IQE plc
(“IQE” or the “Group”)
H1 2022 RESULTS

Cardiff, UK
6 September 2022

H1 Trading in line with management expectations
Strong progress against strategic priorities

IQE plc (AIM: IQE, "IQE" or the "Group"), the leading supplier of compound semiconductor wafer products and advanced material solutions to the global semiconductor industry, announces its interim results for the six months ended 30 June 2022.

Americo Lemos, Chief Executive Officer of IQE, said:

“Earlier in the year we set out our strategic priorities to transform IQE, and in the first half of 2022 we made strong progress against these goals. Simultaneously, the business has demonstrated resilience despite the ongoing challenging global environment. The importance of compound semiconductors to a series of fundamental mega trends which will shape the global economy is gaining increasing recognition. I remain excited by the strength of IQE’s proposition coupled with the opportunities ahead to diversify and grow our business to deliver value for all our stakeholders.”

H1 2022 Financials

	H1 2022 £’m*	**H1 2021 £’m***	**Change (%)**	**Change at constant currency (%)**
Revenue	86.2	79.5	8.4	1.4
Adjusted EBITDA**	12.3	11.6	6.2	-
Operating loss	(7.4)	(1.9)		
Adjusted operating loss	(1.4)	(0.9)		
Reported loss after tax	(8.3)	(2.7)		
Diluted EPS	(1.03p)	(0.34p)		
Adjusted diluted EPS	(0.36p)	(0.21p)		
Cash generated from operations	6.2	10.4		
Adjusted cash from operations	8.3	9.1		
Capital Investment (PP&E)	3.8	6.1		
Net (debt***) / funds	(6.7)	0.9		

* *All figures £’m excluding diluted and adjusted diluted EPS.*

*** Adjusted Measures: Alternative performance measures are disclosed separately after a number of non-cash charges, non-operational items and significant infrequent items that would distort period on period comparability. Adjusted items are material items of income or expense that have been shown separately due to the significance of their nature or amount as detailed in note 8.*
**** Net debt excludes IFRS16 lease liabilities and fair value gains/losses on derivative instruments.*
The following highlights of the first half results is based on these adjusted profit measures, unless otherwise stated.

Financial Highlights

- **Revenue** of £86.2m (H1 2021: £79.5m) up 8.4% on a reported basis (1.4% growth at constant currency due to a currency tailwind), in line with previously issued guidance
- **Wireless** revenue of £46.6m (H1 2021: £41.6m) up 12.0% on a reported basis and 4.3% at constant currency
  - Driven by GaN sales to Aerospace and Security customers
  - Resilient GaAs sales weighted towards 5G and WiFi 6 markets, countering a slowdown and inventory build in the wider handset market
- **Photonics** revenue of £38.5m (H1 2021: £36.4m) up 5.7% on a reported basis and down -0.6% on a constant currency basis
  - Continued maintenance of high market share in 3D Sensing VCSELs for consumer markets
  - Resurgence in InP products for datacom
- **CMOS++** revenue of £1.1m (H1 2021: £1.5m) a decrease of 27.2% on a reported basis and 33.3% on a constant currency basis, due to the re-phasing of a large customer order from H1 2022 to H2 2022
- **Adjusted EBITDA** of £12.3m (H1 2021: £11.6m) up 6.0% on a reported basis and flat at constant currency, in line with previously issued guidance
- **Reported operating loss** of £7.4m (H1 2021: £1.9m loss)
  - Impacted by impairment of intangible assets following investment decisions disclosed at FY 2021 results and planned closure costs associated with exit of Singapore facility as previously announced
- **Adjusted cash inflow** from operations of £8.3m (H1 2021: £9.1m)
- **Total net cash capex and cash investment in intangibles** of £3.5m (H1 2021: £8.1m)
  - £3.8m investment in PP&E capex related to previously disclosed tool investments in Taiwan
  - Proceeds of £4.1m from the disposal of assets related to Singapore site closure
  - Purchase of intangibles of £2.3m primarily relates to ongoing systems transformation programme
  - Ongoing investment in R&D with £1.6m (H1 2021: £1.8m) of development costs capitalised in the period

- **Adjusted net debt** of £6.7m as at 30 June 2022 (net debt of £5.8m as at 31 Dec 2021, net funds of £0.9m as at 30 June 2021)

Operational Highlights

- As previously highlighted, the Group's refreshed strategy is focussed on building a solid platform for growth in 2022 to deliver further progress in 2023 and beyond
  - Additional detail on this strategy will be presented at IQE's Capital Markets Day on Wednesday 9 November 2022
- Strong progress achieved to facilitate a future multi-year cycle of growth, driven by the macro trends of 5G, IoT and the Metaverse
  - Developing the Group's commercial engine orientated to IQE's end markets, focussed on our customers, and aligned with our technology innovation
  - Expanding and strengthening engagement with new and existing customers
  - Implementing the Group's systems transformation programme to ensure agile and efficient business operations
- Business development progress
  - Strategic partnership with Porotech announced in May to commercialise unique microLEDs for production at scale, with IQE as the epitaxy foundry partner
  - Multi-year, high-volume strategic supply agreement with Lumentum announced in June for the development and production of a broad ranging of sensing products, including IQE as epitaxy partner of choice for LiDAR for autonomous vehicles
- Technology development
  - Developed the world's first commercially available 200 mm (8") VCSEL epiwafer, enabling a step-change in unit economics and resulting in market expansion for IQE into a broader range of customers and end products
- Global site optimisation programme
  - Closure of Singapore site in June 2022
  - Project to close Pennsylvania site and consolidate US MBE operations within North Carolina site is on track to be completed by 2024
- Environmental, Social and Governance ("ESG") progress
  - Formation of an ESG Board Committee to develop and monitor the execution of IQE's ESG strategy and oversee communication of relevant activity
  - Formal commitment to Net Zero carbon neutrality across operations by 2050, in accordance with the Science Based Targets initiative

Outlook

IQE management reiterates its full year 2022 revenue guidance of low single digit percentage growth (at constant currency), as strong Photonics sales driven by 3D sensing VCSELs and emerging revenues in microLEDs offset a degree of anticipated, macro-driven, softness in Wireless markets.

