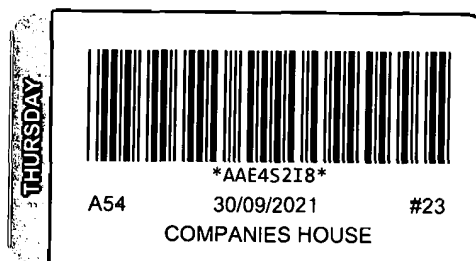


Leading innovation from within

2020 Annual Report and Financial Statements



Leading innovation from within

We exist in an age of rapid transformation. Technological innovation is changing our world and the way we live, and opportunities for advancement are endless.

Innovation is at the heart of all that IQE does. We are uniquely placed to provide advanced technology solutions to shape the future and enable a new digital age.

Discover more online at
iqep.com

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2020 Highlights

Find out how IQE achieved record revenues and a strong operational performance despite a challenging global environment.

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Our technology is industry-leading

Discover how IQE is enabling technology that will transform society.

Record revenue performance

Over 27% revenue growth in 2020

2020 has shown the maturity of IQE's business and the ongoing strength of our customer and market opportunities."

Phil Smith
Chairman, IQE plc

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Leading innovation from within

Who are we

Our vision

IQE's vision is to be the best advanced semiconductor materials solutions company in the world. Being the best means delivering outstanding quality, service, technology and value such that we become the first choice supplier for all our customers.

Our strategy

To deliver the best advanced semiconductor materials solutions to our customers through technology leadership, value engineering and production excellence; to provide our employees with a safe, stimulating and rewarding work environment; to partner with our suppliers to form mutually beneficial relationships; and to provide all our stakeholders with a highly rewarding investment.

Read more on page 16

Our delivery

In order to rise to the challenges demanded by our customers and markets, IQE has established a strong leadership position through the creation of the broadest portfolio of materials IP in the industry. We have developed a reputation for excellence and reliability through technology leadership and proven mass market delivery. Our close collaboration with our customers ensures that our processes are highly integrated and embedded within our supply chains.

For a terminology guide please see our glossary on page 145

What we do

Our key products

Wireless

Our Wireless business offers the industry's broadest range of RF epitaxial wafer products that enable wireless connectivity, including in consumer mobile handsets, connected devices, 5G network infrastructure, WiFi 6, Bluetooth and satellite communications. Our wireless products include GaAs, GaN, and InP-based technologies, as well as Si and Ge-based epitaxial wafer structures. IQE currently supplies the majority of worldwide demand for GaAs HBTs, pHEMTs, and BiFETs/BiHEMTs.

Read our Wireless review on page 11

Photonics

IQE's Photonics epitaxial wafer products can be found in consumer, commercial and industrial applications. Our key Photonics products include Vertical Cavity Surface Emitting Lasers (VCSELs) which are a key 3D sensing technology enabling facial recognition, gesture control, LiDAR and other advanced sensing applications, InP laser and detector wafers which power today's high speed, 5G telecommunication and datacommunication fibre-optic networks, GaN and GaAs for multicolour uLED displays, and an industry leading range of GaSb and InP materials which enable high definition infrared imaging and sensing in security, health monitoring and environmental applications.

Read our Photonics review on page 11

Substrates

Compound semiconductor substrates are the base material from which all Photonics and Wireless devices are fabricated through epitaxy processes. We are industry pioneers in substrate technology and offer an unrivalled range of materials and product forms. Our GaAs, InP, GaSb, InSb and InAs product range allows us to serve a broad and diverse range of device types and end markets, and positions IQE at the forefront of new product technologies which are made possible only by the substrate materials we provide.

Read about our market applications on page 7

Revenue by segmentation

- Wireless 53%
- Photonics 46%
- CMOS++ 1%

Wireless segmentation

- Gallium Arsenide (GaAs) 63%
- Gallium Nitride (GaN) 37%

Photonics segmentation

- Vertical Cavity Surface Emitting Laser (VCSELs) 56%
- Infrared 29%
- Indium Phosphide (InP) 15%

Where we do it

Our international reach

United Kingdom

Cardiff	IQE Head Office
Newport	IQE Newport
Milton Keynes	Wafer Technology

Our Mega Foundry in Newport is currently meeting demand for products used for 3D Sensing applications.

North America



Taunton	IQE MA
Greensboro	IQE NC
Bethlehem	IQE PA
Spokane	Galaxy Compound Semiconductors

MBE activities in the USA will be consolidated at our North Carolina site by 2024, as we continue to focus on productivity and yield improvements globally.

Asia

Taiwan	IQE Taiwan
Singapore	IQE Singapore

Infrastructure investment in our Taiwan site increased Wireless capacity (GaAs) by 40% in 2019, addressing changes in supply chain dynamics.

Revenue by geography	Employees by location	Number of employees	Countries of operation
		660	4
		We have a diverse workforce across three continents.	Our unique global footprint means IQE is in close proximity to international customers.
 Read more on page 10	 Read more on page 20		

IQE is the scaled global epitaxy leader

IQE is targeting multi-year growth as the leader in a market set to expand due to new large-scale technology trends.

5G and connected devices are self-reinforcing macro trends that will transform the way we live over the coming years."

Tim Pullen
Chief Financial Officer

We operate at the forefront of technology

With over thirty years' of experience and a deep commitment to research and development, our technologies are world-class. We are constantly innovating and supplementing our core capabilities with new products and systems. As a materials solutions provider, IQE is embedded within supply chains for a broad range of technology products. We work closely with our immediate customers, the chip-makers, and their customers, the original equipment manufacturers, to develop solutions with their required performance and quality characteristics.

➞ Read our Technology Roadmap on page 18

Macro trends are driving demand for our products

The proliferation of 5G will revolutionise communications and connectivity in the coming years and IQE's technology is at the heart of this transformation. Connected devices are becoming ever more present in our lives and as 5G connectivity evolves into true high-speed, high-capacity and low-latency networks, the possibilities for device connection, automation and machine learning increase. This is the much heralded world of the Internet of Things, and the unique properties of compound semiconductors enable IQE's material solutions to power a multitude of advanced applications.

➞ Read our market overview on page 6

We have a global manufacturing footprint with a diverse customer base

IQE innovates and manufactures on three continents and our state-of-the-art facilities utilise the broadest range of technology platforms in our markets. Our extensive customer qualifications mean we are deeply embedded within our customers' supply chains and we offer resilience in supply security and production flexibility through these multi-site qualifications. Our unique international reach also means we are well-positioned to serve a broad customer base and adapt to changes in global technology markets, as well as enabling us to access global talent pools.

➞ Read about our international reach on page 3

Compound semiconductors are everywhere

We have an unrivalled IP product portfolio

Our Intellectual Property (IP) portfolio encompasses a wide range of products born out of three decades of experience. We generate IP in each of our manufacturing facilities around the world, contributing to our broad market access. Our IP portfolio covers patented technologies, material systems and processes, as well as know-how and experience which is kept confidential. *Our ability to provide our customers with multiple IP-protected material solutions enables them to bring world-leading products to market.*

➞ Read about our intellectual property on page 26

Our people are experts

From our highly-experienced Board and executive management team, to our technical and operational staff, the skill and experience of our people sets us apart. IQE is a home for the best and brightest talent in the world of advanced materials and the breadth and depth of the expertise of our workforce is unmatched. We nurture our talented people through both training and extensive on-the-job development, and working for IQE provides an exciting and stimulating global career path for people with a diverse range of skills.

➞ Read about our people on page 20

IQE is uniquely placed in a growing market

Our process specialisation and host of competitive advantages are the reason we are the world's leading scaled epitaxy provider. Our significant market differentiators enable us to deliver world-leading quality, service, products and value. This combination enables IQE to produce the best quality and highest yielding wafers which in-turn generates superior unit economics for our customers. We aim to be the first choice supplier for all of our customers and as the markets for our technologies expand, our strategy will ensure we remain number one.

➞ Read our Business Model on page 14

Trends driving demand for IQE technology

The marketplace

Macro trends

IQE investment in significant capacity expansion in recent years positions the company to capitalise on continuing growth in demand for compound semiconductors, driven by the macro trends of 5G and connected devices. 5G and AI will revolutionise connectivity as we know it.

5G Handsets

utilise at least

2x

more Power Amplifier content than 4G handsets

VCSEL market revenue
2025

US\$2.7bn

estimated global market opportunity

RF GaN device market

Compound annual growth rate

19-21%

estimated from 2021 to 2025

Source: Yole Développement, 2020

The opportunity

The world is embracing 5G and deployments of 5G technologies will represent a multi-year, mega-replacement cycle. In addition to higher speeds, 5G enables low latency, massive scaling in machine-to-machine connections and network slicing. Over time, these capabilities will allow the full potential of the Internet of Things to be realised.

What we're focused on

5G Handsets

IQE's GaAs technologies are a critical element of the Front-End Module of handsets. 5G handsets have more GaAs content than 4G, as the number of bands of operation increase and to enable efficient operation at higher frequencies.

- Next generation high-efficiency Power Amplifiers
- Front End Module Integration
- 5G Switches and Filters

3D and Advanced Sensing Applications

IQE's long heritage and experience in developing and manufacturing advanced lasers, such as VCSELs, has resulted in us being at the forefront of the proliferation of 3D Sensing and other advanced sensing applications.

- Facial recognition
- 'World facing' cameras enabling Augmented Reality
- Structured Lights and Time of Flight (ToF) solutions
- Long-Wavelength VCSELs
- In-cabin automotive and LiDAR
- Environmental and healthcare monitoring
- Proximity Sensing

5G Network Infrastructure

IQE's technologies are critical for 5G infrastructure. Our GaN technologies are a core component of the antenna elements of 5G base stations and small cells with vastly superior performance and power efficiency as compared to silicon technologies. Our InP technologies enable high-speed (>25G), high-performance backhaul optical networks needed to meet the demands of 5G.

- Global roll out of base stations and small cells
- GaN on SiC
- GaN on Si
- Next generation lasers for fibre optics (10G & 25G DFBs APDs and PINs)

Our markets

<p>IQE's technologies address three vital applications; connectivity, sensing, and energy, across seven high growth markets. We are investing in new epitaxial and substrate technologies to empower the following market applications.</p>	<p>Consumer Mobile</p> <p>IQE supplies products for a host of wireless communication applications in the consumer mobile market.</p> <p>Market applications: Mobile handsets, tablets, computers, VR headsets utilising 5G, Wifi 6, Bluetooth, 3D Sensing, LiDAR, Time of Flight technologies.</p>	<p>Automotive</p> <p>IQE provides automotive semiconductor suppliers with reliable and innovative epitaxial wafer and substrate materials.</p> <p>Market applications: Connected car systems, Advanced Driver Assistance Systems, Telematic systems feat. GPS integration, vehicle safety and security.</p>
<p>Healthcare</p> <p>Healthcare technologies involve sensing and monitoring our well-being, communicating our health status, and delivering treatments to improve health outcomes.</p> <p>Market applications: Healthcare wearables, Laser (LiDAR, interferometry & spectroscopy) and RF imaging, Telemedicine and remote surgeries, RF ablation and medical lasers, UV sterilisation, first responder communication systems.</p>	<p>Aerospace & Defence</p> <p>Mission critical aerospace and defence electronic applications demand epitaxial wafer and substrate materials of the highest quality and reliability.</p> <p>Market applications: Commercial air safety and comfort systems, satellite communications, defence systems, first responder communication systems.</p> <p>Cloud, Networking & IoT</p> <p>Technology applications across all markets demand high speed computing, data access, networking and storage.</p> <p>Market applications: Cloud computing and data storage, long-haul optical networks, IoT, AI, machine learning, satellite communications for voice, data and internet.</p>	<p>5G Network Infrastructure</p> <p>IQE is investing in new epitaxial and substrate technologies to support high-speed connectivity for data intensive and emerging 5G applications.</p> <p>Market applications: 4G/5G base stations, cellular, microwave & optical backhaul systems, mobile radio networks.</p> <p>Industrial</p> <p>IQE's innovative product portfolio enables our customers to create more productive manufacturing environments with improved data acquisition and processing capabilities.</p> <p>Market applications: Industrial automation, material analysis and synthesis, AI & machine intelligence, logistics & transportation, robotics.</p>



For more information see
iqep.com/markets

A strong performance despite external challenges

Phil Smith
Chairman



IQE demonstrated a continued strength and resilience and I am proud to announce we delivered a record revenue performance, made significant progress towards achieving our strategic objectives, and successfully pursued and advanced our technology roadmap”.

Dear shareholder,

In reflecting upon the year that was, it is impossible to ignore that 2020 was unlike any we have ever experienced. The global pandemic brought hardships and challenges to so many of us, and we continue to feel these effects into 2021. Despite these difficulties, IQE demonstrated a continued strength and resilience and I am proud to announce we delivered a record revenue performance, made significant progress towards achieving our strategic objectives, and successfully pursued and advanced our technology roadmap.

Crucially, this positive performance was only possible thanks to the ongoing dedication, patience and resilience of our people who successfully maintained operations at all of our global sites, despite the challenges posed by the global pandemic, allowing us to serve our customers right through these very difficult times. From the outset, our priority has been to focus on the health and wellbeing of our colleagues and the momentum that we have seen across our business since then is testament to the hard work and commitment of all of our people.

In the early stages of the pandemic, IQE formed a dedicated committee tasked with navigating the Company through this uncertain time. Initially, the committee's focus was on enabling a transition to remote working while simultaneously safeguarding our sites for our on-site employees. This, amongst other measures implemented by the committee, allowed us to continue production without interruption for the entirety of this period.

Despite the prevailing headwinds and this challenging global environment, the continuous production across all of IQE's sites resulted in record trading, with both our Wireless and Photonics businesses demonstrating significant growth. The

strength in these parts of the business was bolstered by the continued underlying demand for our products, particularly those used in 5G mobile network infrastructure, 3D-sensing in smartphones and other advanced sensing applications. The proliferation of 5G technologies presents an enormous opportunity for IQE as the mega-replacement cycle of 5G deployments gathers pace around the world.

In addition to 5G, we continue to see many of the technology drivers that were evident before the pandemic continue to develop and in many cases even accelerate. AI, high speed datacentres, wearable devices, and the continued evolution of smart handsets and low carbon technologies, provide opportunities for IQE and its customers and partners over the next few years.

Operationally, we continued to make progress to improve productivity and utilisation across our global sites, which in turn resulted in gross profit improvements. This included taking the decision to consolidate US MBE activities into our North Carolina facility, which will result in the closure of IQE's Pennsylvania site by 2024.

Board matters

At IQE we recognise the importance of having strong governance and management practices to support the execution of our strategy. Following several key appointments made in 2019, IQE benefitted last year from having a highly experienced Board who possess a wealth of relevant experience. We look forward to their future contributions in the years ahead as we continue to execute our strategy.

I am pleased to report that Mrs Carol Chesney, FCA, was appointed as a Senior Independent Director in November. Mrs Chesney joined IQE's Board in May 2019 and is also the Chair of IQE's Audit and Risk

Committee. The role of Senior Independent Director as a support and intermediary for other Board members is a crucial one, and Mrs Chesney's appointment reflects our continued commitment to strengthening the Board. Additionally, I have now taken the role as Chair of the Nominations Committee to ensure we continue to focus on the evolution of the Executive as well as the Board.

It is clear that IQE has a bright future ahead but I want to take this opportunity to recognise and thank the person who above all who has been instrumental in creating, shaping, and driving IQE to become the business it is today. Drew Nelson, co-founder and CEO is stepping down this year and I wanted to recognise the enormous impact he has had at IQE but also to acknowledge just how influential he has been in the industry in which we operate.

Over the course of the last 30 years, Drew has helped to grow the business from its origins in Cardiff into a truly global company, with a presence in Europe, the USA and Asia. During that time, he has been a visionary, champion and ambassador both for IQE and for the entire compound semiconductor industry. That IQE's technology has been world-leading for decades is thanks to his passion, excellence and expertise. We are fortunate that Drew has agreed to continue to be a mentor and adviser to the business in his new role as Board member and President once a new CEO is appointed. I, with the support of the Nominations Committee and the full Board, are fully committed to providing a successor for Drew who will be world class and the right individual to lead IQE over the next few years. We are in the midst of a process looking at candidates from all over the world, from Silicon Valley to Singapore, and I am committed to bringing that to completion as soon as possible.

The challenges of 2020 have once again highlighted that responsible businesses are resilient businesses, and this is why IQE is committed to upholding the best standards of environmental, social and governance practice. As businesses emerge from the other side of the pandemic, they will rightly do so amidst heightened concerns about the role of business in society. At IQE, we have been actively working to improve our ESG disclosure and Board oversight of these key issues. While we recognise that we are at the beginning of our journey, our consideration of ESG issues is materially important to our future strategy and will be critical to ensuring a sustainable and viable business in the long term. In this report, for the first time we provide our Group gender diversity information, as well as our greenhouse gas emission figures. We look forward to working with all our stakeholders in 2021 to further improve our transparency and work towards implementing best practice reporting.

Looking ahead

2020 has shown the maturity of IQE's business and the ongoing strength of our customer and market opportunities despite unprecedented external circumstances. Looking ahead, it is clear that the business is poised for growth and I am confident with our world leading team, our advanced technological capabilities, diversified manufacturing footprint and strong Board and management, IQE is ready to fully capitalise on the opportunities ahead.



Phil Smith
Chairman, IQE plc

25 March 2021

(2019: £140m)

£178m

Record revenue performance

→ Read more on
page 10

Our performance from around the business

KPIs

At IQE we recognise our success is dependent not just on our financial performance, but achieving our operational and social goals.

Financial highlights

Revenue (£m)

EBITDA (adj.) (£m)

Operating profit (adj.) (£m)

Net (debt)/cash (£m)*

Capital expenditure
cashflows (£m)

EPS (adj. diluted) (£p)

EPS diluted (unadjusted) (£p)

Non-financial highlights

Gender diversity (Group level)
2020

Safety course completions

3,564

Total GHG emissions (tCO₂e)

32,726

* excluding lease liabilities.

Business Review

Wireless

IQE's Wireless business delivered 38% growth in 2020, driven by strong demand for both GaAs and GaN wafer products. This was underpinned by the rollout and adoption of 5G and advanced WiFi networks, which have significantly more challenging communications standards than for previous generations. This has led directly to the increasing reliance of 5G and WiFi devices on IQE products.

In mobile devices, IQE's GaAs wafers produce superior power amplifiers which enable a wide range of our customers' RF front end designs for a multitude of applications. In 2020 IQE was successful in diversifying our GaAs customer base and expanding volumes within key global Tier 1 accounts. On the GaN front, IQE offers the world's broadest portfolio of GaN wafer products and building upon multiple years of technology leadership, in 2020 IQE's GaN wafer products gained significant market share in 4G/5G wireless infrastructure, leading to strong year-on-year GaN revenue growth.

Dr Wayne Johnson
Executive VP of Global
Business Development,
Wireless

The proliferation of 5G connectivity is in early stages and 2020 demonstrated that IQE is extremely well-positioned to capitalise on the multi-year, compound semiconductor-fueled global transformation that will result."

Photonics

IQE Photonics had a record year in 2020 with over 17% growth. We delivered our best ever VCSEL epiwafer volumes to our customers, and our infrared sensing portfolio had its strongest year to date. These achievements were matched with new design wins in LiDAR, augmented and virtual reality, and 'below screen' sensing applications, made possible by the launch of a new generation of higher performance VCSEL materials.

Our InP-based optical communication products, serving high speed telecom and datacom markets, entered an advanced phase of qualification, strengthened by our Nano Imprint Lithography (NIL) service which enables us to deliver a shorter time to market for our data network customers. 2020 also set a new record for our Infrared sensing product portfolio, with our antimonide 'Night Vision' epitaxial wafer and substrate products supporting larger format sensor platforms, enabling our customers to deliver state-of-the-art high performance sensors to defence and security critical industries.

Dr Mark Furlong
Executive VP of Global
Business Development,
Photonics

2020 was a great year for Photonics. We set records and also launched a range of products to help our customers bring new 3D Sensing and Optical Communications technologies to market, which provide us with strong opportunities for revenue growth ahead."

CMOS++

Compound Materials on Silicon (CMOS++) is an IQE business focused upon combining the advanced properties of compound semiconductors with those of Silicon, resulting in products featuring the performance advantages of compound semiconductors integrated seamlessly with leading edge CMOS technology. This powerful hybrid technology also makes it possible for the industry to utilise already-made investments in large-scale silicon chip manufacturing.

IQE wafers are the critical foundation in the rapidly-emerging field of Silicon Photonics, whose applications include data centres and optical sensing. Advancement of Silicon Photonics into high-volume applications is continuing to gain traction with key customers. The CMOS++ business experienced some demand softening in the first half of 2020 due to macroeconomic factors, but saw recovery in the latter, particularly in the automotive sector, which resulted in sequential quarter-on-quarter revenue growth throughout the year.

Dr Rodney Pelzel
Chief Technology
Officer

IQE has a unique ability to provide state-of-the-art compound semiconductor wafers as well as those based on Silicon and Germanium, all at a manufacturing scale suitable for high volume markets."

Moving forward in a changing world

Dr Andrew Nelson OBE
President and Chief Executive Officer

Having founded the company, I watched IQE grow from its very earliest days and it gives me an enormous sense of pride to see it in such a strong shape, with great products, brilliant R&D, superb people and an excellent management team."

2020 in review

As we publish this report, the challenges posed by the COVID-19 pandemic are continuing to disrupt the lives of many across the globe. I co-founded IQE in 1988, so 2020 was my 33rd year with the company, but looking back over many eventful years, 2020 stands out more than any other given the unparalleled number of uncertainties we faced.

Despite this, IQE achieved real and continued strategic progress over the past year and together with the customer and product platforms which have been built over many years, these factors contributed to a robust set of results. Our strong financial and operational performance in 2020 resulted in a record revenue performance, underlining the momentum we are seeing across our business, and the fruits of our past endeavours. We also demonstrated strong free cash flow, facilitating the transition to a net cash position at the end of the year and a strong platform for growth in 2021.

None of this would have been possible without our global team of employees who demonstrated commendable resilience throughout what has been a hugely challenging year. I am extremely proud of all they have done and continue to do in overcoming the challenges posed by the pandemic. Their hard work and dedication meant that all of our operations at all of our global sites remained open throughout last year.

Trading Performance

The onset of the COVID-19 pandemic shook global markets, resulting in record levels of uncertainty as businesses attempted to understand the likely impact of the crisis on customer demand. Yet, we continued to see strong underlying demand for our products and this trend continued through the year with further lockdowns, ensuring trading remained resilient.

Our success was also driven by 5G infrastructure deployments where IQE is involved in 5G base stations through GaN on SiC wafers for antenna elements. The roll-out of these next-generation technologies is particularly advanced in Asia and we anticipate demand accelerating there, and further afield, as governments around the world look to fund stimulus packages to spur post-COVID economic growth.

In the handset market, there was growing demand for power amplifiers, which are an integral part of 5G mobile phones. We also benefitted from continued growth in demand for 3D Sensing applications, driven by content gains including those related to Direct Time of Flight LiDAR camera technology which was showcased in new handset launches during 2020. Finally, we also saw strength in the military and defence sector, rounding out the year with our largest purchase order to date for infra-red and high-performance RF applications.

Financial Performance

Following the disruption we encountered in 2019, largely due to geopolitical events outside of our control, last year proved to be a very strong year for the business. We exceeded our market guidance and delivered a record revenue performance with sales of £178m (up 27% year-on-year), with 38% growth in our Wireless and 17% growth in our Photonics divisions. This generated adjusted EBITDA of over £30m (unadjusted £23m) and moved the Group back to a cash positive position.

Our continued focus on capital management saw a major increase in free cash flows during the year. Our capital expenditure was significantly lower in 2020, owing to the completion of the planned infrastructure investments at several of our global sites, particularly the Mega Foundry in Newport, Wales, Taunton in Massachusetts, US, and in Hsinchu, Taiwan. These infrastructure buildouts will serve us well for future capacity expansion, where investment will now be directly in production tools, and therefore linearly related to customer demand and product output.

As a result of the strong trading performance, lower capex spend and prudent cash management, we generated over £18m of free cash, and finished 2020 with a positive cash position of £2m versus (£16m) of net debt, excluding lease liabilities, in 2019.

Operational Performance

Improving our yields and economies of scale continues to be a key focus for IQE and 2020 saw significantly improved site utilisation rates. In light of this, we made the decision to close our Pennsylvania site by 2024 and consolidate our MBE manufacturing activities in the US at our North Carolina site to further support improved efficiencies and reduction of overheads to drive increased profitability.

We have also made good progress with our systems transformation programme to ensure IQE has the mechanisms and platforms in place for future growth and scaling.

Strategic Progress

During the year we made excellent progress on several key new product developments, in line with our Technology Roadmap. We announced the successful development of IQepiMo™ template technology for RF Filters using IQE's patented cREO® technology platform, as well as IQGeVCSEL 150™ technology for 6" VCSELs on Germanium (Ge), a critical step in the pathway to 8" VCSEL technology. We also made great progress in the development of full-service Distributed Feedback Lasers for data communications using Nano-Imprint Lithography, and we anticipate revenues from this in 2021. Our development of long wavelength VCSEL technology and lasers for healthcare monitoring was also very positive, and we expect to make further product announcements during 2021.

In June, the Government announced £43.7m of funding to support a Compound Semiconductor Cluster in South Wales, through UK Research and Innovation's flagship Strength in Places Fund (SIPF). IQE, along with ten other partner organisations, will participate in collaborative R&D projects which are aimed at harnessing integrating research excellence and supporting R&D to advance the UK's Compound Semiconductor manufacturing sector, and build sovereign, high technology supply chains within the UK. IQE will play a crucial part in this exciting new national imperative.

2021 Outlook

We have a broader product range than ever before, and a pipeline of exciting new products. The roll out of 5G plays strongly to IQE's strengths, both in infrastructure and in handsets, and in both Wireless and Photonics, as these products provide high-speed fibre optic links and data storage capabilities, as well as sensor capabilities, from 3D Sensing to LiDAR. We have a very strong position in Infrared technology, including for healthcare technologies, and increasingly our portfolio will include high efficiency power switching and power conversion technologies. With the increasing demands for compound semiconductors, we anticipate an increased capex spend in 2021 as we continue to invest in capacity to support our growth ambitions and serve our key customers.

We are embarked upon a strategy which is focused on financial success, but also ensures our products are a critical part of the global communications infrastructure and play a crucial role in enabling society to operate effectively, especially through this recent pandemic. Providing core semiconductor technology has allowed people to keep in touch with one another, kept the global education system operational by facilitating home schooling; provided the key materials which allow the internet to function, and in this way IQE is playing a critical role in society.

Our products are all, by their nature, extremely energy efficient and we continue to strive to develop even more energy efficient materials solutions for the global semiconductor industry with our R&D efforts to enable net zero carbon targets to be achieved globally. We also have a range of new products aimed specifically at the wearable healthcare sector, and with our partners and customers, we expect these products will have a major beneficial impact on the global healthcare industry, transforming national and international healthcare strategies and making life immeasurably better for millions of people.

As was announced in November, it now feels like the right time for me to step aside to let a new CEO guide IQE through the next exciting stages of IQE's journey. A detailed search is currently underway for my successor.

I look forward to continuing to contribute to IQE's future strategy in an advisory role and supporting the Executive Team as IQE evolves and executes on this next exciting chapter. 2020 demonstrated the output of the positive steps we've taken over the past several years and I know whoever is selected as IQE's next CEO will carry this momentum forward. With the scale of its technology, breadth of its leadership and diversification, I am confident IQE will be at the forefront of the industry for many years to come.



Dr Andrew Nelson OBE
President and Chief Executive Officer,
IQE plc

25 March 2021

How we enable innovation

What makes our model work

- Long-standing partnerships with customers**
IQE is a materials solutions provider, enabling advanced technologies throughout major global supply chains.
- Highly skilled and experienced people**
IQE attracts and develops the top talent in the compound semiconductor industry, and is therefore able to offer a wealth of technical expertise across our product portfolio.
- Breadth of intellectual property portfolio**
With an extensive patent portfolio and significant process IP, utilising MOCVD, MBE and CVD platforms, IQE has an enviable and protected position within diverse technology markets.
- Widely recognised technology leadership**
As a materials specialist with a commitment to innovation, IQE is at the forefront of new technology and has a track record of enabling major technological product trends, from R&D to mass production.
- Global manufacturing footprint**
Headquartered in the UK and with manufacturing operations in three major continents, IQE has broad market access, close customer proximity and global manufacturing flexibility and resilience.
- Superior quality is a core competence**
With a reputation for manufacturing products of the highest quality, IQE's wafers drive superior yields and unit economics for our chip customers.

How we create value

Research & development	New products	Manufacturing capacity
A programme of innovation that drives leading edge technologies, working in partnership with the world's major technological supply chains.	Developing leading edge products with superior performance and quality characteristics, enabling the technologies of today and tomorrow.	Infrastructure investment in our large-scale mass production foundries has created the scale for us to capitalise on the expanding compound semiconductor market.

Underpinned by...

Our culture & values	Our strategic goals
<p>IQE's strength lies in the expertise and diversity of our workforce and we recognise that teamwork and collaboration are at the heart of the Company. We strive for a culture of integrity, accountability, excellence, valuing people and teamwork.</p>	<p>By investing in the future of compound semiconductors and scaling up the business for growth, IQE is targeting expanding margins and cashflows. Integral to this is the development and mass production of advanced materials that are key to the macro trends of 5G communications and the Internet of Things.</p>

Read more on page 20

Read more on page 16



Customer qualification


Exacting quality standards, world-leading IP and process know how enables broad product qualification with major chip customers.

Mass production

As volumes increase within an expanding industry, superior economies of scale and operating leverage can be achieved.


Sound governance & risk management

As a global operator with a 30-year heritage, IQE has an enviable record of operating safely, compliantly and with continuity of operations. The semiconductor industry is dynamic and fast paced however oversight from our Board ensures the strategy and execution of our business incorporates best practice and proactive risk management.

 Read more on page 33

Responsible business operations

The health and safety of our people, the environment and the communities in which we operate are of paramount importance. We view our global supply chain as an extension of our business and for this reason we are committed to operating responsibly.

 Read more on page 24

The values we share

Customers

Innovative new product offerings to enhance the competitive advantages of our customers

£5m

Technology-related development expenditure

Employees

We are committed to promoting an environment and culture that provides agile and life-long learning

4,074

2020 e-learning course completions

Investors

We continue to reinvest in growth and innovation, increasing shareholder value

£588m

Market capitalisation as at 31 December 2020

Communities

We seek to contribute to the economic, social and environmental sustainability of our local communities through a range of initiatives

1 day

Annual paid employee volunteering leave entitlement

Environment

We ensure that our activities and manufacturing operations are conducted in a way that minimises our impact on the environment

32,726 tCO₂e

Total GHG emissions

Our progress on strategy

Competitive advantage

IQE operates in a market with high barriers to entry, where our deep expertise, process know-how and intellectual property portfolio provide a significant competitive advantage.

Our Wireless strategy

IQE is the number one manufacturer of GaAs wafers for handset power amplifiers, having grown through organic and inorganic strategies. As the front-end module of mobile handsets incorporates greater integration over time, and as 5G technologies proliferate, compound semiconductor content will increase in these devices. IQE's GaN technologies are at the heart of the 5G revolution, being used in the antenna elements for base stations, displacing legacy LDMOS technologies. IQE's investments in 2018 & 2019 in GaAs and GaN capacity mean it is well placed to capitalise on this multi-year growth trend.

Our Photonics strategy

IQE is the market leader in VCSEL wafers used for 3D sensing, being the only company globally to have scaled and sustained mass production of this product. IQE's heritage in laser technologies and past investments in R&D have generated this position within a broad portfolio which includes InP lasers for datacoms and Sb lasers for military applications. Looking forward, sensing technologies are set to proliferate many devices and use cases.

