIVE ADVANTAGE

Global footprint

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

Breadth of technology

As a pioneer of compound semiconductor technology, IQE has developed an unparalleled and comprehensive breadth of technology and advanced production platforms.

Technology leadership

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

Cost leadership

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

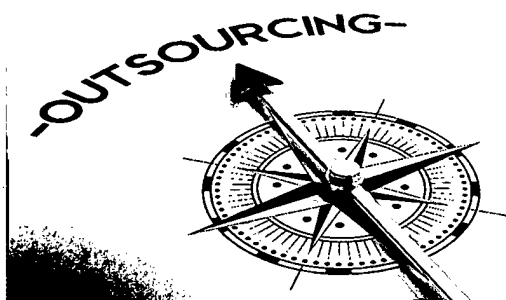
Security of supply

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

Our risk mitigation strategy

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

Furthermore, the Group has embarked on a product diversification strategy to reduce its dependence on any single market whilst taking full advantage of opportunities in all new and emerging market segments that are and will be enabled by compound semiconductor materials.



OUR BUSINESS MODEL

Outsourcing pioneer

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

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

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

Specialisation within the silicon industry

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

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

Pioneering specialisation within the compound semiconductor industry

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

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

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

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

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

OUR MARKETS

The key advantages of compound semiconductors over silicon are:

- ❖ Compound semiconductors are much more efficient at emitting and receiving radio waves
- ❖ Compound semiconductors are much more efficient at emitting and detecting light
- ❖ Compound semiconductors operate at much higher speeds and lower power consumption
- ❖ It is these advanced properties which determine the top-level markets for our materials:
 - ▶ **Wireless**
 - ▶ **Photonics**
 - ▶ **Electronics**

Wireless

Accounted for 79% of the Group's sales in 2014.

The wireless market covers electronic devices that communicate wirelessly.

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

Photonics

Accounted for 20% of the Group's sales in 2014.

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

We segment the photonics market into:

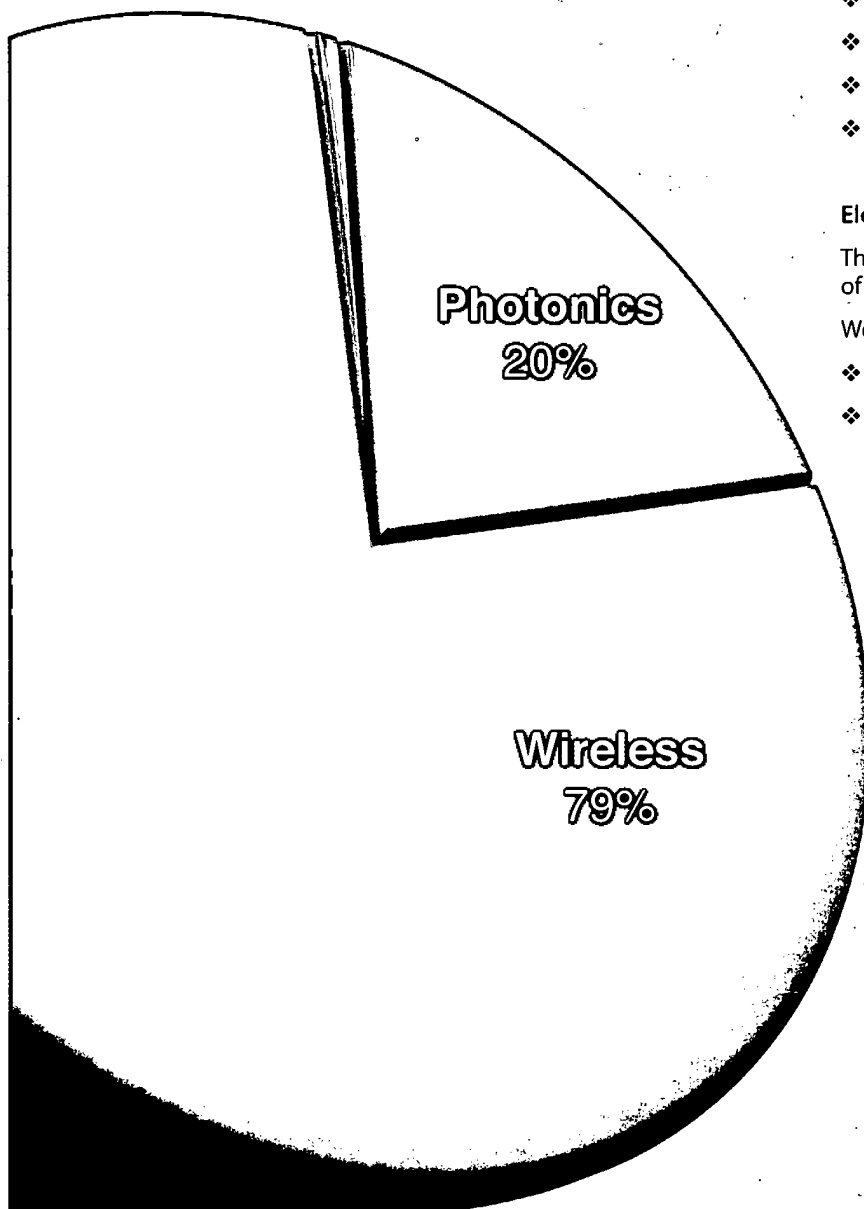
- ❖ Emitters and detectors
- ❖ Infrared
- ❖ Solar (CPV)
- ❖ Lighting

Electronics

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

We segment the electronics market into:

- ❖ Power control
- ❖ Advanced materials



One Focus Multiple Markets

IQE Wireless

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

IQE Photonics

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

IQE Infrared

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

IQE Solar

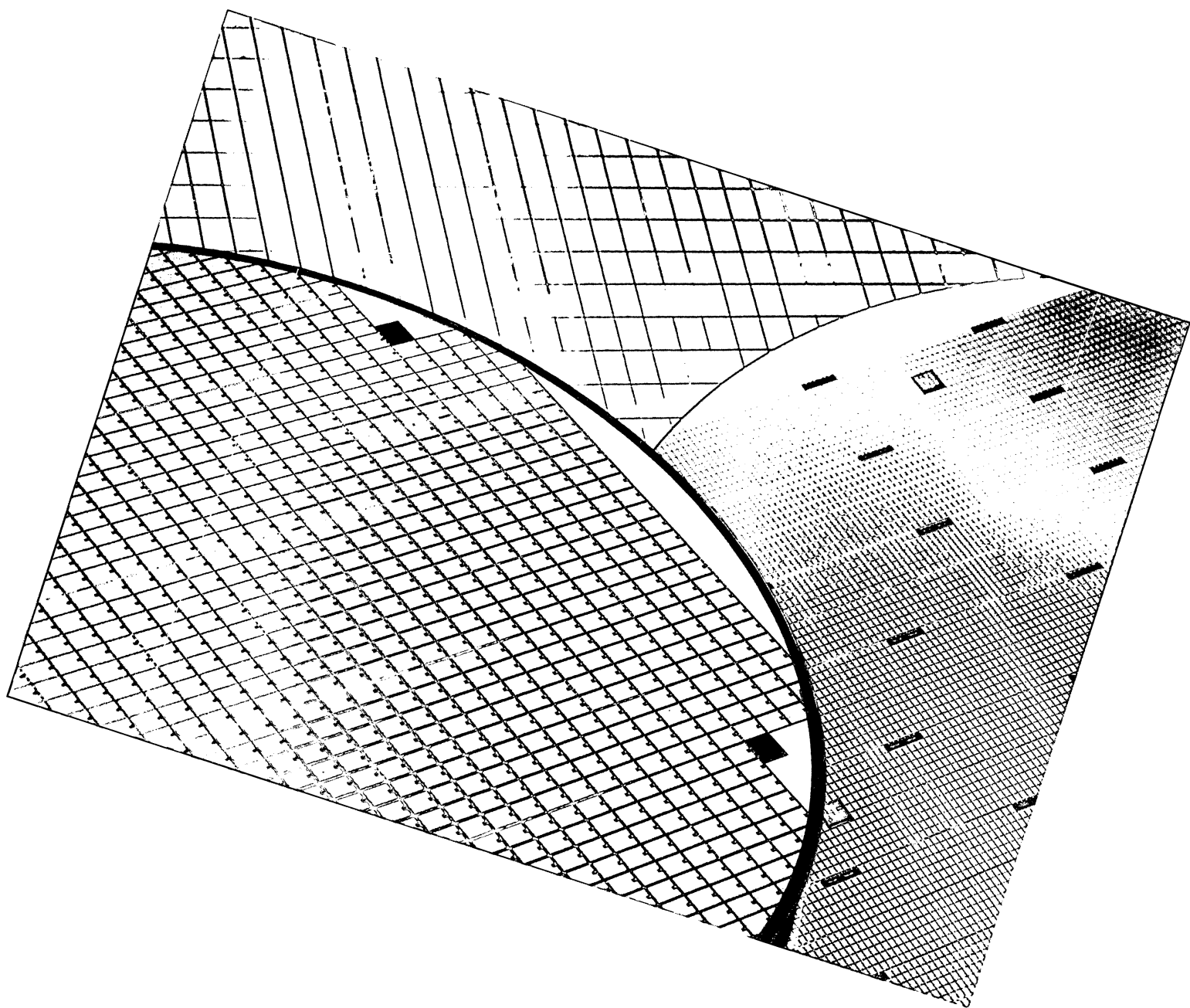
High efficiency concentrated photovoltaic (CPV) solar cells for utility-scale energy generation

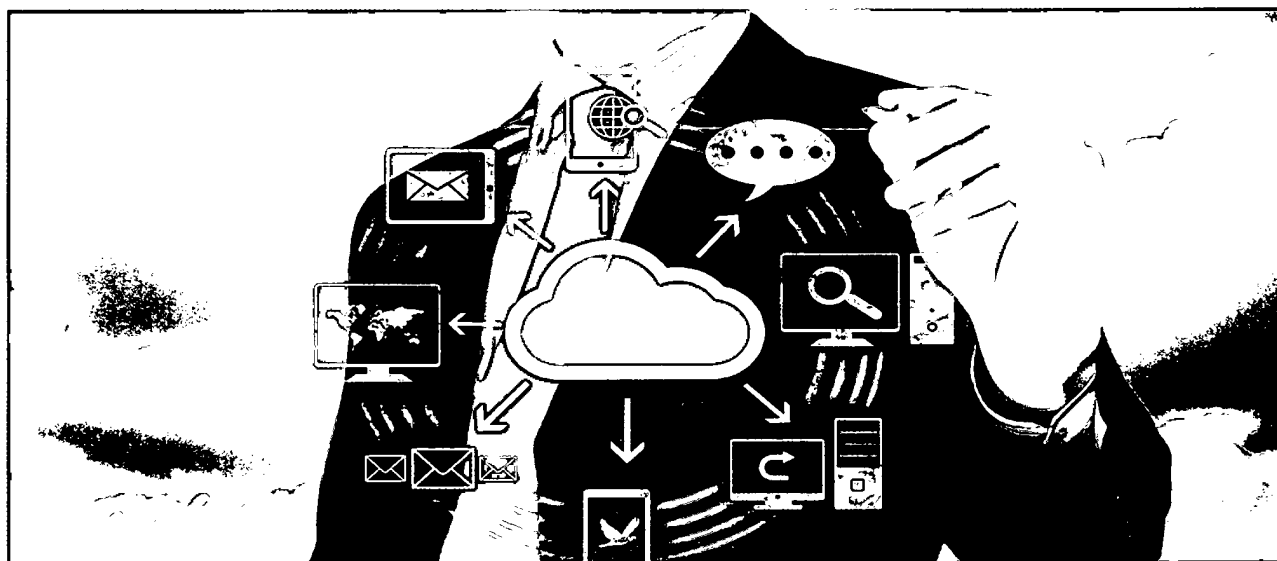
IQE Power

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

IQE CMOS++

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





Wireless

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

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

Smartphone shipments exceeded one billion units in 2014 and are expected to grow to more than 1.5 billion in 2017 (Source: IDC). This growth will be driven by new features, apps, social networking, entertainment and location based services.

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

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

The 802.11ac WiFi standard operates at 5GHz rather than the 2.4GHz currently used. The higher frequency which greatly increases the range and reliability of WiFi networks will further raise the demand for compound semiconductor based RF devices.

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

Photonics

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

Emitters and detectors

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

Optical interconnects

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

Optical interconnects offer significantly higher-speed data transfers over much longer distances than their copper counterparts, and are much more efficient. Data centres have become major consumers of electrical energy, rivaling traditional heavy industries in terms of the power requirements needed to keep large warehouses full of servers operating and cooled. It is therefore of little surprise that enterprises such as data centres are amongst the first adopters, where optical technology now offers both higher performance and lower overall operating cost compared with copper. A number of contract wins for both production and development contracts were announced during 2014.