Operations remain resilient to macro-economic and supply chain risks. IQE is in a unique position to work with customers to ensure supply chain resilience and build strategic capacity across its global footprint.

At this level of revenue, the Group anticipates a similar adjusted EBITDA margin % to 2021 (at constant currency).

It is expected that full year PP&E capital expenditure will be in the range of £10-15m and we anticipate c.£8m of capitalised intangibles relating to development costs and systems transformation, both in line with previous guidance.

Results Presentation

IQE will present its H1 2022 Results via webcast at 9:00am BST today, Tuesday 6 September 2022. If you would like to view this webcast, please register by using the below link and follow the instructions:

https://stream.brrmedia.co.uk/broadcast/62ed08185a5e221df3779da4

Capital Markets Day

IQE will host a Capital Markets Day on Wednesday 9 November 2022, further details of which will be announced in due course.

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ABOUT IQE

http://iqep.com

IQE is the leading global supplier of advanced compound semiconductor wafers and materials solutions that enable a diverse range of applications across:

- handset devices
- global telecoms infrastructure
- connected devices
- 3D sensing

As a scaled global epitaxy wafer manufacturer, IQE is uniquely positioned in this market which has high barriers to entry. IQE supplies the whole market and is agnostic to the winners and losers at chip and OEM level. By leveraging the Group's intellectual property portfolio including know-how and patents, it produces epitaxy wafers of superior quality, yield and unit economics.

IQE is headquartered in Cardiff UK, with c. 685 employees across eight manufacturing locations in the UK, US and Taiwan, and is listed on the AIM Stock Exchange in London.

Financial Review

Consolidated Income Statement (All figures £'000s)	Note	6 months to 30 Jun 2022 Unaudited	6 months to 30 Jun 2021 Unaudited	12 months to 31 Dec 2021 Audited
Revenue	**7**	**86,198**	**79,544**	**154,096**
Cost of sales		(71,845)	(67,336)	(136,452)
Gross profit		**14,353**	**12,208**	**17,644**
Selling, general and administrative expenses		(19,877)	(14,006)	(37,699)
(Loss) / profit on disposal of intangible assets and property, plant and equipment		(590)	-	77
Other losses	4	(1,317)	(136)	-
Operating loss	**7**	**(7,431)**	**(1,934)**	**(19,978)**
Finance costs		(1,100)	(1,067)	(2,213)
Adjusted loss before income tax		**(2,540)**	**(1,933)**	**(8,667)**
Adjustments	8	(5,991)	(1,068)	(13,524)
Loss before income tax	**7**	**(8,531)**	**(3,001)**	**(22,191)**
Taxation		279	272	(8,811)
Loss for the period		**(8,252)**	**(2,729)**	**(31,002)**
Loss attributable to:				
Equity shareholders		(8,252)	(2,729)	(31,002)
		(8,252)	**(2,729)**	**(31,002)**
Loss per share attributable to owners of the parent during the period				
Basic loss per share	10	(1.03p)	(0.34p)	(3.87p)
Diluted loss per share	10	(1.03p)	(0.34p)	(3.87p)

Adjusted basic and diluted earnings per share are presented in Note 10.

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

Consolidated statement of comprehensive income **(All figures £'000s)**	**6 months to 30 Jun 2022 Unaudited**	**6 months to 30 Jun 2021 Unaudited**	**12 months to 31 Dec 2021 Audited**
Loss for the period	(8,252)	(2,729)	(31,002)
Exchange differences on translation of foreign operations*	16,776	(1,057)	4,744
Total comprehensive expense for the period	**8,524**	**(3,786)**	**(26,258)**
Total comprehensive expense attributable to:			
Equity shareholders	8,524	(3,786)	(26,258)
	8,524	**(3,786)**	**(26,258)**

* Balance might subsequently be reclassified to the income statement when it becomes realised.

Consolidated Balance Sheet **(All figures £'000s)**	**Note**	**As At 30 Jun 2022 Unaudited**	**Restated As At 30 Jun 2021 Unaudited**	**As At 31 Dec 2021 Audited**
Non-current assets				
Intangible assets		99,616	102,461	95,866
Property, plant and equipment		126,971	125,088	129,730
Right of use assets		43,350	42,539	44,267
Deferred tax assets		-	8,526	-
Total non-current assets		**269,937**	**278,614**	**269,863**
Current assets				
Inventories		34,706	29,247	31,710
Trade and other receivables		53,246	39,459	38,860
Cash and cash equivalents	12	15,390	20,556	10,791
Total current assets		**103,342**	**89,262**	**81,361**
Total assets		**373,279**	**367,876**	**351,224**
Current liabilities				
Trade and other payables		(44,016)	(32,628)	(37,083)
Current tax liabilities		(1,230)	(1,221)	(1,342)
Bank borrowings	12	(14,912)	(6,201)	(6,230)
Derivative financial instruments	12	(1,327)	(136)	-
Lease liabilities	12	(5,287)	(4,394)	(4,694)
Provisions for other liabilities and charges		(3,803)	(2,430)	(3,686)
Total current liabilities		**(70,575)**	**(47,010)**	**(53,035)**
Non-current liabilities				
Bank borrowings	12	(7,205)	(13,466)	(10,365)
Lease liabilities	12	(48,372)	(48,245)	(49,693)
Provisions for other liabilities and charges		(1,464)	(1,303)	(2,060)
Deferred tax liabilities		(1,317)	(1,981)	(1,450)
Total non-current liabilities		**(58,358)**	**(64,995)**	**(63,568)**
Total liabilities		**(128,933)**	**(112,005)**	**(116,603)**
Net assets		**244,346**	**255,871**	**234,621**
Equity attributable to shareholders of the parent				
Share capital	14	8,046	8,013	8,036
Share premium		154,675	154,375	154,632
Retained earnings		21,043	57,731	29,295
Exchange rate reserve		42,811	20,234	26,035
Other reserves		17,771	15,518	16,623
Total equity		**244,346**	**255,871**	**234,621**

The comparative financial information at 30 June 2021 has been restated to separately disclose derivative financial instrument liabilities. The restatement has had no impact on net assets, loss after tax or total cash flow for the 6 months to 30 June 2021.