Investing in the future of compound semis

Strategic goal

- Leveraging and expanding our IP portfolio
- Developing new products
- Targeting new market entry
- Innovation in integration and miniaturisation

Progress in 2020

- Full-service DFB lasers for data comms using Nano-Imprint Lithography in qualification
- Successful development of IQGeVCSEL 150" technology for 6" Vertical Cavity Surface Emitting Lasers (VCSELs) on Germanium (Ge), a critical step in the pathway to 200mm VCSEL technology
- Successful development of IQepiMo™ template technology for RF Filters and any application requiring low resistance buried electrodes, built on the patented cREO® technology platform
- Strong development progress in long wavelength VCSEL technology (MBE platform)
- Ongoing positive development of lasers for healthcare monitoring

Future objectives

- Building our roadmap for advanced sensing applications, capitalising on the macro trend of connected devices and specifically including environmental and health monitoring and LiDAR solutions for automotive and other applications
- Developing next-generation Wireless products for 5G communications (including mmwave) and 5G handsets (including front end module integration)

Scaling up the business for growth

Strategic goal

- Expand Group capacity
- Qualify customers in strategic markets
- Enhance management controls, systems and processes to enable mass production

Progress in 2020

- Capital expenditure significantly reduced in 2020 following completion of the infrastructure phase of the capacity expansion in 2019
- Closure of IQE's Pennsylvania US site by 2024 and consolidation of US MBE development and production at the North Carolina US site announced
- Business systems and process transformation programme launched to provide a consistent, agile and scalable platform for business growth
- Several key appointments made to strengthen the management team

Future objectives

- Ongoing global footprint optimisation to maximise participation in global markets, create superior economies of scale and maximise production scalability
- Completion and benefits realisation from the business systems and process transformation programme

Expanding margins and cashflows

Strategic goal

- Superior unit economics from improved yields and economies of scale
- Customer and market diversification
- Shift to materials solutions provider

Progress in 2020

- Site utilisation significantly improved vs FY19 levels
- Return to profitability as a result of volume growth and high operational gearing
- Strong operating cashflow resulting in a net cash positive position at the end of 2020 (2019: £16m net debt), significantly increasing balance sheet strength
- Expanding IP Portfolio – over 30 patents registered in 2020

Future objectives

- Continuous improvement in yield management, operational optimisation and customer responsiveness will ensure IQE is best placed to target profitable growth
- Due to high operational gearing, margins and cashflows expand with higher volumes

Growth-enabled innovation

The landscape for our short, medium and long-term product objectives can be visualised in our Technology Roadmap, in alignment with our strategic goals.

Technology Roadmap

Rodney Pelzel
Chief Technology Officer

Enabling ideas that transform society

IQE's connectivity and sensing technologies underpin today's modern way of life. Looking forward, IQE has a focused roadmap for the introduction of new, leading edge technologies that will enable the devices of the future. For connectivity, IQE's new products will allow our customers to keep up with ever increasing data rates and bandwidth requirements. For sensing, IQE has a clear path to increased wavelengths in consumer-based devices that are more efficient with a smaller footprint. Through the combination of our core competency and cutting edge innovation, IQE is at the heart of ubiquitous technologies that power society.

Short term

Military RF
& Sensing

5G Infrastructure
Rollout

5G Handsets

3D Sensing
Content Gain

Wearable Technology

From fitness trackers to the future of healthcare monitoring

An emerging trend is the adoption of wearable technology for healthcare monitoring. Devices such as smart watches and wearables allow users to monitor personal health and exercise data, and can even send a user's information to a medical professional in real time. Functionality includes monitoring of blood pressure and oxygen saturation, and wearable Electrocardiogram monitors. IQE anticipates the market for these products will grow significantly in the medium term as healthcare sensing and monitoring technologies mature and develop with increased functionality. We are excited to see the potential for these applications to positively impact healthcare through improved access to real-time health monitoring.

Medium term

Long term

Continued 5G
Infrastructure Rollout

5G Handsets

Environmental
Monitoring
Commercial and
Industrial Sensing

Automotive
Power & LiDAR

Efficient Power &
Smart Grids

Advanced Sensing
Applications

Consumer Healthcare

Our people

IQE's strength lies in the expertise and diversity of our workforce. Over the years we have been proud to retain leading industry experts and we recognise that our teamwork and collaboration is a powerful competitive advantage that keeps us at the cutting edge of technology and drives constant improvement throughout our organisation.

33%

of Senior Leadership vacancies were filled by women in 2020

Gender Diversity (Group level)

Diversity, Equity and Inclusion (DEI)

IQE is committed to providing equal opportunity, fair treatment and inclusion for all, without regard to race, gender, age, religion, ethnicity, identity, sexuality, disability, genetic disposition, neurodiversity, veteran status, perspective, experience or any other aspect which makes them unique. We are cultivating a work environment where everyone is treated with dignity and respect and can truly experience a sense of belonging. IQE understands that when everyone feels valued, appreciated and free to bring their full, authentic selves to work, they can then be more creative, innovative and successful. Through our culture, processes and people, IQE is investing in its journey of effective and sustainable DEI transformation.

We recognise that gender diversity remains an ongoing issue within our industry however we are committed to improving our gender balance. Our percentage of female employees increased from 19% in 2019 to 26% in 2020, and 33% of Senior Leadership vacancies were filled by women in 2020 vs 0% in 2019. We also aim to attract, develop and retain STEM talent and secure more BAME joiners. We hope to achieve this through creating a more visible employer brand, Employee Value Proposition (EVP) and greater engagement with younger generations through our social media channels.

In support of our commitment to having a truly impactful inclusion and diversity strategy, IQE became a signatory with the Tech Talent Charter (TTC) in 2020. TTC, a non-profit organisation, is leading a movement to address inequality in the tech sector and drive inclusion and diversity in a practical and measurable way. Collaborating with other organisations and engaging in TTC events allows IQE to gain actionable insights into how to deliver meaningful DEI solutions as we actively transform IQE.

Employee wellbeing

The physical and mental health of our employees is paramount. We routinely promote wellbeing and reminders of wellness support in employees personal benefits platforms. We regularly undertake employee benefit sessions to ensure our leaders and people managers are sufficiently equipped to communicate our wellbeing offering. 'Pension Awareness Day' in September 2020 and a whole month dedicated to Benefits Awareness in January 2021 are great examples of this and events for our whole workforce to attend.

Eight additional Mental Health First Aiders were trained in 2020. As we continue to grow we will increase these numbers further. We have a forum where we plan a pipeline for international and national events to support proactively breaking down the stigma of seeking mental health assistance. We recognised Mental Health Awareness week with a range of communications and support, including an engaging series of videos across our global organisation showing how we were coping during lockdowns. Working with the Mental Health Foundation, this year we will again focus on all aspects of mental health, with a focus on providing help and advice to our staff in the context of the ongoing pandemic.

We continue to bring to life our Employee Assistance Programme (EAP), which includes bereavement support, counselling, legal and financial support. Recognising the devastation global pandemic continues to have on the economy, we delivered a series of bespoke financial planning sessions catering for those in their early careers through to retirees, with focus on managing debt, financial planning, mortgages and re-mortgaging. Our employees can access numerous health and wellbeing benefits via apps and online platforms, designed for employees and families which offer seasonal events to assist during lockdowns.

Communication and engagement

We believe that effective and timely communication is an essential part of positive employee engagement. At the onset of the global pandemic, we created a series of 'Business as Usual, But Different' videos in order to provide clarity and connectedness, underpinning our employee engagement aims. Colleagues videoed in from summer houses, kitchens and bedrooms alike, illustrating how we are all in this together. Communications were very positively received and this was echoed in viewership statistics.

We have an annual visual outlining communication, wellbeing and development activities across the calendar year. This is a staple feature in the people section of the global quarterly Town Halls. These have become more interactive by utilising senior site-based leaders to act as compares, enabling live Q&A via instant messages. These Town Halls are a chance for our people to ask direct questions, and for us to increase engagement. This format will continue once we are able to return to face-to-face site-based communications sessions.

The introduction of a Business Continuity Committee in 2020 made up of a cross selection of global colleagues significantly aided communications at both a group and site level. The Committee's focus was responding to Covid-19, HSE and personal health, wellbeing and resilience.

Procurement of Workplace, an internally-focused connectivity platform developed by Facebook, Inc. has enabled the use of groups, instant messaging and a news feed increasing employee communication. At the time of writing, we have 330 users with 29 dedicated groups, where our leaders and employees alike utilise the functionality to talk, share and generally engage with each other virtually. This has been a resounding success for our business and allows us maintain an all important social connection whilst working remotely. Workplace also enables us to tailor messages and challenges which bring light relief, essential to our mental and physical health and wellbeing.

IQE's annual Leadership Conference brings together our global leaders and Executive members of our Management Board. We deliberated the merits a virtual global conference in 2020, however we instead

opted for tailored sessions with these groups. We very much hope to host a face-to-face 2021 conference.

Territory-based People Forums focus on making IQE an even better place to work. Workplace enables a visual platform to generate ideas, seek feedback, utilise voting polls, assign actions and provide updates. This opens and communication channels, improving engagement and timely action which is shared through formalised internal communications under the strapline 'you said, we did'.

Performance Management

"Performance Hub" was implemented in early 2020 to simplify and standardise the performance cycle within IQE. Performance Hub provides employees and managers with a platform to record one-to-ones, share transparent and honest feedback, record quarterly performance reviews and utilise the Personal Development Plan functionality to further support personal and career development. This has been supported by user friendly guidance notes and videos crafted with inexperienced people managers and new joiners in mind.

Empowering and inspiring minds

IQE attracts the best and brightest global talent and we work hard to offer an unbeatable experience, recruiting, retaining and developing the best talent in our sector.

Inspiring excellence

Clare Farmer
Global HR Director



IQE recognises our continuing success is dependent upon our people, and our ability to attract, retain, motivate and nurture the best talent in our industry. We aim to support all employees to develop their full potential and enjoy a rewarding and fulfilling career at IQE."

Our talented people

2,492

hours of learning
completed online in 2020

The Vault

Whilst the global pandemic impacted our ability to offer face-to-face learning, our Learning Management System 'The Vault' improved its online course offering. We have been working with our global teams to create bespoke content tailored to our colleagues.

Learning and Development

We are committed to promoting an environment and culture that provides for agile and life-long learning with the following aims:

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

We are continuing to use our Competence Management System which encompasses a formal Training and Assessment Process and various training and development forms, plans and logs. Training processes are now communicated with other departments and formalised via our document control systems.

Our values

Integrity

Behaving ethically, safely, honestly and lawfully.

Accountability

Working to clear and mutually accepted responsibilities. Hands on management and decision making.

Excellence

Striving for excellence in all we do. Focus on continuous improvement.

Valuing People

Treating people with respect and dignity. Communicating with clarity and honesty. Providing opportunities for people to reach their potential.

Teamwork

Working collaboratively towards common goals.

My Personal Hour

We encourage our employees to take a break for an hour every day at a time convenient for them, so that they can relax, exercise and reconnect. 'My Personal Hour' is good for the individual, and in turn, IQE, as we want our employees to feel empowered and enjoy a culture of flexibility.

Our culture

Inaugural issue

October 2020

Our quarterly newsletter

EpiConnection is one of several internal communication tools we use to keep in touch and raise awareness across the Group. Editions aim to provide something for everyone, including informative articles, news items and pictures.

Business ethics and conduct

We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships.

Approach to Supply Chain

We view our global Supply Chain as an extension of our business. For this reason, we are committed to ensuring the same responsible business standards and ethical behaviours we practice are upheld by the hundreds of suppliers in our Supply Chain. IQE is committed to acting professionally, fairly and with integrity in all of our business dealings and relationships.

2020 Supply Chain Review

2020 was a challenging year for supply chain disruption. The global pandemic caused insecurity within world economies, and along with uncertainties stemming from global trade tensions and Brexit, these have all been significant factors in stress testing international supply chains.

Despite this, we are pleased to report that in 2020 IQE did not experience any disruption at any of our global sites. Having a detailed understanding our supply chain has given us the ability to be dynamic and adapt to uncertainty. Over the past year, IQE has focussed on strengthening our strategic partnerships with key vendors, driving our supply chains to become more integrated at both a global and local scale, and this is a continued focus as we strive to innovate and improve.

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

→ Read more at iqep.com/responsibility/supply-chain/

Anti-bribery and corruption

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

Whistleblowing

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

Confidentiality

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

Intellectual Property

IQE's technology is underpinned by our comprehensive intellectual property (IP) portfolio. We have over 200 granted patents, with 2020 yielding more than 30 new grants. We anticipate more in the pipeline along with a variety of registered and pending trademarks.

Our patents cover all our technology development areas including next generation VCSELs, RF filters and fast switching. Our process know how, the secrets of our trade which have been gained through thirty years in the field, enhances this work and is closely protected by IQE.

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

IP portfolio per market application

Human Rights and Anti-Slavery Statement

IQE is committed to respecting the human rights of all those working with or for us. We do not accept any form of child or forced labour and we will not do business with anyone who fails to uphold these standards. IQE has a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all of its business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in its business or in any of its supply chains. The Modern Slavery Act addresses the role of businesses in preventing modern slavery within their organisation and in their supply chains. IQE has developed and implemented policies to comply with the requirements of the UK's Modern Slavery Act and our Anti-Slavery Statement can be found at iqep.com.

→ Read more at iqep.com/responsibility

Communities and social review

We recognise the opportunity we have to make a positive contribution to our communities and we seek to support a range of local activities and initiatives.

Other 2020 initiatives included:

- Sponsorship of RWC Partners 1000 mile charity cycle from Lands End to John O'Groats in aid of the Sue Ryder Charity
- Support of selected charities, including Dementia UK, in lieu of a Christmas party.
- Provision of school supplies at Donegan Elementary School in Pennsylvania, a low-income community school, to encourage participation and engagement in the classroom.
- IQE teamed with two different local middle schools in Pennsylvania to sponsor teams in the state "What's so cool about Manufacturing" contest. This programme is designed to expose children from minority and/or lower income backgrounds to technology and STEM opportunities.
- Christmas Jumper Day fundraiser for Save the Children.
- Sponsorship of Rayan's Crayons, whose mission is to gift toys and necessities to the underprivileged, provide tools for therapy to kids battling their own medical illnesses and providing relief to children in need.
- Support of the Family Resource Centre, which helps families by bringing people together for friendship and mutual support in family crises, to prevent child abuse and neglect.
- Sponsorship of the Second Harvest Food Bank, which provides food assistance to work towards eliminating hunger and its causes.
- Support of the Willen Hospice, a palliative care provider.
- 'Wear it Pink' Day in aid of Breast Cancer Awareness.

Giving Something Back Causes

IQE seeks to contribute to the economic, social and environmental sustainability of our local communities through a range of activities and initiatives. We encourage this to be driven "bottom-up", to ensure that our efforts are relevant to our employees and what is important to the local communities in which they operate. Through this approach, we are seeking to support our employees in their efforts to give something back to their communities and relevant initiatives are selected by People Forum representatives.

Since 2018 IQE has proudly sponsored Women of The Future (WoF), which is a portfolio of events, projects and awards that support and celebrate the successes of women. Our Chairman Phil Smith has had a longstanding association with WoF, which focuses on collaboration in the workplace and galvanising a community of influential women to work together as a new generation of talent across business, media, culture and public service. 2020 marked WoF's 15-year anniversary, and IQE is currently exploring opportunities to engage with Women of The Future Asia.

Educational engagement

IQE Knowledge Sharing

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

In the US in 2020 IQE participated in the Middle School virtual STEM Week Challenge. IQE engaged with K-12 students, sharing their expertise virtually and assisting with their projects. IQE employees were given the opportunity to get involved in two ways: Spend a few hours during the judging period providing written feedback to students about their submitted work and helping to select the top projects. The other option was to spend a few hours over the month during prototype development engaging with teachers and students via an online forum, responding to questions that students bring up as they tackle their respective challenge. Several IQE staff supported with both initiatives and IQE looking forward to continuing this collaboration on future events and to continue sharing our knowledge within the community.

The CSconnected Compound Semiconductor Cluster

South Wales has become established as a key centre for the development and manufacture of compound semiconductor devices and is home to a number of globally important organisations. As a regional anchor company, IQE, driven by the vision of Dr Drew Nelson, has been pivotal in the creation of the CSconnected Compound Semiconductor Cluster.

With rapidly growing interest in compound semiconductors being deployed across a wide range of new and emerging technologies and, largely driven by Dr Drew Nelson and IQE, a vision emerged to leverage the existing expertise within the region to build a coordinated eco-system that would place Wales on the global stage as the epi-centre for technologies enabled by the next generation of semiconductors.

The concept of an overarching brand has been evolving since 2015 and CSconnected was born and formally launched at a major industry conference, CS-International, hosted in Brussels in 2017. Over the following years, the concept of a common brand for regional compound semiconductor activities was adopted across the key entities within the cluster with joint participation at a number of events to promote the regional strengths.

Whilst each business and each academic entity within the South Wales eco-system offers its own world-class capabilities, collectively, the South Wales cluster represents a unique “foundry-access” IP-rich community that is positioned to place Wales and the UK firmly on the map in terms of world-leading enabling technologies in the form of compound semiconductors.

As we stand at a crossroads of a new technological revolution, there exists a unique opportunity to capitalise on years of research and development in compound semiconductor technologies by embracing and enhancing the commercial opportunities that exist across the UK with a particular concentration in South Wales.

During 2020, CSconnected was one of seven projects across the UK to receive a UKRI Strength in Places Award which included funding for a number of key collaborative

development projects involving compound semiconductor enabled technologies ranging from photonic sensing to 5G connectivity.

CSconnected will play an increasingly crucial role in promoting awareness and increasing the cluster’s profile in what is a truly global industry whilst ensuring that the component parts of the sector provide a strong and sustainable opportunity for Wales and UK.

As a key player and founder of the CSconnected eco-system, IQE continues to play an important role in promoting the joined-up capabilities that the region offers and participates in community activities including educational projects such as supporting the Science, Technology, Engineering and Manufacturing STEM Ambassador network.

Apprenticeships and Early Careers

IQE is invested in supporting apprenticeships and fostering early careers. We have been reviewing the current early-career schemes that we engage with and assessing their value to the business, with a focus on apprenticeships and PHD sponsorship. We have also met with several colleges and universities around the UK to learn more about possible placement opportunities. We will continue this engagement to improve our career development offerings.

Environment

IQE has a unique opportunity as a leading material solutions provider to develop technologies that support a sustainable world. We are committed to minimising the environmental impact of our operations and have a robust environmental management system in place to ensure compliance with regulations and encourage waste reduction.

Reduction in water usage

-2.79%

Based on total water usage 2020 vs 2019

2020 Environmental Performance

Waste, Water, Soil and Air Management

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

IQE also closely monitors the consumption of electricity, gas and water at all facilities, and looks for opportunities to improve energy efficiencies for new facilities, existing facilities, and facility expansions. An example of this is an investment in a new cooling system which was commissioned in November 2019 at IQE's facility in Spokane,

USA. The newly installed cooling system recirculates the process water rather than continually drawing from the municipal supply and this has significantly contributed to a site wide reduction of 94.4% in water usage from 2019 to 2020.

Additionally, IQE seeks to minimise all GHG emissions and has targeted environmental improvement programs as part of ISO14001 to reduce carbon dioxide emissions and the depletion of natural resources as well as conserve water usage, and minimise waste generated.

During the 2020 calendar year only one reportable incident was recorded in IQE's facilities and this related to an incident where a machine part fell into an etch tank causing elevated levels of Nickel. An investigation was carried out to minimise the probability of re-occurrence.

Environmental Incidents 2020

GHG Emissions Summary

Total Greenhouse Gases (GHG) sources and emissions (metric tonnes co ₂ equivalent (tco ₂ e))	
	2020
Stationary Sources	4,997
Hydrofluorocarbons (HFCs)	8
Purchased Electricity	27,721
Total emissions:	32,726

Water Usage Summary

Total Water Use (cubic metres)	
	2020
Municipal Supply	100,222
Recycled Water	4,681
Purchased Water	10,725
Total water use:	115,628

Waste Generation Summary

Total Waste Generated (tonnes)	
	2020
Landfill (Non-Hazardous)	116
Recycled	1,936
Hazardous	383
Total waste generated:	2,435

Note: The above figures were internally compiled however external verification is planned for 2021.

Climate Change

IQE recognises that Climate Change is a key challenge facing the world, and consequently we all have a responsibility to work to address it. As technology leaders, IQE's roadmap has the ability to contribute to a greener world through the creation of technologies which can improve energy efficiency and reduce emissions. For example, IQE's technology for GaN power electronics provides a path to improved energy consumption by enabling such things as electric vehicles and next generation infrastructure applications. IQE is committed to realising the full potential of its materials solutions to address the challenges of climate change.

2021 Initiatives

During the 2021 calendar year a number of new initiatives are being instigated to further improve our environmental performance and minimise GHG and energy emissions. Central to these will be the creation of site-specific plans identifying local environmental improvements and the associated reduction of our carbon footprint. Projects on both large and small scales are planned and being developed to improve energy efficiency within IQE. A notable example would be the replacement and upgrade of several aged cooling systems on two of our operational sites (North Carolina and Milton Keynes), which, due to the increased efficiency of the cooling circuits, will reduce demand for energy and reduce water loss from the systems. Smaller projects such as changing out light bulbs for energy efficient bulbs are already well underway on sites and will continue in the coming year. We are also looking at ways to independently verify our GHG emissions and other environmental data and we anticipate reporting on our progress in 2021.

Approach to Environmental Protection

Achieving a high level of environmental performance is a priority for IQE, as we recognise that acting responsibly is not just good for the world, but actively contributes to the success of our business. IQE encourages all employees to reduce their impact on the environment, including through reducing waste, recycling, restricting unnecessary travel, saving water and reducing energy usage.

IQE's approach to responsible environmental operations is guided by our Environmental Policy, which provides a framework for incorporating environmental considerations throughout our business and in our decision-making processes. We are focused on implementing best practice measures to minimise our environmental impact, and working with our supply chain to do the same. In order to fulfil our objectives, we set measurable objectives and monitor our performance with a thorough review system.

Compliance with Legislation


Compliance with environmental legislation is critical to our global businesses and we adhere to the laws of the jurisdictions in which we operate. To ensure we are meeting our regulatory requirements we employ appropriately qualified Environmental, Health & Safety professionals, reporting to the Chief Operating Officer, and these EHS professionals have access to third-party professional advisors as required. Additionally, IQE maintains membership of a number of professional bodies which provide a good source of reference and support, enabling it to keep up-to-date with continually evolving legislation.

Environmental Management System

IQE's Environmental Management System (EMS) is designed to the ISO 14001:2015 standard, which provides a structure that enables us to meet Environmental Policy commitments and requirements for environmental compliance. The ISO 14001:2015 standard is broadly separated into EMS sections including: Context of the organisation, leadership, planning, support, operation, performance evaluation, and improvement.

All of IQE's operating facilities are third-party certified to meet the ISO 14001:2015 standard. This is a global standard for environmental management which was developed to help organisations reduce their environmental impact and provide a framework for the continual improvement of environmental management practices. As part of the criteria for ISO 14001, regular internal and external audits are performed to identify non-compliance.

For more information, including our Environmental Policy;

 [Read more at iqep.com/responsibility](https://www.iqep.com/responsibility)

Health and safety

The health and safety of our staff, partners and the communities in which we operate is our number one priority. Effective health and safety management is at the core of our business, and we have consistently maintained a robust workplace safety program and state of the art safety technology. We are proud of our record on health and safety across our global manufacturing operations and we employ processes and procedures to ensure we comply with legislation and minimise the risk of harm.

All of IQE's employees are encouraged to take an active role to ensure workplace safety and they are mandated to report all safety observations and incidents. They regularly undertake safety audits, risk assessments and regular awareness training sessions.

IQE's Environment, Health & Safety (EHS) group has responsibility for maintaining workplace health and safety programs as well as ensuring the programs continual improvement and employee professional development planning, including training and accreditation of competent EHS professionals. These positions include Regional EHS Managers and site-based EHS Managers, Engineers and Coordinators. Our Regional EHS Managers act in high-level advisory roles, identify global best-practices and oversee the adoption of strategic EHS initiatives in line with applicable legislative requirements, wherever the Group operates. The site-specific roles are directly responsible for localised EHS program implementation and operations at each IQE site.

IQE's policy for conducting its business in a safe and responsible manner is embodied in its global Health & Safety Policy and is based on the identification, control, and, where possible, elimination of risk to persons and the environment. This policy provides a framework for the setting of occupational health and safety and process safety objectives by senior management, in consultation with workers. These objectives are intended to ensure the organisation's continual improvement in health and safety performance, striving to be incident and injury free.

Compliance with Legislation

Compliance with Health & Safety legislation is critical to our global businesses and we adhere to the laws of the jurisdictions in which we operate. These include legislative directives from the Health and Safety Executive (UK sites), Occupational Health and Safety Administration (US sites), Ministry of Labour (Taiwan site) and Ministry of Manpower (Singapore site). In the UK, two sites are regulated under the Health and Safety Executive's Control of Major Accident Hazards (COMAH) regulations. In the US, one site is regulated under OSHA's Process Safety Management (PSM) regulation.

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

IQE is also actively involved in industry-wide initiatives, working with industry associations and proactively registering under regulatory directives such as Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) and Global Harmonized System of Classification and Labelling of Chemicals (GHS) based Hazard Communication. Furthermore, IQE monitors global chemical control activities (e.g. Restriction of Hazardous Substances Directive and Toxic Substance Control Act) to ensure continued customer confidence and supply-chain compliance.

Health & Safety Management

IQE's Environment, Health & Safety (EHS) group has responsibility for maintaining workplace health and safety programs as well as ensuring the program's continual improvement and employee professional development planning, including training and accreditation of competent EHS professionals. These positions include a Global EHS Director, Regional EHS Managers and site-based EHS Managers, Engineers and Coordinators. Our Global EHS Director and Regional EHS Managers act in high-level advisory roles, identify global best-practices and oversee the adoption of strategic EHS initiatives in line with applicable legislative requirements, wherever the Group operates. The site-specific roles are directly responsible for localised EHS program implementation and operations at each IQE site.

→ For more information, including our Environmental Policy, please see www.iqep.com/responsibility.

2020 Health and Safety Performance

IQE Facilities reports Safety and Environmental incidents globally using a "pyramid or triangle" approach. The objective is to eliminate Near Miss incidents in order to eliminate minor and serious incidents. Brief

definitions of Near Miss, Minor, and Serious incidents are defined below:

- Near Miss incidents have the potential for harm or consequence, but no harm or consequence is incurred.
- Minor incidents result in minor harm or consequence, with no Government reporting requirement.
- Serious incidents require governmental regulatory reporting.

This approach is used for trend analyses as well as take corrective action, and potentially to design in preventative action, in order to instill a culture of continuous improvement within operations. In doing so, major incidents could be averted and improvements to procedures and infrastructure predicted in advance of any such potential occurrence. IQE safety performance for Near Miss, Minor, and Serious are shown below.

In 2020, IQE experienced a total of 136 Near Miss incidents, 83 minor incidents, two serious incidents. The two reportable incidents in 2020 have both been thoroughly investigated and appropriate measures taken to prevent re-occurrence. In North Carolina an employee suffered a cut on his left wrist while removing a section of sheet metal from the exterior wall louver in the Boiler Room.

An immediate evaluation was undertaken of the protective gloves for handling such materials to ensure they offered protection to the wrists. In the longer term, a review is ongoing to identify if it is sustainable to use a different material of construction for the louver walls. In the EU facility a pyrophoric material ignited, resulting in an injury to an employee that was reportable to the regulator. Following this incident a review of this and similar tasks was completed resulting in a new control process being implemented to manage any tasks where such hazards exist. This process is being evolved and is being deployed across all IQE facilities.

Our US and Taiwan facilities are governed by OSHA and when injury/illness incident rates (i.e., incidents per 100 employees) were compared to OSHA published incident rates for the US semiconductor industry and related device manufacturing (NACIS 334413) with 50 to 249 employees (2017), they were:

- Below the industry incident injury/illness rate mean of 1.0.
- Below the industry incident rates with days of restricted work activity of 0.4.
- Below the industry incident rates with days away from work mean of 0.3.

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

2021 initiatives

During the 2021 calendar year a number of exciting improvements are planned to improve our performance relating to Health and Safety. The process of aligning our health and safety management to the framework of ISO 45001 is underway and initial assessments will be undertaken in 2021 with a view to gaining certification in early 2022. Another major focus will be around further embedding the principals of process safety in our facilities.

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

→ Read more at iqep.com/responsibility

Stakeholder Engagement

How the Board engaged with stakeholders

Engagement with our stakeholders allows us to grow and execute our strategy. Our impact on, and engagement with, our key stakeholders groups is considered within the implementation of our strategy, which is overseen by the Executive Management Board and supported by the Board of Directors. We consider the impact we have on our stakeholders, as well as what our stakeholders consider important, when developing our plans for continued success. We have set out below our key groups of stakeholders, the issues and factors relevant to those stakeholders and how we have engaged with those stakeholders.

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

Stakeholder	Stakeholder description	Material issues
Customers	We provide the best advanced semiconductor materials solutions to our customers, supported by new product offerings and personalised customer support. We have a wide and diverse range of both corporate and academic customers across many different industries and end applications. Our product solutions support our customers to address some of the world's most pressing technological advancements.	<ul style="list-style-type: none"> • Consistently high quality products • High standard of business conduct • Product development support • Fair pricing • Excellent ongoing customer support
Employees	Our employees are fundamental to our business success. We continually invest in our people, developing the capabilities that we will need to succeed over the longer term. We are committed to being the company where the best in our sector want to work and strive to offer opportunities that will attract, motivate and retain talented employees, enabling them to give their best.	<ul style="list-style-type: none"> • Opportunities for personal development and career progression • Trust and encouragement to contribute to the business' success • Consideration of their health and wellbeing • Working as part of an inclusive and diverse culture
Investors and Shareholders	We place considerable importance on the maintenance of regular and open dialogue with our shareholders. Our goal is to deliver our investors and shareholders with returns through profitable and sustainable growth with the efficient use of capital.	<ul style="list-style-type: none"> • Current and future financial performance • Maximising opportunities for growth • Environmental, social and governance issues
Partners and Suppliers	We recognise the value of our partners and suppliers. Our supplier chain plays a vital role in supporting our business growth and efficiency. To meet the expectations of our customers, we develop strong working relationships with our suppliers and look for our suppliers to provide added value.	<ul style="list-style-type: none"> • Forecasting visibility • Product quality • Fair pricing • Long-term partnerships
Society	We believe that our technology and products will benefit and advance society. We work hard to ensure that we have a positive impact on all those around us.	<ul style="list-style-type: none"> • Local investment • Opportunities for local investment • Impact on local environment

Section 172(1) Statement

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

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

Recognising that companies are run for the benefit of their shareholders, but that the long-term success of a business is dependent on maintaining relationships with stakeholders, the Board continuously reviews which relationships support the generation and preservation of value in the Company. These relationships include those with our customers, employees, investors and shareholders, partners and suppliers and society.