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



Laser projection

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

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

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

Gesture recognition

Gesture recognition represents the ability of electronic devices to recognise hand and body gestures and movements in order to control any device. The advanced properties of compound semiconductor epiwafers are a key component in gesture recognition devices which are expected to appear in many new product launches over the coming years.

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

Infrared

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

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

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

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

Solid state lighting (LEDs)

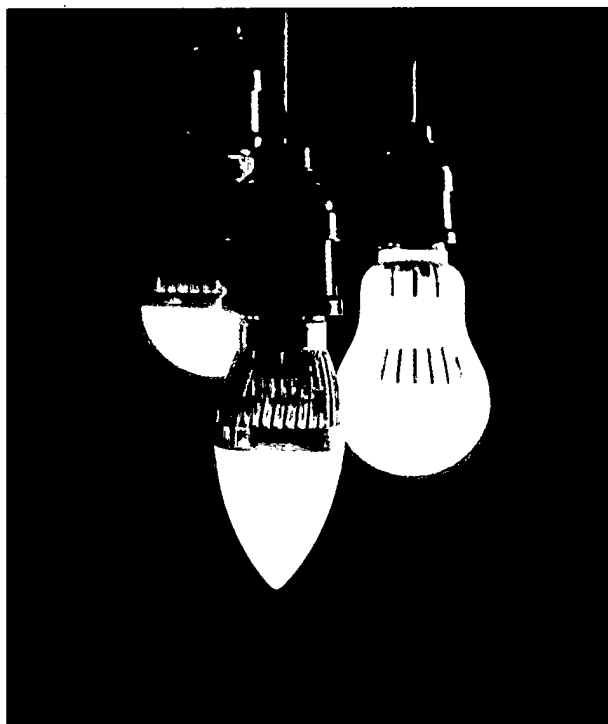
Light emitting diodes (LEDs) are a high performance, low cost, green alternative to incandescent light bulbs.

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

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

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

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



Solar (CPV)

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

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

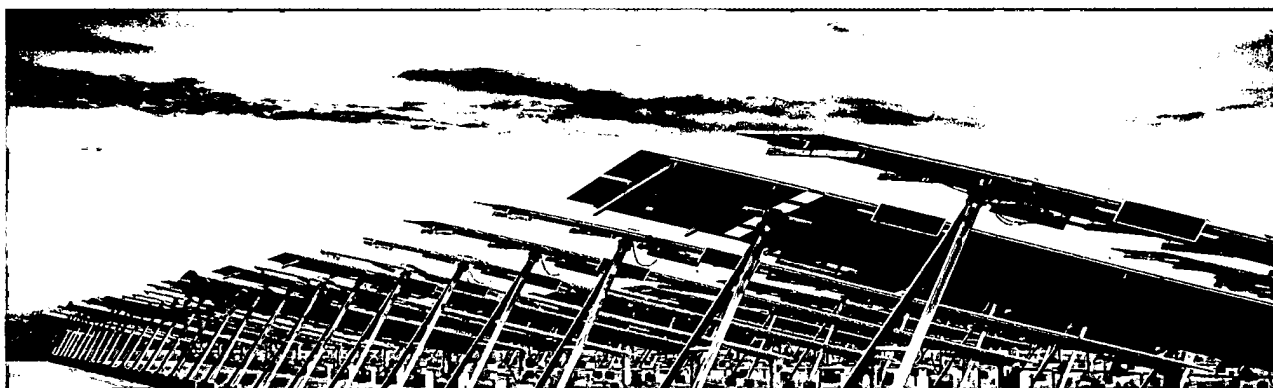
This compares with typical efficiencies of around 18% from amorphous silicon solar panels, while thin film technology is typically around 10 to 15% efficient. There is very little scope to improve the efficiency of these technologies due to the fundamental properties of the materials used.

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

Industry analysts IHS estimates that the addressable market for this technology will reach almost 8GW in 2018 (IHS CPV Report 2014). To put this in context, 1 GW represents approximately \$150m of revenue for IQE, at a margin consistent with our existing business.

The key milestone for adoption of volume production is the demonstration of a robust supply chain. IQE has now qualified and demonstrated high volume capability and is working closely with its partners to ensure all the building blocks are in place for an efficient and robust supply chain.

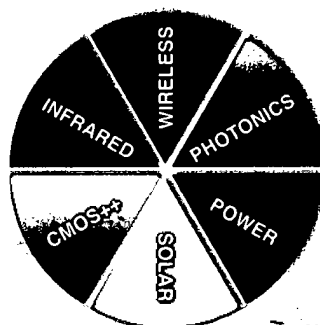
IQE has been through an extensive programme of product development and customer qualification and reached a major milestone in January 2015, moving into production. Our material is now being deployed into field installations, and this business is expected to ramp through 2015/16.



Compound semiconductors enable the key twenty-first century technologies

Robotics & autonomous systems

Robotics
Self drive vehicles
Machine awareness
Sensors



Big data

Mobile and infrastructure
Data storage
Internet of Things
Wearables and healthcare
Sensing and biophotonics

Aerospace

Satellite power
Communications
UAVs

Energy efficiency

Clean energy (CPV solar)
Solid State Lighting (LED)
Power switching

Electronics

Power

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

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

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

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

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

Our power business has made strong progress through 2014, achieving several key technical milestones and building commercial partnerships.

Advanced technologies

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

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

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

Gallium arsenide (GaAs) vs silicon (Si)?

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

The first mobile phones in the 1980's used communication chips made from silicon. As mobile communication evolved, higher levels of performance were demanded of these communication chips, which necessitated the use of gallium arsenide (GaAs). In the many years since, there has been speculation periodically, that Silicon would recapture this market.

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

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

So what does this mean for the future?

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

Material Properties

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

Characteristics

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

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

Market requirements

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

Economic models

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

OUR STRATEGY

Industry positioning

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

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

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

The Group has established the platform for delivering this strategy:

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

The three primary strands of our strategy are:

1. Diversify our end markets to exploit the strengths of each of our business units to enable new and emerging opportunities in areas such as “big data”, aerospace, safety & security, robotics & autonomous systems, energy efficiency & sustainability
2. Maintain our technology leadership through which IQE will continue to exploit and commercialise its diverse IP portfolio
3. Exploit our global presence and world leading technology platforms to maximize operational efficiencies and cost savings to maintain our competitive advantage

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

Risk mitigation strategy

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

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

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

Through a combination of organic development and acquisition, IQE is now the clear global leader in the provision of wafers to the wireless chip industry, with an estimated market share of between 50%-60%. The wireless market, which accounts for approximately 80% of the Group's sales, remains a key market for the Group.

OPERATIONAL HIGHLIGHTS

Organisational development and market diversification

The Group continued with its Organisational Development Programme which was set out in 2013. This has involved transferring production between sites to improve operational efficiency, enabling the Group to reduce its operating costs and achieve its cost reduction targets, and the creation of specific end market focussed Business Units.

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

- ❖ IQE Wireless
- ❖ IQE Photonics
- ❖ IQE InfraRed
- ❖ IQE Solar
- ❖ IQE Power
- ❖ IQE CMOS++

Each Business Unit has a clear product and customer focus, but continues to benefit from the production and technology synergies of the whole IQE Group. Each business unit's KPIs in terms of production, delivery and quality metrics are monitored, managed and aligned with the overall Group KPIs.

The Organisational Development Programme has also included the formation of the Compound Semiconductor Development Centre (“CSDC”), which has emerged from the Group's Singapore operation. This was announced during the second half of 2014, and has become operational in Q1 2015. This is a collaboration between IQE, WIN Semiconductors and Nanyang Technological University with the purpose of accelerating the development of compound semiconductor technology in Singapore, and providing an effective incubator for bringing new innovations to market. IQE will be the wafer provider to the new high volume applications which emerge. As detailed in Note 4, this programme necessitated the Group incurring cash costs relating to the reorganisation of £4.8m (2013: £3.4m), provisions for asset impairment of £6.3m, and provisions for onerous leases of £6.7m.

KEY DEVELOPMENT MILESTONES

Wireless

IQE has continued to develop leading edge materials solutions in conjunction with its customer base to improve the performance of front end modules for the ever increasing demands on reduced power, size and fit for function. This has resulted in ongoing improvements in efficiency of Power Amplifiers (PAs), which have consequently been able to continue to dominate the other solutions for this critical application. Device and systems architectures continue to evolve, and several programs have the potential to further increase compound semiconductor content. In addition, work is now beginning to address the requirements of 5G, which because of the higher frequencies are highly likely to require even more compound semiconductor content.

Photonics

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

IQE is the market leader for outsourced VCSEL materials, which has been achieved by virtue of its technology leadership. This includes the demonstration of VCSELs with record speeds, efficiencies and temperatures. In addition, the 6" capability IQE demonstrated in 2014 has been significant in reducing the unit cost of chips and accelerating the adoption of this technology. This is evident in the strong year on year growth in photonics sales, which was c.30% in constant currency for non-infrared applications.

The Group also announced its participation in a €23M programme to establish a Pan European pilot line for the production of VCSEL components.

InfraRed

IQE is a global leader in the supply of indium antimonide and gallium antimonide wafers for advanced infrared applications. We made sound technical progress during 2014 with the launch of the industry's first 150mm indium antimonide wafers, a major milestone in reducing the overall cost of chips to drive increasing adoption. This success was followed up with a number of significant contract wins for the division. In addition, there has been significant work in developing these materials for consumer sensing applications, which will drive much higher volumes of wafers in the future.

Advanced Solar (CPV)

As announced on 24 March 2014, IQE's stake in Solar Junction ("SJC") was acquired by a new strategic investor with a strong interest in accelerating the deployment of CPV systems on a global basis. IQE remains the materials partner to SJC by virtue of its exclusive wafer supply agreement. IQE achieved full qualification with SJC on its high volume manufacturing platform, and pilot production for field deployment commenced in January 2015. We expect this to ramp into volume through 2015 and 2016.

IQE also became a key partner in a EU funded programme during 2014, to develop 4-junction advanced solar cells for space applications.

Power

Gallium nitride on Silicon (GaN on Si) is driving a technology shift in the multi-billion dollar power switching and LED markets. IQE has continued to push the technology boundaries and is making rapid progress both technically and in developing commercial relationships in the supply chain. This includes an agreement with M/A-COM Technology Solutions Inc to deliver 200mm GaN on Si. IQE was also selected as a key partner in the Clean Energy Manufacturing Innovation Institute announced by President Obama.

Gallium nitride on Silicon Carbide (GaN on SiC) is similarly driving a technology shift in a number of high power radio applications such as radar, CATV and base stations. IQE has developed high quality 150mm GaN on SiC material, which is enabling the supply chain to improve efficiency and reduce cost in order to accelerate the adoption of this material. The progress made by IQE was recognised during 2014 with an award from CS International.

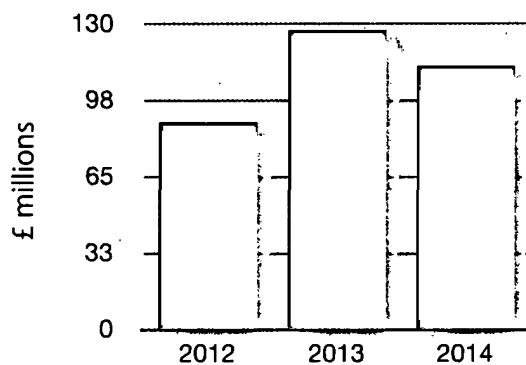
CURRENT TRADING AND OUTLOOK

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

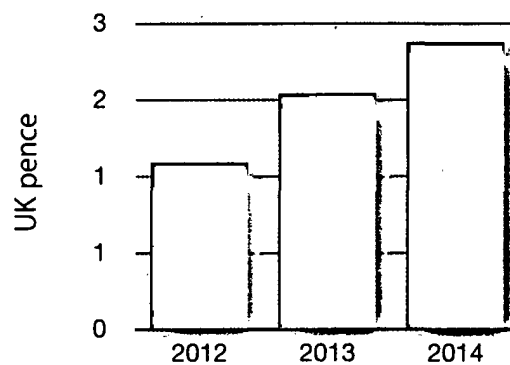
The current financial year has started in line with expectations, and the outlook for the full year remains positive, with strong prospects driven by the Group's diversification strategy. The Board remains confident of achieving our expectations for the full year earnings and we anticipate that we will continue to benefit from strong cash flows.