Consolidated Statement of Changes in Equity

Unaudited **(All figures £'000s)**	**Share capital**	**Share premium**	**Retained earnings**	**Exchange rate reserve**	**Other reserves**	**Total equity**
At 1 January 2022	**8,036**	**154,632**	**29,295**	**26,035**	**16,623**	**234,621**
Loss for the period	-	-	(8,252)	-	-	(8,252)
Other comprehensive income for the period	-	-	-	16,776	-	16,776
Total comprehensive (expense) / income	**-**	**-**	**(8,252)**	**16,776**	**-**	**8,524**
Share based payments	-	-	-	-	1,148	1,148
Proceeds from shares issued	10	43	-	-	-	53
Total transactions with owners	**10**	**43**	**-**	**-**	**1,148**	**1,201**
At 30 June 2022	**8,046**	**154,675**	**21,043**	**42,811**	**17,771**	**244,346**

Unaudited **(All figures £'000s)**	**Share capital**	**Share premium**	**Retained earnings**	**Exchange rate reserve**	**Other reserves**	**Total equity**
At 1 January 2021	**8,004**	**154,185**	**62,089**	**21,291**	**14,866**	**260,435**
Loss for the period	-	-	(2,729)	-	-	(2,729)
Other comprehensive expense for the period	-	-	-	(1,057)	-	(1,057)
Total comprehensive expense	**-**	**-**	**(2,729)**	**(1,057)**	**-**	**(3,786)**
Share based payments	-	-	-	-	754	754
Tax relating to share options	-	-	-	-	(102)	(102)
Proceeds from shares issued	9	190	-	-	-	199
Acquisition of non-controlling interest	-	-	(1,629)	-	-	(1,629)
Total transactions with owners	**9**	**190**	**(1,629)**	**-**	**652**	**(778)**
At 30 June 2021	**8,013**	**154,375**	**57,731**	**20,234**	**15,518**	**255,871**

Audited **(All figures £'000s)**	**Share capital**	**Share premium**	**Retained earnings**	**Exchange rate reserve**	**Other reserves**	**Total equity**
At 1 January 2021	**8,004**	**154,185**	**62,089**	**21,291**	**14,866**	**260,435**
Loss for the year	-	-	(31,002)	-	-	(31,002)
Other comprehensive income for the year	-	-	-	4,744	-	4,744
Total comprehensive (expense) / income	**-**	**-**	**(31,002)**	**4,744**	**-**	**(26,258)**
Share based payments	-	-	-	-	1,850	1,850
Tax relating to share options	-	-	-	-	(93)	(93)
Proceeds from shares issued	32	447	-	-	-	479
Acquisition of non-controlling interest	-	-	(1,792)	-	-	(1,792)

Total transactions with owners	**32**	**447**	**(1,792)**	**-**	**1,757**	**444**
At 31 December 2021	**8,036**	**154,632**	**29,295**	**26,035**	**16,623**	**234,621**

Consolidated Cash Flow Statement **(All figures £'000s)**	**Note**	**6 months to 30 Jun 2022 Unaudited**	**Restated 6 months to 30 Jun 2021 Unaudited**	**12 months to 31 Dec 2021 Audited**
Cash flows from operating activities				
Adjusted cash inflow from operations		**8,349**	**9,077**	**17,940**
Cash impact of adjustments	8	(2,173)	1,277	943
Cash generated from operations	11	**6,176**	**10,354**	**18,883**
Net interest paid		(1,100)	(594)	(2,213)
Income tax paid		(628)	(842)	(1,275)
Net cash generated from operating activities		**4,448**	**8,918**	**15,395**
Cash flows from investing activities				
Purchase of property, plant and equipment		(3,751)	(6,138)	(15,051)
Purchase of intangible assets		(2,254)	(147)	(345)
Capitalised development expenditure		(1,567)	(1,846)	(2,994)
Proceeds from disposal of property, plant and equipment		4,091	**-**	85
Net cash used in investing activities		**(3,481)**	**(8,131)**	**(18,305)**
Cash flows from financing activities				
Acquisition of minority interest		-	-	(1,792)
Proceeds from issuance of ordinary shares		53	208	472
Proceeds from borrowings		7,856	-	-
Repayment of borrowings		(3,156)	(3,073)	(6,145)
Payment of lease liabilities		(1,923)	(1,838)	(3,705)
Net cash generated / (used) from financing activities		**2,830**	**(4,703)**	**(11,170)**
Net increase / (decrease) in cash and cash equivalents		**3,797**	**(3,916)**	**(14,080)**
Cash and cash equivalents at the beginning of the period		10,791	24,663	24,663
Exchange gains / (losses) on cash and cash equivalents		802	(191)	208
Cash and cash equivalents at the end of the period	12	**15,390**	**20,556**	**10,791**

The comparative financial information for the 6 months to 30 June 2021 has been restated to reclassify interest lease cash flows from financing activities to net interest paid in cash generated from operating activities. The reclassifications have had no impact on net assets, loss after tax or total cash flow for the 6 months to 30 June 2021.

1. REPORTING ENTITY

IQE plc is a public limited company incorporated in the United Kingdom under the Companies Act 2006. The Company is domiciled in the United Kingdom and is quoted on the Alternative Investment Market (AIM).