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

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

Section 172 Factor	Key Examples	Page
Consequences of any decision in the long term	<ul style="list-style-type: none"> Consideration of how IQE generates long term value in the through development of our Business Model and Strategy 	Pages 14-17
Interests of employees	<ul style="list-style-type: none"> Participation in Diversity, Equity and Inclusion planning for the business Promotion of employee wellbeing initiatives and benefits awareness Participation in Town Halls and employee forums 	Pages 20-21
Fostering business relationships with suppliers, customers and others	<ul style="list-style-type: none"> Building strong relationships with customers and suppliers within the Group's supply chain, which is essential for achieving the Group's long-term strategic goals. 	Page 24
Impact of operations on the community and the environment	<ul style="list-style-type: none"> Consideration of Environmental, Social and Governance improvement strategies Review of environmental performance, ISO 14001 Environmental management system and emission reduction initiatives 	Page 27
Maintaining high standard of business conduct	<ul style="list-style-type: none"> Promotion of responsible business operations, with a focus on the Group's Anti-bribery and Corruption, Confidentiality and Whistleblowing policies, and Anti-Slavery Statement. 	Page 24
Acting fairly between members of the Company	<ul style="list-style-type: none"> Shareholder engagement Investor information and the Annual General Meeting 	Pages 63, 147

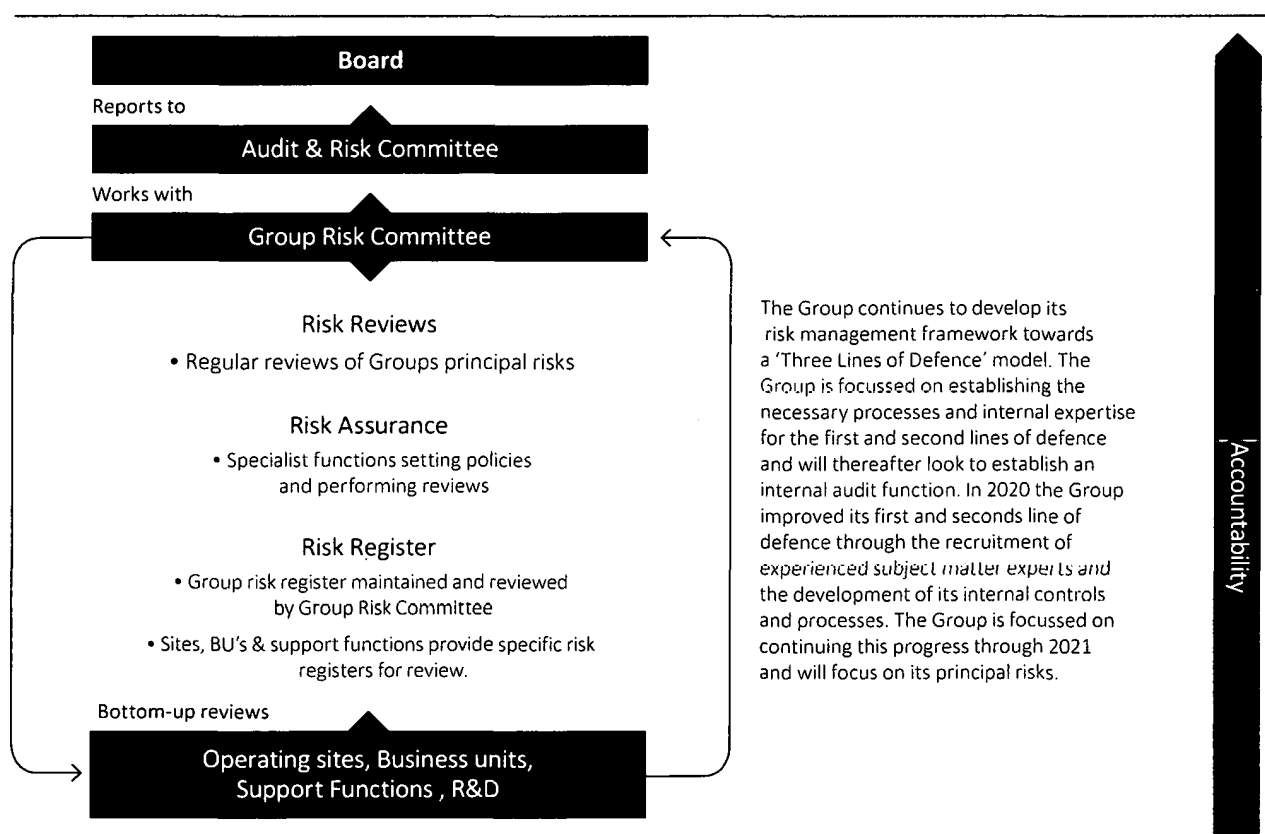
Risk Management

Our approach and appetite for risk

We recognise risk as an inherent part of our business operations and we approach risk with the same deliberate, strategic consideration as other aspects of the business. The effective management of risk contributes significantly to the successful delivery of the Group's strategic plans and objectives. The Group Risk Committee monitors the risk environment, in particular those identified as principal risks, on a regular basis while the Board is responsible for the overall stewardship of risk management and internal control. The Group Risk Committee considers risks using a top-down and bottom-up approach, with the Committee members obtaining input from around the business, which together with the oversight and support from the Audit & Risk Committee and the Board, creates an effective system for monitoring, planning and developing a Group-wide approach and culture to risk. The Group Risk Committee will periodically report to the Audit & Risk Committee on the Group's principal risks and the mitigating actions being taken to address those risks. q

The Group Risk Committee is responsible for the maintenance and regular updating of a risk register which articulates the Group's principal risks and the actions being taken to address those risks. The risk register is in a standardised format and includes the likelihood of a risk materialising, and both a gross and net risk score.

Managing risks











Risk Management continued

Key:  Increased risk  Decreased risk  No change to risk  New risk

Principal risks and uncertainties



The table below sets out the Group's principal risks and describes the likelihood, potential impact and the Group's mitigation measures for those risks. We have also identified the direction of change from 2019.

Principal risk and why it is relevant:	Risk likelihood and Trend:	Key Mitigation:	Potential impact:
Major health and safety incident and/or major accident to the environment (MATTE). IQE operates in a highly controlled and regulated environment due to the nature of the materials used in its manufacturing processes.	Medium 	Key Mitigation: <ul style="list-style-type: none"> • Strong internal controls, including technical and engineering control measures • Continuous improvement of health, safety and environment management systems • Continuous auditing and monitoring of production systems and equipment and close down of audit actions • Only trained and competent persons permitted to work with potentially harmful materials 	Potential impact: High Effect: Harm to IQE's people or the environment, reputational damage, regulatory investigation and/or legal proceedings, fines and penalties.
Loss of key people. IQE's people are fundamental to its success and IQE has a number of individuals in key roles.	Low 	Key Mitigation: <ul style="list-style-type: none"> • Employee communication and engagement strategy • Talent development and retention plans • Succession management 	Potential impact: Medium Effect: Quality issues, production issues, technology development delays, wage inflation.
Cybersecurity including risks from malware, malicious actions, accident and other unauthorised access.	Medium 	Key Mitigation: <ul style="list-style-type: none"> • Investment in cybersecurity defences • Third party vulnerability assessments, testing and close down of actions • Staff training and IT policies regarding use of IT and systems 	Potential impact: Medium Effect: Operational disruption, loss of intellectual property, loss of data.
Infringement or loss of IQE's intellectual property rights. IQE's intellectual property rights are a core element of its competitive offering.	Medium 	Key Mitigation: <ul style="list-style-type: none"> • Patent strategy • Proactive and rigorous defence of IQE's rights • Appropriate contractual confidentiality obligations and controls around the sharing of sensitive information • Internal controls to protect IQE's confidential information 	Potential impact: High Effect: Degradation of IQE's competitive advantage, loss of market opportunity, significant legal fees.

Principal risk and why it is relevant:	Risk likelihood and Trend:	Key Mitigation:	Potential impact:
Breach of legal and regulatory requirements. IQE operates on a global scale and must ensure compliance with laws and regulations wherever we do business.	Medium 	Key Mitigation: <ul style="list-style-type: none"> Global monitoring of commercial arrangements and agreements Global policies and procedures to ensure compliance with our legal obligations – particularly around, health, safety and environment, export controls and anti-bribery and corruption laws Global whistleblowing policy Monitoring and reporting of legal and regulatory issues to the Audit & Risk Committee 	Potential impact: High Effect: Fines and penalties, financial loss, reputational damage.
Changes in international export controls laws which impacts on IQE's ability to serve global markets.	Medium 	Key Mitigation: <ul style="list-style-type: none"> Continued development of products and technologies which can be supplied to a number of different geographical markets in compliance with export control laws Diversification of customers and products Use of production equipment which is subject to lesser export control restrictions Monitoring of changes in export control laws 	Potential impact: High Effect: Loss of market opportunity leading to reduction in revenues and profit.
Increasing competition or erosion of market opportunity from changing geo-political environment and new market entrants attracted by high growth potential.	High 	Key Mitigation: <ul style="list-style-type: none"> Ensure that IQE's products remain world-leading through investment in opportunities identified in product roadmap Proactive customer engagement Diversification through new markets, new products and new customers Pursuing long-term commitments from IQE's customers 	Potential impact: High Effect: Loss of market share, price erosion, reduced sales volume and profitability.
High level of customer concentration with the majority of IQE's revenues derived from a small number of key customers.	Medium 	Key Mitigation: <ul style="list-style-type: none"> Customer diversification to reduce extent of reliance on key customers Product diversification with existing and new customers Market diversification through new global markets and new product opportunities Strategy as a materials specialist, enabling supply across the market 	Potential impact: High Effect: Risk of loss of market share, product volume and reduced sales and profitability.

Risk Management continued

Key: Increased risk ↑ Decreased risk ↓ No change to risk ↔ New risk ○

Principal risk and why it is relevant:	Risk likelihood and Trend:	Key Mitigation:	Potential impact:
Insufficient cashflow generation to underpin any capital investment that might be needed to exploit business opportunities.	Medium 	Key Mitigation: <ul style="list-style-type: none"> • Capital structure strategy • Capital investment strategy including management of credit facilities • Long term business planning to determine investment priorities and phasing of investments • Cashflow forecasting and working capital management 	Potential impact: High Effect: Inability to exploit opportunities and grow resulting in lower revenue and profitability.
New products fail to deliver expected revenue and profitability.	Medium 	Key Mitigation: <ul style="list-style-type: none"> • Engaging with customers early in the product development lifecycle to align new product and technology development with customer requirements • Qualifying new products with customers and investment in capacity to support customer qualification and R&D • Maintaining a clear product roadmap which ensures that IQE remains at the forefront of new technology 	Potential impact: High Effect: Lower than expected revenue and profit growth, reduced ability to invest.

Key areas of focus for 2021

- Continue to evolve the group risk register and risk management processes, overseen by the Group Risk Committee
- Existing and emerging risks that may impact on IQE's ability to grow
- Consistency of approach to risk across IQE's global sites

Brexit

The United Kingdom left the European Union on 31 January 2020. Prior to this, IQE's management team considered the impact the UK leaving the European Union (commonly referred to as 'Brexit') would have on IQE's business operations. As disclosed in the Group's 2017, 2018 and 2019 Annual Report and accounts, the management team still maintains the view that Brexit will have no significant effect on IQE's business operations and to date this has been the case. In making this assessment, the following factors have been considered.

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

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

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

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

Coronavirus

During 2020 the global outbreak of the Coronavirus caused disruption to global markets and significantly affected macroeconomic conditions. At the onset of the pandemic, IQE implemented a Business Continuity Committee to guide the Group's response to Coronavirus. The committee monitored risk indicators and external guidance and formulated policies and actions in response to the situation as it evolved.

The committee focused on implementing measures which were site appropriate and reflective of the rates of infection and relevant guidance in place in our operational jurisdictions. It also ensured regular and clear communications with our staff and other stakeholders, including frequent internal correspondence from management and weekly updates via IQE's corporate website.

Travel restrictions were implemented, and where possible staff were mandated to work from home, while enhanced health and safety measures were adopted on site. This included the use of face coverings, temperature monitoring and the roll out of proximity detection devices to support social distancing.

During 2020 the Coronavirus situation did not affect production at any IQE sites or materially affect orders for IQE's products from our customers. As lockdown restrictions ease worldwide, we will continue to take appropriate measures to protect our people and their safety remains our primary objective.

Viability Statement

Long term viability

As required by provision 31 of the UK Corporate Governance Code 2018, the Board has assessed the prospects of the Company over a three-year period, taking into account the Group's current financial position, business strategy and the results of its robust assessment of principle risks (see pages 34 to 36).

The Board believes that a three-year period is an appropriate time frame for assessing the Group's longer-term viability. This period is covered by the Group's strategic planning horizon and considers the nature of the Group's principal risks. The Board believes that a three-year period reflects a period of time over which information and forecasts concerning demand for the development, qualification and production of compound semiconductor wafers, is considered reasonably reliable. In making this assessment, the Directors have taken account of the Group's current funding arrangements and ability to raise new finance in most market conditions if required.

The Board's key criteria for considering the Group's viability were the maintenance of a net cash position or the ability to operate within agreed debt arrangements, demonstrating that the Group would be able to meet its liabilities as they fall due. As at 31 December 2020, the Group has a net cash position of £1.9m and committed facilities of £53.5m.

In making this assessment, the Directors have considered the continuing growth in market demand for compound semiconductors, driven by the macro trends of 5G and connected devices, and are confident that the overall market and number of end use applications for compound semiconductors will continue to grow over the medium to long term. To ensure IQE continues to be well positioned to exploit this growing market, both in the short and longer-term, IQE has developed a clearly defined technology and product roadmap that is supported by a combination of recent strategic capital investments in manufacturing capacity at its sites in Newport (UK), Massachusetts (US) and Hsinchu (Taiwan) and continues to invest in next generation compound semiconductor research and development.

Stress tests and scenario analyses to determine the Group's viability have been performed as part of the assessment. In performing those tests, the Group considered a number of scenarios linked to changes in forecast levels of growth within the Wireless and Photonics operating segments, changes to capital and technology research and development investment plans and the associated impact on, and availability of any required funding to support the Group's viability over its strategic three-year planning period.

The Board confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 December 2023.

Going concern

In accordance with provision 30 of the UK Corporate Governance Code 2018, the Board considers it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Fair, balanced and understandable

The Board considers the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Financial Review

Financial Review

Tim Pullen
Chief Financial Officer

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

On 11 March 2020, the World Health Organisation declared the outbreak of a coronavirus (COVID-19) a pandemic. The COVID-19 outbreak created uncertainty in global economies and posed a number of initial risks and uncertainties in the markets in which the Group operates although ultimately these have not adversely impacted financial performance during the year with strong global growth trends in compound semiconductor markets continuing and the Group experiencing little or no disruption to its manufacturing operations as a result of the pandemic.

The Group's trading has remained resilient throughout the year with significant growth experienced in a number of markets that has resulted in the delivery of record revenue of £178.0m (2019: £140.0m) with strong growth experienced in each of the Group's primary business segments.

The Group's Wireless business segment represents the largest proportion of the Group's revenue accounting for 52.9% (2019: 48.7%) of total wafer sales with Photonics representing 45.8% (2019: 49.8%) and CMOS++ representing 1.2% (2019: 1.5%).

Wireless wafer revenues increased 38.2% to £94.2m (2019: £68.2m). The increase in Wireless revenue primarily reflects increased demand for GaAs wafers for 5G handset power amplifiers fuelled by growing end market demand for '5G ready' smartphones, increased demand for GaN on SiC wafers for 5G infrastructure related to initial deployments of 5G base stations and demand for high performance GaN on SiC wafers for advanced RF applications.

(2019: £140m)

£178m

Record revenue performance

(2019: £21m)

£33m

Gross profit

(2019: £8m)

£33m

Cash from operating activities

Photonics wafer revenues were up 17.0% to £81.6m (2019: £69.8m) with the Group experiencing consistently high demand for GaAs VCSEL wafers for 3D sensing applications throughout the year and continuing strong demand for high performance GaSb wafers for advanced sensing applications.

Gross profit increased from £21.4m to £33.2m. The increase in gross profit reflects a combination of higher trading volumes and an improvement in overall gross profit margin percentage to 18.6% (2019: 15.3%) as the Group has benefited from greater capacity utilisation in the current year. Adjusted gross profit, which excludes the charge for share based payments, increased from £20.9m to £33.3m with a gross margin improvement from 14.9% to 18.7%.

Selling, general and administrative ('SG&A') expenses decreased from £36.3m to £34.7m. Adjusted SG&A, which excludes adjustments for share based payments, restructuring costs, patent dispute legal costs and certain non-current asset impairments increased from £25.8m to £27.8m, primarily reflecting an increase in investment in corporate functions and employee headcount as the Group continues to grow.

Restructuring costs totalling £0.16m (2019: £0.81m) relate to employee retention bonuses associated with the announced closure of the Group's manufacturing facility in Pennsylvania (US). Restructuring costs in 2019 related to site-specific employee related restructuring and final costs associated with the closure of the Group's manufacturing facility in New Jersey (US).

Patent dispute income of £1.7m (2019: £4.3m cost) relates to a settlement agreement associated with legal costs incurred by the Group that has been negotiated with the plaintiff following the previously announced arbitration panel ruling in favour of the Group. Patent dispute income also includes insurance income received from the Group's insurers in relation to relevant costs incurred as part of the dispute partially offset by actual legal costs incurred during the period.

Impairment of intangibles of £6.5m (2019: £3.8m) relates to the write-down in value of the Group's non-filter related cREO™ patent and development costs following the refocus of resource and investment into cREO™ filter related development activities. The onerous contract provision of £1.8m (2019: £nil), which is linked to the commercial applications of the cREO™ technology and represents the cost of minimum guaranteed future royalty payments related to the historical acquisition of the technology from Translucent Inc. that are payable in the period prior to the expected commercial exploitation of the cREO™ filter technology.

Operating loss improved from £18.8m in 2019 to a current year loss of £5.5m. Reflecting the adjustments noted above, adjusted operating loss of £4.7m in 2019 improved significantly in 2020 with a return to profitability and an adjusted operating profit of £5.4m. The segmental analysis in note 4 reflects the adjusted operating margins for the primary segments (before central corporate support costs). Wireless adjusted operating margins and photonics operating margins improved from 9.7% and 1.9% in 2019 to 12.1% and 11.1% in 2020, primarily reflecting increases in volume and increased utilisation of manufacturing capacity.

The credit of £3.8m (2019: £4.7m charge) associated with the Group's share of losses in its joint venture, Compound Semiconductor Centre Limited, reflects the reversal of previously recognised losses as part of the application of the loss absorption requirement of IAS28.38 following an equal and opposite increase in the level of impairment loss associated with the Group's preference share debt due from CSC. The loss absorption credit of £3.8m recorded in 'share of losses in joint venture' and the increased impairment charge of £3.8m relating to the preference share financial asset recorded as an 'impairment loss on financial assets' has no net impact on the Group's loss for the year.

Finance costs increased to £2.2m from £1.5m in 2019 reflecting a combination of the Group's utilisation of its bank borrowing facilities and the unwind of discounting associated with lease liabilities.

The tax credit of £1.0m (2019: £10.2) reflects an effective tax rate of ~25% with the credit principally arising as a result of the recognition of deferred tax assets for certain current year UK trading losses. The tax charge of £10.2m charge in 2019 primarily reflected increased deferred tax charges relating to the partial reversal of previously recognised US deferred tax assets. A forecast shift in the balance of the Group's projected manufacturing production, a position that remains unchanged in the current year, resulted in a shift in forecast profits between the US and rest of the world. The forecast shift in manufacturing and profitability in the US has restricted the Group's ability to recognise deferred tax assets for historical US trading losses and in 2019 resulted in the partial reversal of previously recognised US deferred tax assets with a tax impact of ~£9.6m. The effective tax rate of ~21% (2019: 10%) applicable to the tax charge of £1.5m (2019: £1.8m) on adjusted items is reflective of applicable statutory tax rates.

The reduction in the loss for the year to £2.9m (2019: £35.1m) reflects a combination of significant growth in the wireless and photonics business segments, improved profitability within both business segments and a reduction in the impact of adjusted non-cash and other non-operational items which at an adjusted level, has resulted in a return to profitability, with an adjusted profit for the year of £2.7m (2019: £19.0m loss).

Basic and diluted loss per share has improved from a loss per share of 4.51p to a loss of 0.41p in the current year with adjusted basic earnings per share of 0.29p (2019: 2.46p loss) and adjusted diluted earnings per share of 0.29p (2019: 2.46p loss) reflecting the Group's return to profitability at the adjusted profit level.

Cash generated from operating activities increased significantly in the year to £33.3m (2019: £8.1m) reflecting the Group's positive underlying trading performance and careful management of working capital. This increase in cash generation combined with a reduction in capital expenditure and technology development costs has reduced cash expenditure on investing activities from £41.8m to £11.8m and resulted in a significant strengthening in the Group's balance sheet position with a full year net funds position of £1.9m (excluding lease liabilities) compared to a net debt position of £16.0m (excluding lease liabilities) in 2019.

Cash expenditure as part of investing activities includes £1.4m of cash cost associated with the acquisition of the minority interest in the Group's Taiwanese subsidiary, IQE Taiwan ROC. On 5 October 2020, the Group acquired the remaining 9.82% of issued shares held by third party minority shareholders in its subsidiary, IQE Taiwan ROC, taking its equity ownership from 90.18% to 100.00%. The acquisition was affected using a statutory share swap arrangement under Taiwan's Business Mergers and Acquisition Law with the final total consideration payable to be determined by the Taiwan Court. Consideration paid to date consists of £1.4m which has been settled via the issuance of 2,606,689 ordinary shares in IQE plc and cash consideration of £1.4m which for a minority of selling shareholders is subject to adjustment dependent upon a price determined by the Taiwan Court

Equity shareholder funds totals £260.4m (2019: £270.4m) with the movement from 2019 primarily reflecting the loss for the year, the impact of the acquisition of the Taiwanese minority interest and adverse foreign exchange differences arising on the retranslation of net investments in overseas subsidiaries.

Chairman's Governance Overview

Dear Shareholders,

I am pleased to introduce IQE's Governance Report on behalf of the Board. The Board is collectively responsible for IQE's long-term success and hence committed to conducting business responsibly, maintaining high standards of corporate governance and to aspiring to the highest levels of quality in everything it does. I'm confident the Board's continued focus on these areas will support IQE's performance, its position in the market and enable it to grow and embrace its opportunities as they arise. The Board is committed to driving IQE's long-term objectives and to overseeing IQE's operations to ensure competent and prudent management. The approach to governance is set by the Board, charging the Executive Management Board with the responsibility to ensure that the approach is effectively implemented across IQE's global business. It has been my privilege to lead IQE's Board since April 2019 and over the last year to be part of IQE's strong and resilient performance in what has been an extremely tough external environment. The Board and the Executive have rightly been heavily focused during these tough times on the resilience of our people, our business and the way in which we interact with the societies in which we all live and operate.

Board changes in 2020

On 24 November 2020 we announced that Dr Drew Nelson, founder and CEO, planned to step aside from his current role once a successor had been found. Drew, as co-founder of IQE has played a pivotal role in building IQE into the global leader it is today. His vision, his technical expertise and his worldwide reputation in the sector has helped to create a unique business. Drew and the Board now agree that it is time for Drew to step aside from the CEO role and to hand the reins to someone who can take IQE to the next level of scale and global impact. Drew will remain on the Board where he will of course be subject to its governance regime. Additionally, Drew will take an advisory and ambassadorial role as President, which gives us the continuity of access to Drew's expertise whilst allowing him to focus on wider interests such as the evolution of the South Wales cluster and the growth of the compound semiconductor market in the UK, Europe and beyond.

We are in a robust process, with the assistance of external advisors, of globally searching for a new CEO and are receiving considerable interest from around the world. We intend to complete that search as soon as possible but until then Drew will remain as CEO to assist with the transition and ensure continuity for IQE.

The Board has evolved in other ways through 2020 and I expect that there will be further evolution in the coming years as we seek to ensure that the Board has the right mix of skills, experience and diversity to lead and support the business. Sir David Grant, who has been on the Board as Non-executive Director since 1 September 2012, will be stepping down shortly after the 2021 AGM. David has made a huge contribution to IQE over many years and has been not only an extremely effective Board member but a valued counsel and advisor for many of us at IQE.

The Board also decided in January 2021 that Sir David would stepdown as Chair of the Nominations Committee and I was appointed as the Committee's new Chair. Additionally, Carol Chesney was appointed as Senior Independent Director on 5 November 2020. Carol was appointed as an independent Non-Executive Director on 13 May 2019 and is also Chair of IQE's Audit & Risk Committee. As we take the opportunity to bring new Non-Executives onto the Board we are continuing the process of aligning it to best practice structures including appointing a director responsible for employee engagement as well as ensuring we have good coverage in each of the Committees.

During the year, I agreed with the Board that we would carry out an internal evaluation of the Board. I am pleased to confirm that we continue to have a committed, engaged and effective Board that is operating well. More details on the findings from the evaluation are outlined on page 48. Throughout 2020 we have improved the Board's efficiency and productivity. We have strengthened how we managed the Board's agenda and the materials developed for the Board. I believe these changes have enabled the Board to effectively manage both the leadership transition and to help guide IQE through a turbulent external environment.

I encourage all of our shareholders to engage with us ahead of the AGM which will be held on 23 June 2021. Notice of, and details of the arrangements for, the AGM will be provided to shareholders at the usual time and will take account of legislative requirements, external circumstances with the COVID-19 pandemic and the protection of the health and safety of our employees and shareholders.

I am confident that the steps we are taking to build further resilience into IQE and the Board are not only prudent but vital for the business going forward if we want to achieve the vision and goals we have set ourselves. I will continue to focus on that evolution during my tenure and welcome the feedback and advice I regularly receive from shareholders.



Phil Smith
Chairman, IQE plc

25 March 2021

Strong governance and leadership

Phil Smith

CBE, FREng, FIET (63)



Dr Drew Nelson

OBE, BSc, PhD,
FREng (66)

Tim Pullen

BA, ACA (43)

Chairman and Non-Executive Director

Phil Smith joined the IQE Board in 2016 and took over as Chairman in April 2019. Previously he has been appointed Chairman of Cisco for the UK in 2016, after eight years as Cisco's Chief Executive. He is also the Chairman of Innovate UK and Chairman of the Tech Partnership. Additionally, he sits on the Board of the National Centre for Universities and Business (NCUB). Mr Smith has a thirty-five year track record in the technology industry in leading companies including Philips Electronics and IBM. As Chief Executive and now Chairman of Cisco, he leads around 5,500 people in the UK and Ireland. He created Cisco's British Innovation Gateway (BIG) programme, as a legacy of London 2012 to spark nationwide ingenuity, ambition and growth through technology entrepreneurship. In September 2014 he was awarded an Honorary Doctorate by Birmingham City University, cited for his outstanding contribution to the IT industry, a "leader among leaders". In March 2015, Mr Smith was awarded an Honorary Degree of Doctor of Laws by the University of Warwick and in 2016 an Honorary Degree of Doctor of Science by his alma mater, Glasgow University. He was honoured in the 2019 Queen's Birthday Honours List with the award of Commander of the Order of the British Empire (CBE) for services to Technology, Business and Skills.

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 roles, and served on several Government and Industry bodies. He received an OBE in 2001 for services to the electronics industry. He is currently a member of the High Level Group appointed by the EC to oversee the implementation of Key Enabling Technologies (KETs) throughout Europe.

Chief Financial Officer

Tim Pullen joined IQE as the Chief Financial Officer in February 2019. Prior to this, Mr Pullen was the Chief Financial Officer of Arm Limited, a global semiconductor and software design company owned by Softbank Group. Before joining Arm, he was Finance Director at O2 / Telefonica UK, where he held a variety of senior financial positions including responsibility for Technology Operations, B2B and Digital segments and Finance Operations. In connection with his time at O2, Mr. Pullen also held roles as a Non-Executive Director of Tesco Mobile, O2's joint venture with Tesco Mobile, and was a Director of Cornerstone Telecommunications Infrastructure Limited, O2's network sharing joint venture with Vodafone. He has also worked in a number of technology and services businesses, including Serco, Fujitsu and Dell. Mr Pullen is a Chartered Accountant and qualified with Ernst & Young.

Carol Chesney

FCA (58)

A N R

Senior Independent Director, Chair of Audit & Risk Committee

Mrs Chesney joined IQE's Board in May 2019 and was appointed as a Senior Independent Director in November 2020. Since October 2012 Mrs Chesney has served as a Non-Executive Director and Chair of the Audit Committee of Renishaw plc. In addition, she is a Non-Executive Director and Chair of the Audit Committees of both Hunting plc and Biffa plc. Until 2018 Mrs Chesney served as the Company Secretary of Halma plc, a FTSE 100 health, safety and environmental technology group, having also served as the Group's Financial Controller. During her time at Halma, Mrs Chesney's role included corporate governance, legal compliance, equity incentives, pensions, internal audit management, taxation, property, health and safety compliance, environmental reporting and anti-bribery and corruption compliance. Mrs Chesney is a Fellow of the Institute of Chartered Accountants in England and Wales, and qualified with Arthur Andersen in the UK.

Sir David Grant

CBE, PhD, FREng,
FLSW, CEng, FIET (73)

A N **R**

Non-Executive Director, Chair of Nominations Committee, Chair of Remuneration Committee

Sir David Grant has a background in engineering and technology and was appointed to the Board of IQE plc in September 2012. He was Vice-Chancellor of Cardiff University from 2001 to 2012 and he previously 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 Institute of Engineering and Technology, 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. Sir Grant was knighted in the 2016 Queen's Birthday Honours for services to Technology, Business and Skills.

Sir Derek Jones

KCB (68)

A N R

Non-Executive Director

Sir Derek Jones KCB is Chair of Keolis UK, the international transport company; he is also Chair of the Prince's Trust in Wales. He is also an independent adviser at Cardiff University, where he is an Honorary Fellow and Professor, and a Vice President of Cardiff Business Club. Sir Derek was the Permanent Secretary of the Welsh Government until February 2017. Sir Derek spent the earlier part of his government career in Whitehall, working at HM Treasury and the Department for Trade & Industry, where he headed the Far East Trade Desk. In government in Wales he also served as Director of Finance and Director of Economic Affairs, during which time he was instrumental in securing major inward investment projects, particularly from Japan and the USA. Outside government, Sir Derek was Director of Business & Strategic Partnerships at Cardiff University, responsible for securing long-term collaborations with the private sector. He was made Companion of the Order of the Bath (CB) in 2009 and subsequently Knight Commander (KCB) in 2014, for services to economic and social conditions.

Tom Dale

BSc (34)

Company Secretary

Tom Dale was appointed Company Secretary in March 2020 and also serves as IQE's General Counsel. Tom is responsible for providing strong governance and company law support and advice to the Board. Tom also has extensive experience in corporate, commercial, technology and manufacturing issues having previously worked at Inchcape UK, Dyson and Wiggin LLP. Tom studied Economics and is a practising Solicitor (England and Wales).