FINANCIAL HIGHLIGHTS

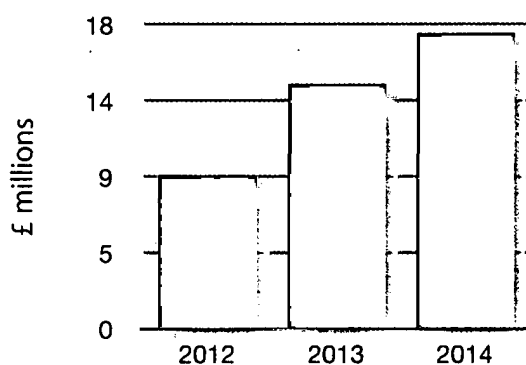
Revenues



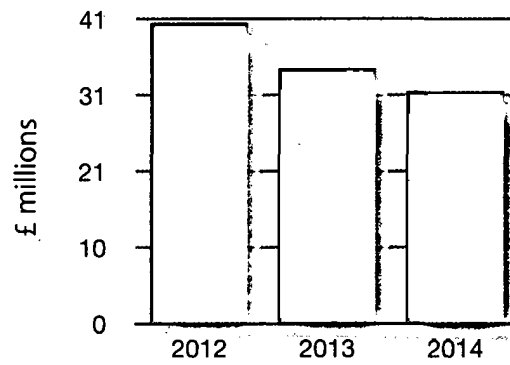
Fully diluted EPS¹



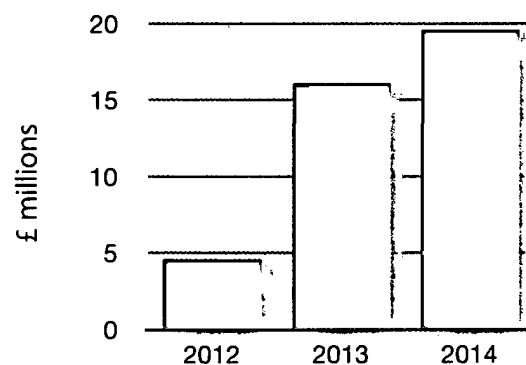
Operating profit¹



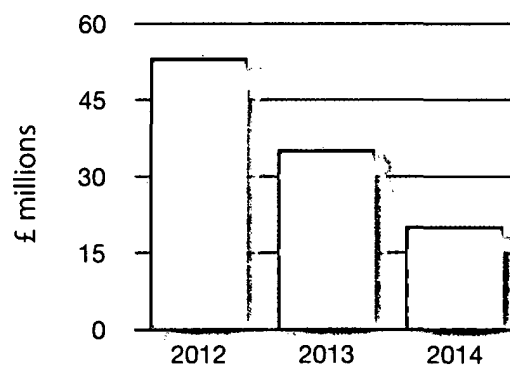
Net debt²



Cash from operations¹



Deferred consideration



¹ before exceptional items

² restated FY12 to include balances from acquisition on 15 Jan 2013

FINANCIAL REVIEW

Overview

The Group's underlying financial performance includes a number of adjusted profit measures that adjust for the impact of non-cash charges and exceptional items as detailed in note 4. These largely relate to a two year restructuring programme that was flagged in early 2013. No further restructuring costs are anticipated in 2015.

Revenue

Revenues of £112m were in line with expectations, reflecting H2 revenues of £60m up 15% from H1. Revenues were down from £126.8m in 2013 due to the impact of an industry wide inventory correction, foreign exchange (approx. 5%), and lower underlying growth in demand for wireless wafers.

EPS

Strong margins and cost reductions helped improve profitability. This enabled the Group to generate an adjusted fully diluted EPS of 2.42p, up 21% from 2.00p in the prior year. Reported diluted EPS was 0.24p, down from 0.89p.

Gross profit

Adjusted gross profit increased from £27.9m to £31.6m, due largely to cost reductions and improved efficiencies. Reported gross profit increased from £23.1m to £26.0m. As a percentage of sales, adjusted gross margins increased from 22.0% to 28.2%, whereas reported gross margins increased from 18.2% to 23.2%.

Other Income

Other income and expense has increased from a net charge of £0.2m to a net charge of £1.7m. This relates to the following one-off items as detailed in note 4: gain on release of contingent deferred consideration, provision for onerous leases and impairment of fixed assets.

SG&A

Adjusted selling, general and administration expenses (SG&A) increased from £13.4m to £13.9m, largely reflecting the impact of foreign currency exchange. Reported SG&A increased from £15.6m to £17.1m.

Operating profit

Adjusted operating profit increased by 21% from £14.6m to £17.6m. Reported operating profit, which includes exceptional items, remained broadly flat at £7.2m (2013: £7.3m).

Interest

Interest costs reduced from £2.2m to £1.9m reflecting the reduction in borrowings, and a reduction in the imputed interest relating to the discounting of long term balances.

Pre-tax profit

Adjusted pre tax profit increased by 25% from £13.0m to £16.2m. Reported pre tax profit remained flat at £5.2m. (2013: £5.2m)

Taxation

The income tax charge of £3.2m primarily reflects deferred tax on exceptional items of £3.8m. Excluding exceptionals, there was an underlying tax credit of £0.6m (2013: £0.6m) largely reflecting the benefit of R&D tax credits and deferred tax credits on losses recognised. The Group has sufficient tax losses available to shield future tax payable of up to £39.1m.

Profit after tax

Adjusted profit after tax increased by 23% from £13.6m to £16.7m. Reported retained profit decreased from £6.1m to £2.0m, largely reflecting the exceptional deferred tax charge of £3.7m.

Cash

Cash inflow from operations, before exceptional items, increased 21% from £16.2m to £19.6m. After exceptional items, cash generated from operations increased 16% from £12.8m to £14.9m.

Capital investment

Cash investments (excluding acquisitions) reduced £0.7m from £10.1m to £9.4m, reflecting reduced spend on property, plant and equipment (down £2.0m) partially mitigated by higher spend on product development (up £0.6m) and new IT systems (up £0.8m).

Deferred consideration

Deferred consideration at the year end was £20.6m, down £15.0m (42%) from £35.6m

Debt

Net debt at the year end was £31.3m (2013: £34.4m), reflecting net cash generation. The Board will not be recommending the payment of a dividend.

INNOVATION, RESEARCH AND DEVELOPMENT

R&D activity

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

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

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

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

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

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

Industry events

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



Government

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

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

Innovation

Open Innovation



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

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

IQE's open innovation programme, 'OpenIQE' is actively helping to boost regional economies by collaborating with industrial and academic partners to identify supply chain opportunities within Wales and across Europe.

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

www.openiqe.com.

ColInnovate

As part of IQE's open innovation programme, a key "ColInnovate" conference is planned in the UK for mid 2015 and is sponsored by a number of major industry and academic players.

The ColInnovate conference website is at:

www.coinnovate.co.uk.

OUR COMMITMENT

Corporate social responsibility

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

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

- ❖ Respecting the need for confidentiality across our global customer base by ensuring that any references to customers' names, products or services are not disclosed to third parties without the customer's consent;
- ❖ Being open and honest about our products and services and communicating with customers all appropriate information they need to make informed decisions;
- ❖ Ensuring that any issues or problems are dealt with efficiently, with fairness and in a timely manner;
- ❖ Working closely with customers and potential customers to help us improve the value of the products and services we offer them;
- ❖ Ensuring that we benchmark and evaluate what we do in order to constantly improve products and services in the marketplace;
- ❖ Communicating with all stakeholders as and when appropriate, effectively and transparently subject to ensuring confidential information is not compromised;
- ❖ Identifying and selecting suppliers using fair and reasonable methodologies;
- ❖ Identifying and using suppliers who operate to ethical business standards;
- ❖ Identifying and using local suppliers wherever possible;
- ❖ Working closely with suppliers to help us improve the value of the products and services we offer customers to the benefit of the supply chain;
- ❖ Ensuring that our terms and conditions are fair and reasonable;
- ❖ Ensuring employment practices throughout the Group are fair and in full compliance with employment legislation;
- ❖ Working with and supporting local and national charities;
- ❖ Encouraging volunteer work in community activities;
- ❖ Supporting local academic establishments; and
- ❖ Participating in voluntary business advisory services via professional bodies.

Each of the Group's subsidiaries is responsible for communicating and applying Group policies within their businesses taking account of local legislation and potential risks. The Group also actively engages with a number of industry Groups, educational bodies and charities to promote science and technology and to help contribute to community causes.

As an AIM listed company, IQE is not eligible to participate in the London Stock Exchange FTSE4 Good programme, but nevertheless maintains standards and applies the principles of this index. The Group also actively engages with a number of industry Groups, educational bodies and charities to promote science and technology and to help contribute to community causes.

Business conduct and ethics

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

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





Supply chain risk mitigation

Upstream supply chain

The Company nurtures close working relationships with its supply chain and works closely with vendors to resolve potential supply issues as well as to develop new products.

Wherever practicable, the Group qualifies and utilizes multiple sources for its key raw materials and continuously monitors its supply chains.

Downstream supply chain

Approximately 80% of the Group's sales are concentrated in the wireless communications market, where we supply advanced semiconductor materials to the companies (RF chip companies) that make the wireless communication chips used in smartphone, tablets, and other wireless devices.

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

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

Process improvements

IQE's strategy is to focus on high-growth technology markets that are characterized by their greater demand for higher performance materials such as those supplied by IQE.

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

Alternative technologies

There are many examples in history where innovation has led to new technologies that disrupt demand for well established, incumbent technologies.

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

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

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

Strategic Report

A report of the Group's performance during the year and future developments is given in the Chairman's Statement and Chief Executive's Review on pages 5 to 7.

Principal risks and uncertainties attributable to the Group are given in Directors' report on page 33 to 34.

Analysis of development and performance of the business and its financial position is given in the financial review on pages 24 to 25

The directors use a number of key performance indicators to manage the business, disclosed in the financial review on page 25. Non financial KPIs are not disclosed.

These areas form the required elements of the strategic report presented on pages 13 to 29 and has been approved by the Board of Directors and signed on its behalf by:



Dr Andrew Nelson
Chief Executive Officer
24 March 2015

Directors' biographies



Drew Nelson OBE (60)

President and Chief Executive Officer

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

Current directorships: PhotonStar
LED Group plc.

Phillip Rasmussen (44)

Group Finance Director and Company Secretary

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

Howard Williams (60)

Operations Director

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



David Grant CBE (67)

Senior Independent Director

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

Current directorships: Renishaw plc, DSTI, STEMNET, INNOVATE UK, NPL.

Simon J Gibson OBE (57)

Non-Executive Director, Chairman of the Remuneration Committee

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

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

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

Godfrey Ainsworth (59)

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

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

Current directorships: Omniport Holdings Limited, Seren Photonics Limited, Cardiff Partnership Fund, McMillan Williams Solicitors Limited.

Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2014.

Activities

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

Business review

A review of the Group's trading during the year and its position at the year end is provided on pages 15 to 23. The review includes key performance indicators as detailed in the Five Year Financial Summary. The principal risks and uncertainties facing the Group are set out on page 28. The future outlook for the Group is set out on page 23.

As part of the rationalisation and re-organisation programme further details of which are provided in note 4 and the post balance sheet events note 27 the Group has entered into a joint venture agreement with WIN Semiconductors Corp and Nanyang Technological University to create the Compound Semiconductor Development Centre ("CSDC") in Singapore.

The CSDC is a centre of excellence for compound semiconductor technology, with the aim of accelerating the development and commercialisation of new advanced semiconductor products. IQE has a 50% equity stake in the new venture, and as part of its contribution to the establishment of the CSDC IQE is providing facilities, equipment and IP on favourable terms. Further details are set out in note 4.

This project forms part of IQE's global reorganisation plan, which in total is on track to deliver annual recurring synergies in excess of £7m per annum. As part of its contribution to this joint venture, IQE will be providing facilities, equipment and IP on favourable terms to the CSDC.

Dividends

The directors do not recommend the payment of a dividend (2013: £nil).

Directors

The directors in office at 31 December 2014 and throughout the year and their beneficial interests in the company's issued ordinary share capital and share options are set out in the remuneration report on page 36.

Substantial interests in shares

As at 27 February 2015, the company had been notified pursuant to the Companies Act of the following substantial interests in the shares of the company as defined by the Listing Rules in addition to those disclosed for the directors:

T Rowe Price International	10.77%
AXA Investment Mgrs	8.85%
Barclays Wealth	5.60%
Hargreaves Lansdown Asset Mgt	5.47%
Mr Richard I Griffiths	5.43%
Herald Investment Mgt	5.26%
Sanlam Four Investments UK	4.93%
TD Direct Investing	4.11%
M&G Investment Mgt.	3.66%

shareholder analysis by Equity

Research and development

The Group incurred costs in respect of research and development during the year of £5,655,000 (2013: £5,271,000) of which £4,957,000 (2013: £4,346,000) has been capitalised in accordance with IAS 38 ("Intangible assets"). The remaining research and development costs totalling £698,000 (2013: £925,000) have been charged to the income statement.