These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 30 June 2022 comprise the Company and its Subsidiaries (together referred to as 'the Group'). The principal activities of the Group are the development, manufacture and sale of advanced semiconductor materials.

2. BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2021 which were approved by the Board of Directors on 29 March 2022 and have been delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The interim financial statements do not include all of the information required for a complete set of IFRS financial statements and do not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

Comparative information in the interim financial statements as at and for the year ended 31 December 2021 has been taken from the published audited financial statements as at and for the year ended 31 December 2021. All other periods presented are unaudited.

The Board of Directors and the Audit Committee approved the interim financial statements on 5 September 2022.

3. GOING CONCERN

The Group made a loss of £8.3m (H1 2021: £2.7m, FY21: £31.0m) and used £4.1m of cash and cash equivalents (H1 2021: £3.9m, FY21: £14.1m) excluding proceeds from bank borrowings of £7.9m (H1 2021: £nil, FY21: £nil) which has resulted in an increase in the net debt position (excluding lease liabilities and fair value gains/losses on derivative instruments) to £6.7m (H1 2021: £0.9m net funds, FY21: £5.8m net debt) as at 30 June 2022.

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

- The Group's operations are geographically diversified. Manufacturing operations are located at ten different sites across three continents, significantly lessening the impact of potential disruption at any single site as a result of the ongoing Coronavirus pandemic. All manufacturing sites continue to remain operational and production has not been affected by any disruption at any of the Group's global sites.

- The Group dual or multi-sources key raw materials (substrates, gases, spares and consumables) wherever possible, from a broad range of global suppliers, reducing the likelihood of potential disruption to production from any single supplier. The Group continues to work closely with suppliers and customers to manage inventory levels in order to create supply chain resilience against potential disruption. All manufacturing sites continue to remain operational and production has not been affected by any supply chain disruption.

- The Group's trading has remained resilient throughout the half year ended 30 June 2022 despite softness in smartphone related demand and continued weakness in 5G infrastructure demand with revenue of £86.2m (H1 2021: £79.5m, FY21: £154.1m) and an adjusted loss before tax of £2.5m (H1 2021: £1.9m, FY21: £8.7m) which is broadly consistent with performance for the half year ended 30 June 2021 on a constant currency basis.

- The Group's net debt (excluding lease liabilities and fair value gains/losses on derivative instruments) position of £6.7m (H1 2021: £0.9m net funds, FY21: £5.8m net debt) remains low in the context of total available facilities of £58.7m (H1 2021: £55.2m, FY21: £55.9m) with the increase in the net debt position principally reflecting the Group's investment activities where investment in IT systems and processes, technology development and capacity expansion has exceeded cash generated from operations. Net debt (excluding lease liabilities and fair value gains/losses on derivative instruments) consists of £15.4m (H1 2021: £20.6m, FY21: £10.8m) of cash net of bank loans of £22.1m (H1 2021: £19.7m, FY21: £16.6m) which are repayable over a period up to 29 August 2024.

On 24 January 2019, the Group agreed a new £28.7m ($35.0m) three-year multi-currency revolving credit facility from HSBC Bank plc. On 30 December 2021 the multi-currency revolving credit facility was extended for an additional 15-month period to 30 April 2023 and includes an unexercised option that requires HSBC Bank plc consent to extend the facility for a further 12-month period to 30 April 2024. The Group has complied with all covenants associated with the facility.

- On 29 August 2019, the Group agreed a new £30.0m five-year Asset Finance Loan facility from HSBC Bank plc of which £25.0m was drawn and £13.5m remains outstanding at the period end. The Group has complied with all covenants associated with the facility.

- The Group generated cash from operating activities of £4.4m (H1 2021: £8.9m, FY21: £15.4m) and its financial forecasts and projections for the period up to and including 31 December 2023 show that the Group is forecast to continue to comply with its banking covenants and has adequate cash resources to continue operating for the foreseeable future.

- The Group's severe but plausible downside financial forecasts have been prepared with significant reductions to future forecast revenues, designed to reflect severe downside scenarios associated with demand risks for the period to 31 December 2023. The severe but plausible downside scenario, applied to the Group's financial forecasts, which take account of current trading and customer demand, assumes a 25% reduction in H2 2022 revenue and a 40% reduction in 2023 revenue partially offset by mitigations within the control of the company, including deferred investment in employee related costs and certain capital projects across the forecast period. The severe but plausible downside scenario illustrates that the Group is forecast to continue to comply with its banking covenants but would require either the exercise of the extension option contained in the revolving credit facility from HSBC Bank plc, or refinancing of the revolving credit facility at the extension option date in April 2023. The severe but plausible downside scenario illustrates that a facility of £22.1m, below the Group's current committed revolving credit facility of £28.7m could be required in 2023. The Group has a long-standing and trusted relationship with its bankers, HSBC Bank plc, who remain supportive following the recent refinancing of the revolving credit facility which contains an option, that requires HSBC Bank plc consent, to extend the facility for a further 12-month period from 30 April 2023 to 30 April 2024. On this basis, the directors believe that the group has, or will have access, to adequate cash resources to continue operating for the foreseeable future even in a severe but plausible downside scenario.

The Group meets its day-to-day working capital and other cash requirements through its bank facilities and available cash. The Group's cash flow forecasts and projections, in conjunction with the extension option contained in the Group's revolving credit facility and the level of assessed covenant headroom on the Group's bank facilities show that the Group and the Company have adequate cash resources to continue operating and to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements, such that the directors consider it appropriate to adopt the going concern basis of accounting in preparing the interim financial statements.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. The impact of Coronavirus in the six-month period ended 30 June 2022 has not resulted in any indicators of impairment or had a meaningful impact on significant judgements or the level of estimation uncertainty associated with the application of the Group's accounting policies. Coronavirus has had no material adverse impact on the Group's business operations with production continuing uninterrupted at all global sites.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements except as follows:

- Intangible assets – Technology development costs and patents
- Measurement of fair values associated with outstanding derivative forward currency contracts

Intangible assets – Technology development costs (distributed feedback laser technology assets)

The Group has product development costs totalling £3.4m linked to its distributed feedback laser technology where the Group has taken the decision to discontinue the development and commercialisation of the technology.