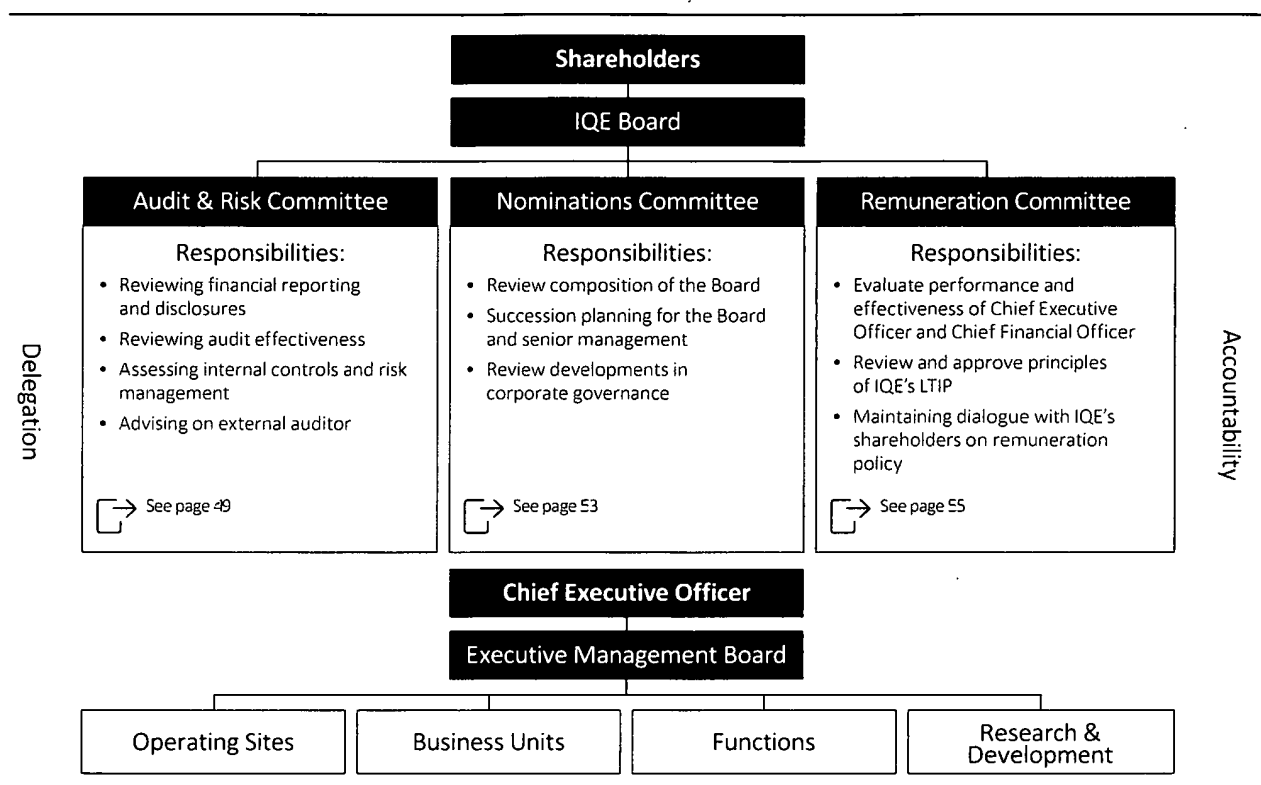
R Remuneration Committee

N Nominations Committee

A Audit & Risk Committee

○ Chair of Committee

Governance structure



Role of the Board

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

The primary tasks of the Board in 2020 included:

Strategy

- Reviewed, challenged and approved the Group's strategy for the period 2021 to 2023
- Regular reviews of key business decisions and their impact on the Group's strategy

Operations

- Received operational, including health, safety and environment, updates at each scheduled meeting
- Monitored performance and provided challenge in key areas of operations

Leadership and people

- Commenced the search for a new Chief Executive Officer
- Commenced the search for new Non-Executive Directors

Finance

- Monitored progress against the 2020 financial plan
- Reviewed and approved the financial plan for the period 2021 to 2023
- Monitored, challenged and approved capex and other significant expenditure
- Approved the Annual Report, half-year results and interim trading updates
- Considered and approved IQE's going concern and viability statements

Governance and ethics

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

Board and Committee attendance

	Board	Audit & Risk Committee	Remuneration Committee	Nominations Committee
Number of meetings in 2020	14	8	2	4
Attendance				
Executive				
Dr A W Nelson	13	•	•	•
Mr Tim Pullen	14	•	•	•
Non-Executive				
Mr P Smith	14	8	2	4
Mrs Carol Chesney	14	8	2	4
Sir D Grant	14	8	2	4
Sir D Jones	14	8	2	3

- Not a member of the Committee or not required to attend meetings.

Board activities in 2020 continued

Diversity

Independence

The Board considers that all of the Non-Executive Directors are independent in character and judgement and free from any business or other relationship that could materially interfere with exercising that judgment.

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

Appointment and time commitment

The Chairman and each of the other Non-Executive Directors have letters of appointment. Their appointment letters will be updated to remove any term limit on their service once the Company's Articles have been updated such that all directors will be subject to annual re-election by shareholders.

The Chairman's letter of appointment sets out the time commitment expected of him. The other Non-Executive Directors' letters of appointment set out a minimum expected time commitment but do not set out a fixed time commitment. The Non-Executive Directors are expected to allocate appropriate time to IQE to perform their duties and to make themselves available for all regular and ad hoc meetings. The Board believes each of the Non-Executive Directors has sufficient time to perform their duties.

Board evaluation

The Chair and Company Secretary facilitated an internal review of the Board during 2020. The process involved the circulation of a questionnaire which gathered feedback on the Board's composition, processes, behaviours and activities and each of the Executive and Non-Executive Directors were encouraged to provide open, honest feedback within free text sections in the questionnaire. The Chair held a number of open conversations with the Board members on an individual and collective basis to discuss their feedback. Positive feedback was received on the progress the Board was making on areas such as governance structures, Board objectives, quality of conversations and succession. The review highlighted the following areas of future focus and attention:

- simplification and consistency of process, practice and documentation such that Board dialogue and discourse has maximum effectiveness
- Board constitution, quality and skill base which is being addressed in current evaluation and succession plans
- enhanced focus on performance culture and communication, such that the Board is able to enhance its focus on priorities and opportunities.

The Chair has worked, and will continue to work, with the Executive and Non-Executive Directors and the Company Secretary to address those areas. IQE will conduct an annual review of the Board and its Committees in 2021.

UK Corporate Governance Code compliance

IQE complied throughout 2020 with the principles and provisions of the UK Corporate Governance Code 2018 except in the following areas:

Provision 5

IQE has a people forum which senior management use for engagement with the workforce. As new Non-Executive Directors are brought onto the Board in 2021, it is the Board's intention to appoint a Non-Executive Director to be responsible for workforce engagement.

Provision 17

IQE does not currently maintain a succession plan for the Company Secretary or all senior management immediately below Board level. IQE will work to develop such plans based on merit and objective criteria. As part of its consideration of developed succession plans, the Nominations Committee will consider the linkage of its diversity objectives with company strategy and the gender balance of those in senior management and their direct reports.

Provision 18

The Company's Articles of Association currently provide for a third of directors to be subject to annual re-election. The Board intends to propose and recommend the requisite changes to the Articles to provide for all directors to be subject to annual re-election at the 2021 AGM.

Provision 21

IQE undertook an evaluation of the Board during 2020. A formal evaluation of each of the Committees, Chair and individual Non-Executive Directors was not completed. IQE intends to develop a comprehensive process for annual evaluation during 2021.

Provision 33

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

Provision 36

Share options granted to the Executive Directors under IQE's LTIP are subject to total vesting and holding periods of 3 ¼ years. In addition, Executive Directors are subject to a minimum holding requirement equal to 200% of their base salary and will have a post-employment shareholding requirement for 2 years. The minimum holding will be equal to 200% of base salary in the first-year post-employment, reducing to 100% of base salary in the second year.

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

Audit & Risk Committee Report

Audit & Risk Committee Chairman's Introduction

The Board considers the maintenance of high standards in its governance and management of the affairs of IQE as fundamental to the discharging of its stewardship responsibilities. Accordingly, both the Board and the Audit & Risk Committee continue to keep under review IQE's whole system of internal control, which comprises not only financial controls, but also operational controls, compliance and risk management.

In 2020 the Committee placed additional focus on IQE's principal and emerging risks, with a particular emphasis on those arising from the global COVID-19 pandemic and the resulting global economic turbulence. The Committee spent a significant amount of time with IQE's internal finance function and external auditors discussing, assessing and challenging financial reporting and going concern assessments. The Committee has also focused on the implementation of a coherent and structured schedule governing the agenda for its quarterly meetings. The schedule ensures that the Committee provides robust challenge in the areas relating to financial reporting, internal controls and risk management, the external auditors and other issues pertinent to IQE.

There were no changes to the Committee membership during the year and the Committee determined that it continues to perform effectively.

Carol Chesney
Committee Chair

25 March 2021

IQE's Audit & Risk Committee has developed good foundations over the past few years and I look forward to continuing that development with my colleagues."

Audit & Risk Committee Report continued

Role of the committee

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

Key responsibilities

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

Membership

Carol Chesney – Chair
Derek Jones
David Grant

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

Meetings and attendance

The Audit & Risk Committee meets at least quarterly with additional meetings as required. There were eight meetings in 2020 and all of the Committee members attended each meeting.

The meetings are also regularly attended by the Chairman, Chief Executive Officer, Chief Financial Officer and other senior members of the finance team. IQE's external auditors attend every quarterly meeting and time is allowed at the end of each meeting for the Audit & Risk Committee to discuss issues with the external auditors without management being present.

Activities during 2020

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

The majority of the Committee's work derives from a structured programme that is designed to fulfil its responsibilities as out in its terms of reference. The table below summarises the key activities at each meeting during 2020:

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

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

meet those requirements. This work formed part of the review of the draft financial statements that was undertaken by the Committee in March and September 2020.

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

- judgemental areas and whether revenue recognition and the provisioning policies have been applied consistently and the level of provisions remains appropriate
- whether the expected future cash flows of IQE supports the carrying value of goodwill, and whether there are any triggering events which suggest any potential impairment of other intangible assets including the valuation of development intangibles and the capitalisation of development costs
- whether the presentation of the financial statements, including the presentation of adjusted performance measures, is appropriate and balanced

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

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

Significant matters relating to the financial statements

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

- Going concern and the appropriateness of the disclosure contained within the significant accounting policies note relating to the application of the going concern basis of accounting in the financial statements;
- Compliance with financial covenants contained within the Group's committed bank facilities and the associated availability of the Group's bank facilities;
- Goodwill impairment and the growth rates applied in the Wireless and Photonics value in use calculations that support the carrying value of goodwill;
- Intangible development cost carrying values and associated markets, end use applications and customer demand for the technologies which support asset carrying values;
- Impairment of the preference share debt due from the Group's joint venture, CSC and the associated assessment of CSC's current and future forecast financial performance;
- Deferred tax asset recognition and the application of the cash flow forecasts used in the Group's goodwill impairment review to the recognition of deferred tax assets;

- Assessment of the consideration payable for the acquisition of the non-controlling interests in the Group's Taiwanese subsidiary and the associated disclosure; and
- Presentation and disclosure of adjusted profit measures including appropriate clarity of reconciliation between each GAAP and non GAAP measure

External Auditors

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

The Committee has revised its policy on the provision of non-audit services by the external auditor in line with the Financial Reporting Council's Revised Ethical Standard 2019. As such, the policy aligns with regulations to prohibit a number of non-audit services, whilst also meeting APB Ethical Standards and FRC guidance, to clearly set out: (a) which types of non-audit work are allowed/prohibited; (b) the types of work for which external auditors can be engaged without Audit & Risk Committee referral, provided such services fall below £25,000 and are not specifically prohibited; and (c) for which types of work Audit & Risk Committee Chair referral was needed for non-audit services above £25,000 prior to a change in policy which from 1 January 2021 will prohibit the use of the Group's auditors for the provision of non-audit services. The nature of the services provided by the external auditors during 2020 and the amounts paid to them are as detailed below:

	2020 £'000	2019 £'000
KPMG LLP		
Fees payable to the company's auditor and its associates for the audit of parent company and consolidated financial statements	198	185
Fees payable to company's auditor and its associates for other services:		
– The audit of company's subsidiaries	27	27
– Audit related assurance services	20	20
– Tax and other advisory services	189	12
Total KPMG LLP (group auditors)	434	244
Ernst and Young (auditors of MBE Technology Pte & CSDC)	2020 £'000	2019 £'000
– Subsidiary company's audit	27	27
– Tax services	9	9
Total Ernst and Young (auditors of MBE Technology Pte & CSDC)	36	36
Total	470	280

Audit & Risk Committee Report continued

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

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

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

Internal Audit & Controls

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

The system of internal control comprises those controls established in order to provide assurance that IQE's assets are safeguarded against unauthorised use or disposal, and to ensure the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

The key procedures that IQE has established with a view to providing effective internal control include the following:

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

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

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

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

Risk Management

The Group Risk Committee was created in 2020 to identify, review, assess and track IQE's key risks and mitigating actions. The Group Risk Committee will document its approach through a risk register and will have a regular slot at meetings of the Audit & Risk Committee.

Key risk management activities performed by IQE are summarised on page 33. The Committee takes an active role in the risk management process that includes a regular review of IQE's risk register and 'deep dives' into specific areas of risk.

IQE's principal risks and uncertainties are set out on pages 34-36. While many of the key risks identified recur from year to year, the relative importance evolves over time and may require IQE to refocus its assurance activities. In the year ahead, the Committee will continue to work with the Board, Executive Management Board and other senior management to ensure that there is appropriate focus on the most significant risk areas together with the associated plans for mitigating their impact.

Anti-bribery and corruption

IQE maintains a zero-tolerance approach against corruption. It has an established anti-bribery and corruption policy, which includes guidance on the giving and receiving of gifts and hospitality. This policy applies throughout IQE's business and was updated in 2020. A Gifts and Hospitality Register is maintained to ensure transparency.

Whistleblowing

IQE operates a confidential reporting mechanism, overseen by IQE's General Counsel, which enables employees to raise concerns of malpractice, non-compliance or unethical conduct. The options for raising concerns are widely communicated to employees. These channels are clearly set out in IQE's Whistleblowing Policy which was updated in 2020. IQE's reporting policy and procedures provide a framework for protected disclosure.

Nominations Committee Report

Nominations Committee Chair's Introduction

Sir David Grant stepped down from his role as Chair of the Nomination Committee in January 2021 and Phil Smith, IQE's Chairman, was appointed as the Committee's new Chair.

The Committee is leading the search for a new Chief Executive Officer to succeed Dr Drew Nelson. The Committee agreed on the desired experiences and leadership credentials required for the new Chief Executive Officer and engaged Lygon Group to assist with the search. Lygon Group has no other connection with IQE and is an independent provider of services to the Group.

The Committee is looking for a new Non-Executive Director in light of Sir David Grant's imminent retirement from the Board shortly after the 2021 AGM. The Committee is also reviewing the skills, experience and diversity on the Board and exploring opportunities to improve the Board through the appointment of an additional Non-Executive Director or through the appointment of an independent advisory panel to support the Board. Lygon Group has also been retained to assist with the search for Non-Executive Directors.

Lastly, the Committee considered the provisions in the UK Corporate Governance Code 2018 regarding the term of director appointments. The Committee has recommended that the Company's Articles of Association be amended to align with the Code regarding the annual re-election of directors and the necessary changes to the Company's Articles of Association will be put to shareholders at the 2021 AGM.



Phil Smith
Chair

25 March 2021

Nominations Committee Report continued

Role of the committee

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

Key responsibilities

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

Membership

Phil Smith – Chair

David Grant

Derek Jones

Carol Chesney

Meetings and attendance

The Nominations Committee met four times in 2020. All members attended each meeting, save that Derek Jones was unable to attend one meeting due to a prior commitment.

Activities during 2020

The Committee is leading the search for a new Chief Executive Officer to succeed Dr Drew Nelson and for the appointment of a new Non-Executive Director in light of Sir David Grant's imminent retirement from the Board. The Committee is also reviewing the skills, experience and diversity on the Board and exploring opportunities to improve the Board through the appointment of an additional Non-Executive Director or through the appointment of an independent advisory panel to support the Board.

Directors' Remuneration Report

Remuneration Committee Chair's Introduction

Dear Shareholders,

On behalf of the Board, I am pleased to present the Remuneration Committee's report of the directors' remuneration for the year ended 31 December 2020. I will be retiring from the IQE Board soon after the 2021 AGM and so this is my last letter to you as Chair of the Remuneration Committee. I have engaged with many of you over the years regarding IQE's remuneration policy and I have appreciated the spirit of collaboration evident throughout our dialogue on remuneration matters.

Notwithstanding the global impact of the COVID-19 pandemic, it has been a year of strong performance for IQE. IQE performed well against all of its internal financial KPIs and there is positive progress against the non-financial elements of the business strategy. IQE delivered record revenue, a return to a cash positive position and made significant progress towards achieving our strategic objectives. This strong performance has been reflected in the remuneration payable to the Executive Directors and the rest of IQE's employees over the year.

We appointed Mercer | Kepler to undertake a review of IQE's remuneration policy in later part of 2019 and into the first few months of 2020. We obtained feedback from IQE's shareholders on the revised remuneration policy and included the new remuneration policy within the remuneration report for the 2020 financial year. As an AIM-listed company, IQE is not required to submit a remuneration policy to a shareholder vote. However, to align with best practice remuneration governance, we have decided to put the remuneration policy adopted in 2020 to a shareholder vote at the 2021 AGM with the intention to receive shareholder approval for the policy through to close of the 2022 financial year.

I hope you will be supportive of the resolutions to approve the remuneration policy and the annual advisory vote to approve the remuneration report. I look forward to our AGM on 23 June 2021.



Sir David Grant
Chair

25 March 2021

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

Annual Report on Remuneration

Remuneration at a glance

	Purpose and link to strategy	Key features	Planned for 2021	Implementation in 2020
Salary	Supports the attraction and retention of the best global talent with capability to deliver IQE's strategy	Reviewed annually Salaries take account of external market and internal employee context	Effective 1 January 2021: • CEO 2% increase to £549,433 • CFO 2% increase to £369,706 Salary increases in line with budgeted increases for wider workforce	0% salary increases for both CEO and CFO In line with approach for wider workforce
Allowances and benefits	Provision of market-competitive and cost-effective benefits to support attraction and retention of talent	Provision of competitive benefits linked to local market practice Maximum company pension contribution is 10% of salary	Company pension contribution: • CEO 10% of salary • CFO 10% of salary Then 10% pension contribution is consistent with that available to the wider workforce	Allowances and benefits unchanged from prior year. CEO and CFO pension contributions 10% of salary
Annual incentive	Incentivise delivery of IQE's financial and strategic targets Provide focus on key financial metrics and the individual's contribution to IQE's performance	Target opportunity is 50% of salary and maximum is 120% of salary Performance measures, weightings and stretching targets set annually Paid out in cash after end of the financial year, save that any payout above 100% will be made in the form of share grant Subject to clawback provisions	For the year ending 31 December 2021, financial measures are based on profit, revenue and cashflow and contribute 70%. Personal and strategic measures form the remaining 30%	Annual bonus payout for both CEO and CFO was 94.86% of salary and 79% of the maximum opportunity
Long-term incentives	Rewards long-term performance in line with IQE's strategy Provides focus on delivery long term returns to shareholders	Annual grant of share options under IQE's LTIP: • CEO 150% of salary • CFO 150% of salary 3 year performance period Performance measures, weightings and stretching targets Subject to malus and clawback provisions	For the 3 year performance period ending 31 December 2023, performance is judged against EPS (60%) and TSR (40%) 25% of options will vest at threshold with nil vesting below that level	All of the LTIP options awarded to the CEO in 2018 lapsed as they failed to satisfy the applicable performance conditions
Shareholding requirement	Ensures alignment between the interests of Executive Directors and shareholders	Minimum shareholding requirements: • CEO 200% of salary • CFO 200% of salary New joiners given time to reach threshold and not expected to self-fund		CEO shareholding 4,941% of salary CFO shareholding 0% of salary. The CFO joined IQE at the start of 2019 and has therefore not been in role long enough for any share options to vest. The CFO has 5 years to reach the shareholding requirement

Role of the committee

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

Key responsibilities

- recommending the remuneration policy for Executive Directors, whilst considering policies for employees below the Board
- approving the principles of IQE's LTIP and the parameters, including performance conditions, for the annual award of share options under the LTIP
- maintaining appropriate dialogue with shareholders on remuneration matters
- preparing the annual remuneration report to shareholders to show how the remuneration policy has been implemented.

Membership

David Grant – Chair
Phil Smith
Derek Jones
Carol Chesney

Remuneration Consultant

Mercer | Kepler was IQE's remuneration consultant through 2020. The Remuneration Committee considers Mercer | Kepler to be independent and has no other connections with IQE. Mercer | Kepler has been engaged by the Remuneration Committee from time to time where advice on aspects of Executive Director remuneration is required by the Committee.

Meetings and attendance

The Remuneration Committee met two times in 2020. All members attended each meeting. The Chief Executive Officer and Chief Financial Officer attended meetings to present proposed performance ratings for the Executive Directors and Executive Management Board and remuneration policies principles for the workforce. The Chief Executive Officer and Chief Financial Officer did not attend those parts of the Committee meetings relating to the Committee's decisions on their performance and remuneration.

Activities during 2020

- evaluated the performance of the Chief Executive Officer, Chief Financial Officer and the Executive Management Board
- evaluated and approved the proposed awards of share options under the Group's IQE's LTIP, including the performance conditions applying to those awards.
- considered proposed workforce policies on performance rating and proposed policy for workforce pay increases.

Directors' Remuneration Policy

IQE aims to attract, retain and motivate high calibre executives, whilst recognising the need to be cost effective, and to incentivise significant industry out-performance. The Remuneration Committee established a remuneration policy that balances these factors, taking account of investor feedback and prevailing best practice. This section of the Directors' Remuneration Report sets out the Policy for Executive Director remuneration which was adopted at the start of 2020.

Directors' Remuneration Report continued

Policy Table

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

Function	Operation	Opportunity	Performance metrics
Annual Bonus To incentivise and reward strong performance against financial and personal annual targets, thus delivering value to shareholders and being consistent with the delivery of the strategic plan.	<p>Performance measures, targets and weightings are set at the start of the year.</p> <p>The scheme is based on a combination of financial performance and personal objectives. At the end of the year, the Remuneration Committee determines the extent to which the financial performance targets and personal objectives have been achieved.</p> <p>Bonus payments up to 100% of salary are delivered in cash or in the form of stock grants.</p> <p>Clawback (of any bonus paid) may be applied during employment or for 2 years post-termination in the event of gross misconduct, material financial misstatement, error in calculation of outcomes or in any other circumstance that the Remuneration Committee considers appropriate.</p>	<p>For Executive Directors, the maximum annual bonus opportunity will be 120% of base salary.</p> <p>The bonus pays 0% at Threshold and 50% at Target, with straight-line vesting between these levels and Target and Maximum.</p> <p>Any bonus earned over 100% of base salary would be paid in the form of stock grants.</p>	<p>Performance is assessed on an annual basis against financial and personal/strategic objectives set at the start of each year.</p> <p>Financial measures will be weighted appropriately each year according to business priorities, and will represent no less than 70% of the annual plan.</p> <p>Performance vs. targeted levels will be measured at budgeted FX rates.</p> <p>Personal/strategic objectives will represent no more than 30% of the maximum opportunity and will be set annually to capture expected individual contributions to IQE's strategic plan. The personal element will be restricted to 15% of the maximum opportunity in the event the thresholds for two out of the three relevant financial measures are not met.</p> <p>The Remuneration Committee has discretion to adjust formulaic bonus outcomes to ensure fairness for shareholders and participants, to ensure pay aligns underlying company performance, and to avoid unintended outcomes. These adjustments can be either upwards (within plan limits) or downwards (including down to zero). The Remuneration Committee may consider measures outside of the bonus framework to ensure there is no reward for failure. Any adjustment would be carefully considered and fully explained in the Annual Report on Remuneration.</p> <p>Further details of the measures, weightings and targets applicable are provided on page 68 in the Annual Report on Remuneration.</p>

Directors' Remuneration Report continued

Function	Operation	Opportunity	Performance metrics
LTIP To drive sustained long-term performance that supports the creation of shareholder value.	Under the long-term incentive plan (LTIP) annual awards of shares or nil-cost options may be made to participants. Award levels and performance conditions are reviewed before each award cycle to ensure they remain appropriate.	The LTIP provides for normal awards of up to 150% of salary. In exceptional circumstances, including but not limited to recruitment, normal awards may be made up to 200% of salary to secure the right individual.	Vesting of LTIP awards is subject to achieving performance conditions and continued employment. LTIP awards to Executive Directors have the same 3 ¼ year vesting period as those issued to IQE's other employees.
	The Committee has the discretion to authorise a payment, in shares, equal to the value of dividends which would have accrued on vested shares during the vesting period.	Up to 25% of the LTIP will be paid for achieving Threshold performance, increasing on a straight-line basis to full vesting for achieving Stretch performance.	The Remuneration Committee has limited discretion to change the performance conditions and cannot make any performance condition materially easier to satisfy without shareholder approval. If no entitlement has been earned at the end of the relevant performance period, awards lapse.
	Malus (of any unvested LTIP) and clawback (of any vested LTIP) may be applied during employment or for 2 years post-termination in the event of gross misconduct, material financial misstatement, error in calculation of outcomes or in any other circumstance that the Remuneration Committee considers appropriate.		The Remuneration Committee has discretion to adjust outcomes to ensure they fairly reflect underlying performance. The Remuneration Committee also considers environmental, social, governance and health and safety criteria, to ensure there is no reward for failure.

Notes to the policy table

Performance measure selection and approach to target setting

The measures used under the annual bonus plan are selected annually to reflect IQE's main objectives for the year and reflect both financial performance (e.g. EBITDA, cashflow and revenue growth) and personal contributions to delivering the strategic plan. The performance conditions for new LTIP awards are selected to reflect IQE's long-term objectives which support the creation of shareholder value.

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

Remuneration policy for other employees

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

Shareholding guidelines

The Remuneration Committee wishes to encourage Executive Directors to build up a significant shareholding in the Company. Shareholding guidelines are therefore in place to require Executive Directors to acquire a shareholding (excluding shares held conditionally pursuant to LTIP performance) equivalent to 200% of base salary. 50% of any shares vesting (post-tax) under the new LTIP are required to be held until the relevant shareholding level is achieved. Executive Directors are expected to build up the required shareholding within five years of appointment to the Board. Details of the Executive Directors' current shareholdings are provided in the Annual Report on Remuneration at page 69.

Non-Executive Director remuneration

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

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

The Non-Executive Directors are not eligible to participate in IQE's performance related bonus plan, long-term incentive plans or pension arrangements. Copies of the Non-Executive Directors' appointment letters are available for inspection at the Company's registered office during normal business hours.

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

Dr Andrew Nelson

Tim Pullen

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

The 'Minimum' scenario comprises fixed remuneration, i.e. base salary, pension, benefits and for Tim Pullen, his starting bonus, which are the elements of the remuneration package not linked to performance. The figures for base salary and pension (30% of salary) are as of 1 January 2021, while those for taxable benefits are based on the latest single figure table for 2020. The 'On-Target' scenario reflects fixed remuneration as above, plus a target bonus payout of 50% of maximum and threshold vesting for the LTIP of 25% of maximum. The 'Stretch' scenario reflects fixed remuneration, plus full payout of the annual bonus (120% of salary) plus full vesting of the normal LTIP of 150% of salary. The 'Stretch + 50%' reflects the 'Stretch' scenario plus an assumed 50% share price appreciation over the LTIP performance period.

Approach to recruitment remuneration

External appointments

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

Directors' Remuneration Report continued

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

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

Internal appointments

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

Non-Executive Directors

In recruiting a new Non-Executive Director, the Remuneration Committee will utilise the policy as set out in the table on page 58.

Service contracts and treatment for leavers and change of control

Executive	Date of service contract
Dr Andrew Nelson	1 June 2016
Mr Tim Pullen	4 February 2019

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Remuneration Committee. Each of the Executive Directors has a rolling service contract requiring 6 months' notice of termination on either side. Such contracts contain no specific provision for compensation for loss of office, other than an obligation to pay for any notice period waived by the Company, where pay refers to salary, benefits and pension only. Executive Directors' service contracts are available to view at the Company's registered office.

Service contracts and treatment for leavers and change of control continued

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

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

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

External appointments

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

Consideration of conditions elsewhere in the company

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

Consideration of shareholder views

The Remuneration Committee maintains a regular dialogue with the Company's major shareholders. Following the 2019 AGM, IQE Management consulted with shareholders regarding the concerns raised regarding the adoption of the new all employee LTIP plan. IQE has made the necessary changes to the administration of the LTIP to align leaver provisions for all employees to those set out for the Executive Directors. 'Good Leavers' will receive a pro-rated reduction to vesting based on performance and the portion of the vesting period expired up to the time of the termination of employment. The Committee maintains a view of the commitments to issue shares under the LTIP as a percentage of the issued share capital in any rolling 10-year period, acknowledging the Investment Association principles recommending a 10% limit and the report from the Institutional Shareholder Service in connection with the adoption of the LTIP in 2019. The LTIP currently allows for a maximum dilutive effect of 15%. The dilutive effect of commitments issued under the LTIP is declining year on year and the Committee is confident that this will fall below the recommended 10% limit in the next few years.

Directors' Remuneration Report continued

Remuneration Committee role, membership and advice

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

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

- determined annual bonuses payable to Executive Directors and the Executive Management Board in 2020;
- determined basis of salary increases for IQE's employees, including the Executive Directors and the Executive Management Board
- reviewed and approved performance conditions for LTIP awards;
- reviewed and approved the Executive Directors' salaries for 2020;
- determined performance targets for the Executive Directors' 2020 annual bonus and LTIP awards in line with IQE's strategic plan;
- drafted the Directors' Remuneration Report;
- considered benchmarking and advice from independent remuneration consultants, Mercer | Kepler.

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

During the year, the Remuneration Committee comprised all of the Non-Executive Directors. The number of meetings held during 2020 by the Remuneration Committee and attendance by the individual Committee members at such meetings is set out in the Board Report on page 47 above.

Mercer | Kepler provides independent advice to the Remuneration Committee. Mercer | Kepler is a signatory to the Code of Conduct for Remuneration Consultants in the UK, operated by the Remuneration Consultants Group, and which requires all advice to be objective and independent (see www.remunerationconsultantsgroup.com for more information). Services provided by Mercer | Kepler included advice on remuneration packages for executives, assistance with a review of incentive arrangements and support on drafting this Directors Remuneration Report, as well as other ad-hoc advice on remuneration. Fees of £25,110 inclusive of VAT were paid to Mercer | Kepler in respect of services it provided to the Company in 2020. The Committee considers that Mercer | Kepler is independent, does not have any connections with IQE that may impair their independence, and does not provide any services to the Group other than its advice on remuneration.

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

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 December 2020 and the prior year:

	Dr Andrew Nelson		Mr Tim Pullen		Dr Howard Williams ¹		Dr Godfrey Ainsworth ²	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Salary	538	538	363	332	—	210	—	178
Benefits ³	7	7	11	19	—	1	—	—
Starting Bonus	—	—	131	169	—	—	—	—
Pension ⁶	54	54	36	33	—	21	—	18
Total fixed	599	599	541	553	—	232	—	196
Annual bonus ⁴	511	—	344	—	—	—	—	79
Long-term incentive ⁵	—	—	—	—	—	—	—	—
Total variable	511	—	344	—	—	—	—	79
Total	1,110	599	885	553	—	232	—	275

1. Dr Howard Williams resigned as a director on 1 August 2019

2. Dr Godfrey Ainsworth resigned as a director on 25th June 2019

3. Benefits consist of health cover, private medical insurance, life assurance, long term disability insurance, fuel and car repairs

4. Annual bonus payable in cash

5. No LTIP's vested

6. Executive Directors are entitled to participate in a defined contribution scheme, in relation to which the Company contributes 10% of salary or equivalent cash allowance

Incentive outcomes for year ending 31 December 2020 and 2019

Annual Bonus

The annual bonus for 2020 was determined by a combination of cash, revenue and profit targets and non-financial personal/strategic targets. The Committee set stretching performance targets for 2020 which were linked to the strategy and financial performance of the Group. Financial performance for 2020 was strong and the annual bonus payout was 94.86% for both the Chief Executive Officer and the Chief Financial Officer.

Given the strong performance of the business over 2020, the Committee is comfortable that there has been a robust link between reward and performance and alignment with investor returns. Accordingly, the Committee is satisfied the policy has operated as intended and has concluded that there are no circumstances arising where it would need to exercise discretion to adjust any of the variable pay outcomes.

Long-term incentive plan

462,846 LTIP options awarded to Drew Nelson in 2018 were due to vest on 31 December 2020. The performance criteria for these awards were not met and these options have lapsed.

Percentage change in CEO remuneration

The table below shows the percentage change in CEO remuneration from the prior year compared to the average percentage change in remuneration for other employees. The CEO's annual remuneration includes base salary, taxable benefits and annual bonus. The % change in annual remuneration for other employees is calculated using the increase in the earnings of all employees who were employed in the UK throughout 2019 and 2020. The Committee considers the UK employee population to be the most appropriate comparison for CEO vs. other employee pay, as all executive directors are currently employed in the UK, our UK employee population includes employees at all levels of the organisation, and pay inflation in our other geographies is affected by different local market factors.