Payment terms

The Group seeks to agree favourable credit terms with its suppliers where possible, and adhere to the agreed terms. The Group's average number of days' purchases outstanding in respect of trade creditors at 31 December 2014 was 74 days (2013: 88 days).

Employment policies

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

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

Going concern

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

Principal risks and uncertainties

The Board considers that the principal risks and uncertainties facing the Group are:

Competition

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

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

Technological change

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

Supply chain

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

Retention of key employees

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

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

Treasury

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

Interest rate risk

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

The Group's policy is to regularly review its exposure to interest rate risk, and in particular the mix between fixed and floating rate facilities. The percentage of borrowings on fixed rate terms at 31 December 2014 was 8% (2013: 10%). Floating rate liabilities are primarily indexed to LIBOR. The Group did not enter into any interest rate swap instruments during 2014. This remains under regular review.

As a guide to the sensitivity of the Group's results to movements in interest rates, a 50 basis point (0.5%) movement in interest rates would have impacted the 2014 annual interest charge by approximately £170,000 (2013: £180,000).

Further details are provided in note 19.

Currency risk

(a) Cash flow risk

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

This exposure is managed by a natural currency hedge because a significant portion of the Group's cost base is also denominated in US dollars. In particular, the majority of the Group's raw materials are purchased in US dollars, and a significant portion of labour and overheads are also denominated in US dollars as five of the Group's principal subsidiaries are situated in North America.

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

Taking into account the extent of the natural hedge within the business model, management periodically use forward exchange contracts to mitigate the impact of the residual foreign currency exposure. As at 31 December 2014 there were no contracts in place.

(b) Fair value risk

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

As a guide to the sensitivity of the Group's results to movements in foreign currency exchange rates, a one cent movement in the US dollar to sterling rate would impact annual earnings by approximately £200,000 (2013: £300,000).

Further details are provided in note 19.

Liquidity risk

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

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

Further details are provided in note 19.

Credit risk

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

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

Further details are provided in note 19.

Capital risk

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

The Group defines total capital as equity in the consolidated balance sheet plus net debt or less net funds (note 24). Total capital at 31 December 2014 was £152,426,000 (2013: £146,602,000).

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. At 31 December 2014 the gearing ratio was 21% (2013: 23%).

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

Statement of directors' responsibilities

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

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

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

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

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

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

Provision of information to auditors

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

Independent Auditors

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

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



Phillip Rasmussen
Finance Director & Company Secretary
24 March 2015

Remuneration report

This report has been prepared applying the principles of the disclosures required for quoted companies under the Companies Act 2006 which were last amended in 2013 to introduce enhanced statutory requirements for the disclosure of directors' remuneration. Although not required to, the directors have decided to provide some of the directors' remuneration disclosures similar to those that would be required of a fully listed company. In particular, the Remuneration Report describes how the Board has applied the principles of good governance relating to directors' remuneration adopting the spirit of the UK Corporate Governance guidance. A resolution to approve the report will be proposed at the forthcoming Annual General Meeting of the company.

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

(a) Remuneration Committee

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

The remuneration committee is comprised exclusively of independent non-executive directors of the company who have no personal financial interest, other than as shareholders, in the matters to be decided. The members of the committee throughout the year were Dr G H H Ainsworth and S J Gibson. The Chairman of the committee is S J Gibson.

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

The committee operates under clear written terms of reference and has access to and takes independent professional advice as appropriate. The committee met twice during 2014 to review the performance of the executive directors and other senior executives, and set the scale and structure of their remuneration.

(b) Remuneration policy

In establishing its remuneration policy, the committee has given consideration to Schedule B of the Best Practices Provisions annexed to the Listing Rules of the Financial Conduct Authority. The remuneration packages for

executive directors and senior executives, as determined by the committee, are intended to attract and retain high quality executives, induce loyalty and motivate them to achieve a high level of corporate performance in line with the best interests of shareholders, while not being excessive. The remuneration of the executive directors consists of annual salary, performance bonus, share options, taxable benefits in kind and pension contributions.

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

(c) Basic salary

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

(d) Performance bonus

Bonus payments are linked to the executive directors achieving internal annual plan targets in respect of profitability and other non-financial performance criteria.

(e) Taxable benefits in kind

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

(f) Share incentive schemes

The company operates a number of share incentive schemes. The IQE Plc Share Option Scheme, as adopted on 26 May 2000 and amended by shareholders at the company's Annual General Meeting on 17 May 2002, allows the company to grant options over up to 15% of the issued share capital and those options are subject to performance conditions.

During the year, the committee approved the grant of 7,095,762 share options to staff (2013: 13,513,274 share options). During 2014, Directors were awarded no nil cost options over ordinary shares in the company (2013: 6,050,881).

As at 31 December 2014, 50,536,520 share options (2013: 56,152,601 share options) granted under the IQE Plc Share Option Scheme remain outstanding with exercise prices ranging from nil cost to 86p/option (2013: nil cost to 86p/option). 8,541,823 share options were exercised by directors during the year (2013: nil). None of the directors' share options lapsed during the year (2013: nil). The numbers and prices of share options at 31 December 2014 and 31 December 2013 were as follows:

Option price	2014 No. of options	2013 No. of options
Share options of nil cost to 10p/option	16,364,700	25,781,307
Share options in excess of 10p/option to 20p/option	28,272,562	24,901,338
Share options in excess of 20p/option to 30p/option	4,335,000	4,120,000
Share options in excess of 30p/option	1,564,258	1,349,956
Total	50,536,520	56,152,601

(g) Pension arrangements

The executive directors are members of the Group defined contribution pension schemes and their pension contributions are based on a percentage of basic annual salary. Their dependants are eligible for the payment of a lump sum in the event of death in service. There have been no changes in the terms of directors' pension entitlements during 2014, and there were no unfunded pension promises or similar arrangements for directors at 31 December 2014.

(h) Executive Directors' service contracts

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

(i) Non-Executive Directors' contracts

The non-executive directors have entered into service agreements with the company, and these are terminable by either party on three months' notice. Non-executive directors have specific terms of engagement, and their fees are determined by the Board within the limits set by the company's Articles of Association. Non-executive directors do not take part in discussions on their own remuneration.

Dr G H H Ainsworth service fees of £125,000 (2013 £70,000). These fees were paid via a combination of cash and shares to Horton Corporate Finance. Dr G H H Ainsworth is a managing partner of Horton Corporate Finance. VAT was charged on the invoices from Horton Corporate Finance and this was recovered by the company. The cash element was £95,000 (2013 £70,000). The shares issued were to a value of £30,000 in the form of 105,340 new ordinary shares of 1p issued during 2014 and 46,816 new ordinary shares issued in January 2015.

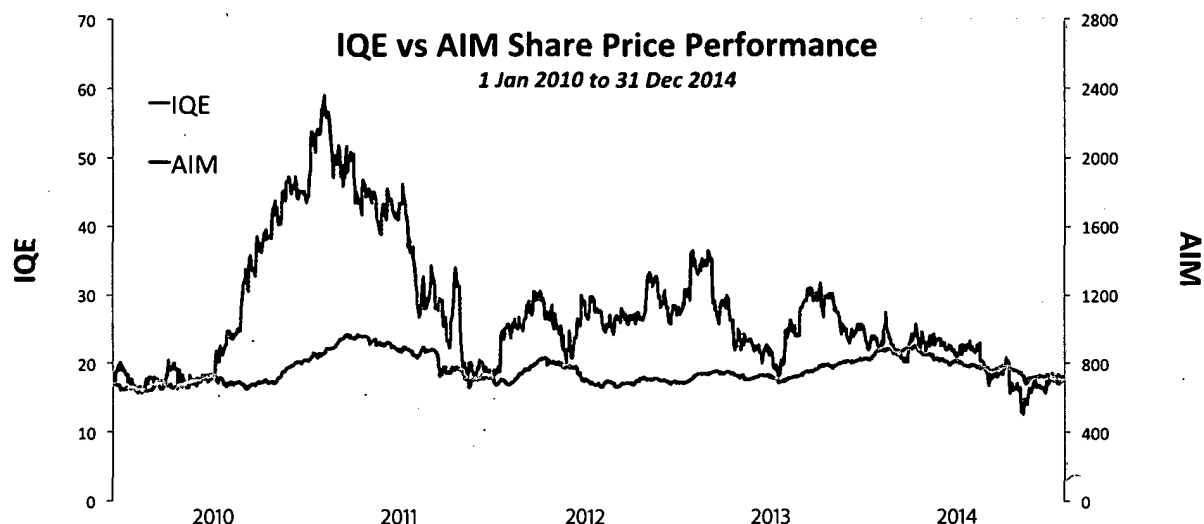
S J Gibson service fees of £46,250 (2013 35,000) were paid in cash. Of these fees £8,000 (2013 £6,000) was paid to S J Gibson and £38,250 (2013: £29,000), was paid to Fishstone Limited. S J Gibson is a shareholder in Fishstone Limited. VAT was charged on the invoices from Fishstone Limited and this was recovered by the company.

Dr D Grant service fees of £46,250 (2013: £35,000) were paid in cash.

The non-executive directors receive no other pay or benefits, do not participate in the company's share schemes, and are not eligible for pension scheme membership. Neither had any share options in the company at 31 December 2014 and it is not intended that share options will be issued to them in the future in accordance with Best Practice Guidelines issued by the Association of British Insurers.

(j) Share price performance

The IQE plc share price has been compared with the AIM market all-share index for the five year period 2010 to 2014 as this was considered to be the most representative market Group.



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

The interests in ordinary shares of IQE Plc of those directors holding office at 31 December 2014 were as follows:

Name of director	As at 1 January 2014	As at 31 December 2014
Executive:		
Dr A W Nelson	29,325,132	35,259,218
Dr H R Williams	1,672,430	4,292,965
P J Rasmussen	852,822	3,473,357
Non-Executive:		
Dr G H H Ainsworth	3,121,999	3,227,339
S J Gibson	301,855	301,855
Dr D Grant	215,000	215,000
Total	35,489,238	46,769,734

During the year, the Executive Directors purchased a total of 3.3 million shares. Dr Drew Nelson also entered into a share sale and repurchase agreement with Equities First Holdings (EFH) on 10th October 2014 for a total of 18 million existing shares. He is obligated to repurchase all these shares at the end of a three year term, ending on 10th October 2017. The agreement provides that he has transferred all title and waives his voting rights in these shares. Under the terms of the agreement, EFH is prohibited from short selling or voting the shares during the term of the agreement. Furthermore, EFH will pay Dr Nelson income that reflects any dividends as they arise from all of these shares during the entire period as if Dr Nelson had continued owning all the shares himself. As part of this overall arrangement, Phillip Rasmussen and Dr Howard Williams have agreed to enter into separate loan agreements with Dr Nelson by pledging 2.72 million shares each to Dr Drew Nelson as security for loans provided by him of £274,000 to each of them. The monies raised by the Executive Directors have been used in part to fund the purchase of the shares and to satisfy income tax and NI obligations following the exercise of share options announced on 10th October 2014. Under HMRC rules, income tax and National Insurance becomes payable directly upon the exercise of options. Consequently, Directors often need to immediately sell at least half of the exercised shares to cover this tax and NI liability. In the case of the IQE Directors, they have elected to raise the tax and NI monies through these arrangements in order to retain all of the exercised share options, thereby increasing their respective holdings in the company, in addition to purchasing additional shares. The share option exercises were part of IQE's LTIP, and the Directors were under no time obligation to exercise such share options, but chose to do so at this time in order to maximise their respective shareholdings in the Company. The table above includes the shares which are the subject of the repurchase obligation by Dr Nelson.

Post year end Dr G H H Ainsworth received 46,816 shares in settlement of Non-executive directors fees relating to the period from 1 October to 31 December 2014. Following this issue of New Ordinary Shares, Dr Ainsworth's total beneficial interest in the Company is 3,274,155 shares. There have been no other changes to the director's interests between the year end and the date the accounts were issued.

(a) Aggregate directors' remuneration

	2014 £'000	2013 £'000
Basic salaries	858	801
Bonuses	-	415
Non-executive fees	217	140
Subtotal salaries and fees	1,075	1,356
Car allowance	107	100
Benefits in kind	21	20
Money purchase pension contributions	56	83
Total	1,259	1,559

The total amounts paid for directors' remuneration during 2014 were as follows:

Name of director	Salary fees and bonuses £'000	Car allowance £'000	Benefits in kind £'000	Pensions £'000	2014 Total £'000	2013 Total £'000
Executive:						
Dr A W Nelson	366	47	8	-	421	497
Dr H R Williams	246	30	1	28	305	410
P J Rasmussen	246	30	12	28	316	512
Non-Executive:						
Dr G H H Ainsworth					125	70
S J Gibson					46	35
Dr D Grant					46	35
Total					1,259	1,559

(b) Directors' emoluments

The aggregate emoluments paid to each director during 2014 were as follows:

Notes:

In aggregate, the executive directors made a gain of £1,058,584 (2013: nil) on the exercise of share options during the year. The majority of these shares were retained by the executive directors. Those sold were sold in order to satisfy the option price and tax arising on the exercise. The shares retained are included in the closing totals shown on page 38. Dr Nelson made a gain of £581,594 (2013: £nil) as part of these exercises.