Although distributed feedback laser technology has a number of potential applications the level of customer and partner engagement that is required to develop the technology has remained low, a position that has led to the decision to discontinue the development and commercialisation of the technology given the lack of a clear near-term route to the delivery of commercial volumes and cash flows.

The current lack of visibility on the timeline to commercialise the product development technology assets and the decision to discontinue development of the assets has resulted in a non-cash intangible asset charge of £3.4m that has been charged to 'selling, general and administrative expenses' in the consolidated income statement following the write-down of all distributed feedback laser product development cost assets to £nil.

Derivative Forward Currency Contracts

At 30 June 2022 the Group had outstanding derivative forward currency contracts with a nominal value of $20.7m (H1 2021: $13.1m, FY21: $21.0m) for the sale of US$ in exchange for GBP£.

The Group's accounting policies require that derivative forward currency contracts are measured at fair value. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e as prices) or indirectly (i.e derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Derivative forward currency contracts have been categorised as Level 1 in the fair value hierarchy. The fair value of the derivative instrument has been assessed using quoted prices in active markets for identical assets or liabilities using independent mark to market valuations provided by an appropriately regulated financial institution.

The fair value liability of £1.3m (H1 2021: £0.1m liability, FY21: £nil) has been included in the balance sheet in *'derivative financial instruments'* with the fair value loss on the derivative instruments included in *'Other losses'* in the consolidated income statement.

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2021. A number of new standards are effective from 1 January 2022 but they do not have a material effect on the Group's financial statements.

Recent accounting developments and the policy for recognising and measuring income taxes in the interim period are described below.

5.1 Recent accounting developments

In preparing the interim financial statements, the Group has adopted the following Standards, amendments and interpretations, which are effective for 2022 and will be adopted in the financial statements for the year ended 31 December 2022:

- Amendments to IAS 16 'Property, plant and equipment' to prohibit the deduction from cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use with any such sales and related cost recognised in profit or loss.
- Amendments to IAS 37 'Provisions, contingent liabilities and contingent assets' to specify which costs a company includes when assessing whether a contract will be loss making.
- Annual improvements to IFRSs 2018-2020 cycle to make minor amendments to IFRS 1 'First-time adoption of IFRS', IFRS 9 'Financial Instruments', IAS 41 'Agriculture' and amendments to the illustrative examples accompanying IFRS 16 'Leases'.

The adoption of these standards and amendments has not had a material impact on the interim financial statements.

5.2 Income tax expense

Income tax expense is recognised at an amount determined by multiplying the profit / (loss) before tax for the interim reporting period by management's best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognised in full in the interim period. As such, the effective tax rate in the interim financial statements may differ from management's estimate of the effective tax rate for the annual financial statements.

6. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties affecting the Group are set out in the Strategic Report in the 2021 Annual report and financial statements and remain unchanged at 30 June 2022.

The principal risks and uncertainties include health, safety and environment, loss of key personnel, cybersecurity, infringement or loss of intellectual property, legal and regulatory compliance, changes in international export control laws, competition and/or erosion of market opportunity, customer concentration, insufficient cash or funding to underpin investment opportunities, the failure of new products or technology to deliver expected levels of revenue and profitability, disruption or inflation in global supply chains, transformation of IT systems causing business disruption and insufficient liquidity or cash funding to meet financial obligations as they fall due.

7. SEGMENTAL INFORMATION

Revenue	6 Months to 30 June 2022 Unaudited £'000	6 Months to 30 June 2021 Unaudited £'000	12 Months to 31 Dec 2021 Audited £'000
Wireless	46,629	41,631	83,217
Photonics	38,475	36,409	68,067
CMOS++	1,094	1,504	2,812
Revenue	**86,198**	**79,544**	**154,096**
Adjusted operating loss			
Wireless	5,533	3,731	7,305
Photonics	1,899	3,514	1,737
CMOS++	(704)	(401)	(586)
Central corporate costs	(8,168)	(7,710)	(14,910)
Adjusted operating loss	**(1,440)**	**(866)**	**(6,454)**
Adjusted items	(5,991)	(1,068)	(13,524)
Operating loss	**(7,431)**	**(1,934)**	**(19,978)**
Finance costs	(1,100)	(1,067)	(2,213)
Loss before tax	**(8,531)**	**(3,001)**	**(22,191)**

8. ADJUSTED PROFIT MEASURES

The Group's results report certain financial measures after a number of adjusted items that are not defined or recognised under IFRS including adjusted operating profit, adjusted profit before income tax and adjusted earnings per share. The Directors believe that the adjusted profit measures provide a useful comparison of business trends and performance and allow management and other stakeholders to better compare the performance of the Group between the current and prior year, excluding the effects of certain non-cash charges, non-operational items and significant infrequent items that would distort period on period comparability. The Group uses these adjusted profit measures for internal planning, budgeting, reporting and assessment of the performance of the business. The tables below show the adjustments made to arrive at the adjusted profit measures and the impact on the Group's reported financial performance.