	Dr Andrew Nelson			All UK Employees		
	2020 £'000	2019 £'000	Increase %	2020 £'000	2019 £'000	Increase %
Salary	538	538	0.0%	6,983	6,796	2.7%
Benefits	7	7	0.0%	–	–	2.7%
Annual bonus	511	–	100.0%	1,055	–	100.0%
Total	1,056	545		8,038	6,796	

Relative importance of spend on pay

The graph below shows shareholder distributions (i.e. dividends and share buybacks), total employee pay expenditure and investment in capital expenditure, research & development and intangibles for the financial years ended 31 December 2019 and 31 December 2020, along with the year-on-year percentage change.

Directors' Remuneration Report continued

Review of past performance

The following graph charts the Total Share Return ('TSR') of the Company and the FTSE AIM Index (to which IQE is a member) over the period from 1 January 2016 to 31 December 2020. The table below details the Chief Executive's "single figure" remuneration over the same period.

Historical TSR performance

Historical CEO remuneration

	2016	2017	2018	2019	2020
CEO single figure of remuneration (£000)	1,066	1,087	3,683	599	1,110
STI award as a % of maximum opportunity	100%	100%	20%	0%	79%
LTI award as a % of maximum opportunity	n/a	n/a	62%	0%	0%

Scheme interests awarded in 2020 (audited information)

Executive director	Award type	Date of award	# shares awarded	Face value	End of performance period
Dr Andrew Nelson	Nil-cost option	01 January 2020	1,629,969	782,385	31 December 2022
Mr Tim Pullen	Nil-cost option	1 January 2020	1,097,247	526,679	31 December 2022

The face value of shares was based on the share price at dates of award of 49.0p at 1 January 2020, less the 1p nominal value exercise price.

Vesting of 50% of the awards are subject to absolute justified dilutive EPS targets as illustrated on the chart below where EPS is measured at 31 December 2022.

Vesting of 50% of the awards are subject to absolute TSR targets as illustrated on the chart below where TSR is measured over the three years 31 December 2022.

Exit payments made in the year

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

Payments to past Directors

Payments made to past Directors totalled £75,000 (2019: £157,000) reflecting ongoing employee services received from Dr Howard Williams following his retirement from the Board in 2019.

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

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 December 2020 and the prior year:

	NED fees	
	2020 £'000	2019 £'000
Sir David Grant	50	50
Phil Smith ¹	125	96
Sir Derek Jones	50	50
Mrs Carol Chesney ²	50	32

1. Mr Phil Smith was appointed Chairman of the Board on 25 June 2019 upon the retirement of Dr Godfrey Ainsworth

2. Mrs Carol Chesney was appointed to the board as an independent non-executive director on 13 May 2019

Implementation of remuneration policy for 2021

Base salary

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

Executive Director	Annual base salary at 1 January 2020	Annual base salary at 1 January 2021	Percentage increase
Dr Andrew Nelson	£538,433	549,202	2.0%
Tim Pullen*	£362,457	369,706	2.0%

Directors' Remuneration Report continued

Pension

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

Annual bonus

For 2021, the Executive Directors will have the opportunity to receive a cash bonus to be paid after the announcement of full year results for 2021, based on financial performance for the 2021 financial year and agreed personal / strategic performance measures.

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

There will no cash bonus for the financial performance part of the cash bonus if threshold EBITDA is not satisfied. In the event of zero payout for financial performance, the maximum payout for personal / strategic measures will be restricted to 15% of the maximum bonus amount.

LTIP (audited information)

For 2021, normal LTIP awards of up to 150% of salary may be made to Executive Directors, as outlined in the Policy Table. 60% of these awards will vest on EPS performance and 40% on relative TSR performance. No award will vest below Threshold performance, and vesting will increase on a straight-line basis between Threshold and Stretch.

The EPS performance criterion will be based on IQE plc's Fully Diluted Adjusted Earnings per Share achieved for the year ended 31 December 2023, as shown in the audited annual accounts published in March 2024. The relative Total Shareholder Return (TSR) criterion will also be measured over the 3 years ended 31 December 2023, versus the change in the FTSE All Share Total Return Index over the same period. In order to remove potential distortion from market volatility, the three month volume weighted average share price and index level as at 31st December 2020 and as at 31st December 2023 will be used in assessing performance.

EPS Element (60%)

- 12.5% of LTIP options exercisable if EPS of 0.5 pence is achieved in the year ended 31 December 2023.
- 60% of LTIP options exercisable if EPS of 0.8 pence is achieved in the year ended 31 December 2023.
- Percentage of exercisable LTIP options will be interpolated if EPS is between 0.5 and 0.8 pence.
- No options will vest if EPS is less than 0.5 pence.

TSR Element (40%)

- 12.5% of LTIP options exercisable if relative TSR over the 3 years to 31 December 2023 is at 100% of the FTSE All Share Total Return Index growth over the period.
- 40% of LTIP options exercisable if relative over the 3 years to 31 December 2023 is at 130% of the FTSE All Share Total Return Index growth over the period.
- Percentage of exercisable LTIP options will be interpolated if TSR is between 100% and 130%.
- No options will vest if relative TSR is less than 100% of the index value.

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

Directors' interests

A table setting out the beneficial interests of the Directors and their families in the share capital of the Company as at 31 December 2020 is set out below.

Since 31 December 2020 there have been no changes in the Directors' interests in shares.

Details of Directors' share options are set out in the tables below.

2020	Shares owned outright as at 1 Jan 2020	Shares owned outright as at 31 Dec 2020	Shareholding requirement % salary/fee	Current shareholding % salary/fee
Dr Andrew Nelson	36,190,417	36,190,417	200%	4,941%
Tim Pullen	–	–	200%	0%
Sir David Grant	215,000	215,000	–	n/a
Phil Smith	–	–	–	n/a
Sir Derek Jones	–	–	–	n/a

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

On 7 May 2020, Andrew Nelson delivered a further 1,121,711 ordinary shares of 1 pence each in the Company ("Ordinary Shares") to Equities First Holdings ("EFH"), having received a margin call under the terms of his sale and repurchase agreement with EFH, first announced on 6 August 2019 (the "Agreement"). The total number of Ordinary Shares subject to the Agreement is now 12,121,711. Following the transaction, Andrew Nelson, including persons closely associated, maintained a beneficial interest in 36,140,417 Ordinary Shares, representing 4.52% of the Company's issued share capital.

Share Options

2020	Unvested and subject to continued performance	Unvested and subject to continued employment	Vested but unexercised	Vested during year	Lapsed during year	Exercised during year
Dr Andrew Nelson	2,746,778	–	–	–	462,846	–
Tim Pullen	1,797,061	–	–	–	–	–

Options						
2019	Unvested and subject to continued performance	Unvested and subject to continued employment	Vested but unexercised	Vested during year	Lapsed during year	Exercised during year
Dr Andrew Nelson	1,579,655	–	–	–	4,069,579	7,681,199
Dr Howard Williams *	N/A	N/A	N/A	–	–	3,424,470
Tim Pullen	699,814	–	–	–	–	–

* The table above represents the position of Dr Howard Williams' share options up to 1 August 2019 when he resigned from the Board.

Summary of shareholder voting at the 2020 AGM

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

	Total number of votes	% of votes cast
For (including discretionary)	417,768,370	96.60
Against	14,559,680	3.37
Total votes cast (excluding withheld votes)	432,328,050	99.7
Votes withheld	125,160	0.03
Total votes cast (including withheld votes)	432,453,210	99.7

Directors' Report

The Directors present their Annual Report and the Financial Statements for IQE plc (the "Company") for the year ended 31 December 2020.

Principal Activities and Future Development

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

Strategic Report

The Strategic Report is set out on pages 2 to 41 of the Annual Report.

Directors & Directors' Interests

Biographies of all of the Company's directors at the date of this Annual Report, including Non-Executive Directors, appear on pages 44 to 45 of the Annual Report. There have been no changes to the Board during the year to 31 December 2020.

The beneficial interests of the directors in the Company's share capital is shown on page 69 of the Remuneration Report. The beneficial interests of Andrew Nelson, CEO, and Tim Pullen, CFO, have changed during the year as they participate in the Company's LTIP. No director was beneficially interested in the shares of any subsidiary company at any time during the year.

In the year to 31 December 2020, no director had a material interest in any contract of significance with the Company or any of its subsidiaries.

Insurance and Indemnities

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

Risk Management and Principal Risks

A description of risk management and the principal risks facing the business are set out on pages 33 to 36 of the Annual Report.

Relationship with Suppliers and Customers

Our relationships with our customers are explained throughout the Annual Report, particularly on pages 4, 5 and 11. Our relationships with our suppliers is specifically covered on page 24 of the Annual Report.

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

Auditor and Disclosure of Information to the Auditor

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

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

Share Capital

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

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

The Company has not acquired any of its own shares during 2020 (2019: nil).

Substantial Shareholdings

As at 28 February 2021, the following are beneficial interests of 3% or more (where the holding is direct) or of 5% or more (where the holding is indirect) which have been notified to the directors of the Company.

Shareholder	Shares	Issued Capital %
Invesco	141,564,126	17.67
T Rowe Price Global Investments	105,202,856	13.13
Canaccord Genuity Wealth Management	56,937,037	7.11
Hargreaves Lansdown	53,959,934	6.74
Dr Andrew W Nelson	36,190,417	4.52
Interactive Investor	32,690,927	4.08
AXA Framlington Investment Managers	26,335,606	3.29
Barclays Smart Investor	24,366,263	3.04

Source: Equiniti Investor Analytics

Dividends

The directors do not recommend the payment of a dividend (2019: Nil).

Research and Development

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

Employment Policies

A review of the Group's employment policies is provided on pages 20 to 23 of the Annual Report.

Political Donations

The Group has a policy of not making political donations and no political donations were made during the year (2019: nil).

Climate Change, Greenhouse Gas and Energy Emissions

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

Our approach to environmental protection is underpinned by our Environmental Policy and Environmental Management System, which ensures all our sites operate in compliance with ISO 14001 requirements. We target minimisation of GHG and energy emissions, as well as focusing on waste, water and recycling initiatives. Details of our GHG and energy emission figures, as well as the measures we are undertaking to promote energy efficiency, including incorporating energy saving features into facility design, can be found on page 28.



Phil Smith
Chairman, IQE plc

25 March 2021

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

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and they have elected to prepare the parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

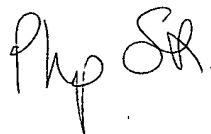
Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

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

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

Approved by the Board and signed on behalf by:



Phil Smith
Chairman, IQE plc.

25 March 2021



Independent auditor's report

to the members of IQE plc

1. Our opinion is unmodified

We have audited the financial statements of IQE PLC ("the Company") for the year ended 31 December 2020 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, parent company balance sheet, parent company statement of changes in equity, parent company cash flow statement, and the related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Overview

Materiality: £1,250k (2019: £850k)
group financial statements as a whole 0.7% of total revenues (2019: 0.6% of total revenues)

Coverage 91% (2019: 96%) of total group revenues

Key audit matters

vs 2019

Recurring risks

New: Carrying value of goodwill in respect of the Wireless cash generating unit

▲

Carrying value of development intangibles not yet available for use

◀▶

Revenue recognition

◀▶

Parent Company only

Valuation of investments in and recoverability of receivables from subsidiaries

◀▶

Event driven risk

Going concern

▼

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

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

	The risk	Our response
<p>Carrying value of goodwill in respect of the Wireless cash generating unit</p> <p>(£56.7 million; 2019: £59.3 million)</p> <p><i>Refer to note 2.8 (accounting policy) and 3.1 and note 13 (financial disclosures).</i></p>	<p>Forecast based assessment</p> <p>We consider the carrying value of goodwill in respect of the Wireless CGU and the risk over potential impairment to be a significant audit risk because of the opportunity for manipulation and the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability.</p> <p>In 2020, the risk of impairment relating to the Wireless CGU is heightened due to the potential impact of current market conditions on the timing and level of cash flows; in particular the adoption of 5G technology, the global demand for smartphones and the trade tensions between the US and China. The cash flow forecasts and the growth therein, the discount rate, and the long-term growth rate, are key judgments and assumptions used in the Director's impairment review.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill in respect of the Wireless CGU has a high degree of estimation uncertainty, with an opportunity for manipulation with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Benchmarking assumptions: We challenged the director's assumptions and obtained support, such as board-approved plans, independent market reports and customer communications, where available, for the cash flow forecasts and growth assumptions. — Our valuation expertise: We independently derived a reasonable range of appropriate discount rates with the assistance of our valuation specialists and compared these to those calculated by the Group. — Sensitivity analysis: We performed both breakeven and reasonably foreseeable scenario sensitivity analysis on the discount rate and growth assumptions. — Historical comparison: We evaluated the track record of historical forecasts used against actual results achieved. — Assessing transparency: We assessed whether the Group's disclosures reflect the risks and uncertainties inherent in the valuation of goodwill. <p>We performed the tests above rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p>
<p>Carrying value of development intangibles not yet available for use</p> <p>(£8.2 million; 2019: £12.8 million)</p> <p><i>Refer to note 2.8 (accounting policy) and note 3.2 (financial disclosures).</i></p>	<p>Subjective assessment</p> <p>The ability of an intangible asset to generate sufficient future economic benefits to support its carrying amount is subject to considerable uncertainty during the development phase and is open to management bias.</p> <p>The current wider economic conditions are considered to give rise to an increased uncertainty around the ability and commitment to complete ongoing projects and availability of routes to market for new, unproven, technologies.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that there is an increased risk in respect of continued commercial viability, and consequently, intention to complete the development, of previously capitalised development intangibles not yet available for use.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Challenging assumptions: We challenged the Group's assessment of the future viability of development intangibles not yet available for use, assessing value in use calculations supporting their commercial viability with reference to external evidence, including customer correspondence for specific projects and/or external market analyst reports in respect of the associated technologies. — Personnel interviews: We held discussions with the Group's Chief Technology Officer to corroborate our understanding of the future uses, opportunities and intention for the development intangibles. — Assessing transparency: We have assessed whether the group's disclosures reflect the risks inherent in the valuation of development intangibles not yet available for use. <p>We performed the tests above rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p>

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

	The risk	Our response
Revenue recognition (Period end timing matters affecting revenue - total revenue in the period is 178.0 million; 2019: £140.0 million) <i>Refer to note 2.21 (accounting policy) and note 4 (financial disclosures)</i>	2020/2021 Revenues Pressures on achieving internal and external expectations of results increase the risk of fraudulent revenue recognition, in particular the recognition of sales around the year-end date.	Our procedures included: <ul style="list-style-type: none"> — Enquiry of customers: We obtained direct confirmation of receivables balances held by a sample of customers at the year-end date to agree revenue associated with product delivered into Supplier Managed Inventory; — Test of details: We agreed a sample of sales transactions around the year-end, based upon their financial significance, to external delivery confirmation; — Test of details: We agreed a sample of post year-end credit notes, based upon their financial significance, to sales order and external delivery confirmation, to assess revenue has not been overstated at the year-end date; We performed the tests above rather than seeking to rely on any of the group's controls because the number of transactions relating to the risk period meant that detailed testing is inherently the most effective means of obtaining audit evidence.
Parent Company: Valuation of investments in and recoverability of receivables from subsidiaries £224.7million; 2019: £221.4million) <i>Refer to notes 2.10 and 2.28 (accounting policy) and notes 16 and 18 (financial disclosures)</i>	Low risk, high value The carrying amount of the parent company's investments in and receivables from subsidiaries represents 95% (2019: 95%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: Test of detail: We compared the carrying amount of 100% of investments and receivables with the relevant subsidiaries' balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. Assessing subsidiary audit: We assessed the work performed by the component auditor of the relevant subsidiary and considered the results of that work, on that subsidiary's profit and net assets. Comparing valuations: For the investments or receivables where the carrying amount exceeded the net asset value, we compared the carrying amount with the expected value of the business based on the subsidiaries forecast profitability and cash flows.

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

	The risk	Our response
Going concern <i>Refer to note 2.2 (accounting policy and financial disclosures).</i>	<p>Disclosure Quality</p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model, and how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period.</p> <p>The risks most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period were:</p> <ul style="list-style-type: none"> — Uncertainty in the timing and level of cash flow forecasts and revenue growth which are inherently linked to the global demand for smartphones and the adoption of forthcoming technologies such as 5G; — Compliance with funding covenants in a severe but plausible downside scenario; — While undrawn at the balance sheet date, the Group's revolving credit facility expires in January 2022. — There are also less predictable but realistic second order impacts, such as the impact of COVID-19 and potential effect on customer demand, the availability of debt and other financing arrangements and the impact on the wider supply chain, which could result in a reduction of available financial resources. <p>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p>	<p>We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.</p> <p>Our procedures also included:</p> <ul style="list-style-type: none"> — Funding assessment: We obtained relevant loan agreements and positive confirmation from the funder of a proposed extension, agreeing facilities available to the Group and recalculated covenant compliance and headroom based on management's latest forecasts and those in severe but plausible downside scenarios. — Our Covid-19 knowledge: We considered the directors' assessment of Covid-19 related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. This included assessing the effects of the pandemic on the Group over the past year as well as government guidance on critical industry and key worker status. — Our sector experience: We critically assessed the directors' going concern assessment, including the reasonableness of the key assumptions used in the cash flow forecasts and the level of downside sensitivities applied using our industry knowledge of risks and external market research; — Evaluating directors' intent: We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. This included assessing the intent and ability of the Directors to implement these actions in the time frame required and that they were entirely in the Directors' control. — Assessing transparency: We assessed the completeness and accuracy of the matters covered in the going concern disclosures by comparing this to the key assumptions, key sensitivities and mitigating actions considered by the Directors.

We continue to perform procedures over the capitalisation of development costs as intangible assets in the year however due to the limited number of new development projects and the quantum of the overall additions in 2020, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

We continue to perform procedures to assess the impact of Brexit on the Group as part of our audit, however, as the UK has now exited the European Union, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.



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

Materiality for the group financial statements as a whole was set at £1,250k (2019: £850k), determined with reference to a benchmark of group revenues of £178,016k (which represents 0.7%). In 2019 materiality was set with reference to revenue of £140,015k of which it represented 0.6%.

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

Materiality for the parent company financial statements as a whole was set at £500k (2019: £300k), as communicated by the group audit team. This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.21% (2019: 0.13%) of the Company's total assets.

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

Performance materiality was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £935k (2019: £637.5k) for the group and £375k (2019: £225k) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £62k (2019: £42k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 18 (2019: 18) reporting components, we subjected 7 (2019: 8) to full scope audits for group purposes and 3 (2019: 2) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

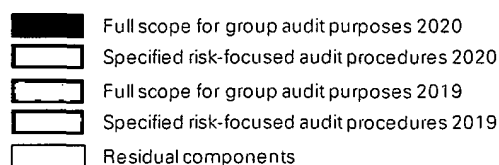
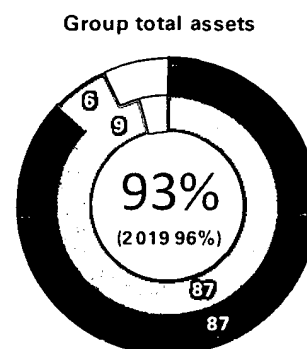
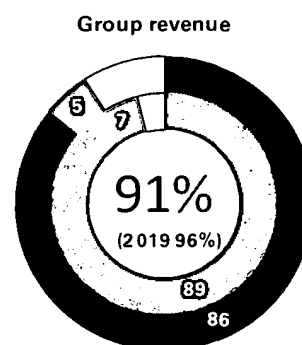
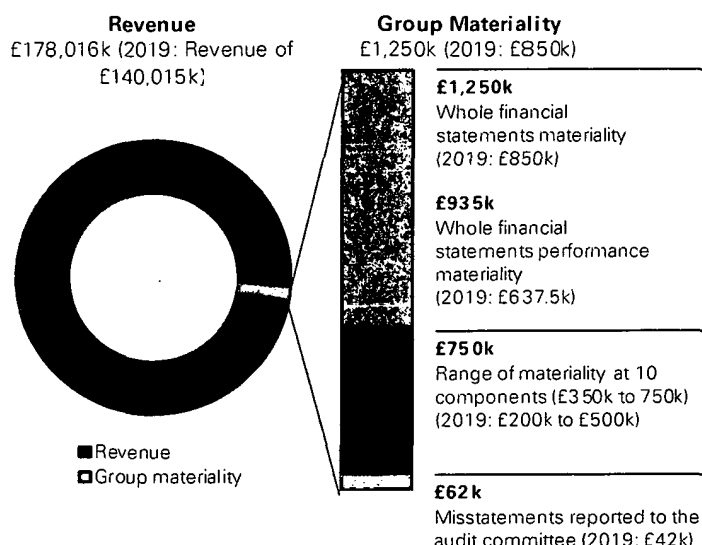
The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 9% (2019: 4%) of total group revenue and 7% (2019: 4%) of total group assets is represented by 3 (2019: 3) reporting components, none of which individually represented more than 5% (2019: 2%) of any of total group revenue or total group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team approved the component materialities, which ranged from £350k to £750k (2019: £200k to £500k), having regard to the mix of size and risk profile of the Group across the component.

The Group team instructed one component auditor in respect of one location as to the significant areas to be covered, including the relevant risks and the information to be reported back. Work performed on all other components was performed by the group team.

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



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for a period of assessment to 31 December 2022 ("the going concern period").

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

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the Directors' statement in note 2.2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period and we found the going concern disclosure in note 2.2 to be acceptable; and
- the related statement given as if the Listing Rules applied set out on page 38 is materially consistent with our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

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

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors, the audit committee and the company secretary and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit committee and remuneration meeting minutes.
- Considering remuneration incentive schemes and performance targets for directors and management including bonus targets and Long Term Incentive Plan EPS growth targets for director and management remuneration.

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

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

We also identified a fraud risk related to the valuation of goodwill and intangible assets not yet available for use. There is a risk that Group management may be in a position to make inappropriate accounting entries or include bias in the accounting estimates and judgements in order to meet target results or to overstate the future value of the business.

Further detail in respect of these risks are set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Identifying journal entries for all full scope components to test based on risk criteria and comparing the identified entries to supporting documentation. These included revenue and cash entries to unexpected accounts.
- Assessing significant accounting estimates for bias.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

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

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

- the directors' confirmation within the long term viability statement on page 38 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the long term viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Corporate governance disclosures

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

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

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

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

We have nothing to report in these respects.

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

- Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
 - the parent Company financial statements and the part of the Directors' Remuneration Report which we were engaged to audit are not in agreement with the accounting records and returns; or
 - certain disclosures of directors' remuneration specified by law are not made; or
 - we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 70, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Campbell-Orde

**Andrew Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants**

3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

25 March 2021

Five year financial summary

	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Revenue	178,016	140,015	156,291	154,553	132,707
Adjusted EBITDA (see below)	30,101	16,246	26,404	37,152	31,730
Operating (loss)/profit					
• Adjusted*	5,386	(4,676)	16,040	26,534	22,119
• Reported	(5,517)	(18,802)	8,660	17,194	19,826
(Loss)/profit after tax					
• Adjusted*	2,702	(19,010)	11,229	24,998	20,692
• Reported	(2,893)	(35,128)	1,189	14,660	18,023
Net cash flow from operations					
Before adjustments (note 5)	36,324	16,530	16,982	31,089	24,281
Reported	35,457	8,948	16,988	29,717	22,463
Free cash flow**					
Before exceptional cash flows	23,566	(25,445)	(26,045)	(2,945)	4,382
Reported	22,699	(33,027)	(26,039)	(4,317)	2,564
Net (debt)/cash excluding lease liabilities***	1,923	(15,970)	20,807	45,612	(39,549)
Equity shareholders' funds	260,435	266,593	305,730	287,950	184,666
Basic EPS – adjusted****	0.29p	(2.46p)	1.44p	3.61p	3.06p
Basic EPS – unadjusted	(0.41p)	(4.51p)	0.13p	2.11p	2.66p
Diluted EPS – adjusted****	0.29p	(2.46p)	1.38p	3.38p	2.89p
Diluted EPS – unadjusted	(0.41p)	(4.51p)	0.12p	1.98p	2.52p

* The adjusted performance measures for 2020 and 2019 are reconciled in note 5. The adjusted performance measures for 2016-2018 are reconciled in those financial statements.

** Free cash flow is defined as net cash flow of £16,003,000 before financing £5,554,000 and net interest paid £1,142,000.

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

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

Adjusted EBITDA has been calculated as follows:

	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
(Loss)/profit after tax	(2,893)	(35,128)	1,189	14,660	18,023
Tax (credit)/charge	(1,001)	10,180	5,558	435	340
Interest expense/(income)	2,165	1,458	(87)	2,099	1,463
Share based payments	265	(771)	(1,044)	7,526	2,881
(Profit)/Loss on disposal of PPE	182	(245)	–	22	47
Adjusted items	6,850	18,463	7,906	385	(1,962)
Depreciation of PPE	12,983	10,477	6,773	5,637	5,561
Depreciation of right of use asset	3,681	3,590	–	–	–
Amortisation of intangible assets	7,869	8,222	6,109	6,388	5,377
Adjusted EBITDA	30,101	16,246	26,404	37,152	31,730

Consolidated income statement

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Revenue	4	178,016	140,015
Cost of sales		(144,866)	(118,631)
Gross profit		33,150	21,384
Selling, general and administrative expenses		(34,697)	(36,297)
Impairment loss on financial assets	5	(3,788)	(4,134)
Profit on disposal of property, plant and equipment	5	(182)	245
Operating loss	6	(5,517)	(18,802)
Finance costs	8	(2,165)	(1,458)
Reversal/share of losses of joint ventures accounted for using the equity method	30	3,788	(4,688)
Adjusted profit/(loss) before income tax		3,221	(7,019)
Adjustments	5	(7,115)	(17,929)
Loss before income tax		(3,894)	(24,948)
Taxation	9	1,001	(10,180)
Loss for the year		(2,893)	(35,128)
Loss attributable to:			
Equity shareholders		(3,271)	(35,473)
Non-controlling interest		378	345
		(2,893)	(35,128)
Loss per share attributable to owners of the parent during the year			
Basic loss per share	12	(0.41p)	(4.51p)
Diluted loss earnings per share	12	(0.41p)	(4.51p)

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

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

Non-controlling interest relates to minority shareholder interests in the Group's subsidiary, IQE Taiwan ROC, prior to the acquisition of the minority shareholding on 5 October 2020 (note 31).

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

The notes on pages 91 to 144 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	2020 £'000	2019 £'000
Loss for the year	(2,893)	(35,128)
Exchange differences on translation of foreign operations*	(6,104)	(3,654)
Total comprehensive expense for the year	(8,997)	(38,782)
Total comprehensive expense attributable to:		
Equity shareholders	(9,482)	(39,084)
Non-controlling interest	485	302
	(8,997)	(38,782)

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

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

The notes on pages 91 to 144 form an integral part of these consolidated financial statements.

Consolidated balance sheet

As at 31 December 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Intangible assets	13	105,772	118,456
Fixed asset investments	16	–	75
Property, plant and equipment	14	126,229	136,482
Right of use assets	15	37,339	39,355
Deferred tax assets	10	7,821	5,679
Other financial assets	18	–	–
Total non-current assets		277,161	300,047
Current assets			
Inventories	17	30,887	30,668
Trade and other receivables	18	38,575	33,065
Cash and cash equivalents		24,663	8,800
Total current assets		94,125	72,533
Total assets		371,286	372,580
Current liabilities			
Trade and other payables	19	(35,605)	(26,367)
Current tax liabilities		(1,426)	(1,162)
Bank borrowings	20	(6,201)	(2,034)
Lease liabilities	20	(4,798)	(3,083)
Provisions for other liabilities and charges	21	(515)	–
Total current liabilities		(48,545)	(32,646)
Non-current liabilities			
Bank borrowings	20	(16,539)	(22,736)
Lease liabilities	20	(42,226)	(44,895)
Deferred tax liabilities	10	(2,054)	(1,860)
Provisions for other liabilities and charges	21	(1,487)	–
Total non-current liabilities		(62,306)	(69,491)
Total liabilities		(110,851)	(102,137)
Net assets		260,435	270,443
Equity attributable to the shareholders of the parent			
Share capital	23	8,004	7,961
Share premium		154,185	152,385
Retained earnings		62,089	63,826
Exchange rate reserve		21,291	27,502
Other reserves		14,866	14,919
		260,435	266,593
Non-controlling interest		–	3,850
Total equity		260,435	270,443

The notes on pages 91 to 144 form an integral part of these consolidated financial statements. The financial statements on pages 83 to 90 were authorised for issue by the Board of Directors and approved on 25 March 2021 and were signed on its behalf.



Mr T Pullen



Dr A W Nelson

Consolidated statement of changes in equity

For the year ended 31 December 2020

	Share capital £'000	Share premium £'000	Retained earnings £'000	Exchange rate reserve £'000	Other reserves £'000	Non-controlling interests £'000	Total equity £'000
At 1 January 2020	7,961	152,385	63,826	27,502	14,919	3,850	270,443
Comprehensive expense							
(Loss)/profit for the year	–	–	(3,271)	–	–	378	(2,893)
Other comprehensive expense for the year	–	–	–	(6,211)	–	107	(6,104)
Total comprehensive expense for the year	–	–	(3,271)	(6,211)	–	485	(8,997)
Transactions with owners							
Share based payments	–	–	–	–	55	–	55
Tax relating to share options	–	–	–	–	57	–	57
Proceeds from shares issued	17	388	–	–	(165)	–	240
Acquisition of non-controlling interest	26	1,412	1,534	–	–	(4,335)	(1,363)
Total transactions with owners	43	1,800	1,534	–	(53)	(4,335)	(1,011)
At 31 December 2020	8,004	154,185	62,089	21,291	14,866	–	260,435

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

Other reserves relates to share based payments.

The notes on pages 91 to 144 form an integral part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Adjusted cash inflow from operations		36,324	16,530
Cash impact of adjustments	5	(867)	(7,582)
Cash generated from operations	26	35,457	8,948
Net interest paid		(1,142)	(671)
Income tax paid		(993)	(151)
Net cash generated from operating activities		33,322	8,126
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,993)	(31,864)
Purchase of intangible assets		(731)	(1,806)
Capitalised development expenditure		(4,678)	(8,427)
Proceeds from disposal of property, plant and equipment		–	263
Acquisition of minority interest		(1,363)	–
Acquisition of subsidiary, net of cash acquired		–	10
Net cash used in investing activities		(11,765)	(41,824)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		240	712
Proceeds from borrowings	27	5,000	41,895
Repayment of borrowings	27	(7,030)	(17,125)
Payment of lease liabilities	27	(3,764)	(3,651)
Net cash (used)/generated from financing activities		(5,554)	21,831
Net increase/(decrease) in cash and cash equivalents		16,003	(11,867)
Cash and cash equivalents at 1 January		8,800	20,807
Exchange losses on cash and cash equivalents		(140)	(140)
Cash and cash equivalents at 31 December		24,663	8,800

The notes on pages 91 to 144 form an integral part of these consolidated financial statements.

Parent company balance sheet

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Intangible assets	13	3,713	6,539
Property, plant and equipment	14	15	19
Investments	16	91,420	89,961
Deferred tax assets	10	3,975	2,637
Trade and other receivables	18	133,314	131,541
Total non-current assets		232,437	230,697
Current assets			
Trade and other receivables	18	2,609	576
Cash and cash equivalents		635	1,746
Total current assets		3,244	2,322
Total assets		235,681	233,019
Current liabilities			
Trade and other payables	19	(25,631)	(18,982)
Bank borrowings	20	–	–
Provisions for other liabilities and charges	21	(515)	–
Total current liabilities		(26,146)	(18,982)
Non-current liabilities			
Bank borrowings	20	–	–
Provisions for other liabilities and charges	21	(1,325)	–
Total non-current liabilities		(1,325)	–
Total liabilities		(27,471)	(18,982)
Net assets		208,210	214,037
Shareholders' equity			
Share capital	23	8,004	7,961
Share premium		154,185	152,385
Retained earnings		31,101	38,687
Other reserves		14,920	15,004
Total equity		208,210	214,037

The notes on pages 91 to 144 form an integral part of these consolidated financial statements.