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

The interests in share options in IQE Plc of those directors who held office at 31 December 2014 were as follows:

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

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

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

The highest and lowest mid-market share prices in respect of the shares of IQE Plc during 2014 were 27.50p/share and 12.50p/share respectively (2013: 36.50p /share and 18.00p/share respectively). The mid-market price of IQE plc shares closed at 17.75p/share as at 31 December 2014 (2013: 23.50p/share).

Approval

This report was approved by the Board of Directors on 24 March 2015 and signed on its behalf by:



S J Gibson, OBE
Remuneration Committee Chairman

Corporate governance report

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

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

Throughout the year ended 31 December 2014, the company has continued to apply the principles of best practice governance adopting the spirit of the UK Corporate Governance guidance.

The Board of Directors

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

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

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

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

The Board held regular meetings during the year. The Board has a formal schedule of matters referred to it for decision, which includes the approval of interim and annual results, the annual budget, acquisitions and disposals, major items of capital expenditure, share capital issues, governance issues and executive appointments. The Board is provided with appropriate strategic and financial information, prior to each meeting

together with monthly reports to enable it to monitor the performance of the Group. The Chief Executive reviews the performance of the executive directors on an annual basis.

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

Board committees

The Board has delegated specific responsibilities to the following committees:

(a) Executive Committee

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

(b) Audit Committee

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

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

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

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

(c) Remuneration and Nominations Committees

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

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

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

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

Attendance at meetings

The number of meetings held during 2014 by the Board, the audit committee and the remuneration committee are as shown below. The number of meetings attended by the executive and non-executive directors is also shown below:

	Board	Audit Committee	Remuneration Committee
Number of meetings held in 2014	8	4	2
Number of meetings attended in 2014:			
Executive			
Dr A W Nelson	8	n/a	2
P J Rasmussen	8	4	n/a
Dr H R Williams	8	n/a	n/a
Non-executive			
Dr G H H Ainsworth	8	4	2
S J Gibson	8	4	2
Dr D Grant	7	4	n/a

Internal control

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

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

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

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

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

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

Shareholder relations

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

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

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

Audit and related services

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

The Audit Committee keeps under review the nature and extent of audit and non-audit services provided to the Group by the auditors in accordance with a policy which it established in 2004. Under this policy, the award to the Group's auditors of audit-related services, tax consulting services or other non-audit related services in excess of £10,000 must first be approved by the Chairman of the Audit Committee. In addition, the Group's auditors will be required to make a formal report to the Audit Committee annually on the safeguards that are in place to maintain their independence and the internal safeguards in place to ensure their objectivity.

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

	Total 2014 £'000	Total 2013 £'000
PricewaterhouseCoopers LLP (Group auditors)		
Fees payable to company's auditor and its associates for the audit of parent company and consolidated financial statements	19	18
Fees payable to company's auditor and its associates for other services:		
- The audit of company's subsidiaries	94	93
- Audit-related assurance services	15	15
- Tax compliance service	-	-
Ernst and Young (auditors of MBE Technology Pte Limited)		
- Subsidiary company's audit	16	17
- Tax services	3	-
Total	147	143

Independent auditors' report

Independent auditors' report to the members of IQE plc

Report on the financial statements

Our opinion

In our opinion:

- ❖ IQE plc's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the Group's profit and the Group's and the parent company's cash flows for the year then ended;
- ❖ the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- ❖ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- ❖ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

IQE plc's financial statements comprise:

- ❖ the consolidated and parent company balance sheets as at 31 December 2014;
- ❖ the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- ❖ the consolidated and parent company cash flow statements for the year then ended;
- ❖ the consolidated and parent company statements of changes in equity for the year then ended; and
- ❖ the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 35, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

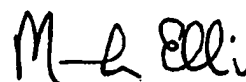
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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

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

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

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

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



Mark Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
24 March 2015

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

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

Financial statements

Consolidated income statement for the year ended 31 December 2014

		2014	2013
	Note	£'000	£'000
Revenue	3	112,011	126,774
Cost of sales		(86,015)	(103,669)
Gross profit		25,996	23,105
Other income and expenses	4	(1,726)	(179)
Selling, general and administrative expenses		(17,103)	(15,580)
Operating profit	5	7,167	7,346
Finance costs	7	(1,924)	(2,154)
Adjusted profit before tax		16,189	13,010
Adjustments	4	(10,946)	(7,818)
Profit before tax		5,243	5,192
Taxation	8	(3,247)	934
Profit for the year		1,996	6,126
Profit attributable to:			
Equity shareholders		1,632	5,955
Non-controlling interest		364	171
		1,996	6,126
Basic earnings per share	10	0.25p	0.93p
Diluted earnings per share	10	0.24p	0.89p

Adjusted basic and diluted earnings per share is presented in note 10.
The notes on pages 54 to 87 form part of these financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2014

	2014	2013
	£'000	£'000
Profit for the year	1,996	6,126
Currency translation differences on foreign currency net investments*	5,192	(3,294)
Total comprehensive income for the year	7,188	2,832
*This may be subsequently reclassified to profit or loss		
Total comprehensive income attributable to:		
Equity shareholders	6,822	2,779
Non-controlling interest	366	53
	7,188	2,832

Consolidated balance sheet as at 31 December 2014

		2014	2013
	Note	£'000	£'000
Non-current assets:			
Intangible assets	11	82,079	75,859
Property, plant and equipment	12	66,588	71,840
Deferred tax assets	8	12,332	16,040
Total non-current assets		160,999	163,739
Current assets:			
Inventories	14	18,276	17,702
Trade and other receivables	15	24,463	22,907
Cash and cash equivalents		5,584	3,258
Total current assets		48,323	43,867
Total assets		209,322	207,606
Current liabilities:			
Borrowings	17	(14,720)	(4,804)
Trade and other payables	16	(30,396)	(31,114)
Provisions for other liabilities and charges	18	(1,551)	-
Total current liabilities		(46,667)	(35,918)
Non-current liabilities:			
Borrowings	17	(22,115)	(32,805)
Other payables	16	(15,431)	(26,632)
Provisions for other liabilities and charges	18	(3,934)	-
Total non-current liabilities		(41,480)	(59,437)
Total liabilities		(88,147)	(95,355)
Net assets		121,175	112,251
Equity attributable to the shareholders of the parent:			
Share capital	20	6,603	6,475
Share premium		49,108	48,958
Retained earnings		50,336	48,704
Other reserves		13,009	6,361
		119,056	110,498
Non-controlling interest		2,119	1,753
Total equity		121,175	112,251

The notes on pages 54 to 87 form part of these financial statements. These financial statements were approved by the Board of Directors on 24 March 2015. Signed on behalf of the Board of Directors.

Phillip Rasmussen

P J Rasmussen

Dr A W Nelson

Dr A W Nelson

Consolidated statement of changes in equity for the year ended 31 December 2014

	Share capital	Share premium	Retained earnings	Exchange rate reserve	Other reserves	Non- controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2014	6,475	48,958	48,704	(401)	6,762	1,753	112,251
Comprehensive income							
Profit for the year	-	-	1,632	-	-	364	1,996
Foreign exchange	-	-	-	5,190	-	2	5,192
Total comprehensive income	-	-	1,632	5,190	-	366	7,188
Transactions with owners							
Share based payments	-	-	-	-	1,458	-	1,458
Issues of ordinary shares	128	150	-	-	-	-	278
Total transactions with owners	128	150	-	-	1,458	-	1,736
Balance at 31 December 2014	6,603	49,108	50,336	4,789	8,220	2,119	121,175
	Share capital	Share premium	Retained earnings	Exchange rate reserve	Other reserves	Non- controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2013	5,882	33,445	42,749	2,775	5,347	-	90,198
Comprehensive income							
Profit for the year	-	-	5,955	-	-	171	6,126
Foreign exchange	-	-	-	(3,176)	-	(118)	(3,294)
Total comprehensive income	-	-	5,955	(3,176)	-	53	2,832
Transactions with owners							
Acquisition of Kopin wireless	-	-	-	-	-	1,700	1,700
Share based payments	-	-	-	-	1,415	-	1,415
Issues of ordinary shares	593	15,513	-	-	-	-	16,106
Total transactions with owners	593	15,513	-	-	1,415	1,700	19,221
Balance at 31 December 2013	6,475	48,958	48,704	(401)	6,762	1,753	112,251

The notes on pages 54 to 87 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Cash flows from operating activities:			
Adjusted cash inflow from operations		19,614	16,173
Cash impact of adjustments	4	(4,753)	(3,411)
Cash inflow from operations	23	14,861	12,762
Net interest paid		(1,428)	(1,546)
Income tax received / (paid)		1,258	(686)
Net cash generated from operating activities		14,691	10,530
Cash flows from investing activities:			
Acquisition of Kopin		-	(36,533)
Capitalised development expenditure		(4,957)	(4,346)
Investment in other intangible fixed assets		(1,291)	(556)
Purchase of property, plant and equipment		(3,178)	(5,196)
Net cash used in investing activities		(9,426)	(46,631)
Cash flows from financing activities:			
Issues of ordinary share capital		278	16,106
Repayment of borrowings	23	(4,680)	(4,437)
Increase in borrowings	23	1,305	25,000
Net cash (used in)/generated from financing activities		(3,097)	36,669
Net Increase in cash and cash equivalents		2,168	568
Cash and cash equivalents at 1 January	24	3,258	2,773
Exchange gains/(losses) on cash and cash equivalents		158	(83)
Cash and cash equivalents at 31 December	24	5,584	3,258

The notes on pages 54 to 87 form part of these financial statements.

Parent company balance sheet for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Non-current assets:			
Investments	13	28,430	13,265
Intangible assets	11	332	-
Property, plant and equipment	12	18	43
Total non-current assets		28,780	13,308
Current assets:			
Trade and other receivables	15	81,606	99,342
Cash and cash equivalents		2,065	172
Total current assets		83,671	99,514
Total assets		112,451	112,822
Current liabilities:			
Trade and other payables	16	(2,753)	(1,054)
Borrowings	17	(12,800)	(2,400)
Total current liabilities		(15,553)	(3,454)
Non-current liabilities:			
Trade and other payables	16	(484)	(484)
Borrowings	17	(19,673)	(28,915)
Total non-current liabilities		(20,157)	(29,399)
Total liabilities		(35,710)	(32,853)
Net assets		76,741	79,969
Shareholders' equity:			
Share capital	20	6,603	6,475
Share premium		49,108	48,958
Retained earnings		12,624	17,588
Other reserves		8,406	6,948
Total equity		76,741	79,969

The notes on pages 54 to 87 form part of these financial statements.
These financial statements were approved by the Board of Directors on 24 March 2015

Signed on behalf of the Board of Directors

Phillip Rasmussen

P J Rasmussen

Dr A W Nelson

Dr A W Nelson

Parent company statement of changes in equity for the year ended 31 December 2014

	Share capital £'000	Share premium £'000	Retained earnings £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2013	5,882	33,445	20,103	5,533	64,963
Comprehensive expense					
Loss for the year	-	-	(2,515)	-	(2,515)
Total comprehensive expense	-	-	(2,515)	-	(2,515)
Transactions with owners					
Share based payments	-	-	-	1,415	1,415
Share placing	569	15,336	-	-	15,905
Other issues of ordinary shares	24	177	-	-	201
Total transactions with owners	593	15,513	-	1,415	17,521
Balance at 31 December 2013	6,475	48,958	17,588	6,948	79,969
Comprehensive expense					
Loss for the year	-	-	(4,964)	-	(4,964)
Total comprehensive expense	-	-	(4,964)	-	(4,964)
Transactions with owners					
Share based payments	-	-	-	1,458	1,458
Issues of ordinary shares	128	150	-	-	278
Total transactions with owners	128	150	-	1,458	1,736
Balance at 31 December 2014	6,603	49,108	12,624	8,406	76,741

The notes on pages 54 to 87 form part of these financial statements.