£'000s	Adjusted Results	Adjusted Items	**6 months to 30 Jun 2022 Reported Results**	Adjusted Results	Adjusted Items	**6 months to 30 Jun 2021 Reported Results**	Adjusted Results	Adjusted Items	**2021 Reported Results**
Revenue	86,198	-	**86,198**	79,544	-	**79,544**	154,096	-	**154,096**
Cost of sales	(71,475)	(370)	**(71,845)**	(67,083)	(253)	**(67,336)**	(135,325)	(1,127)	**(136,452)**
Gross profit	14,723	(370)	**14,353**	12,461	(253)	**12,208**	18,771	(1,127)	**17,644**
Other losses	(1,317)	-	**(1,317)**	(136)	-	**(136)**	-	-	**-**
SG&A	(14,252)	(5,625)	**(19,877)**	(13,191)	(815)	**(14,006)**	(25,302)	(12,397)	**(37,699)**
(Loss) / profit on disposal of PPE	(594)	4	**(590)**	-	-	**-**	77	-	**77**
Operating loss	(1,440)	(5,991)	**(7,431)**	(866)	(1,068)	**(1,934)**	(6,454)	(13,524)	**(19,978)**
Finance costs	(1,100)	-	**(1,100)**	(1,067)	-	**(1,067)**	(2,213)	-	**(2,213)**
Loss before tax	(2,540)	(5,991)	**(8,531)**	(1,933)	(1,068)	**(3,001)**	(8,667)	(13,524)	**(22,191)**
Taxation	(395)	674	**279**	243	29	**272**	(10,614)	1,803	**(8,811)**
Loss for the period	(2,935)	(5,317)	**(8,252)**	(1,690)	(1,039)	**(2,729)**	(19,281)	(11,721)	**(31,002)**

£'000s	Pre-tax Adjustment	Tax Impact	**6 months to 30 Jun 2022 Reported Results**	Pre-tax Adjustment	Tax Impact	**6 months to 30 Jun 2021 Reported Results**	Pre-tax Adjustment	Tax Impact	**2021 Reported Results**
Share based payments	(1,110)	-	**(1,110)**	(758)	(45)	**(803)**	(1,691)	(13)	**(1,704)**
Share based payments – Chief executive officer recruitment	(38)	-	**(38)**	-	-	**-**	-	-	**-**
Chief executive officer recruitment	(154)	-	**(154)**	-	-	**-**	(741)	-	**(741)**
Impairment – intangibles	(3,363)	410	**(2,953)**	-	-	**-**	(7,411)	1,816	**(5,595)**
Restructuring	(1,330)	-	**(1,330)**	(310)	74	**(236)**	(3,681)	-	**(3,681)**
Restructuring – profit on disposal of PPE	4	264	**268**	-	-	**-**	-	-	**-**
Total	(5,991)	674	**(5,317)**	(1,068)	29	**(1,039)**	(13,524)	1,803	**(11,721)**

The nature of the adjusted items is as follows:

- Share based payments – The charge recorded in accordance with IFRS 2 'share based payment' of which £0.4m (H1 2021: £0.3m, FY21: £1.1m) has been classified within cost of sales in gross profit and £0.7m (H1 2021: £0.5m, FY21: £0.6m) in selling, general and administrative expenses within operating loss.

- Chief Executive Officer recruitment – The Chief Executive Officer's starting bonus of £1.0m, of which £0.2m relates to a share-based payment award and £0.8m relates to a cash award is payable over the first three years of employment. The charge of £0.2m (H1 2021: £nil, FY21: £0.7m) includes share award and cash costs associated with the new Chief Executive Officer's starting bonus of £0.2m (H1 2021: £nil, FY21: £nil), settlement costs and legal fees of £nil (H1 2021: £nil, FY21: £0.3m) associated with the transition of the former Chief Executive Officer to a non-executive role and external recruitment fees of £nil (H1 2021: £nil, FY21: £0.4m). Cash costs defrayed in the period total £0.6m (H1 2021: £nil, FY21: £0.2m).

- Restructuring – The charge of £1.3m (H1 2021: £0.3m, FY21: £3.7m) relates to restructuring costs relating to the announced closure of the Group's manufacturing facility in Pennsylvania, USA and the closure of the Group's manufacturing facility in Singapore.

    - Restructuring charges of £0.3m (H1 2021: £0.3m, FY21: £0.7m) relate to employee related costs relating to the announced closure of the Group's manufacturing facility in Pennsylvania, USA. The charge was classified as selling, general and administrative expenses within operating loss. Cash costs defrayed in the period total £0.1m (H1 2021: £nil, FY21: £0.3m).

    - Restructuring charges of £1.0m (H1 2021: £nil, FY21: £3.0m) consist of employee related costs of £0.1m (H1 2021: £nil, FY21: £1.5m) and site decommissioning costs of £0.9m (H1 2021: £nil, FY21: £1.5m) relating to the closure of the Group's manufacturing facility in Singapore. The charge was classified as selling, general and administrative expenses within operating loss. Cash costs defrayed in the period total £1.1m (H1 2021: £nil, FY21: £nil).

- Impairment of intangibles – The non-cash charge of £3.4m (H1 2021: £nil, FY21: £7.4m) relates to the impairment of certain technology development cost assets.

    - The non-cash impairment charge of £3.4m relates to the impairment of distributed feedback laser technology development costs where the Group has taken the decision to discontinue the development and commercialisation of the technology.

    - The prior year non-cash impairment charge of £7.4m related to the impairment of cREO™ filter technology development costs and patent assets totalling £4.7m and the impairment of Photonic quasi crystal technology related development cost assets totalling £2.7m where the Group had taken the decision to pause development related activities which have not recommenced in the current period given the lack of visibility over the timeline to commercialisation of each of the technologies.

- Profit on disposal of PPE – The profit on disposal of PPE of £nil (H1 2021: £nil, FY21: £nil) relates to the sale of certain items of plant and equipment as part of the closure of the Group's manufacturing facility in Singapore. Cash proceeds received in the period for the sale of plant and equipment total £4.1m (H1 2021: £nil, FY21: £nil)

The cash impact of adjusted items in the consolidated cash flow statement represent costs associated with the recruitment of the group's new Chief Executive Officer (£0.6m), onerous contract royalty payments related to the Group's cREO™ technology (£0.4m), payment of employee related costs associated with the announced closure of the Group's site in Pennsylvania (£0.1m) and payment of employee and site related decommissioning costs associated with the closure of the Group's manufacturing facility in Singapore (£1.1m) net of the sale proceeds associated with certain items of plant and equipment sold as part of the closure of the Group's manufacturing facility in Singapore (£4.1m).