The financial statements on pages 83 to 90 were authorised for issue by the Board of Directors and approved on 25 March 2021 and were signed on its behalf.



Mr T Pullen



Dr A W Nelson

Parent company statement of changes in equity

For the year ended 31 December 2020

	Share capital £'000	Share premium £'000	Retained earnings £'000	Other reserves £'000	Total Equity £'000
At 1 January 2020	7,961	152,385	38,687	15,004	214,037
Comprehensive expense					
Loss for the year	–	–	(7,586)	–	(7,586)
Total comprehensive expense	–	–	(7,586)	–	(7,586)
Transactions with owners					
Share based payments	–	–	–	55	55
Tax relating to share options	–	–	–	26	26
Proceeds from shares issued	43	1,800	–	(165)	1,678
Total transactions with owners	43	1,800	–	(84)	1,759
At 31 December 2020	8,004	154,185	31,101	14,920	208,210

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

Other reserves relate to share based payments.

The notes on pages 91 to 144 form an integral part of these consolidated financial statements.

Parent company cash flow statement

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Cash outflow from operations	26	(2,336)	(5,176)
Interest received		1,842	2,496
Income tax paid		—	—
Net cash used in operating activities		(494)	(2,680)
Purchase of intangible assets		(845)	(778)
Purchase of property plant and equipment		(12)	(18)
Net cash used in investing activities		(857)	(796)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		240	712
Proceeds from borrowings		5,000	17,053
Repayments of borrowings		(5,000)	(17,125)
Net cash generated from financing activities		240	640
Net decrease in cash and cash equivalents		(1,111)	(2,836)
Cash and cash equivalents at 1 January		1,746	4,582
Cash and cash equivalents at 31 December		635	1,746

The notes on pages 91 to 144 form an integral part of these consolidated financial statements.

Notes to the financial statements

For the year ended 31 December 2020

1. General information

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

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

2. Significant accounting policies

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

2.1 Basis of preparation

The financial statements have been prepared and approved by the directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"). The financial statements have been prepared under the historical cost convention except where fair value measurement is required by IFRS.

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

2.2 Going concern

The Group made a loss of £2,893,000 (2019: £35,128,000 loss) but had an increase in cash and cash equivalents of £15,863,000 (2019: £12,007,000 decrease) for the year ended 31 December 2020.

On 11 March 2020, the World Health Organisation declared the outbreak of a coronavirus (COVID-19) a pandemic. The COVID-19 outbreak continues to create uncertainty in global economies and the markets in which the Group operates which pose risks to the Group's continuity of business operations, demand for its products and its forecast future financial performance given current world health and global economic conditions. 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 works 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 year with significant growth experienced in a number of markets that has resulted in the delivery of record revenue of £178,016,000 (2019: £140,015,000) and an increase in adjusted profit before tax to £3,221,000 (2019: £7,019,000 loss).
- Net debt (excluding lease liabilities) has significantly reduced with the group ending the financial year in a net funds (excluding lease liabilities) position of £1,923,000 (2019: £15,970,000 net debt) as a result of a combination of increased cash generated from operations and a reduction in capital expenditure following the completion of the infrastructure phase of the Group's expansion in Massachusetts USA, Hsinchu Taiwan and at its Newport Foundry in South Wales. Net funds (excluding lease liabilities) consists of £24,663,000 (2019: £8,800,000) of cash net of bank loans of £22,740,000 (2019: £24,770,000) repayable over a period to 29 August 2024.
- On 24 January 2019, the Group agreed a £25,735,000 (\$35,000,000) three-year multi-currency revolving credit facility from HSBC Bank plc which is undrawn. The Group has complied with all covenants associated with the facility.
- On 29 August 2019, the Group agreed a £30,000,000 five-year Asset Finance Loan facility from HSBC Bank of which £25,000,000 has been drawn. The Group has complied with all covenants associated with the facility.
- On 10 December 2020, the Group agreed the extension of the relaxation of certain banking covenants applicable at 31 December 2020 and 30 June 2021 to include 31 December 2021 as an on-going precautionary measure designed to increase covenant headroom and availability of cash funding under the terms of the Group's committed bank facilities.
- The Group generated cash from operating activities of £33,322,000 (2019: £8,126,000) and its financial forecasts for the period up to and including 31 December 2022 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.

Notes to the financial statements continued

For the year ended 31 December 2020

2. Significant accounting policies continued

2.2 Going concern continued

- The Group's trading has remained resilient throughout the year with significant growth experienced in a number of markets with record revenue of £178,016,000 (2019: £140,015,000) and strong growth delivered in each of the Group's primary business segments. Wireless and Photonics growth drivers, which include increased demand for GaAs wafers for 5G smartphone power amplifiers, GaN on SiC wafers for 5G infrastructure and advanced RF applications, VCSEL wafers for 3D sensing applications and GaSb wafers for infrared applications, continue to remain strong and trading in Q1 2021 remains favourable with positive momentum continuing across the Group's Wireless and Photonics business units.
- 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 a 24-month period to 31 December 2022. The severe but plausible downside scenario, applied to the Group's financial forecasts, which take account of current trading and customer demand, assumes a 10% reduction in 2021 revenue and a 22% reduction in 2022 revenue partially offset by mitigations within the control of the company, including deferred investment in employee related costs across the forecast period and certain capital expenditure mitigations in 2022. 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 extension, or refinancing of its current revolving credit facility from HSBC Bank plc on expiry in January 2022. The severe but plausible downside scenario illustrates that a facility of ~£9,000,000, significantly below the Group's current committed facility of £25,735,000 could be required in 2022. The Group has a long-standing and trusted relationship with its bankers, HSBC Bank plc, who remain supportive and who have, at the date of this report, extended formal credit approved heads of terms for a one-year extension of the Group's £25,735,000 (\$35,000,000) revolving credit facility until January 2023. The credit approved heads of terms include banking covenants consistent with the covenant arrangements applicable until expiry of the existing facility. 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 level of assessed covenant headroom on the Group's committed 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 the assessed period to 31 December 2022, such that the directors consider it appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statement.

2.3 Changes in accounting policy and disclosures

(a) New standards, amendments and interpretations.

The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 January 2020:

- Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' to provide certain reliefs, including in relation to hedge accounting, arising from issues related to interest rate benchmark reform.
- Amendments to IFRS 3 'Business Combinations' which clarifies the definition of a business.
- Amendments to IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors' which are intended to make the definition of material easier to understand.
- Amendments to references to the 'Conceptual framework' in IFRS standards.

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

(b) New standards, amendments and interpretations issued but not effective and not adopted early

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

- Amendment to IFRS 3 'Business combinations' to update references to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts', IFRS 16 'Leases' related to interest rate benchmark reform (phase two) and the issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.
- Amendment to IFRS 16 'Leases' which provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification.
- IFRS 17 'Insurance contracts' which establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 'Insurance Contracts'
- Amendments to IAS 1 'Presentation of financial statements' on classification of liabilities which is intended to clarify that liabilities are classified as either current or non-current depending upon the rights that exist at the end of the reporting period.

- 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 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 Directors anticipate that at the time of this report none of the new standards, amendments to standards and interpretations are expected to have a material effect on the financial statements of the Group or parent company.

2.4 Consolidation

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

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated and accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Joint ventures

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The nature of the Group's joint arrangements has been assessed and each joint arrangement has been determined to be a joint venture. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

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

When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures. Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Business combinations

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

Where the fair values of acquired identifiable assets, liabilities and contingent liabilities are initially recognised on a provisional basis, these are reassessed during the 12 month period following the date of the business combination. Adjustments to the fair values as at the date of acquisition that result from new information that existed at the date of acquisition, which if known at the time would have resulted in a different amount being recognised within this 'measurement period' are recorded, with any net impact being added to or deducted from the goodwill recognised. Such adjustments are recognised in both the current period and restated comparative period balance sheets as if the final fair values had been used in the initial recognition of the acquisition. Subsequent to the measurement period, any adjustments to the recorded fair value of identifiable assets, liabilities and contingent liabilities are taken through the income statement as an exceptional income or expense.

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

Acquisition related costs are expensed as incurred.

Notes to the financial statements continued

For the year ended 31 December 2020

2. Significant accounting policies continued

2.5 Intangible assets

a) Goodwill

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

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

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

b) Patents, trademarks and licences

Separately acquired patents, trademarks and licences are shown at historical cost. Patents, trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Patents, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation.

Amortisation is calculated using the straight-line method to allocate the cost of the assets over their estimated useful lives of 10 to 15 years. The carrying value of patents, trademarks and licences is reviewed for potential impairment if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement.

c) Development costs

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

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

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

All research and other development costs are expensed as incurred.

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

The carrying value of capitalised development costs in respect of completed projects is reviewed for impairment if events or circumstances indicate a potential impairment. Projects that remain under development at the reporting date are reviewed for impairment at least annually or more frequently if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement.

d) Software

Directly attributable costs incurred in the development of bespoke software for the Group's own use are capitalised and amortised on a straight line basis over the expected useful life of the software, which typically range between 3 and 10 years.

The carrying value of capitalised software costs is reviewed for potential impairment if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement. The costs of maintaining internally developed software and annual license fees paid to utilise third party software are expensed as incurred.

e) Customer contracts recognised on acquisition

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

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

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

2.6 Property, plant and equipment

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

Freehold buildings	15 to 25 years
Short leasehold improvements	5 to 27 years
Plant and machinery	5 to 15 years
Fixtures and fittings	3 to 5 years

No depreciation is provided on land or assets yet to be brought into use. Depreciation is charged to cost of sales and selling and general administration expenses in the income statement.

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

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

Assets residual values and useful economic lives are reviewed, and adjusted if appropriate, at the end of each reporting period. A review was completed during 2020 which resulted in no material changes to asset residual values and useful economic lives (2019: no material changes). The carrying value of property, plant and equipment is reviewed for potential impairment if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement.

2.7 Leases

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

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

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

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

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

Right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

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

Notes to the financial statements continued

For the year ended 31 December 2020

2. Significant accounting policies continued

2.7 Leases continued

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

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

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

2.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are reviewed for potential impairment at least annually or more frequently if events or circumstances indicate a potential impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value (less disposal costs) and value in use.

Value in use is based on the present value of the future cash flows relating to the asset, discounted at the Group's risk adjusted pre-tax discount rate. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.9 Inventories

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

2.10 Trade receivables

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

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

2.11 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are presented within cash and cash equivalents where the Group has a right of set-off under its treasury arrangements that are pooled by territory.

2.12 Preference share debt instruments

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

2.13 Financial assets

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

Classification of financial assets

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

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

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

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

Amortised cost financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting period where the item is classified as a non-current asset. The Group's financial assets comprise trade and other receivables (note 2.10), cash and cash equivalents (note 2.11), preference share debt instruments (note 2.12) and contract assets (note 2.21).

Amortised cost and effective interest method

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

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

Impairment of financial assets

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

Expected credit losses are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In circumstances where credit risk increases to the point that it becomes highly probable that the debt instrument will not become recoverable, the Group considers that this would represent a default event and moves to stage 3.

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

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

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

Credit impaired financial assets

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

Significant increase in credit risk – Preference share debt instruments

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

Notes to the financial statements continued

For the year ended 31 December 2020

2. Significant accounting policies continued

2.13 Financial assets continued

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

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

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

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

Measurement and recognition of expected credit losses

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

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

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

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

2.14 Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

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

Financial liabilities are non-derivative financial liabilities with fixed or determinable payments and they are included in current liabilities, except for maturities greater than 12 months after the reporting period where the item is classified as a non-current liability. The Group's financial liabilities comprise trade and other payables (note 2.15), borrowings (note 2.16) and lease liabilities (note 2.7) in the consolidated balance sheet.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

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

2.17 Borrowing costs

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

2.18 Government grants

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

2.19 Share capital and other reserves

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

Other reserves relate to share based payment transactions.

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise site closure costs and employee termination payments. Provisions are not recognised for future operating losses.

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

2.21 Revenue recognition

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

Standard Customer Products

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

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

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

Bespoke Customer Products

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

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

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

Notes to the financial statements continued

For the year ended 31 December 2020

2. Significant accounting policies continued

2.21 Revenue recognition continued

Intellectual Property Licenses

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

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

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

2.22 Segmental reporting

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

2.23 Finance income and finance costs

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

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

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

2.24 Pension costs

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

2.25 Share based payments

The Group operates a number of equity-settled share-based compensation plans under which the Group receives services from employees as consideration for equity instruments in IQE plc. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the consolidated income statement and as a credit in other reserves in the consolidated statement of changes in equity except for the social security element of the award which is treated as cash settled with the liability recognised in other taxation and social security within trade and other payables in the consolidated balance sheet. The total amount to be expensed is determined by reference to the fair value of the options granted including any market performance conditions (for example, an entity's share price); excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period) and including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

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

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and the balance to share premium. In the company's own financial statements, the grant of share options to the employees of subsidiary undertakings is treated as a capital contribution. Specifically, the fair value of employee services received (measured at the date of grant) is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

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

2.26 Foreign currency

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

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

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

Foreign exchange gains and losses on the retranslation of foreign currency borrowings that are used to finance overseas operations are accounted for on the 'net investment' basis and are recorded directly in reserves provided that the hedge is effective

2.27 Current and deferred tax

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

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

Amounts receivable from tax authorities in relation to research and development tax relief under the RDEC scheme are recognised within operating profit in the period in which the research and development costs are treated as an expense. Where amounts are outstanding at the year end and have not been formally agreed, an appropriate estimate of the amount is included within other receivables.

Deferred tax is provided in full on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for taxation purposes. Deferred tax is calculated at the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax liabilities are recognised for taxable temporary differences, unless specifically exempt. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

2.28 Investment in subsidiaries

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

2.29 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.

2.30 Alternative performance measures

Income Statement

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

Balance Sheet

Alternative balance sheet performance measures for net debt are disclosed separately in the financial statements after adjustments to exclude lease liabilities where it is deemed necessary by the Director's to do so to provide further understanding of the financial position, gearing and liquidity of the Group.

Cashflow Statement

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

Notes to the financial statements continued

For the year ended 31 December 2020

3. Critical accounting judgements and key sources of estimation uncertainty

The Group's principal accounting policies are described in note 2. The application of these policies necessitates the use of estimates and judgements in a number of areas. Accordingly, the actual amounts may differ from these estimates. The main areas involving significant judgement and estimation are set out below:

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

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

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

Compound Semiconductor Centre Limited ('CSC')

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

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

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

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

Joint Venture – Right of use asset

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

On establishment of the joint venture, the Group contributed assets as part of its initial investment and entered into an agreement with the joint venture that has been extended in the current year and conveys to the Group the right to use the assets of the joint venture for a minimum period up to 31 March 2022. This agreement, which contains rights attaching to the use of the joint venture's assets, meets the definition of a lease. In the Group's judgement, due to the variable nature of the lease payments, which are directly linked to the actual usage of the assets, the lease payments have been excluded from the measurement of right of use assets and lease liabilities with the variable lease costs recognised in operating expenses in the income statement as incurred.

Joint Venture – Classification of preference share debt

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

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

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

Joint Ventures – Credit risk associated with preference share debt

As explained in note 2.13, expected credit losses are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. The Group has assessed, based on its joint venture's latest forecast, that the preference share debt is no longer likely to be recovered in a reasonable period such that the credit risk has increased to the extent that the definition of default has been met and the asset has moved to stage 3. In making this assessment, qualitative and quantitative reasonable and supportable forward-looking information associated with the forecast future financial performance and cash generation of CSC has been used (see note 3.8 for details of the calculation of the loss allowance and the associated impairment of the financial asset).

Intangible assets and associated contractual arrangements – Filter and CREO™ Technology Assets

The Group has cREO™ and filter technology related intangible assets totalling £11.1m that consist of patent related costs primarily relating to the historic purchase of the cREO™ technology and intellectual property portfolio from Translucent Inc. and technology development costs associated with intellectual property developed utilising the cREO™ patent portfolio.

The changing technology landscape has necessitated a review of the cREO™ patent portfolio and associated technology development costs. The review has considered technical aspects of the intellectual property and technology development, commercial routes to market for the technology and the level and nature of ongoing customer engagement which has resulted in a narrowing of development activities in order to focus investment and effort into the development of filter related technologies using cREO™.

The refocus of resource and investment into filter development activities and the current lack of intent to continue to develop other aspects of the patent portfolio and intellectual property has resulted in a non-cash intangible asset charge of ££,537,000 that has been charged to 'selling, general and administrative expenses' in the consolidated income statement to write-down non-filter related cREO™ patent and development costs.

An onerous contract provision of £1,840,000 has also been included in 'provisions for other liabilities and charges' with the cost charged to 'selling, general and administrative expenses'. The onerous contract provision represents the cost of minimum future royalty payments payable to Translucent Inc. for the use of the technology.

Adjustments to profit

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

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

3.1 Goodwill impairment testing – Wireless

Following the assessment of the goodwill allocated to the Wireless cash generating unit ('CGU'); to which goodwill of £56,704,000 (2019: £59,317,000) is allocated, the directors consider the recoverable amount of goodwill allocated to the Wireless CGU to be most sensitive to the achievement of the Group's three-year internal forecasts. The three-year forecasts comprise forecasts of revenue, material costs and site manufacturing labour and overhead costs based on current and anticipated market conditions that have been considered and approved by the Board. Whilst the Group is able to manage most of its Wireless CGU costs, significant elements of the Wireless revenue forecasts are inherently linked to global demand for smartphones and the adoption of 5G technology where uncertainty about both the timing and level of growth remains which is a key sensitivity given current consumer, market and regulatory dynamics.

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

3.2 Intangible assets not yet available for use

Intangible assets include development cost assets not yet available for use of £8,157,000 (2019: £12,824,000) which have been reviewed for impairment as at the reporting date.

The recoverable amount of each technology development project has been determined based on value in use calculations, using cash flow projections in line with the expected useful economic life of each asset. The value in use calculations are based on management approved risk-adjusted cash flow forecasts for each project and have been discounted using a discount rate of 15%.

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

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

No impairment would arise if the discount rate was increased from 15% to 20%, or revenue growth was reduced by 25%, or gross profit margin was reduced by 20% in each year of the forecast periods.

Notes to the financial statements continued

For the year ended 31 December 2020

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

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

3.3 Useful economic lives of development cost intangible assets

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

The carrying value of development cost intangible assets is £35,803,000 (2019: £41,307,000). The amortisation charge for development cost intangible assets in the current year is £6,430,000 (2019: £6,360,000). If useful economic lives of development cost intangible assets were reduced by 1 year across the whole portfolio of assets the impact on current year amortisation would be to increase the charge by £1,063,000 (2019: £776,000) to £7,493,000 (2019: £7,136,000).

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

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

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

The carrying value of property, plant and equipment is £126,229,000 (2019: £136,482,000). Differences between estimated useful economic lives and residual values of property, plant and equipment and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and future rates of depreciation.

The depreciation charge for property, plant and equipment in the current year was £12,983,000 (2019: £10,477,000). If useful economic lives of the Group's significant epitaxial reactors, included within plant and machinery was reduced by 1 year across the whole portfolio of assets the impact on current year depreciation would be to increase the charge by £682,000 (2019: £359,000) to £13,665,000 (2019: £10,836,000). If residual values of the reactors were decreased by 10% across the whole portfolio of assets the impact on current year depreciation would be to increase the charge by £463,000 (2019: £389,000) to £13,446,000 (2019: £10,866,000).

3.5 Valuation of lease liabilities and right of use assets

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

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

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

The present value of the lease payments applicable to the Group's portfolio of property and plant leases has been determined using a discount rate that represents the Group's incremental rate of borrowing, assessed as 2.25% – 2.65% depending on the lease characteristics.

If the incremental rate of borrowing was decreased by 0.10% the impact would be to increase the lease liability by £227,000.

3.6 Deferred tax assets

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

At 31 December 2019, the Group recognised deferred tax assets in relation to historical losses at its operations in the United States of America. Recognition of the deferred tax asset was based on an assessment of future cash flow forecasts and the associated profitability of the US operations and included a forecast shift in the balance of the Group's projected manufacturing production, a position that remains unchanged in the current year, which resulted in a shift in forecast profits between the US and rest of the world. The forecast shift in manufacturing and profitability in the US has restricted the Group's ability to recognise deferred tax assets for historical US trading losses with tax losses totalling £33,140,000 (US\$45,070,000) recognised as part of deferred tax assets and £63,736,000 (US\$86,682,000) of historical US tax losses unrecognised.

The Group has assessed the recoverability of its deferred tax assets by reference to Board approved budgets and cash flow forecasts which are also used as the basis for the Group's impairment and going concern reviews. If either a shift in manufacturing between the Group's US and UK and Asian operations or changes in forecast customer demand resulted in a 10% forecast reduction in US profitability then US deferred tax asset recognition would reduce by an additional £795,000.

3.7 Share based payments

Share based payment charges associated with long-term incentive plans are calculated taking account of an assessment of the achievability of relevant performance conditions. The share-based payment charge for long-term incentive awards would be £1,032,000 (2019: £1,938,000) greater in 2020 if it was assumed that all performance criteria for existing awards would be met.

3.8 Preference share debt – Calculation of loss allowance

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

The carrying value of the Group's preference share debt is £nil (2019: £nil) after the recognition of expected credit losses and the application of the loss absorption requirements of IAS 28.38 (see note 3.9).

Expected credit loss impairment has increased by £3,788,000 in the current year to £7,922,000 (2019: £4,134,000).

When measuring expected credit loss on the preference share debt due from CSC the Group uses reasonable and supportable forward-looking information, which is primarily based on assumptions about forecast future financial performance of CSC. The ECL model calculation is based on three key inputs: exposure at default, loss given default, and probability of default. Exposure at default is the carrying amount of the preference share debt.

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

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

Default events and associated probability of default is assessed by reference to a range of scenarios based principally on assumptions and expectations of the future financial performance of CSC that have been derived from CSC's Board approved 2021 Budget extrapolated over the repayment period using a long-term growth rate of 2%.

Following a review of a combination of factors, including CSC's progress and achievement against milestones set-out in its original business plan, current cash flow forecasts for CSC and the capacity of CSC to redeem the debt, the Group has assessed that a default has now occurred on this instrument (see note 3(a)) and as a result, lifetime ECL has been calculated.

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

The result of this assessment is that the Group considers the ECL to equal the carrying amount of the instrument and therefore the financial asset has been fully impaired.

Revenue growth in the period beyond 2021 would need to increase to ~5.25% prior to the reversal of any of the £7,922,000 expected credit loss currently recognised.

Notes to the financial statements continued

For the year ended 31 December 2020

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

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

3.9 Preference share debt – Long term interest

The Group treats its preference share financial assets due from its joint venture, CSC, as a long-term interest in an equity accounted investee on the basis that the factors that have led to the recognition of an expected credit loss impairment (note 3.8) indicate that repayment of the preference share debt is no longer expected in the foreseeable future.

As a long-term interest in an equity accounted investee, the group has applied the loss absorption requirement in IAS 28.38 to the carrying amount of the preference share financial asset, after the application of the expected credit loss described in note 3.8. Application of the loss absorption requirements following the increase in expected credit losses has resulted in the reversal of the Group's share of previously allocated joint venture losses to the preference share financial asset.

The carrying value of the Group's preference share debt remains £nil (2019: £nil) after the increase in expected credit losses and the application of the loss absorption requirements of IAS 28.38. The increase in expected credit loss of £3,788,000 has been recognised as an 'impairment loss on financial assets' in operating loss in the Consolidated Income Statement and the reversal of the Group's share of previously allocated joint venture losses to the preference share debt of £3,788,000 has been recognised as a credit within 'share of losses of joint ventures accounted for using the equity method' in the Consolidated Income Statement.

4. Segmental analysis

4.1 Description of segments and principal activities

The Chief Operating Decision Maker is defined as the Executive Management Board. The Executive Management Board, consisting of the Chief Executive Officer, Chief Financial Officer, Chief Operations Officer, Chief Technology Officer, Executive VP Global Business Development, Wireless and Emerging Products and Executive VP Global Business Development, Photonics & Infrared consider the group's performance from a product perspective and have identified three primary reportable segments:

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

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

4.2 Revenue – Disaggregation of segmental revenue from contracts with customers

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

	Wireless 2020 £'000	Photonics 2020 £'000	CMOSS++ 2020 £'000	Total 2020 £'000
Disaggregate Segment Revenue				
Timing of revenue recognition				
<i>At a point in time</i>				
Standard customer products	–	14,088	–	14,088
Intellectual property licenses	–	–	–	–
<i>Over time</i>				
Bespoke customer products	94,193	67,539	2,196	163,928
Total revenue	94,193	81,627	2,196	178,016

	Wireless 2019 £'000	Photonics 2019 £'000	CMOSS++ 2019 £'000	Total 2019 £'000
Disaggregate Segment Revenue				
Timing of revenue recognition				
<i>At a point in time</i>				
Standard customer products	–	13,785	–	13,785
Intellectual property licenses	–	–	–	–
<i>Over time</i>				
Bespoke customer products	68,166	55,973	2,091	126,230
Total revenue	68,166	69,758	2,091	140,015

Included within bespoke customer product revenue is revenue of £89,900,000 (2019: £58,763,000) that relates to supplier managed inventory arrangements where billing occurs from the earlier of a specified contractual backstop date following delivery or when the product is drawn from inventory by the customer.

Revenues of approximately £89,900,000 (2019: £58,763,000) are derived from three customers who each account for greater than 10% of the Group's total revenues:

Customer	Segment	2020 £'000	2020 % revenue	2019 £'000	2019 % revenue
Customer 1	Wireless	29,608	17%	20,430	15%
Customer 2	Wireless	31,701	18%	20,181	14%
Customer 3	Photonics	28,591	16%	18,152	13%

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

Notes to the financial statements continued
For the year ended 31 December 2020

4. Segmental analysis continued

4.3 Adjusted Operating Profit

Adjusted operating profit excludes the effects of significant non cash, non-operational or significant and infrequent items of income and expenditure which may have an impact on the quality of earnings such as restructuring costs, legal expenses and impairments where the impairment is the result of an isolated, non-recurring event. Adjusted operating profit also excludes the effects of equity settled share-based payments.

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

	2020 £'000	2019 £'000
Revenue		
Wireless	94,193	68,166
Photonics	81,627	69,758
CMOS++	2,196	2,091
Revenue	178,016	140,015
Adjusted operating profit/(loss)		
Wireless	11,393	6,590
Photonics	9,080	1,324
CMOS++	(714)	(1,304)
Central corporate costs	(14,373)	(11,286)
Adjusted operating profit/(loss)	5,386	(4,676)
Adjusted items (see note 5)	(10,903)	(14,126)
Operating loss	(5,517)	(18,802)
Reversal/share of losses of joint venture accounted for using the equity method	3,788	(4,688)
Finance costs	(2,165)	(1,458)
Loss before tax	(3,894)	(24,948)

4.4 Geographical information

Revenue by location of customer

	2020 £'000	2019 £'000
Americas	118,298	77,189
United States of America	118,251	77,089
Rest of Americas	47	100
Europe, Middle East & Africa (EMEA)	15,250	13,951
France	2,291	785
Germany	6,056	5,525
Israel	2,131	2,537
United Kingdom	2,850	2,242
Rest of EMEA	1,922	2,862
Asia Pacific	44,468	48,875
People's Republic of China	6,517	4,356
Japan	3,679	1,570
Taiwan	28,348	37,656
Rest of Asia Pacific	5,924	5,293
Total revenue	178,016	140,015

Non-current assets by location

By location	Property, plant and equipment		Intangible assets	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
USA	42,386	49,501	71,010	82,075
Singapore	6,811	7,156	9,801	9,980
Taiwan	21,943	21,383	5,900	4,819
UK	55,089	58,447	19,061	21,582
	126,229	136,482	105,772	118,456

Notes to the financial statements continued

For the year ended 31 December 2020

5. Adjusted profit measures

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

	Adjusted Results £'000	Adjusted Items £'000	2020 Reported Results £'000	Adjusted Results £'000	Adjusted Items £'000	2019 Reported Results £'000
Revenue	178,016	–	178,016	140,015	–	140,015
Cost of sales	(144,689)	(177)	(144,866)	(119,145)	514	(118,631)
Gross profit	33,327	(177)	33,150	20,870	514	21,384
Other income	–	–	–	–	–	–
SG&A	(27,759)	(6,938)	(34,697)	(25,791)	(10,506)	(36,297)
Impairment loss on financial assets	–	(3,788)	(3,788)	–	(4,134)	(4,134)
Profit on disposal of PPE	(182)	–	(182)	245	–	245
Operating profit/(loss)	5,386	(10,903)	(5,517)	(4,676)	(14,126)	(18,802)
Reversal/share of JV losses	–	3,788	3,788	(737)	(3,951)	(4,688)
Finance costs	(2,165)	–	(2,165)	(1,606)	148	(1,458)
Profit/(loss) before tax	3,221	(7,115)	(3,894)	(7,019)	(17,929)	(24,948)
Taxation	(519)	1,520	1,001	(11,991)	1,811	(10,180)
Profit/(loss) for the period	2,702	(5,595)	(2,893)	(19,010)	(16,118)	(35,128)

	Pre-tax Adjustment £'000	Tax Impact £'000	2020 Adjusted Results £'000	Pre-tax Adjustment £'000	Tax Impact £'000	2019 Adjusted Results £'000
Share based payments	(265)	210	(55)	771	133	904
Amortisation of acquired intangibles	–	–	–	(385)	81	(304)
Restructuring	(162)	39	(123)	(813)	164	(649)
Patent dispute legal fees	1,689	(321)	1,368	(4,308)	775	(3,533)
Impairment – intangibles	(6,537)	1,242	(5,295)	(3,805)	685	(3,120)
Onerous contract	(1,840)	350	(1,490)	–	–	–
Impairment – ROU asset	–	–	–	(1,623)	–	(1,623)
Impairment – financial assets	(3,788)	–	(3,788)	(4,134)	–	(4,134)
Share of JV losses – financial asset	3,788	–	3,788	(3,951)	–	(3,951)
CSDC acquisition – negative goodwill	–	–	–	171	–	171
Discounting	–	–	–	148	(27)	121
Total	(7,115)	1,520	(5,595)	(17,929)	1,811	(16,118)

The nature of the adjusted items is as follows:

- Share based payments – The charge (2019: credit) recorded in accordance with IFRS 2 ‘Share based payment’ of which £177,000 (2019: £514,000 credit) has been classified within cost of sales in gross profit and £88,000 (2019: £257,000 credit) has been classified as selling, general and administrative expenses in operating profit. Enil cash has been defrayed in the year (2019: £1,331,000) in respect of employer social security contributions following the exercise of unapproved employee share options.
- Amortisation of acquired intangibles – The charge of Enil (2019: £385,000) relates to the amortisation of acquired intangibles arising in respect of fair value exercises associated with previous corporate acquisitions and has been classified as selling, general and administrative expenses within operating profit and is non-cash.
- Restructuring – The charge of £162,000 relates to employee retention bonus 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 year total Enil.
- The 2019 charge of £811,000 relates to the closure of the Group’s manufacturing facility in New Jersey, USA at a cost of £226,000 and site-specific restructuring and employee severance costs of £587,000. The charge was classified as selling, general and administrative expenses within operating loss. Cash costs of £1,947,000 related to severance and reactor decommissioning costs of £1,360,000 associated with the closure of the New Jersey site and cash costs of £587,000 associated with site specific employee severance costs.
- Patent dispute legal costs – The credit relates to a settlement agreement of £1,825,000 (US\$2,500,000) associated with legal costs incurred by the Group that has been negotiated with the plaintiff following an arbitration panel ruling in favour of the Group on 17 January 2020. The settlement has been cash received in the post balance sheet period. The credit also includes an increase in insurance income of £410,000 (2019: Enil) following final settlement with the Group’s insurers partially offset by legal costs incurred during the year of £546,000 (2019: £4,308,000). Cash cost, net of the full insurance receipt of £740,000 (\$1,000,000) total £867,000 as a result of the payment of current and prior period legal costs during the year of £1,607,000 (2019: £4,304,000).
- Impairment of intangibles – The non-cash charge of £6,537,000 (2019: £3,805,000) relates to the impairment of the Group’s non-filter related cREO™ patent and development costs resulting from a lack of current intent to continue relevant development activities following the refocus of resource and investment into cREO™ filter related development activities. The non-cash charge in 2019 related to the impairment of certain development costs, patent costs and software where the Group took the decision to either discontinue using the asset or discontinue the relevant technology development activities (see note 13).
- Onerous contract – The onerous contract provision of £1,840,000 (2019: Enil) is non-cash in the current period and represents the cost of minimum guaranteed future royalty payments associated with the use of cREO™ technology acquired from Translucent Inc.
- Impairment of right of use asset – The non-cash charge of Enil (2019: £1,623,000) relates to the impairment of the right of use asset relating to space at the Singapore manufacturing site sub-let by Compound Semiconductor Development Centre Limited, the Group’s former joint venture that was acquired during 2019. The charge was classified as selling, general and administrative expenses within operating loss.
- Impairment of financial asset – The non-cash charge of £3,788,000 (2019: £4,134,000) relates to the increase in the expected credit loss associated with the Group’s preference share financial asset due from its joint venture, CSC (see note 3.8).
- Reversal/share of joint venture losses (financial asset) – The Group treats its preference share financial assets due from its joint venture, CSC, as a long-term interest in an equity accounted investee and is required to apply the loss absorption requirements of IAS 28.38 to the carrying amount of the preference share financial asset, after the application of any expected credit losses as described above and in note 3.8. Application of the loss absorption requirements following the increase in expected credit losses has resulted in the reversal of the Group’s share of previously allocated joint venture losses to the preference share financial asset resulting in a non-cash credit of £3,788,000 (2019: £3,951,000 charge) which has been recognised within ‘share of losses of joint ventures accounted for using the equity method’ in the Consolidated Income Statement (see note 3.9).
- CSDC acquisition negative goodwill – The non-cash credit of Enil (2019: £171,000) relates to the negative goodwill arising on the Group’s acquisition of its former joint venture, Compound Semiconductor Centre Limited (see note 3.1). The credit was classified as selling, general and administrative expenses within operating loss.
- Discounting – This relates to the unwind of discounting on long term financial assets of Enil (2019: £148,000). Discounting is non-cash and has been classified as finance costs within profit before tax.