Parent company cash flow statement for the year ended 31 December 2014

		2014	2013
	Note	£'000	£'000
Cash flows from operating activities:			
Cash inflow/(outflow) from operations	23	4,152	(40,759)
Interest paid		(1,092)	(1,189)
Taxation		86	-
Net cash generated from/(used in) operating activities		3,146	(41,948)
Cash flows from investing activities:			
Investment in Seren Photonics Limited	13	(50)	-
Investment in other intangibles	11	(316)	-
Purchase of property plant and equipment	12	(7)	(57)
Net cash used in investing activities		(373)	(57)
Cash flows from financing activities:			
Issues of ordinary share capital		278	16,106
Repayment of borrowings		(2,463)	(2,090)
Increase in borrowings		1,305	25,000
Net cash (used)/generated from financing activities		(880)	39,016
Net increase/(decrease) in cash and cash equivalents		1,893	(2,989)
Cash and cash equivalents at 1 January		172	3,161
Cash and cash equivalents at 31 December		2,065	172

The notes on pages 54 to 87 form part of these financial statements.

Notes to the financial statements

1. Significant accounting policies

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

General Information

IQE plc Group's principal activity are set out on page 32 of the directors report. The company is a public limited company, which is listed on the Alternative Investment Market (AIM) and incorporated and domiciled in England and Wales. The address of its registered office is Pascal Close, St Mellons, Cardiff, CF3 0LW.

Basis of preparation

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

Changes in accounting policy and disclosures

(a) *New standards, amendments and interpretations adopted by the group* The following standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2014. They do not materially impact on the group results:

IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

Amendment to IAS 32, 'Financial instruments', Amendments to IAS 36, 'Impairment of assets' IFRIC 21, 'Levies' are standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 and are not material to the group.

(b) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2014 and not early adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been early adopted in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the group.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary undertakings. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

Joint ventures

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

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

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

Business combinations

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

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

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

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

Acquisition related costs are expensed as incurred.

Intangible assets

a) Goodwill

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

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

b) Patents trademarks and licences

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

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

c) Development costs

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

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

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

All research and other development costs are expensed as incurred.

Capitalised development costs are amortised in-line with the revenue profile over the period during which the economic benefits are expected to be received, which typically range between 3 and 8 years. The estimated remaining useful lives of development costs are reviewed at least on an annual basis. Amortisation commences once the project is completed and revenues are being generated.

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

d) Software

Directly attributable costs incurred in the development of bespoke software for the group's own use are capitalised and amortised on a straight line basis over the expected useful life of the software, which typically range between 3 and 8 years.

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

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

e) Other intangibles recognised on acquisition

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

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

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

Property, plant and equipment

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

Freehold buildings.....	25 years
Short leasehold improvements.....	5 to 27 years
Plant and machinery.....	5 to 15 years
Fixtures and fittings.....	4 to 5 years

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

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

Impairment of non-current assets

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

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

Inventories

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

Trade receivables

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

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

Cash and cash equivalents

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

Trade payables

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

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

Provisions

Provisions are recognised when:

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

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

Financial instruments

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

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

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

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

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

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

Detailed disclosures of the group's financial instruments are provided in notes 15, 16, 17 and 19.

Leases

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

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

Revenue recognition

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

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

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

Segmental reporting

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

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

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

Pension costs

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

Share based payments

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

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

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

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

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

Exceptional items

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

Foreign currencies

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

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

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

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

Taxation

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

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

Amounts receivable from tax authorities in relation to R&D tax relief claims for fiscal year 2013 and before are recognised as a credit within the group's tax charge. For subsequent years the R&D tax credits are under the RDEC scheme and are recognised with operating profit.

Where amounts are outstanding at the year end and have not been formally agreed, an appropriate estimate of the amount is included within other receivables.

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

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

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

Investment in subsidiaries

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

Other equity investments

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

2. Critical accounting judgements and key sources of estimation uncertainty

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

(a) Impairment of tangible and intangible assets

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

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

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

As part of the rationalisation and re-organisation programme further details of which are provided in note 4 and the post balance sheet events note 27 the Group has entered into a joint venture agreement with WIN Semiconductors Corp and Nanyang Technological University to create the Compound Semiconductor Development Centre ("CSDC") in Singapore.

The CSDC is a centre of excellence for compound semiconductor technology, with the aim of accelerating the development and commercialisation of new advanced semiconductor products. IQE is has a 50% equity stake in the new venture, and as part of its contribution to the establishment of the CSDC IQE is providing facilities, equipment and IP on favourable terms. Further details are set out in note 4. As a consequence, IQE has booked provisions of £4.9m for asset impairment comprising the transfer of tools to the CSDC.

(b) Impairment of receivables

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

(c) Inventory provisions

Inventories are carried at the lower of cost and net realisable value. Provision is made based on a number of factors including the age of inventories, the risk of obsolescence and the expected future usage. As set out in note 4 the group has recorded one off inventory write downs of £1.4m primarily relating to the expected formation of the Compound Semiconductor Development Centre (CSDC) in Singapore.

(d) Acquisition fair values

An assessment of the fair value of the purchase consideration and net assets acquired was undertaken for the acquisitions made during 2012 and 2013. We have reassessed the fair value of the deferred contingent consideration in relation to the 2012 RFMD acquisition. This resulted in an exceptional release of £9.9m to other income as a result of the re-assessment of the forecast volumes. Further details are provided in note 4.

(e) Deferred tax assets

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

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

(f) Onerous lease provision

A provision for onerous leases has been made in the year. The provision assumes that the lease will be onerous for the next four and a half years. Subsequent to this period we expect to be able to sublet the premises or negotiate to exit the lease. The full term of the lease obligation is 7 years with the lease running until 2021.

(g) Adjustments to profit

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

3. Segmental analysis

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

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

2014	Wireless	Photonics	Electronics	Total
	£'000	£'000	£'000	£'000
Income statement				
Revenue	89,110	21,761	1,140	112,011
EBITDA	22,164	5,603	(758)	27,009
Exceptional items	(2,891)	(30)	-	(2,921)
Share based payments	(1,160)	(283)	(15)	(1,458)
Profit and Loss on disposal	(3)	-	(12)	(15)
Impairment	(4,956)	-	-	(4,956)
Depreciation	(5,472)	(982)	(136)	(6,590)
Amortisation	(2,605)	(1,017)	(280)	(3,902)
Operating profit/(loss)	5,077	3,291	(1,201)	7,167
Finance costs				(1,924)
Tax				(3,247)
Profit after tax				1,996
Segment assets				
Operating assets	156,116	29,859	5,431	191,406
Deferred tax asset	6,935	5,294	103	12,332
Cash				5,584
Total assets				209,322
Segment liabilities				
Operating liabilities	(41,197)	(4,205)	(425)	(45,827)
Provisions	(5,485)	-	-	(5,485)
Borrowings				(36,835)
Total liabilities				(88,147)
Other segmental information				
Capital expenditure - intangible assets	4,625	1,454	196	6,275
Capital expenditure - property, plant and equipment	1,687	1,334	150	3,171

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

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

2013	Wireless £'000	Photonics £'000	Electronics £'000	Total £'000
Income statement				
Revenue	107,219	18,685	870	126,774
EBITDA	22,541	2,279	100	24,920
Exceptional items	(1,860)	(3,205)	-	(5,065)
Share based payments	(1,129)	(269)	(17)	(1,415)
Depreciation	(7,580)	(792)	(131)	(8,503)
Amortisation	(2,113)	(467)	(11)	(2,591)
Operating profit/(loss)	9,859	(2,454)	(59)	7,346
Finance costs				(2,154)
Tax				934
Profit after tax				6,126
Segment assets				
Operating assets	157,626	25,326	5,356	188,308
Deferred tax assets	13,258	2,727	55	16,040
Cash				3,258
Total assets				207,606
Segment liabilities				
Operating liabilities	(54,220)	(3,249)	(277)	(57,746)
Borrowings				(37,609)
Total liabilities				(95,355)
Other segmental information				
Capital expenditure - intangible assets	23,586	1,174	1,521	26,281
Capital expenditure - property, plant and equipment	18,089	1,849	46	19,984

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

	2014 £'000	2014 % revenue	2013 £'000	2013 % revenue
Customer 1	33,001	29%	23,899	19%
Customer 2	27,025	24%	40,480	32%

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

Geographical information

Disclosure of group revenues by location of customer:

	2014	2013
	£'000	£'000
Americas	75,740	105,211
United States of America	75,552	105,168
Rest of Americas	188	43
Europe, Middle East & Africa (EMEA)	7,325	5,959
France	447	155
Germany	2,249	917
Israel	1,609	1,156
United Kingdom	1,680	1,171
Rest of EMEA	1,340	2,560
Asia Pacific	28,946	15,604
People's Republic of China	768	442
Japan	5,023	5,324
Taiwan	21,572	8,461
Rest of Asia Pacific	1,583	1,377
Total revenue	112,011	126,774

Disclosure of non-current assets by location of assets:

	Property, plant and equipment		Intangible assets	
	2014	2013	2014	2013
By location	£'000	£'000	£'000	£'000
USA	45,944	49,450	59,226	56,252
Singapore	6,762	8,775	8,646	8,405
Taiwan	7,555	7,555	1,155	848
UK	6,327	6,060	13,052	10,354
	66,588	71,840	82,079	75,859

4. Adjusted profit measures

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

	2014	2013
	£'000	£'000
Restructuring and reorganisation	17,780	3,411
Gain on release of contingent deferred consideration	(9,903)	(3,026)
Amortisation of acquired intangibles	1,116	730
Discounting of long term acquisition related balances	495	608
Share based payments	1,458	1,415
Write down of investment in Solar Junction	-	3,205
Acquisition related inventory fair value adjustment	-	1,475
Total before tax	10,946	7,818
Deferred tax on adjustments	3,759	(330)
Total after tax	14,705	7,488

As previously reported, through 2013 and 2014 the group was engaged in restructuring and reorganising its global operations. This has necessitated incurring certain cash costs and creating provisions for asset impairments and future lease costs. No further restructuring costs are anticipated in 2015.

The cash costs incurred were £4.8m (2013: £3.4m) which related to redundancy costs, requalification costs and the duplication of overheads to support the transition of customers between production facilities.

The asset and lease provisions primarily related to the group setting aside its Singapore facility and certain equipment for use by a new joint venture called the Compound Semiconductor Development Centre ("CSDC"). The CSDC has been established to accelerate the development of compound semiconductor technology in Singapore, and to provide an effective incubator for bringing new innovations to market. In return, IQE will be the production partner for the high volume manufacturing that emerges from this incubator. The asset impairments related to equipment (£4.9m) and inventories (£1.4m), and the provision for onerous leases £6.7m. There were no provisions relating to restructuring in 2013. These provisions are accounting estimates based on judgements, accordingly, the actual amounts may differ from these estimates.

The Group also generated a non-cash profit of £9.9m (2013 £3.0m) arising from a reduction in the estimated remaining deferred consideration (settled via trade discount) in respect of a previous acquisition. This has been classified within other income and expenses in the consolidated income statement.

The investment in Solar Junction Corporation was fully provided for at 31 December 2013, and classified within other income and expenses in the consolidated income statement.

In 2013 in fair valuing the assets of the acquired Kopin Wireless business, the inventories were recorded in the Group's financial statements at their fair value. Therefore, the reported gross margin reflects a reduced profit on the sale (post acquisition) of the inventories acquired. The £1.5m adjustment above eliminates this fair value uplift so that the adjusted gross margin reflects the normal trading profit.

The deferred tax charge of £3.8m (2013: £0.3m credit) reflects the net deferred tax impact associated with these items.

The adjustments above which are classified within gross margin are £3.1m (2013: £2.4m) of the cash costs of restructuring, £1.4m (£nil) inventory provision and £1.0m (£0.9m) of the share based payment charge. In 2013, the acquisition related inventory fair value adjustment was also classified within gross margin.

	2014 £'000	2013 £'000
Adjusted gross margin	31,552	27,939
Reported gross margin	25,996	23,105
Adjusted sales, general and administrative expenses	(13,935)	(13,383)
Reported sales, general and administrative expenses	(17,103)	(15,580)
Adjusted operating profit	17,618	14,556
Reported operating profit	7,167	7,346
Adjusted profit before tax	16,189	13,010
Reported profit before tax	5,243	5,192
Adjusted profit after tax	16,701	13,614
Reported profit after tax	1,996	6,126

	2014 £'000	2013 £'000
Profit attributable to equity shareholders	1,632	5,955
Minority interest	364	171
Tax	3,247	(934)
Share based payments	1,458	1,415
Finance costs	1,924	2,154
Depreciation of tangible fixed assets	6,590	8,503
Amortisation of intangible fixed assets	3,902	2,591
Profit and loss on disposal	15	-
Provision for onerous lease*	6,673	-
Acquisition related inventory fair value adjustment*	-	1,475
Impairment of assets/investments*	6,354	3,205
Release of contingent deferred consideration*	(9,903)	(3,026)
Restructuring and re-organisation*	4,753	3,411
EBITDA	27,009	24,920

* Exceptional items impacting EBITDA include the following items: acquisition related inventory fair value adjustments, impairment of assets/investments, provision for onerous lease, wireless business unit re-organisation costs and the release of contingent deferred consideration.