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

(All figures £'000s)	6 months to 30 June 2022 Unaudited	6 months to 30 June 2021 Unaudited	12 months to 31 Dec 2021 Audited
Loss attributable to equity shareholders	**(8,252)**	**(2,729)**	**(31,002)**
Finance costs	1,100	1,067	2,213
Tax	(279)	(272)	8,811
Depreciation of property, plant and equipment	7,359	6,583	13,309
Depreciation of right of use assets	1,989	1,888	3,854
Amortisation of intangible fixed assets	3,831	4,006	8,047
Loss / (profit) on disposal of PPE	590	-	(77)
Adjusted Items	5,995	1,068	13,524
Share based payments	1,110	758	1,691
Share based payments – CEO recruitment	38	-	-
CEO recruitment	154	-	741
Restructuring	1,330	310	3,681
Impairment of intangibles	3,363	-	7,411
Adjusted EBITDA	**12,333**	**11,611**	**18,679**
Share based payments	(1,110)	(310)	(1,691)
Share based payments – CEO recruitment	(38)	-	-
CEO recruitment	(154)	-	(741)
Restructuring	(1,330)	(758)	(3,681)
EBITDA	**9,701**	**10,543**	**12,566**

9. TAXATION

The Group's consolidated effective tax rate for the six months ended 30 June 2022 was 3.3% (H1 2021: 9.1%, 2021: 39.7%). The effective tax rate differs from the theoretical amount that would arise from applying the standard corporation tax in the UK of 19.0% (H1 2021: 19.0%, FY21: 19.0%) principally due to the following factors:

- The Group's results report certain financial measures after a number of adjusted items with a net tax impact of £0.7m as detailed in note 8.
  - The tax impact on the Group's impairment of intangible development cost assets reflects the Group's effective rate of tax in Taiwan for Taiwanese impaired assets and the non-recognition of current year tax losses for the element of UK and USA impaired assets.
  - The deferred tax impact associated with the disposal of certain plant and equipment following closure of the Group's manufacturing facility in Singapore.
- Differences in overseas tax rates, principally Taiwan.
- Non-recognition of current year tax losses, principally in the UK, USA and Singapore.

10. LOSS PER SHARE

(All figures £'000s)	6 months to 30 June 2022 Unaudited	6 months to 30 June 2021 Unaudited	12 months to 31 Dec 2021 Audited
Loss attributable to ordinary shareholders	(8,252)	(2,729)	(31,002)
Adjustments to loss after tax (note 8)	5,317	1,039	11,721
Adjusted loss attributable to ordinary shareholders	**(2,935)**	**(1,690)**	**(19,281)**
Number of shares:			
Weighted average number of ordinary shares	804,236,241	801,020,442	801,653,662
Dilutive share options	7,369,508	14,931,713	4,097,303
	811,605,749	**815,952,155**	**805,750,965**
Adjusted loss per share	(0.36p)	(0.21p)	(2.41p)
Basic loss per share	(1.03p)	(0.34p)	(3.87p)
Adjusted diluted loss per share	(0.36p)	(0.21p)	(2.41p)
Diluted loss per share	(1.03p)	(0.34p)	(3.87p)

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

Diluted loss per share is calculated by dividing the loss 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 period. 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.

11. CASH GENERATED FROM OPERATIONS

(All figures £'000s)	6 months to 30 June 2022 Unaudited	6 months to 30 June 2021 Unaudited	12 months to 31 Dec 2021 Audited
Loss before tax	(8,531)	(3,001)	(22,191)
Finance costs	1,100	1,067	2,213
Depreciation of property, plant and equipment	7,359	6,583	13,309
Depreciation of right of use assets	1,989	1,888	3,854
Amortisation of intangible assets	3,831	4,006	8,047
Impairment of intangible assets	3,363	-	7,411
Impairment of property, plant and equipment	-	-	74
Inventory write downs	499	623	866
Loss / (profit) on disposal of property, plant and equipment	590	-	(77)
Provision movements	(208)	104	3,137
Fair value loss on derivative financial instruments	1,317	-	-
Share based payments	1,148	758	1,691
Cash inflow from operations before changes in working capital	**12,457**	**12,028**	**18,334**
(Increase) / decrease in inventories	(1,376)	769	(1,368)
(Increase) / decrease in trade and other receivables	(6,092)	(878)	2,930
(Decrease) / increase in trade and other payables	1,187	(1,565)	(1,013)
Cash inflow from operations	**6,176**	**10,354**	**18,883**

12. ANALYSIS OF NET DEBT

(All figures £'000s)	6 months to 30 June 2022 Unaudited	Restated 6 months to 30 June 2021 Unaudited	12 months to 31 Dec 2021 Audited
Bank borrowings due after one year	(7,205)	(13,466)	(10,365)
Bank borrowings due within one year	(14,912)	(6,201)	(6,230)
Lease liabilities due after one year	(48,372)	(48,245)	(49,693)
Lease liabilities due within one year	(5,287)	(4,394)	(4,694)
Total borrowings	(75,776)	(72,306)	(70,982)
Fair value of derivative financial instruments	(1,327)	(136)	-
Cash and cash equivalents	15,390	20,556	10,791
Net debt	**(61,713)**	**(51,886)**	**(60,191)**

The comparative financial information for the 6 months to 30 June 2021 has been restated to include the fair value of derivative financial instruments in net debt.

On 24 January 2019, the Company agreed a new £28,700,000 ($35,000,000) multi-currency revolving credit facility, provided by HSBC Bank plc that is secured over the assets of IQE plc and certain subsidiary companies. On 30 December 2021 the multi-currency revolving credit facility was extended for an additional 15-month period to 30 April 2023 with an option that requires HSBC Bank plc consent to extend the facility for a further 12-month period to 30 April 2024. The facility has an interest rate margin of between 2.00 and 2.80 per cent per annum over SONIA on any drawn balances.