The cash impact of adjusted items in the consolidated cash flow statement represents the cash costs defrayed in 2020 in respect of patent dispute legal costs, net of insurance income received in respect of patent legal costs totalling £867,000.

Notes to the financial statements continued
For the year ended 31 December 2020

5. Adjusted profit measures continued

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

	2020 £'000	2019 £'000
Loss attributable to equity shareholders	(3,271)	(35,473)
Non-controlling interest	378	345
Finance costs	2,165	1,458
Tax	(1,001)	10,180
Depreciation of property, plant and equipment	12,983	10,477
Depreciation of right of use assets	3,681	3,590
Amortisation of intangible fixed assets	7,869	8,222
Loss/(profit) on disposal of PPE	182	(245)
Share based payments	265	(771)
Adjusted Items	6,850	18,463
Restructuring	162	813
Patent dispute settlement and legal costs	(1,689)	4,308
Impairment of intangibles	6,537	3,805
Onerous contract provision	1,840	–
Impairment of right of use asset	–	1,623
Impairment of financial asset	3,788	4,134
Share of joint venture losses (financial asset)	(3,788)	3,951
CSDC acquisition negative goodwill	–	(171)
Adjusted EBITDA	30,101	16,246

6. Operating loss

	2020 £'000	2019 £'000
The operating loss is stated after charging/(crediting):		
Depreciation of property, plant and equipment	12,983	10,477
Depreciation of right of use assets	3,681	3,590
Impairment of right of use asset	–	1,623
Amortisation of intangible assets	7,869	8,222
Impairment of intangible assets	6,537	3,805
Impairment of non-current financial assets	3,788	4,134
Services provided by auditors*	434	244
Expenses relating to variable lease payments not included in the measurement of the lease liability	6,365	6,656
Research and development	897	1,157
Exchange losses/(gains)	961	(251)
Share based payments	265	(771)
Cost of raw materials consumed	72,857	62,044
Loss/(Profit) on disposal of fixed assets	182	(245)
Adjusted items	313	4,950

'Expenses relating to variable lease payments not included in the measurement of the lease liability' principally relate to the variable cash costs of production based on usage that are payable to the Group's joint venture, CSC, associated with the Group's right of use of the joint venture's assets (note 3 and 32).

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

	2020 £'000	2019 £'000
Services provided by auditors		
Fees payable to the company's auditor and its associates for the audit of the parent company and consolidated financial statements	198	185
Fees payable to the company's auditor and its associates for other services:		
- Audit of the company's subsidiaries	27	27
- Audit related assurance services	20	20
- Tax compliance and other advisory services	189	12
Total KPMG LLP (group auditors)	434	244

Notes to the financial statements continued

For the year ended 31 December 2020

7. Employee costs

	2020 £'000	2019 £'000
Employee costs (including directors' remuneration)		
Wages and salaries	37,193	34,568
Social security costs	3,207	3,696
Other pension costs	1,833	1,553
Share based payments	265	(771)
	42,498	39,046
	2020 Number	2019 Number
Average number of employees (including directors)		
Manufacturing	536	556
Selling, general and administrative	122	107
	658	663

Directors' emoluments, share options and other long-term incentive plan details, including details of all outstanding options and long-term incentive awards and the value of director pension contributions paid are set out in the Remuneration Report where the relevant disclosures have been highlighted as audited.

Following changes to the Group's operating and reporting structure and the establishment of the Executive Management Board on 1 August 2019 key management within the Group comprises members of the Executive Management Board and Non-Executive Directors.

Compensation to key management in 2020 totalled £3,574,000, consisting of emoluments and other benefits in kind of £3,507,000 and pension contributions of £67,000. The charge for share based payment awards to key management totalled £316,018.

Compensation to key management in 2019 following establishment of the Executive Management Board totalled £927,000, consisting of emoluments and other benefits in kind of £902,000 and pension contributions of £25,000. The credit for share-based payment awards to key management £118,000.

Prior to the establishment of the Executive Management Board key management comprised Executive and Non-Executive Directors, members of the Management Board and Business Unit Leaders. Compensation to key management in 2019 prior to the establishment of the Executive Management Board totalled £2,593,000, consisting of emoluments and other benefits in kind of £2,482,000 and pension contributions of £111,000. The credit for share-based payment awards was £268,000.

8. Finance (costs)/income

	2020 £'000	2019 £'000
Bank and other loans	(949)	(670)
Unwind of discounting on lease liabilities	(1,216)	(936)
Unwind of discount on long term balances	–	148
	(2,165)	(1,458)

9. Taxation

Income tax expense	2020 £'000	2019 £'000
Current tax on profits for the year	1,132	882
Total current tax charge	1,132	882
Origination and reversal of temporary differences	(1,425)	9,459
Adjustment in respect of prior years	(708)	(161)
Total deferred tax (credit)/charge	(2,133)	9,298
Total tax (credit)/charge	(1,001)	10,180

The tax on the Group's loss before tax differs from the theoretical amount that would arise from applying the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%) as follows:

	2020 £'000	2019 £'000
Loss on ordinary activities before taxation	(3,894)	(24,948)
Tax charge at 19.00% thereon (2019: 19.00%)	740	4,740
Effects of:		
Expenses not deductible for tax purposes	(303)	(2,802)
Overseas tax rate differences	112	391
Utilisation of previously unrecognised losses	300	–
Tax losses for which no deferred tax asset was recognised	(264)	(2,221)
Derecognition of previously recognised deferred tax assets	(825)	(10,641)
Share option schemes	159	272
Pre-measurement of deferred tax – change in UK tax rate	374	(80)
Adjustments in respect of prior years	708	161
Total tax credit/(charge) for the year	1,001	(10,180)

Increased international trade tension affecting the markets in which the Group operates has resulted in a continued shift in the balance of future forecast manufacturing and hence profits from the Group's US operations to its UK and Asian operations. As a result, lower utilisation of US deferred tax assets is projected in coming years which has resulted in the partial reversal and de-recognition of previously recognised US tax losses.

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

The Group's results report certain financial measures after a number of adjusted items with a tax impact of £1,520,000 credit (2019: £1,811,000 credit) as detailed in note 5.

Finance Act 2020, which was substantively enacted on 17 March 2020, included legislation to maintain the rate of corporation tax at 19% from 1 April 2020. Accordingly, the closing UK deferred tax asset in the financial statements has been recognised in accordance with the rate enacted as part of the Finance Act 2020.

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

Notes to the financial statements continued

For the year ended 31 December 2020

9. Taxation continued

In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the group's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £1,373,000 to £9,194,000.

	2020 £'000	2019 £'000
Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Deferred tax: Share options	57	(124)
Total tax charge to equity for the year	57	(124)

10. Deferred Taxation

	2020 £'000	2019 £'000
Deferred tax		
At 1 January	3,819	13,244
Income statement credit/(charge) recognised in the year	2,133	(9,298)
Tax charge recognised directly in equity	57	(124)
Exchange differences	(242)	(3)
At 31 December	5,767	3,819

The current portion of the deferred tax asset is £1,058,000 (2019: £1,782,000) in relation to utilisation of tax losses. The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Group

	Accelerated Capital Allowances £'000	Intangibles £'000	Total £'000
Deferred tax liabilities			
At 1 January 2019	(9,330)	(4,135)	(13,465)
(Charge)/credited to income statement	(1,619)	(913)	(2,532)
Exchange differences	98	17	115
At 31 December 2019	(10,851)	(5,031)	(15,882)
Credit to income statement	903	321	1,224
Exchange differences	153	14	167
At 31 December 2020 before set-off	(9,795)	(4,696)	(14,491)
Set-off of tax			12,437
At 31 December 2020 after set-off			(2,054)

Deferred tax assets	Tax Losses £'000	Other £'000	Total £'000
At 1 January 2019	24,452	2,257	26,709
Charged to income statement	(5,637)	(1,129)	(6,766)
Charged to equity	–	(124)	(124)
Exchange differences	(114)	(4)	(118)
At 31 December 2019	18,701	1,000	19,701
Credited to income statement	886	23	909
Charged to equity	–	57	57
Exchange differences	(427)	18	(409)
At 31 December 2020 before set-off	19,160	1,098	20,258
Set-off of tax			(12,437)
At 31 December 2020 after set-off			7,821

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

The Group did not recognise deferred income tax assets of £17,767,000 (2019: £20,012,000) in respect of losses amounting to £78,164,000 (2019: £90,682,000) that can be carried forward against future taxable income. The deferred tax asset can be recognised if sufficient profits from the same trade arise in future periods.

Tax losses in the UK totalling ££1,778,000 (2019: £57,520,000) have no date of expiry. Tax losses in Singapore totalling £12,396,000 (2019: £12,460,000) have no date of expiry. Tax losses in the US can be carried forward against future taxable income for 20 years before expiring. Of the Group's total US tax losses of £96,178,000 (2019: £112,291,000) losses amounting to £4,977,000 and £8,855,000 expire in 2021 and 2022.

Deferred tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested.

A credit of £291,000 (2019: £418,000) has been recognised within operating profit in relation to claims made under the R&D Expenditure Credit Scheme (RDEC) in the UK.

Company

Deferred tax assets	Tax Losses £'000	Share Options £'000	Other Timing Differences £'000	Total £'000
At 1 January 2019	–	1,338	27	1,365
Credited/(charged) to income statement	2,546	(1,255)	(3)	1,288
Charged to equity	–	(16)	–	(16)
At 31 December 2019	2,546	67	24	2,637
Credited/(charged) to income statement	1,157	190	(35)	1,312
Charged to equity	–	26	–	26
At 31 December 2020	3,703	283	(11)	3,975

11. Dividends

No dividend has been paid or proposed in 2020 (2019: Enil).

Notes to the financial statements continued

For the year ended 31 December 2020

12. Loss per share

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

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

The directors also present an adjusted earnings per share measure which eliminates certain adjusted items in order to provide a more meaningful measure of underlying profit. The adjustments are detailed in note 5.

	2020 £'000	2019 £'000
Loss attributable to ordinary shareholders	(3,271)	(35,473)
Adjustments to loss after tax (note 5)	5,595	16,118
Adjusted profit/(loss) attributable to ordinary shareholders	2,324	(19,355)

	2020 Number	2019 Number
Weighted average number of ordinary shares	797,228,579	787,175,574
Dilutive share options	11,395,298	13,562,165
Adjusted weighted average number of ordinary shares	808,623,877	800,737,739

Adjusted basic loss per share	0.29p	(2.46p)
Basic loss per share	(0.41p)	(4.51p)
Adjusted diluted loss per share	0.29p	(2.46p)
Diluted loss per share	(0.41p)	(4.51p)

13. Intangible assets

Group	Goodwill £'000	Patents £'000	Development costs £'000	Software £'000	Customer contracts £'000	Total £'000
Cost						
At 1 January 2020	66,730	7,945	76,945	8,849	7,728	168,197
Additions	–	677	4,678	54	–	5,409
Foreign exchange	(2,998)	(9)	(2,156)	(9)	(401)	(5,573)
At 31 December 2020	63,732	8,613	79,467	8,894	7,327	168,033
Accumulated amortisation and impairment						
At 1 January 2020	–	1,377	35,638	4,998	7,728	49,741
Charge for the year	–	133	6,430	1,306	–	7,869
Impairment	–	3,471	3,066	–	–	6,537
Foreign exchange	–	(9)	(1,470)	(6)	(401)	(1,886)
At 31 December 2020	–	4,972	43,664	6,298	7,327	62,261
Net book value						
At 31 December 2020	63,732	3,641	35,803	2,596	–	105,772
At 31 December 2019	66,730	6,568	41,307	3,851	–	118,456

Group	Goodwill £'000	Patents £'000	Development costs £'000	Software £'000	Customer contracts £'000	Total £'000
Cost						
At 1 January 2019	67,630	7,224	69,411	7,775	7,828	159,868
Additions	–	726	8,123	1,080	–	9,929
Foreign exchange	(900)	(5)	(589)	(6)	(100)	(1,600)
At 31 December 2019	66,730	7,945	76,945	8,849	7,728	168,197
Accumulated amortisation and impairment						
At 1 January 2019	–	439	27,592	2,618	7,444	38,093
Charge for the year	–	286	6,360	1,192	384	8,222
Impairment	–	656	1,955	1,194	–	3,805
Foreign exchange	–	(4)	(269)	(6)	(100)	(379)
At 31 December 2019	–	1,377	35,638	4,998	7,728	49,741
Net book value						
At 31 December 2019	66,730	6,568	41,307	3,851	–	118,456
At 31 December 2018	67,630	6,785	41,819	5,157	384	121,775

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

The amortisation charge of £7,869,000 (2019: £8,222,000) and the impairment charge of £6,537,000 (2019: £3,805,000) have been charged to selling, general and administrative expenses in the Consolidated Income Statement.

Notes to the financial statements continued

For the year ended 31 December 2020

13. Intangible assets continued

Wireless operating segment development and patent cost impairment charges of £6,537,000 (2019: £2,611,000) relate to impairment of the Group's non-filter related cREO™ patent and development costs. The impairment has arisen due to a lack of current intent to continue relevant development activities following the refocus of resource and investment into cREO™ filter related development activities. The net book value of the non-filter related cREO™ development costs and patent assets has been impaired to £nil with the charge recognised in 'selling, general and administrative expenses' in the Consolidated Income Statement.

Impairment tests for goodwill

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

	2020 £'000	2019 £'000
Allocation of goodwill by CGU		
Wireless	56,704	59,317
Photonics	7,028	7,413
Total Goodwill	63,732	66,730

The recoverable amount of the CGUs has been determined based on value in use calculations, using cash flow projections for a five-year period plus a terminal value based upon a long-term growth rate of 2% (2019: 2%).

Value in use calculations are based on the Group's approved 2021 budget and three-year plan with revenue assumptions extrapolated to year five using business segment growth rates that take account of industry trends, external market views and external market research.

The key assumptions applied in the 2020 cash flow forecast are summarised below:

	Year 1 %	Year 2 %	Year 3 %	Year 4 %	Year 5 %
Risk adjusted pre-tax discount rate	15%	15%	15%	15%	15%
Photonics growth rate	2021 Budget	3 Year Plan*	3 Year Plan*	14.4%	14.4%
Wireless growth rate	2021 Budget	3 Year Plan*	3 Year Plan*	12.4%	12.4%

* 3 Year Plan forecasts updated and adjusted to reflect latest Board approved revenue forecasts and operational plans.

Photonics CGU

The recoverable amount of the Photonics CGU determined based on value in use calculations exceeds the carrying amount of the associated goodwill, other intangible assets and property, plant and equipment allocated to the CGU by greater than £250,000,000.

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

Growth rates in the value in use calculations take account of continuing market demand for compound semiconductors, driven by macro trends of 5G and connected devices and the increasing proliferation of 3D and advanced sensing end user applications that require enabling compound semiconductor material. An impairment would arise on the carrying amount of the goodwill allocated to the Photonics CGU if the aggregated compound annual growth rate used in the value in use calculations to determine the recoverable amount was ~7.0% or less in the first five-year period. Based on the information available, the directors do not assess this to be a likely outcome that could lead to a material impairment in the next financial year.

An impairment would arise on the carrying amount of the goodwill, if the discount rate in the value in use calculations used to determine the recoverable amount of the Photonics CGU was increased to 44.5%.

Wireless CGU

The recoverable amount of the Wireless CGU determined based on value in use calculations exceeds the carrying amount of the associated goodwill, other intangible assets and property, plant and equipment allocated to the CGU by greater than £100,000,000.

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

Growth rates in the value in use calculations take account of continuing market demand for compound semiconductors, driven by macro trends of 5G and connected devices where 5G network infrastructure and 5G mobile handsets are being enabled by next generation wireless compound semiconductor material. An impairment would arise on the carrying amount of the goodwill allocated to the Wireless CGU if the aggregated compound annual growth rate used in the value in use calculations to determine the recoverable amount was ~7.5% or less in the first five-year period. Based on the information available, the directors do not assess this to be a likely outcome that could lead to a material impairment in the next financial year.

An impairment would arise on the carrying amount of the goodwill allocated to the Wireless CGU if the discount rate in the value in use calculations used to determine the recoverable amount of the Wireless CGU was increased to 28.5%.

Company	Patents £'000	Software £'000	Total £'000
Cost			
At 1 January 2020	6,329	865	7,194
Additions	840	5	845
At 31 December 2020	7,169	870	8,039
Accumulated amortisation			
At 1 January 2020	417	238	655
Charge for the year	103	97	200
Impairment	3,471	–	3,471
At 31 December 2020	3,991	335	4,326
Net book value			
At 31 December 2020	3,178	535	3,713
At 31 December 2019	5,912	627	6,539
Company	Patents £'000	Software £'000	Total £'000
Cost			
At 1 January 2019	5,615	801	6,416
Additions	714	64	778
At 31 December 2019	6,329	865	7,194
Accumulated amortisation			
At 1 January 2019	–	153	153
Charge for the year	60	85	145
Impairment	357	–	357
At 31 December 2019	417	238	655
Net book value			
At 31 December 2019	5,912	627	6,539
At 31 December 2018	5,615	648	6,263

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For the year ended 31 December 2020

14. Property, plant and equipment

Group	Land and buildings £'000	Short leasehold improvements £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 January 2020	19,238	39,326	11,335	192,350	262,249
Additions	(883)	143	615	4,859	4,734
Disposals	—	—	(547)	(2,761)	(3,308)
Foreign exchange	(26)	(1,682)	97	(4,426)	(6,037)
At 31 December 2020	18,329	37,787	11,500	190,022	257,638
Accumulated depreciation					
At 1 January 2020	4,649	19,896	4,644	96,578	125,767
Charge for the year	1,062	2,088	1,010	8,823	12,983
Disposals	—	—	(371)	(2,755)	(3,126)
Foreign exchange	(42)	(808)	(41)	(3,324)	(4,215)
At 31 December 2020	5,669	21,176	5,242	99,322	131,409
Net book value					
At 31 December 2020	12,660	16,611	6,258	90,700	126,229
At 31 December 2019	14,589	19,430	6,691	95,772	136,482

Property, plant and equipment includes assets in the course of construction with a net carrying value of £nil (2019: £14,086,000). Negative land and building additions totalling £833,000 reflect an adjustment to the cost of construction for the Newport foundry following finalisation of costs with the contractor at the end of the construction contract.

Group	Land and buildings £'000	Short leasehold improvements £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost					
At 31 December 2018	11,496	34,953	6,687	195,170	248,306
Adjustments on adoption of IFRS 16	—	—	—	(2,178)	(2,178)
At 1 January 2019	11,496	34,953	6,687	192,992	246,128
Additions	7,832	5,494	5,194	7,174	25,694
Disposals	—	(677)	(475)	(6,081)	(7,233)
Foreign exchange	(90)	(444)	(71)	(1,735)	(2,340)
At 31 December 2019	19,238	39,326	11,335	192,350	262,249
Accumulated depreciation					
At 1 January 2019	3,968	19,204	4,544	96,145	123,861
Charge for the year	695	1,517	606	7,659	10,477
Disposals	—	(635)	(471)	(6,109)	(7,215)
Foreign exchange	(14)	(190)	(35)	(1,117)	(1,356)
At 31 December 2019	4,649	19,896	4,644	96,578	125,767
Net book value					
At 31 December 2019	14,589	19,430	6,691	95,772	136,482
At 31 December 2018	7,528	15,749	2,143	99,025	124,445

Company	Fixtures and fittings £'000
Cost	
At 1 January 2020	123
Additions	12
At 31 December 2020	135
Accumulated depreciation	
At 1 January 2020	104
Charge for the year	16
At 31 December 2020	120
Net book value	
At 31 December 2020	15
At 31 December 2019	19

Company	Fixtures and fittings £'000
Cost	
At 1 January 2019	105
Additions	18
At 31 December 2019	123
Accumulated depreciation	
At 1 January 2019	90
Charge for the year	14
At 31 December 2019	104
Net book value	
At 31 December 2019	19
At 31 December 2018	15

Notes to the financial statements continued
For the year ended 31 December 2020

15. Right of use assets

Group	Land and buildings £'000	Fixtures and Fittings £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2020	49,955	–	381	50,336
Additions	1,569	18	336	1,923
Foreign exchange	(474)	(1)	(36)	(511)
At 31 December 2020	51,050	17	681	51,748
Accumulated depreciation				
At 1 January 2020	10,848	–	133	10,981
Charge for the year	3,549	–	132	3,681
Foreign exchange	(243)	–	(10)	(253)
At 31 December 2020	14,154	–	255	14,409
Net book value				
At 31 December 2020	36,896	17	426	37,339
At 31 December 2019	39,107	–	248	39,355

Group	Land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2019	49,826	386	50,212
Additions	346	–	346
Foreign exchange	(217)	(5)	(222)
At 31 December 2019	49,955	381	50,336
Accumulated depreciation			
At 1 January 2019	5,256	–	5,256
Charge for the year	4,153	134	4,287
Impairment	1,623	–	1,623
Foreign exchange	(184)	(1)	(185)
At 31 December 2019	10,848	133	10,981
Net book value			
At 31 December 2019	39,107	248	39,355
At 31 December 2018	–	–	–

In 2019 depreciation of £697,000 was capitalised as part of the construction and commissioning costs associated with the Group's Newport foundry.

The non-cash charge of £1,623,000 in 2019 relates to the impairment of the right of use asset relating to space at the Singapore manufacturing site sub-let by Compound Semiconductor Development Centre Limited, the Group's former joint venture that was acquired during 2019.

16. Investments

Group		Equity investments £'000	
Cost			
At 1 January 2020		75	
Disposal		(75)	
At 31 December 2020		–	

Group		Equity investments £'000	
Cost			
At 1 January 2019		75	
At 31 December 2019		75	

Company	Investments in subsidiaries £'000	Other equity investments £'000	Total £'000
Cost			
At 1 January 2020	121,918	75	121,993
Acquisition of minority interest	1,438	–	1,438
Subsidiaries share based payments charge	96	–	96
Disposals	–	(75)	(75)
At 31 December 2020	123,452	–	123,452
Provisions for impairment			
At 1 January 2020	32,032	–	32,032
At 31 December 2020	32,032	–	32,032
Net book value			
At 31 December 2020	91,420	–	91,420
At 31 December 2019	89,886	75	89,961

Notes to the financial statements continued

For the year ended 31 December 2020

16. Investments continued

	Investments in subsidiaries £'000	Other equity investments £'000	Restated Total £'000
Cost			
At 1 January 2019	121,185	75	121,260
Subsidiaries share based payments charge	733	–	733
At 31 December 2019	121,918	75	121,993
Provisions for impairment			
At 1 January 2019	32,032	–	32,032
At 31 December 2019	32,032	–	32,032
Net book value			
At 31 December 2019	89,886	75	89,961
At 31 December 2018	89,153	75	89,228

Details of the company's subsidiaries are set out in note 29.

Investments are reviewed for impairment trigger events annually. This review includes a qualitative assessment of the business performance of each investment and a quantitative assessment of any potential impact on the carrying value of each investment arising from the results of the Group's value in use calculations prepared as part of the Group's goodwill impairment review. No impairment trigger events have been identified as part of the review in the current year (2019: none).

Indicators that impairment losses might have reversed are assessed annually. No events indicating a reversal of impairment losses have been identified as part of the review in the current year (2019: none).

17. Inventories

Group	2020 £'000	2019 £'000
Raw materials and consumables	23,666	23,767
Work-in-progress and finished goods	7,221	6,901
	30,887	30,668

The directors are of the opinion that the replacement values of inventories are not materially different to the carrying values stated above. The carrying values are stated net of impairment provisions of £11,551,000 (2019: £8,960,000). £3,025,000 (2019: £3,219,000) of inventories were written down during 2020 and an expense recognised in the income statement.

18. Trade and other receivables

	2020 Group £'000	2020 Company £'000	2019 Group £'000	2019 Company £'000
Current				
Trade receivables	21,060	–	20,499	–
Other receivables	7,795	2,045	4,624	339
Contract assets	6,258	–	4,883	–
Prepayments	3,462	564	3,059	237
	38,575	2,609	33,065	576
Non-current				
Amounts owed by group undertakings	–	133,314	–	131,541
Other financial assets	–	–	–	–
	–	133,314	–	131,541

Contract assets relate to bespoke manufactured customer products where the Group has a guaranteed contractual right of payment. Contract assets are transferred to receivables at the point that manufactured products are delivered to customers, except for supplier managed inventory arrangements where contract assets are transferred to receivables from the earlier of a specified contractual date following delivery or when the product is drawn from inventory by the customer. All 2019 contract assets have been transferred to receivables during 2020.

Amounts owed by Group undertakings are unsecured and repayable on demand. Interest is charged at a rate of 5% per annum (2019: 5% per annum).

The Group classifies other financial assets at amortised cost. Other financial assets are classified at amortised cost as the asset is held within a business model whose objective is to collect contractual cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest. Other financial assets relate to £8,800,000 of impaired Preferred 'A' shares (2019: £8,800,000) issued by the Compound Semiconductor Centre Limited ('CSC'), a joint venture between the Group and Cardiff University (see note 30 for further details). The preference shares carry the following rights:

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

The estimated fair values of trade receivables, other receivables, contract assets, other financial assets and amounts owed by group undertakings are set out in note 22.

Notes to the financial statements continued
For the year ended 31 December 2020

19. Trade and other payables

	2020 Group £'000	2020 Company £'000	2019 Group £'000	2019 Company £'000
Current				
Trade payables	22,098	1,728	17,298	243
Amounts owed by group undertakings	–	20,490	–	15,926
Other taxation and social security	617	1,088	390	212
Other payables	1,033	27	1,089	1,055
Accruals and deferred income	11,857	2,298	7,590	1,546
	35,605	25,631	26,367	18,982

Accruals and deferred income include no contract liabilities (2019: Enil).

Amounts owed to group undertakings are unsecured and repayable on demand. Interest is charged at a rate of 5% per annum (2019: 5% per annum).

There are no foreign currency exchange contracts held at 31 December 2020 or 31 December 2019.

20. Borrowings

Group	2020 £'000	2019 £'000
Non-current borrowings		
Bank borrowings	16,539	22,736
Lease liabilities	42,226	44,895
	58,765	67,631
Current borrowings		
Bank borrowings	6,201	2,034
Lease liabilities	4,798	3,083
	10,999	5,117
Total borrowings	69,764	72,748
Bank Borrowings	2020 £'000	2019 £'000
Bank borrowings fall due for repayment as follows		
Within one year	6,201	2,034
Between one and five years	16,539	22,736
	22,740	24,770

On 24 January 2019, the Company agreed a new £25,735,000 (\$35,000,000) multi-currency revolving credit facility, provided by HSBC Bank plc that is secured over the assets of IQE plc and its subsidiary companies. The facility has a three-year term and an interest rate margin of between 1.45 and 1.95 per cent per annum over LIBOR on any drawn balances.

On 29 August 2019 a subsidiary of the Group 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.

The Group has complied with all the financial covenants of its borrowing facilities during 2020 and 2019.

	2020 £'000	2019 £'000
Lease liabilities		
Lease liabilities fall due for repayment as follows		
Within one year	4,798	3,083
Between one and five years	10,966	14,688
After five years	31,260	30,207
	47,024	47,978

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

21. Provisions for other liabilities and charges

Group	Restructuring £'000	Onerous Contract £'000	2020 Total £'000	Restructuring £'000	Onerous Lease £'000	2019 Total £'000
As at 31 December	–	–	–	1,134	5,256	6,390
Adjustments on adoption of IFRS 16	–	–	–	–	(5,256)	(5,256)
As at 1 January	–	–	–	1,134	–	1,134
Charged to the income statement	162	1,840	2,002	–	–	–
Utilised during the year	–	–	–	(1,134)	–	(1,134)
Foreign exchange	–	–	–	–	–	–
As at 31 December	162	1,840	2,002	–	–	–

Group	Restructuring £'000	Onerous Contract £'000	2020 Total £'000	Restructuring £'000	Onerous Lease £'000	2019 Total £'000
Current	–	515	515	–	–	–
Non-current	162	1,325	1,487	–	–	–
Total	162	1,840	2,002	–	–	–

The onerous contract provision represents the cost of minimum guaranteed future royalty payments associated with the cREO™ technology acquired from Translucent Inc. The onerous contract provision is expected to be utilised over a period up to 31 December 2024.

The restructuring provision relates to site-specific employee retention bonuses relating to the announced closure of the Group's manufacturing facility in Pennsylvania, USA and is expected to be utilised over a period up to 30 June 2024. The restructuring provision in 2019 related to costs associated with the closure of the Group's manufacturing facility in New Jersey, USA and the transfer of the trade and assets to the Group's manufacturing facility in Massachusetts, USA. The provision principally comprised severance and reactor decommissioning costs and was fully utilised in 2019.

The onerous lease provision established for vacant space at the Group's Singapore manufacturing site was treated as a transition adjustment on adoption of IFRS 16 'Leases' to the right of use asset value associated with the leased Singapore manufacturing facility. The right of use asset recognised in respect of the Singapore property lease was reduced by the amount of the previously recognised onerous lease provision as an alternative to performing an impairment review on adoption of IFRS 16 'Leases' in 2019.

Notes to the financial statements continued

For the year ended 31 December 2020

21. Provisions for other liabilities and charges continued

Company	2020 £'000	2019 £'000
As at 1 January		
Charged to the income statement	1,840	–
Utilised during the year	–	–
Foreign exchange	–	–
As at 31 December	1,840	–

Company	2020 £'000	2019 £'000
Current	515	–
Non-current	1,325	–
As at 31 December	1,840	–

The onerous contract provision represents the cost of minimum guaranteed future royalty payments associated with the cREO™ technology acquired from Translucent Inc. The onerous contract provision is expected to be utilised over a period up to 31 December 2024.