5. Operating profit

	2014	2013
	£'000	£'000
The operating profit is stated after charging/(crediting):		
Depreciation of property, plant and equipment	6,590	8,503
Amortisation of non-current intangible assets	3,902	2,591
Services provided by auditors*	147	143
Operating lease rentals	3,209	3,109
Research and development	698	925
Exchange gains	(26)	(254)
Share based payments	1,458	1,415
Cost of inventories consumed	43,741	49,727
Exceptional items**	7,877	5,065

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

**Exceptional items include the following items: acquisition related inventory fair value adjustments, wireless business unit re-organisation costs, impairment of assets, onerous lease provision and the release of contingent deferred consideration. Further details are provided in note 4.

6. Employee costs

	2014	2013
	£'000	£'000
Employee costs (including directors' remuneration)		
Wages and salaries	25,525	26,521
Social security costs	2,799	2,437
Other pension costs	1,107	1,249
Charge for share based payments	1,458	1,415
	30,889	31,622

	2014	2013
	Number	Number
Average number of employees (including directors)		
Cost of sales	449	494
Selling, general and administrative	132	125
	581	619

Directors' emoluments and share option details are disclosed in the Remuneration Report on page 36 to 40. Key management within the group comprises the executive and non-executive directors, the business unit and group senior management and the site general managers. Compensation to key management, including pensions of £139,000 (2013: £171,000), was £3,198,000 (2013: £3,654,000) and the charge for share-based payments was £917,000 (2013: £894,000).

7. Finance costs

	2014	2013
	£'000	£'000
Bank and other loans	1,347	1,464
Finance lease interest	82	82
Unwind of discount on long term balances	495	608
	1,924	2,154

8. Taxation

Current tax credit	2014	2013
	£'000	£'000
United Kingdom research and development tax credits receivable	1,569	750
Overseas adjustments in respect of prior years	-	(428)
Overseas taxes charges	(444)	(171)
Total current tax credit	1,125	151
Deferred tax (charge)/credit	(4,372)	783
Total tax (charge)/credit	(3,247)	934

Factors affecting total tax (charge)/credit

The tax credit assessed for the year is different from that resulting from applying the standard rate of corporation tax in the UK: 21.5% (2013: 23.25%). The differences are explained below:

	2014	2013
	£'000	£'000
Profit on ordinary activities before taxation	5,243	5,192
Tax charge at 21.5% thereon (2013: 23.25%)	(1,127)	(1,207)
Effects of:		
Expenses not deductible for tax purposes	(41)	(40)
Overseas tax rate differences	(5,584)	(3,382)
Decrease in unrecognised tax losses	964	6,484
Other deferred tax movements	972	(1,198)
Impact on deferred tax as a result of changes in tax rates	-	(45)
Overseas adjustments in respect of prior years	-	(428)
United Kingdom research and development tax credits receivable	1,569	750
Total tax (charge)/credit for the year	(3,247)	934

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

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

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

Deferred tax asset	2014	2013
	£'000	£'000
At 1 January	16,040	14,549
Deferred tax (charge)/credit recognised in the year	(4,372)	783
Deferred tax assets recognised on acquisition	-	625
Foreign exchange differences	664	83
At 31 December	12,332	16,040

The current portion of the deferred tax asset is £600,000 (2013: £780,000) in relation to utilization of tax losses.

The deferred income tax asset recognised at 31 December 2014 of £12,332,000 (2013: £16,040,000) relates mainly to tax losses carried forward, as well as timing differences on fair value adjustments in respect of previous acquisitions and an element of accelerated depreciation. These are recognised to the extent that the realisation of the related tax benefit through future taxable profits from the same trade is probable.

The net amount not recognised is an asset of £19,600,000 (2013: £20,708,000). The unrecognised amounts relate to a mix of losses, temporary timing differences including accelerated depreciation and income tax deductions receivable on the exercise of employee share options. The asset would be recognised if sufficient profits from the same trade arise in future periods.

Total tax losses carried forward account for a potential deferred tax asset of £39,076,000 (2013: £25,078,000).

Company

There is an unrecognised deferred tax asset of £585,000 (2013: £800,000) which relates primarily to short term timing differences arising on share option charges.

9. Dividends

No dividend has been paid or proposed in 2014 (2013: £nil).

10. Earnings per share

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

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

The directors also present an adjusted earnings per share measure which eliminates certain non-cash items in order to provide a more meaningful underlying profit measure. The adjustments are detailed in note 4.

	2014	2013
	£'000	£'000
Profit attributable to ordinary shareholders	1,632	5,955
Adjustments to profit after tax (note 4)	14,705	7,488
Adjusted profit attributable to ordinary shareholders	16,337	13,443

	2014	2013
	Number	Number
Weighted average number of ordinary shares	650,836,462	642,239,979
Dilutive share options	25,116,813	30,127,305
Adjusted weighted average number of ordinary shares	675,953,275	672,367,284

Adjusted basic earnings per share	2.51p	2.09p
Basic earnings per share	0.25p	0.93p
Adjusted diluted earnings per share	2.42p	2.00p
Diluted earnings per share	0.24p	0.89p

11. Intangible assets

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

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

* Acquisition intangibles relate to customer contract intangible assets

The amortisation charge of: £3,902,000 (2013: £2,591,000) has been charged to selling, general and administrative expenses in the Consolidated Income Statement.

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

Impairment tests for goodwill

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

	2014	2013
	£'000	£'000
Allocation of goodwill by operating segment		
Wireless	48,610	45,971
Photonics	7,275	6,890
Total Goodwill	55,885	52,861

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

The recoverable amount of all CGUs has been determined based on value in use calculations, using pre-tax cash flow projections for a five year period plus a terminal value assuming no subsequent growth. The Board approved budget is used for the first year of the forecast. Beyond this the Board has used assumptions which are below expectations in order to "stress test" for potential impairment, namely:

- Wireless revenue growth 3.5% pa (2013: 3% pa);
- Photonics revenue growth 10.5% pa (2013: 3% pa) which is significantly lower than the 2014 Photonics revenue growth rate of ~23% in constant currency,
- Sales into new markets of £10m over 5 years,
- Margin erosion 1% pa (2013: 1% pa),
- Cost inflation 3% (2013: 3% pa),
- A pre-tax discount rate of 11% (2013: 11%).

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

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

The Company

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

12. Property, plant and equipment

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

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

As part of the rationalisation and re-organisation programme, IQE will be providing facilities, equipment and IP on favourable terms to the CSDC as set out in the critical accounting judgments (note 2) and the post balance sheet events note 27. As a consequence, IQE has booked provisions of £4.9m for asset impairment relating to the transfer of tools to the CSDC. The impairment provision writes the assets down to their recoverable amount.

b) Capitalised finance leases

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

	2014	2013
	£'000	£'000
Cost	2,728	2,557
Accumulated Depreciation	(216)	(41)
Net book value	2,512	2,516

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

c) The Company

**Fixtures
and fittings**
£'000

Cost	
At 1 January 2014	78
Additions	7
Reclassification to intangibles	(16)
At 31 December 2014	69
Accumulated depreciation	
At 1 January 2014	35
Charge for the year	16
Adjustment	-
At 31 December 2014	51
Net book value	
At 31 December 2014	18
At 31 December 2013	43

**Fixtures
and fittings**
£'000

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

13. Investments

a) Company

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

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

Details of principal subsidiaries are set out in note 26.

The additions in the year relate to the capitalization of an inter-company loan balance.

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

In the year impairment charges of £1,076,000 have been recognised to the write down of the investment in subsidiaries to recoverable amount.

The other equity investments of £3.2m in 2012 related to the equity investment in Solar Junction Corporation. A provision for impairment was recorded in 2013 prior to the disposal in 2014 where the Group sold its minority equity interest in Solar Junction Corporation. The acquirer was a strategic investor with strong interests in accelerating the large scale adoption and commercialisation of Solar Junction's technology. IQE's long term wafer supply agreement was unaffected by this transaction.

14. Inventories

	2014	2013
	£'000	£'000
Raw materials and consumables	13,177	12,856
Work-in-progress and finished goods	5,099	4,846
	18,276	17,702

The directors are of the opinion that the replacement values of inventories are not materially different to the carrying values stated above. These carrying values are stated net of impairment provisions of £5,937,000 (2013: £4,800,000). £1,399,000 (2013: 2,412,000) of inventories were written down during 2014 and an expense recognised in the income statement.

15. Trade and other receivables

	2014 Group	2014 Company	2013 Group	2013 Company
	£'000	£'000	£'000	£'000
Trade receivables	12,809	-	9,312	-
Amounts owed by group undertakings	-	81,224	-	98,380
Other receivables and prepayments	11,654	382	13,595	962
	24,463	81,606	22,907	99,342

As at 31 December 2014, 88% (2013: 91%) of trade receivables were within terms. Of the other trade receivables, 93% (2013: 58%) were less than 30 days past due. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £330,000 (2013: £121,000). This allowance has been determined by reference to past default experience. Included in other receivables is accrued income of £8,806,000 (2013: £10,269,000).

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

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

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

Trade receivables and accrued income are primarily denominated in US dollars, as are trade payables (note 16). The natural hedge between these financial instruments limits the exposure of the group to movements in foreign exchange rates. Based on the balances held at 31 December 2014 a 1 cent movement in the US dollar to Sterling rate would impact the net value of these instruments by £47,000 (2013: £11,000) (before the mitigating impact of cash flow hedges).

16. Trade and other payables

Current	2014 Group £'000	2014 Company £'000	2013 Group £'000	2013 Company £'000
Trade payables	14,518	57	15,090	-
Amounts owed by group undertakings	-	1,457	-	446
Deferred consideration	5,183	-	9,000	-
Other taxation and social security	1,072	728	626	73
Accruals and deferred income	9,623	511	6,398	535
	30,396	2,753	31,114	1,054

Non-current	2014 Group £'000	2014 Company £'000	2013 Group £'000	2013 Company £'000
Deferred consideration	15,431	484	26,632	484

Within deferred consideration is £10.7m (2013: £26.6m) being the best estimate of the amount that will be settled through contractually agreed price discounts over the next four years. Long term contingent deferred consideration balances are discounted at 2.5%.

The fair value of the contingent deferred consideration has been re-assessed during the year resulting in a reduction of £9.9m (2013: £3.0m). This has been credited to the consolidated income statement within other income and expenses. The exceptional income has been excluded from our adjusted profit measure set out in note 4.

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

There is no foreign currency exchange contracts held at 31 December 2014 or 31 December 2013.

17. Borrowings

The Group	2014 £'000	2013 £'000
Non-current borrowings:		
Bank borrowings	22,002	31,902
Finance leases	113	903
	22,115	32,805
Current borrowings:		
Bank borrowings	13,867	4,002
Finance leases	853	802
	14,720	4,804
Total borrowings	36,835	37,609

a) Bank borrowings

	2014	2013
	£'000	£'000
Bank borrowings fall due for repayment as follows:		
Within one year	13,867	4,002
Between one and five years	22,002	31,902
After five years	-	-
	35,869	35,904

b) Finance leases

	2014	2013
	£'000	£'000
Gross finance lease liabilities – minimum lease payments:		
Within one year	873	851
Between one and five years	114	922
	987	1,773
Finance charges	(21)	(68)
Present value of finance lease liabilities	966	1,705

	2014	2013
	£'000	£'000
Present value of finance lease liabilities:		
Within one year	853	802
Between one and five years	113	903
	966	1,705

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

The company

The borrowings of the parent company comprise the bank loan of £32,473,000 (2013 £31,315,000) which comprise multi-currency acquisition and RCF facilities.

	2014	2013
	£'000	£'000
Bank borrowings fall due for repayment as follows:		
Within one year	12,800	2,400
Between one and five years	19,673	28,915
After five years	-	-
	32,473	31,315

18. Provisions for other liabilities and charges

	2014	2013
(All figures £'000s)	£'000	£'000
As at 1 January	-	-
Charged/(Credited) to the income statement	6,673	-
Utilised during the year	(1,206)	-
Foreign exchange	18	-
As at 31 December	5,485	-

	2014	2013
(All figures £'000s)	£'000	£'000
Current	1,551	-
Non-Current	3,934	-
Total Provisions for other liabilities and charges	5,485	-

As part of the re-organisation and rationalisation of the Group's facilities the Group is ceasing activities at its Singapore facility and establishing the Compound Semiconductor development Centre. The provision above represents the onerous lease obligation in respect of the Singapore property. This is expected to be utilised over the next four and a half years. The provision has been discounted using a risk free rate of 2.5%.