On 29 August 2019, the Company agreed a new £30,000,000 asset finance facility, provided by HSBC Bank plc that is secured over various plant and machinery assets. The facility has a five-year term and an interest rate margin of 1.65% per annum over base rate on any drawn balances.

Bank borrowings relate to amounts drawn down on the Group's asset finance facility and revolving credit facility.

Cash and cash equivalents comprise balances held in instant access bank accounts and other short-term deposits
with a maturity of less than 3 months.

13. SHARE BASED PAYMENT ARRANGEMENTS

Long term incentive awards

On 26 May 2000, as amended by shareholders at the Annual General Meeting on 17 May 2002, The Group established a share option plan that entitles the Group's Remuneration Committee to grant long term incentive awards over shares in the company to directors and employees of the Group.

On 25 February 2022 and 14 March 2022, long term incentive awards that become exercisable between three and ten years from 31 March 2022, subject to continued employment and achievement of performance conditions over a three-year vesting period were awarded to directors and employees of the Group. Performance conditions associated with the awards include a combination of earnings per share targets, total shareholder return targets, revenue targets and the achievement of strategic objectives. Under the terms of these awards, holders of vested options are entitled to purchase shares at the nominal value of the shares at the date of grant. All options are to be settled by physical delivery of shares. The terms and conditions of the share options granted during the six months ended 30 June 2022 are as follows:

Grant date/employees entitled	Number of instruments	Contractual life of options	Vesting conditions
Share award granted to new CEO as part of starting bonus on 10 January 2022	583,709	N/A	Share award is subject to clawback if the CEO resigns or his employment is terminated within a three-year period from 10 January 2022
Option grant to executive directors on 25 February 2022	4,543,897	10 years	3 years-service from grant date, diluted adjusted earnings per share targets between 0.60p – 1.00p, relative shareholder return targets of between 100% - 130% versus the FTSE All Share Index, absolute shareholder return targets of between 8% - 16%, revenue growth targets between 10%p.a – 20%p.a and the achievement of strategic objectives
Option grant to employees on 14 March 2022	9,551,689	10 years	3 years-service from grant date and achievement of strategic objectives

Measurement of grant date fair values

The fair value of the long-term incentive awards, calculated as £5.0m (H1 2021: £3.3m, FY21: £4.5m) at the grant date has been determined using the Monte Carlo and Black Scholes models. The following inputs were used in the measurement of the fair values at grant date.

Principal assumptions	2022	2021
Weighted average share price at grant date	41.71	44.00
Weighted average exercise price	4.60	8.20
Weighted average vesting period (years)	3	3
Option life (years)	10	10
Weighted average expected life (years)	3	3
Weighted average expected volatility factor	73%	68%
Weighted average risk-free rate	0.9%	0.4%

Dividend yield	0%	0%

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

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

14. SHARE CAPITAL

Number of shares	6 months to 30 June 2022 Unaudited	6 months to 30 June 2021 Unaudited	12 months to 31 Dec 2021 Audited
As at 1 January	803,555,756	800,364,569	800,364,569
Employee share schemes	1,002,961	954,910	3,191,187
As at 30 June / 31 December	**804,558,717**	**801,319,479**	**803,555,756**

(All figures £'000s)	6 months to 30 June 2022 Unaudited	6 months to 30 June 2021 Unaudited	12 months to 31 Dec 2021 Audited
As at 1 January	8,036	8,004	8,004
Employee share schemes	10	9	32
As at 30 June / 31 December	**8,046**	**8,013**	**8,036**

15. RELATED PARTY TRANSACTIONS

Transactions with Joint Ventures

Compound Semiconductor Centre Limited ('CSC')

The Group established CSC with its joint venture partner as a centre of excellence for the development and commercialisation of advanced compound semiconductor wafer products in Europe and on its formation, the Group contributed assets to the joint venture valued at £12,000,000 as part of its initial investment.

The activities of CSC include research and development into advanced compound semiconductor wafer products, the provision of contract manufacturing services for compound semiconductor wafers to certain subsidiaries within the IQE plc Group and the provision of compound semiconductor manufacturing services to other third parties.

CSC operates from its manufacturing facilities in Cardiff, United Kingdom and leases certain additional administrative building space from the Group. During the period the CSC leased this space from the Group for £57,500 (H1 2021 £57,500, FY21: £115,000) and procured certain administrative support services from the Group for £117,500 (H1 2021: £117,500, FY21: £235,000). As part of the administrative support services provided to CSC the Group procured goods and services, recharged to CSC at cost, totalling £2,069,000 (H1 2021: £1,661,584, FY21: £3,881,648).

CSC granted the Group the right to use its assets following its formation for a minimum five-year period. Costs associated with the right to use the CSC's assets are treated by the Group as operating lease costs. Costs are charged by the CSC at a price which reflects the CSC's cash cost of production (including direct labour, materials and site costs) but excludes any related depreciation or amortisation of the CSC's property, plant and equipment and intangible assets respectively under the terms of the joint venture agreement between the parties. Costs associated with the right to use the CSC's assets totalled £3,288,400 (H1 2021: £3,012,300, FY20: £6,234,000) in the period.

At 30 June 2022 an amount of £439,000 (H1 2021: £349,000, FY21: £1,030,000) was owed from the CSC.

In the Groups balance sheet 'A' Preference Shares with a nominal value of £8,800,000 (H1 2021: £8,800,000, FY21: £8,800,000) are included in financial assets at an amortised cost of £nil (H1 2021: £nil, FY21: £nil) and the Group has a shareholder loan of £245,500 (H1 2021: £243,000, FY21: £244,000) due from CSC.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK;
- the interim management report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Americo Lemos	Tim Pullen
Chief Executive Officer, IQE plc.	Chief Financial Officer, IQE plc.
5 September 2022	5 September 2022