19. Financial Instruments

Financial instruments by category

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

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

Financial risk and treasury policies

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

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

Credit risk

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

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

Carrying amount	2014 Group £'000	2014 Company £'000	2013 Group £'000	2013 Company £'000
Cash and Cash equivalents	5,584	2,065	3,258	172
Trade receivables	12,809	-	9,312	-
Amounts owed by group undertakings	-	81,224	-	98,380
Other receivables – (accrued income)	8,806	-	10,269	-
	27,199	83,289	22,839	98,552

Included in other receivables is accrued income of £8,806,000 (2013: £10,269,000).

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

	Gross 2014 £'000	Provision 2014 £'000	Net 2014 £'000	Gross 2013 £'000	Provision 2013 £'000	Net 2013 £'000
Not past due	10,929	-	10,929	7,364	-	7,364
Past due 0-30	2,056	176	1,880	1,210	-	1,210
Past due more than 30	154	154	-	859	121	738
	13,139	330	12,809	9,433	121	9,312

An allowance has been made for estimated irrecoverable amounts from the sale of goods of £330,000 (2013: £121,000). This allowance has been determined by reference to past default experience. The individually impaired receivables mainly relate to a number of independent customers. A portion of these receivables is expected to be recovered.

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

Trade receivables and accrued income are primarily denominated in US dollars, as are trade payables (note 16). The natural hedge between these financial instruments limits the exposure of the group to movements in foreign exchange rates.

Based on the balances held at 31 December 2014 a 1 cent movement in the US dollar to Sterling rate would impact the net value of these instruments by £47,000 (2013: £11,000) (before the mitigating impact of cash flow hedges).

Liquidity risk

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

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

Typically the Group ensures that it has sufficient borrowing facilities to meet foreseeable operational expenses. At the year end the group had available facilities of £44.8m (2013: £47.3m).

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

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

Analysis of contractual cash flow maturities	Carrying amount	Contractual cash flows	Less than 12 months	1 – 2 Years	2 – 5 Years	5+ Years
31 December 2013	£'000	£'000	£'000	£'000	£'000	£'000
Trade and other payables	21,488	21,488	21,488	-	-	-
Deferred consideration	9,064	9,484	-	-	9,484	-
Secured bank loans	35,904	40,017	5,430	14,937	17,020	2,630
Finance leases	1,705	1,773	786	869	118	-
	68,161	72,762	27,704	15,806	26,622	2,630

Market risks

1. Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Sterling.

The currencies giving rise to this risk are primarily the US dollar. Full disclosures are provided in the Director's report on page 34.

2. Interest rate risk

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

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

The variable rate US dollar term loans, which had a principal outstanding at 31 December 2014 of £1.3m (2013: £2.6m), and bear interest of between 2.0% to 2.95% over LIBOR. These loans are repayable by monthly instalment with remaining terms of up to 4 years.

The fixed rate US dollar term loans, which had a principal outstanding at 31 December 2014 of £2.1m (2013: £2.0m), and bear interest of 5% until 2017 and is variable thereafter. These loans are repayable by monthly instalment with remaining terms of up to 20 years.

The US Dollar acquisition facility, which had a principal outstanding at 31 December 2014 of £20.2m (2013: £21.4 million), bears interest of between 2.5% to 2.95% over LIBOR. This loan is repayable by quarterly instalments with a remaining term of 4 years.

The UK Pound revolving credit facility is a multi-currency facility of up to £21 million, committed until 2018. It bears interest of between 1.75% to 1.95% over LIBOR. The balance drawn at 31 December 2014 was £12.3m (2013: £9.9m).

The carrying value of loans approximates to their fair value based on the net present value of future cash flows. Further disclosure in respect of the interest rate risk is provided in the Directors report on page 34.

Capital risk management

The capital risk management disclosures are provided in full within the Directors report on page 34.

Fair values

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

	2014 Carrying amount	2014 Fair value	2014 Carrying amount	2014 Fair value
	£'000	£'000	£'000	£'000
Cash and Cash equivalents	5,584	5,584	3,258	3,258
Trade receivables	12,809	12,809	9,312	9,312
Amounts owed by group undertakings	-	-	-	-
Other receivables – (accrued income)	8,806	8,806	10,269	10,269
Trade and other payables	(29,324)	(29,324)	(21,488)	(21,488)
Deferred consideration	(9,860)	(9,860)	(9,064)	(9,064)
Secured bank loans	(35,869)	(36,104)	(35,904)	(36,216)
Finance leases	(966)	(966)	(1,705)	(1,705)
	(48,820)	(49,055)	(45,322)	(45,634)

Basis for determining fair value

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

Secured loans

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

Trade and other receivables/payables

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

20. Share capital

Group and Company	2014	2014	2013	2013
	Number of shares	£'000	Number of shares	£'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	660,327,767	6,603	647,513,661	6,475

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

	2014 Number	2013 Number
At 1 January	647,513,661	588,215,751
Employee share schemes	12,814,106	2,396,949
Placing	-	56,900,961
At 31 December	660,327,767	647,513,661

12,814,106 ordinary shares (2013: 59,297,910 ordinary shares) were issued during the year as follows:

	2014 Number of shares	2014 Consideration	2013 Number of shares	2013 Consideration
Employee share schemes	12,814,106	Nil to 19.97p	2,396,949	3.65p to 23.08p
Placing	-	-	56,900,961	29.00p
	12,814,106		59,297,910	

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

The group sets the amount of capital in proportion to risk. The group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the characteristic of the underlying assets. The group monitors capital by reviewing net debt against shareholders' funds. The position of these indicators and the movement during the year is shown in the Five Year Financial Summary and on page 34 of the Directors' Report.

21. Share based payments

The total amount charged to the income statement in 2014 in respect of share based payments was £1,458,000 (2013: £1,415,000).

Share option scheme

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

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

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

Principal assumptions	2014	2013
Weighted average share price at grant date	17.12	25.73p
Weighted average exercise price	12.94	13.16p
Weighted average vesting period (years)	3	3
Option life (years)	10	10
Weighted average expected life (years)	3	3
Weighted average expected volatility factor	61%	61%
Weighted average risk free rate	1.25%	0.64%
Dividend yield	0%	0%

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

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

The fair value of options granted during the year ended 31 December 2014 was £342,000 (2013: £2,139,000).

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

	2014	2014	2013	2013
	Number of options	Average exercise price (pence)	Number of options	Average exercise price (pence)
At 1 January	56,152,601	11.24	38,693,514	10.12
Granted	7,095,762	12.94	19,564,155	13.16
Exercised	(11,282,603)	2.87	(1,992,560)	10.07
Cancelled/lapsed	(1,429,240)	19.17	(112,508)	18.72
At 31 December	50,536,520	13.12	56,152,601	11.24

The weighted average share price at the time of the options exercised during 2014 was 21.04p (2013: 25.73p).

As at 31 December 2014, the total number of options held by employees was 50,536,520 (2013: 56,152,601) as follows:

Option price pence/share	Option period ending	2014	2013
		Number of options	Number of options
5.63p - 10.17p	31 December 2014	-	973,922
6.87p - 10.25p	31 December 2015	558,173	610,539
10.40p - 19.42p	31 December 2016	1,453,888	1,640,388
13.58p - 19.42p	31 December 2017	4,647,872	5,254,470
16.10p - 16.10p	31 December 2018	194,306	233,278
3.65p - 17.07p	31 December 2019	6,614,693	7,620,931
0.00p - 45.58p	31 December 2020	1,602,277	6,819,449
9.15p - 50.25p	31 December 2021	5,675,400	5,928,249
0.00p - 28.17p	31 December 2022	5,367,392	7,294,981
0.00p - 27.75p	31 December 2023	16,939,534	19,776,394
0.00p - 86.20p	31 December 2024	7,482,985	-
At 31 December		50,536,520	56,152,601

22. Parent company profit and loss

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year amounted to £4,964,000 (2013: Loss £2,515,000).

23. Cash generated from operations

The Group	2014	2013
	£'000	£'000
Profit before tax	5,243	5,192
Finance costs	1,924	2,154
Depreciation of property, plant and equipment	6,590	8,503
Amortisation of intangible assets	3,902	2,591
Profit and loss on disposal	15	-
Acquisition related inventory fair value adjustments	-	1,475
Impairment of assets / investments	6,354	3,205
Onerous lease provisions	6,673	-
Release of contingent deferred consideration	(9,903)	(3,026)
Contingent deferred consideration (settled through contractual discounts)	(7,981)	(14,191)
Share based payments	1,458	1,415
Cash inflow from operations before changes in working capital	14,275	7,318
(Increase)/decrease in inventories	(792)	6,405
Decrease in trade and other receivables	760	2,308
Increase/(decrease) in trade and other payables	618	(3,269)
Cash inflow from operations	14,861	12,762

The Company	2014	2013
	£'000	£'000
Loss before tax	(5,044)	(2,574)
Finance income	(2,666)	(4,024)
Foreign exchange	2,238	237
Impairment of investments	1,076	3,205
Depreciation	16	14
Share based payments	919	1,088
Cash outflow from operations before changes in working capital	(3,461)	(2,054)
Decrease/(Increase) in trade and other receivables	5,927	(39,094)
Increase in trade and other payables	1,686	389
Cash inflow/(outflow) from operations	4,152	(40,759)

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

	2014 £'000	2013 £'000
Increase in cash in the year	2,168	568
Increase in borrowings	(1,305)	(25,000)
Repayment of borrowings	3,867	3,660
Repayment of leases	813	777
Net movement resulting from cash flows	5,543	(19,995)
Net debt at 1 January	(34,351)	(15,483)
Net movement resulting from cash flows	5,543	(19,995)
Non-cash movements (note 25)	(2,443)	1,127
Net debt at 31 December	(31,251)	(34,351)

25. Analysis of net debt

	At 1 January 2014 £'000	Cash flow £'000	Other non-cash movements £'000	At 31 December 2014 £'000
Cash and cash equivalents	3,258	2,168	158	5,584
Bank borrowings due after one year	(31,902)	(1,305)	11,205	(22,002)
Bank borrowings due within one year	(4,002)	3,867	(13,732)	(13,867)
Finance leases due after one year	(903)	-	790	(113)
Finance leases due within one year	(802)	813	(864)	(853)
Total borrowings	(37,609)	3,375	(2,601)	(36,835)
Net debt	(34,351)	5,543	(2,443)	(31,251)

Cash and cash equivalents at 31 December 2014 comprised balances held in instant access bank accounts.

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

26. Principal subsidiary undertakings

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

* Indirect holdings

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

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

27. Post balance sheet event

On 23 March the group entered into a joint venture agreement with WIN Semiconductors Corp and Nanyang Technological University to create the Compound Semiconductor Development Centre ("CSDC") in Singapore. The CSDC is a centre of excellence for compound semiconductor technology, with the aim of accelerating the development and commercialisation of new advanced semiconductor products.

IQE has a 50% equity stake in the new venture, and as part of its contribution to the establishment of the CSDC IQE is providing facilities, equipment and IP on favourable terms. Further details are set out in note 4.

28. Related party transactions

The group incurred professional fees and expenses during the year of £125,000 (2013: £70,000) payable to Horton Corporate Finance and £38,000 (2013: £29,000) payable to Fishstone Limited. Dr G H H Ainsworth, who is a director of IQE Plc, is a managing partner of Horton Corporate Finance. S J Gibson, who is a director of IQE Plc, is also a director of Fishstone Limited. An amount of £43,000 (2013: £35,000) was outstanding to these parties at the year-end.

During the year the group made purchases of £nil (2013 £88,904) from Greenlux limited. Dr A W Nelson who is a Director of IQE Plc is an equity shareholder of Greenlux Limited. No amounts were payable to Greenlux Limited at the end of the year.

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

29. Operating lease commitments

The group was committed at 31 December 2014 and 31 December 2013 to making the following aggregate payments in respect of non-cancellable operating leases:

	2014	2013
	£'000	£'000
Due within one year	3,174	2,552
Due between two and five years	12,099	10,843
Due after five years	5,985	7,403
	21,258	20,798

30. Commitments

The group had no capital commitments at 31 December 2014 or 31 December 2013.

Officers and professional advisers

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

Directors

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

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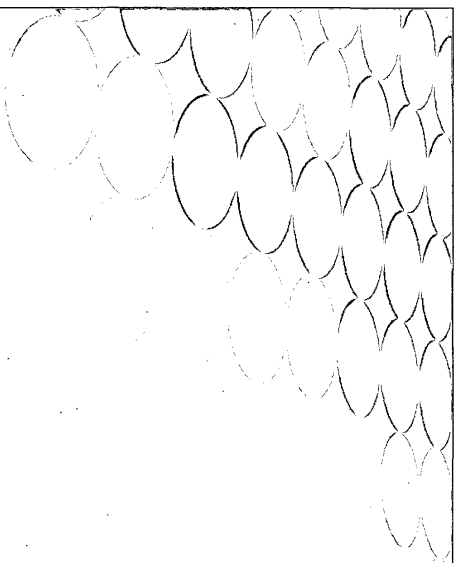
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