22. Financial Instruments

Financial instruments by category

Trade and other receivables (excluding prepayments) and cash and cash equivalents are classified as financial assets at amortised cost. Borrowings and trade and other payables are classified as financial liabilities at amortised cost. Both categories are initially measured at fair value and subsequently held at amortised cost. Financial instruments are classified as level 2 per the fair value hierarchy with the exception of preference share instruments which are classified as level 3.

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

Financial risk and treasury policies

The Group's finance team maintains liquidity, manages relations with the Group's bankers, identifies and manages foreign exchange risk and provides a treasury service to the Group's businesses. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions. The Group has clearly defined policies for the management of foreign exchange rate risk. The Group finance team does not undertake speculative foreign exchange dealings for which there is no underlying exposure. Exposures resulting from sales and purchases in foreign currency are matched where possible and the net exposure may be hedged by the use of forward exchange contracts.

Credit risk

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

Customer credit risk is managed at the Group and site level with credit risk assessments completed for all customers. If no independent credit rating is available the credit quality of the customer is assessed by reference to the customers' financial position, past experience and other relevant factors. Individual credit limits are set based on internal or external ratings in accordance with the Group's credit risk policies. Where the Group assesses a potential credit risk, this is dealt with either by up-front payment prior to the shipment of goods or by other credit risk mitigation measures. The Group has historically experienced low levels of payment default.

Counterparty risk associated with monies on deposit with financial institutions is managed at the Group level in accordance with the Group's treasury policies. The credit quality of banks has been assessed by reference to external credit ratings, based on reputable credit agencies long-term issuer ratings.

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

	2020 Group £'000	2020 Company £'000	2019 Group £'000	2019 Company £'000
Assets as per balance sheet				
Carrying amount				
Cash and cash equivalents	24,663	635	8,800	1,746
Trade receivables	21,060	–	20,499	–
Amounts owed by group undertakings	–	133,314	–	131,541
Other receivables excluding prepayments	14,053	2,045	9,507	339
Financial Assets (Preference share receivables)	–	–	–	–
	59,776	135,994	38,806	133,626

Included in other receivables are contract assets of £6,258,000 (2019: £4,883,000).

The Group is exposed to credit concentration risk with its three largest customers which represent 51% (2019: 50%) of outstanding trade receivables and contract asset balances. Customer credit risk is managed according to strict credit control policies. The majority of the Group's revenues are derived from large multinational organisations that are established customers of the Group with no prior history of default such that credit risk is considered to be low. The Group monitors customer credit ratings and has had no material defaults in the past.

Group	Gross 2020 £'000	Provision 2020 £'000	Net 2020 £'000	Gross 2019 £'000	Provision 2019 £'000	Net 2019 £'000
Not past due	16,864	–	16,864	17,193	–	17,193
Past due 0-30	4,117	–	4,117	2,859	–	2,859
Past due more than 30	531	(452)	79	670	(223)	447
	21,512	(452)	21,060	20,722	(223)	20,499

As at 31 December 2020, 78% (2019: 83%) of trade receivables were within terms. Of the other trade receivables, 89% (2019: 81%) were less than 30 days past due. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £452,000 (2019: £223,000). This allowance has been determined on an expected credit loss basis by reference to past default experience. The individually impaired receivables mainly relate to a number of independent customers. A portion of these receivables is expected to be recovered.

The carrying values of trade and other receivables also represent their estimated fair values. Trade receivables and contract assets are primarily denominated in US dollars, as are trade payables limiting the exposure of the Group to movements in foreign exchange rates. Based on the balances held at 31 December 2020 a 1 cent movement in the US dollar to Sterling rate would impact the net value of these instruments by £48,000 (2019: £68,000).

Liquidity risk

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

The Group uses weekly cash flow forecasts to monitor cash requirements and to optimise its borrowing position. The Group ensures that it has sufficient borrowing facilities to meet foreseeable operational expenses. At the year-end the Group had available undrawn facilities of £30,735,000 (2019: £33,300,000).

Notes to the financial statements continued

For the year ended 31 December 2020

22. Financial Instruments continued

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

Contractual cash flow maturities – Other financial liabilities at amortised cost 31 December 2020	Group Carrying amount £'000	Group Contractual Cash flows £'000	Group Less than 12 months £'000	Group 1–2 Years £'000	Group 2–5 Years £'000	Group 5+ Years £'000
Trade and other payables	23,131	23,131	23,131	–	–	–
Accruals	11,857	11,857	11,857	–	–	–
Bank borrowings	22,740	23,923	6,715	6,568	10,640	–
Lease liabilities	47,024	53,194	5,931	4,649	13,721	28,893
	104,752	112,105	47,634	11,217	24,361	28,893

Contractual cash flow maturities – Other financial liabilities at amortised cost 31 December 2019	Group Carrying amount £'000	Group Contractual Cash flows £'000	Group Less than 12 months £'000	Group 1–2 Years £'000	Group 2–5 Years £'000	Group 5+ Years £'000
Trade and other payables	18,387	18,387	18,387	–	–	–
Accruals	7,590	7,590	7,590	–	–	–
Bank borrowings	24,770	26,566	2,646	6,715	17,205	–
Lease liabilities	47,978	55,483	4,535	5,192	13,345	32,411
	98,725	108,026	33,158	11,907	30,550	32,411

Contractual cash flow maturities – Other financial liabilities at amortised cost 31 December 2020	Company Carrying amount £'000	Company Contractual Cash flows £'000	Company Less than 12 months £'000	Company 1–2 Years £'000	Company 2–5 Years £'000	Company 5+ Years £'000
Trade and other payables	1,755	1,755	1,755	–	–	–
Amounts owed to group undertakings	20,490	20,490	20,490	–	–	–
Accruals	2,298	2,298	2,298	–	–	–
	24,543	24,543	24,543	–	–	–

Contractual cash flow maturities – Other financial liabilities at amortised cost 31 December 2019	Company Carrying amount £'000	Company Contractual Cash flows £'000	Company Less than 12 months £'000	Company 1–2 Years £'000	Company 2–5 Years £'000	Company 5+ Years £'000
Trade and other payables	243	243	243	–	–	–
Amounts owed to group undertakings	15,926	16,720	16,720	–	–	–
Accruals	1,546	1,546	1,546	–	–	–
	17,715	18,509	18,509	–	–	–

Financial risk management

Market risk – Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Taiwanese dollar, Singapore dollar, Japanese yen and Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's presentational currency is sterling. The majority of the Group's sales are denominated in US dollars and therefore the Group's cash flows are affected by fluctuations in the rate of exchange between Sterling and the US dollar. This exposure is managed by a natural currency hedge because a significant portion of the Group's cost base is also denominated in US dollars. In particular, the majority of the Group's raw materials are purchased in US dollars and a significant portion of labour and overheads are also denominated in US dollars as four of the Group's principal subsidiaries are situated in North America. To a lesser extent, the Group also generates sales in other currencies including Yen and Euros which are also partially hedged where possible by purchases of some raw materials in these currencies.

Considering the extent of the natural hedge within the business model, management periodically use forward exchange contracts to mitigate the impact of the residual foreign currency exposure. As at 31 December 2020 and 31 December 2019 there were no contracts in place.

The Group has certain investments in foreign operations in North America, Taiwan and Singapore, whose net assets are exposed to foreign currency translation risk. Translation exposures that arise on converting the results of overseas subsidiaries are not hedged. As a guide to the sensitivity of the Group's results to movements in foreign currency exchange rates, a one cent movement in the US dollar to Sterling rate would impact annual earnings by approximately £333,000 (2019: £68,000).

Cash flow and fair value interest rate risk

The Board is aware of the risks associated with changes in interest rates and does not speculate on future changes in interest rates. Historically the Group has not undertaken any hedging activity in this area however the board keeps this under regular review.

The Group's interest rate risk arises from its cash and cash equivalents and its preference share financial assets and from its bank borrowings. Cash and cash equivalents, including foreign currency cash deposits earn interest at prevailing variable market rates of interest whilst the preference share debt earns interest at HSBC Bank Plc base rate.

The Group's bank borrowings consist of a variable rate asset finance loan secured against the assets to which it relates and a variable rate multi-currency revolving credit facility secured against the assets of the Group.

The variable rate UK sterling £30,000,000 asset finance facility, which has a principal outstanding of £22,920,000 (2019: £25,000,000) has a five-year term and an interest rate margin of 1.65% per annum over base rate on any drawn balances. The loan is repayable by monthly instalment commencing on the first anniversary of the facility.

The variable rate US dollar \$35,000,000 (£25,735,000) multi-currency revolving credit facility, which is undrawn has a three-year term and an interest rate margin of between 1.45 and 1.95 per cent per annum over LIBOR on any drawn balances.

The Group's policy is to regularly review its exposure to interest rate risk, and in particular the mix between fixed and floating rate financial assets and financial liabilities. The percentage of financial assets and financial liabilities bearing variable rate interest was 100% (2019: 100%).

As a guide to the sensitivity of the Group's results to movements in interest rates, a 50-basis point (0.5%) movement in interest rates on the interest-bearing financial assets held at 31 December 2020 would impact annual interest income by approximately £nil (2019: £20,000). A 50-basis point (0.5%) movement in interest rates on the interest-bearing liabilities held at 31 December 2020 would impact annual interest costs by approximately £114,000 (2019: £125,000).

Capital risk management

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

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and adjusts it in the light of changes in economic conditions and the characteristic of the underlying assets. The Group monitors capital by reviewing net debt against shareholders' funds. The position of these indicators and the movement during the year is shown in the Five-Year Financial Summary.

The Group defines total capital as equity in the consolidated balance sheet plus net debt or less net funds. Total capital at 31 December 2020 was £305,536,000 (2019: £334,391,000).

The Group monitors capital on the basis of a gearing ratio. The gearing ratio is calculated as net debt divided by total capital and at 31 December 2020 was 14.8% (2019: 19.1%).

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

Notes to the financial statements continued

For the year ended 31 December 2020

22. Financial Instruments continued

Fair values

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

Group	2020 Carrying amount £'000	2020 Fair value £'000	2019 Carrying amount £'000	2019 Fair value £'000
Cash and cash equivalents	24,663	24,663	8,800	8,800
Trade receivables	21,060	21,060	20,499	20,499
Other receivables	7,795	7,795	4,624	4,624
Contract assets	6,258	6,258	4,883	4,883
Financial Assets (Preference share receivables)	–	163	–	3,951
Trade and other payables	(23,131)	(23,131)	(18,387)	(18,387)
Bank borrowings	(22,740)	(22,740)	(24,770)	(24,770)
	13,905	14,068	(4,351)	(400)

Company	2020 Carrying amount £'000	2020 Fair value £'000	2019 Carrying amount £'000	2019 Fair value £'000
Cash and cash equivalents	635	635	1,746	1,746
Amounts owed by group undertakings	133,314	133,314	131,541	131,541
Other receivables	2,045	2,045	339	339
Trade and other payables	(22,245)	(22,245)	(17,224)	(17,224)
	113,749	113,749	116,402	116,402

Basis for determining fair value

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

Cash and cash equivalents

Cash and cash equivalents earn interest at prevailing variable market rates of interest such that the carrying value of cash and cash equivalents is deemed to reflect fair value.

Trade receivables, other receivables and contract assets

Trade receivables, other receivables and contract assets are short-term assets with a remaining life of less than one year such that the amortised cost carrying value of the assets is deemed to reflect fair value.

Financial Assets (Preference share receivables)

The fair value of preference share receivables was calculated by reference to assumptions about forecast future financial performance of CSC and the associated level of expected credit losses.

Amounts owed by group undertakings

Amounts owed by group undertakings are long-term assets with a remaining life of greater than one year with outstanding balances accruing interest at a rate of 5% per annum such that the amortised cost carrying value of the assets is deemed to reflect fair value.

Trade and other payables

Trade and other payables are short-term liabilities with a remaining life of less than one year such that the amortised cost carrying value of the liabilities is deemed to reflect fair value.

Bank borrowings

The carrying value of bank borrowings is deemed to reflect fair value as interest payable on bank borrowings is charged at a variable rate assessed as close to current market rates.

23. Share capital

Group and Company	2020 Number of shares	2020 £'000	2019 Number of shares	2019 £'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	800,364,569	8,004	796,142,302	7,961

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

	2020 Number	2019 Number
At 1 January	796,142,302	776,699,681
Employee share schemes	1,615,578	19,442,621
IQE Taiwan minority interest acquisition – equity consideration	2,606,689	–
At 31 December	800,364,569	796,142,302

4,222,267 ordinary shares (2019: 19,442,621 ordinary shares) were issued during the year as follows:

	2020 Number of shares	2020 Consideration	2019 Number of shares	2019 Consideration
Employee share schemes	1,615,578	Nil to 45.0p	19,442,621	Nil to 50.3p
IQE Taiwan minority interest acquisition	2,606,689	55.15p	–	–
	4,222,267		19,442,621	

The share premium arising from consideration received from employee share scheme exercises of £240,000 (2019: £712,000) was £388,000 (2019: £1,238,000).

The share premium arising from the non-cash equity consideration paid to minority interest shareholders in IQE Taiwan Corporation for the purchase of their minority equity shareholdings was £1,412,000.

24. Share based payments

The total amount charged to the income statement in 2020 in respect of share-based payments was £265,000 (2019: £771,000 credited).

Long-term incentive plan

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

Long-term incentive share awards are granted with contractual lives of between three and ten years with a fixed exercise price of 1 penny equal to the nominal value of the ordinary share.

Directors

Long-term incentive awards become exercisable between three and ten years from the date of grant subject to continued employment and achievement of performance conditions relating to growth in earnings per share and total shareholder return targets over a three-year vesting period that cannot be extended. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Details of the Directors long-term incentive plan are set out in the Remuneration Report.

Notes to the financial statements continued

For the year ended 31 December 2020

24. Share based payments continued

Long-term incentive plan continued

Employees

Long-term incentive awards become exercisable between three and five years from the date of grant subject to continued employment and the achievement of performance conditions relating to a combination of growth in earnings per share targets over a three-year vesting period that cannot be extended and growth in earnings per share and total shareholder return targets over a three-year vesting period that cannot be extended. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Long term incentive awards are valued using either the Black-Scholes option-pricing model or the Monte Carlo simulation model with the total fair value of the award that is to be expensed charged to the income statement over the vesting period of the long-term incentive award.

Share option scheme

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

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

Share options are valued using the Black-Scholes option-pricing model with the total fair value of the award that is to be expensed charged to the income statement over the vesting period of the share option.

The principal assumptions used in the calculation of the fair value of long-term incentive awards and share option awards are as follows:

Principal assumptions	2020	2019
Weighted average share price at grant date	45.19	29.07
Weighted average exercise price	17.54	11.02
Weighted average vesting period (years)	3	3
Option life (years)	10	10
Weighted average expected life (years)	3	3
Weighted average expected volatility factor	60%	56%
Weighted average risk-free rate	0.7%	0.9%
Dividend yield	0%	0%

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

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

The fair value of long-term incentive awards and share options granted during the year ended 31 December 2020 was £2,296,000 (2019: £3,096,000).

The movements on long-term incentive awards and share options during the year were as follows:

	2020 Number of options	2020 Average exercise price (pence)	2019 Number of options	2019 Average exercise price (pence)
At 1 January	20,639,474	17.41p	38,793,878	11.02p
Granted	8,337,449	1.80p	7,004,639	1.80p
Exercised	(1,274,323)	1.93p	(18,105,303)	3.85p
Cancelled/lapsed	(5,620,963)	23.36p	(7,053,740)	1.34p
At 31 December	22,081,637	10.08p	20,639,474	17.41p

The weighted average share price at the date share options were exercised was 53.05p (2019: 12.78p).

As at 31 December 2020, the total number of long-term incentive awards and share options held by employees was 22,081,637 (2019: 20,639,474) as follows:

Option price pence/share	Option period ending	2020 Number of options	2019 Number of options
0.01p – 45.58p	31 December 2020	–	1,298,090
9.15p – 50.25p	31 December 2021	1,271,715	6,463,146
0.01p – 28.17p	31 December 2022	782,418	1,172,884
0.01p – 27.75p	31 December 2023	3,646,379	3,307,266
0.01p – 23.83p	31 December 2024	4,274,648	2,352,226
18.42p – 25.17p	31 December 2025	232,500	282,500
0.01p – 37.92p	31 December 2026	1,108,500	1,337,102
0.01p – 169.50p	31 December 2027	495,000	745,000
0.01p – 143.30p	31 December 2028	290,000	1,302,908
0.01p – 125.00p	31 December 2029	4,595,211	2,378,352
0.01p	31 December 2030	5,385,266	–
At 31 December		22,081,637	20,639,474

25. Parent company profit and loss

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year amounted to £7,586,000 (2019: £14,093,000 loss).

Notes to the financial statements continued

For the year ended 31 December 2020

26. Cash generated from operations

Group	2020 £'000	2019 £'000
Loss before tax	(3,894)	(24,948)
Finance costs	2,165	1,458
Depreciation of property, plant and equipment	12,983	10,477
Depreciation of right of use assets	3,681	3,590
Amortisation of intangible assets	7,869	8,222
Impairment of intangible assets	6,537	3,805
Impairment of right of use assets	–	1,623
Impairment of financial assets	3,788	4,134
Share of joint venture	(3,788)	3,951
Inventory write downs (note 17)	3,025	3,219
Loss/(profit) on disposal of fixed assets	182	(245)
CSDC acquisition negative goodwill	–	(171)
Non-cash provision movements	2,002	–
Share based payments	265	(771)
Cash inflow from operations before changes in working capital	34,815	14,344
(Increase)/decrease in inventories	(4,128)	2,184
(Increase)/decrease in trade and other receivables	(7,151)	4,130
Increase/(decrease) in trade and other payables	11,921	(11,710)
Cash inflow from operations	35,457	8,948

Company	2020 £'000	2019 £'000
Loss before tax	(8,898)	(15,381)
Finance income	(5,716)	(5,987)
Finance costs	340	362
Foreign exchange	(214)	979
Depreciation of property, plant and equipment	16	14
Amortisation of intangible assets	200	145
Impairment of intangible assets	3,471	357
Loss on disposal of equity investment	75	–
Non-cash provision movements	1,840	–
Share based payments	60	(1,374)
Cash outflow from operations before changes in working capital	(8,826)	(20,885)
(Increase)/decrease in trade and other receivables	(51)	18,390
Increase/(decrease) in trade and other payables	6,541	(2,681)
Cash outflow from operations	(2,336)	(5,176)

27. Reconciliation of net cash flow to movement in net funds/(debt)

	2020 £'000	2019 £'000
Increase/(decrease) in cash in the year	16,003	(11,867)
Increase in borrowings	(5,000)	(41,895)
Repayment of borrowings	7,030	17,125
Repayment of leases	3,764	3,651
Net movement resulting from cash flows	21,797	(32,986)
Net (debt)/funds at 1 January	(63,948)	20,807
Adjustments on application of IFRS 16	–	(50,212)
Net debt at 1 January	(63,948)	(29,405)
Net movement resulting from cash flows	21,797	(32,986)
Non-cash movements	(2,950)	(1,557)
Net debt at 31 December	(45,101)	(63,948)

Non-cash movements include £1,216,000 (2019: £1,238,000) of unwind of discounting on lease liabilities, £1,923,000 (2019: £346,000) of new lease liabilities and the impact of foreign exchange of £189,000 (2019: £27,000).

28. Analysis of net debt

	At 1 January 2020 £'000	Cash flow £'000	Other non-cash movements £'000	At 31 December 2020 £'000
Bank borrowings due after one year	(22,736)	–	6,197	(16,539)
Bank borrowings due within one year	(2,034)	2,030	(6,197)	(6,201)
Lease liabilities due after one year	(44,895)	–	2,669	(42,226)
Lease liabilities due within one year	(3,083)	3,764	(5,479)	(4,798)
Total borrowings	(72,748)	5,794	(2,810)	(69,764)
Cash and cash equivalents	8,800	16,003	(140)	24,663
Net debt	(63,948)	21,797	(2,950)	(45,101)

Cash and cash equivalents at 31 December 2019 and 31 December 2020 comprised balances held in instant access bank accounts and other short-term deposits with a maturity of less than 3 months.

Non-cash movements include £1,216,000 (2018: £1,238,000) of unwind of discounting on lease liabilities, £1,923,000 (2019: £346,000) of new lease liabilities and the impact of foreign exchange of £189,000 (2019: £27,000).

The reclassification in lease liabilities due after one year and within one year principally relates to one property where the lease liabilities start to become payable in 2021.

Notes to the financial statements continued

For the year ended 31 December 2020

29. Subsidiary undertakings

Name of company	Class of capital	Proportion of shares held	Activity	Country of incorporation	Registered Office
IQE (Europe) Limited	Ordinary shares of £1	100%*	Manufacture of advanced semiconductor materials	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
IQE Inc	Common stock of \$0.001	100%*	Manufacture of advanced semiconductor materials	USA	119 Technology Drive, Bethlehem, PA 18015, USA
IQE KC LLC	Limited liability company	100%*	Manufacture of advanced semiconductor materials	USA	200 John Hancock Road, Taunton, MA 02780, USA
IQE Taiwan ROC	Ordinary shares of NT\$10	100%	Manufacture of advanced semiconductor materials	Taiwan	No. 2-1, Li-Hsin Road Hsinchu Science Park Hsinchu 300, Taiwan
IQE RF LLC	Limited liability company	100%*	Manufacture of advanced semiconductor materials	USA	265 Davidson Avenue Somerset, NJ 08873, USA
IQE Silicon Compounds Limited	Ordinary shares of £1	100%	Manufacture of silicon epitaxy	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
MBE Technology Pte Ltd	Preferred shares of S\$1	100%	Manufacture of advanced semiconductor materials	Singapore	30 Tampines industrial Avenue 3 Singapore 528775
CSDC Private Limited	Ordinary shares of S\$1	100%	Research, development and Manufacture of semiconductor materials	Singapore	30 Tampines industrial Avenue 3 Singapore 528775
Wafer Technology Limited	Common stock of \$1 par value	100%*	Manufacture of semiconductor materials	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
NanoGaN Limited	Ordinary shares of £1	100%	Manufacture of semiconductor compounds and ultra-high purity materials	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
Galaxy Compound Semiconductors Inc	Ordinary shares of £0.001	100%	Development of advanced semiconductor materials	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
EPI Holdings Limited	Common stock of \$0.00 par value	100%*	Manufacture of semiconductor compounds and ultra-high purity materials	USA	9922 E Montgomery Avenue, #7, Spokane, WA 99206, USA
KTC Wireless LLC	Ordinary shares of £1	100%	Dormant holding company	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
IQE USA Inc	Limited liability company	100%	Dormant holding company	USA	119 Technology Drive, Bethlehem, PA 18015, USA
IQE Solar LLC	Limited liability company	100%*	Dormant holding company	USA	119 Technology Drive, Bethlehem, PA 18015, USA
IQE Properties Inc	Limited liability company	100%*	Dormant company	USA	119 Technology Drive, Bethlehem, PA 18015, USA
Wafer Technology International Limited	Limited liability company	100%*	Property holding company	USA	119 Technology Drive, Bethlehem, PA 18015, USA
	Ordinary shares of £1	100%	Dormant holding company	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK

* Indirect holdings

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

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

30. Joint Venture

The Group holds investments in one joint venture as follows:

Name of company	Class of capital	Proportion of shares held	Activity	Country of incorporation	Registered Office
Compound Semiconductor Centre Limited	Common stock of £1 par value	50%*	Research, development and Manufacture of semiconductor materials	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK

* Indirect holdings

Compound Semiconductor Centre Limited ('CSC')

On 9 July 2015 the Group entered into a joint venture agreement with Cardiff University to create the CSC in the United Kingdom. The shareholder agreement establishes that the CSC is jointly controlled by the shareholders who have an equal share of the voting rights such that the Group's investment in the joint venture is accounted for using the equity method in accordance with the accounting policies set out in note 2 and note 3.

The commercial purpose of the CSC is the research, development and manufacture by metal organic vapour phase epitaxy ('MOVPE') of advanced compound semiconductor materials in Europe.

The business was set-up by the joint venture partners to provide a bridge between early stage research and high volume manufacturing and was established in a manner to provide the CSC with the capability to deliver specialist compound semiconductor product development, prototyping and early stage manufacturing services to academic and industrial customers from its own compound semiconductor foundry.

On the formation of the joint venture the Group contributed fixed assets, independently valued at £12,000,000, transferred employees and licensed intellectual property to establish the CSC's manufacturing and technical capability whilst at the same time entering into an agreement with CSC that has been extended in the current year and conveys to the Group the right to use the assets of the joint venture for a minimum period up to 31 March 2022 (see note 3a). Cardiff University contributed cash.

The intellectual property license relates to technical know-how and is licensed to the CSC under the terms of a perpetual licence that can only be terminated in a limited number of circumstances, none of which currently apply as the CSC is not in breach of the license agreement. The Group has no obligation to enhance or develop the licensed intellectual property. The licence fee of £20,000,000, mutually agreed by the Group and Cardiff University was recognised as license income in accordance with the Group's revenue recognition policy for perpetual licenses (see note 2) in 2015 and 2016 when the intellectual property was transferred to the CSC.

The contractual right granted by the CSC to the Group to use its assets provides the Group with access to manufacturing capacity and de-risks the initial establishment of the CSC as the Group operates as a cornerstone customer during the early stages of the development of the CSC's business when it is required to fund running costs associated with its foundry whilst developing its business and own independent revenue streams.

Costs associated with the right to use the assets of the CSC are charged to the Group at a mutually agreed price by the Group and Cardiff University. The price reflects the Group's right to use the assets and is variable based on the CSC's cash cost of production (including direct labour, materials and other foundry costs) which provides the CSC with a low cost, low risk route to build its business whilst covering its manufacturing related operating costs.

The arrangements between the joint venture parties, structured to provide the Group with its required level of manufacturing capacity and to provide the CSC with sufficient flexibility to develop its business envisaged that reliance on the Group as the cornerstone customer will reduce. The CSC continues to achieve key business milestones, including the development of its own independent commercial customer relationships and funded collaborative research and development projects which has resulted in its reliance on the Group reducing as these independent relationships and revenue streams continue to increase in number and value with external revenue totalling £1,973,000 (2019: £1,482,000). The CSC's financial year end is 31 December which is co-terminus with the Group and has been used to prepare the consolidated Group financial statements and the summary CSC financial information set out below. No dividend has been received by the Group from the CSC (2019: £nil).

Notes to the financial statements continued

For the year ended 31 December 2020

30. Joint Venture continued

Summary information for Compound Semiconductor Centre Limited

	2020 £'000	2019 £'000
Summary income statement		
Revenue	8,623	8,379
EBITDA	280	145
Loss from continuing operations	(1,904)	(16,276)
Loss for the period	(1,904)	(16,276)
Total comprehensive expense for the period	(1,904)	(16,276)
Summary balance sheet		
Non-current assets	5,823	8,581
Current assets	2,199	939
Current Liabilities	(1,611)	(2,030)
Non-current Liabilities	(15,988)	(15,163)
Equity attributable to Joint Venturers	(9,577)	(7,673)
Carrying value of equity interest in CSC Ltd		
Net liabilities of CSC Ltd	(9,577)	(7,673)
Proportion of the Groups ownership interest	50%	50%
Groups share of net liabilities	(4,789)	(3,837)
Elimination of unrealised gains on transactions with CSC Ltd	(12,000)	(12,000)
Cumulative absorption of JV losses against long term JV preference share debt (note 5)	163	3,951
Cumulative unrecognised losses	16,626	11,886
Carrying amount of the Groups interest in the JV	-	-
Summary of cumulative unrecognised losses		
Unrecognised losses brought forward	(14,600)	(10,412)
Unrecognised unrealised gains on transactions with CSC Ltd	-	-
Unrecognised losses in the year	(9,52)	(8,139)
Reversal/absorption of JV losses against long term JV preference share debt (note 5)	(3,788)	3,951
Cumulative unrecognised losses carried forward	(19,340)	(14,600)

Comparative financial information has been adjusted to reflect the final audited 2019 CSC financial statements. The adjustment to the disclosure has had no impact on the Group's consolidated loss for the year, total net assets or cash position.

31. Acquisitions

IQE Taiwan ROC

On 5 October 2020, the group acquired the remaining 9.82% of issued shares held by third party minority shareholders in its subsidiary, IQE Taiwan ROC, taking its equity ownership from 90.18% to 100.00%. Immediately prior to the purchase, the carrying amount of the existing 9.82% non-controlling interest in IQE Taiwan ROC was £4,335,000. The Group recognised a decrease in non-controlling interests of £4,335,000. The effect on the equity attributable to the owners of IQE Taiwan ROC during the year is summarised as follows:

	2020 £'000
Carrying amount of non-controlling interests acquired	4,335
Consideration paid to non-controlling interests	
– Equity consideration	1,438
– Cash consideration	1,363
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	1,534

The acquisition was effected using a statutory share swap arrangement under Taiwan's Business Mergers and Acquisition Law (the 'Share Swap') with the final total consideration payable yet to be determined by the Taiwan Court.

Selling shareholders, representing 5.04% of the issued shares in IQE Taiwan ROC accepted the Share Swap and have received an aggregate consideration of £1,437,646 which has been settled via the issuance of 2,606,689 ordinary shares in IQE plc at a price per ordinary share of 55.15p.

Selling shareholders, representing 4.78% of the issued shares in IQE Taiwan ROC rejected the Share Swap and will have their shares purchased for cash based at a price determined by the Taiwan Court as part of the normal process followed under Taiwan's Business Mergers and Acquisition Law. Cash consideration of £1,363,000 represents cash paid under the Taiwan Court process for the purchase of shares from selling shareholders who rejected the Share Swap and is subject to adjustment dependent upon a price determined by the Taiwan Court.

Compound Semiconductor Development Centre Private Limited ('CSDC')

On 10 October 2019, the Group acquired the 49% equity shareholdings of its joint venture partners in CSDC taking control of the company and increasing its equity ownership to 100%. The acquisition was for a nominal fee of USD\$1 to WIN Semiconductors Corp and SGD\$1 to each of the other five third party shareholders, settled in cash.

The acquisition resulted in negative goodwill of £171,000 based on provisional fair values for acquired inventory, trade and other receivables and trade payables which have been finalised in the current year with no significant adjustments.

Notes to the financial statements continued

For the year ended 31 December 2020

32. Related party transactions

The Group purchased services during the year from Newport Wafer Fab Limited totalling £69,212 (2019: £105,705). Newport Wafer Fab Limited is wholly owned by Neptune 6 Limited. Dr AW Nelson is a director of Neptune 6 Limited and in conjunction with his close family Dr AW Nelson owns a controlling interest in Neptune 6 Limited.

Transactions with Joint Venture

Compound Semiconductor Centre Limited

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

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

CSC operates from its manufacturing facilities in Cardiff, United Kingdom and leases certain additional administrative building space from the Group. During the year the CSC leased this space from the Group for £115,000 (2019: £115,000) and procured certain administrative support services from the Group for £235,000 (2019: £235,000). As part of the administrative support services provided to CSC the Group procured goods and services, recharged to CSC at cost, totalling £3,740,282 (2019: £3,468,000).

CSC entered into an agreement with the Group following its formation which has been extended in the current year and conveys to the Group the right to use the assets of the joint venture for a minimum period up to 31 March 2022. Costs associated with the right to use the CSC's assets are treated by the Group as operating lease costs (see note 3a). Costs are charged by the CSC at a price that reflects the CSC's cash cost of production (including direct labour, materials and site costs) but excludes any related depreciation or amortisation of the CSC's property, plant and equipment and intangible assets respectively under the terms of the joint venture agreement between the parties. Costs associated with the right to use the CSC's assets totalled £6,365,000 (2019: £6,656,000) in the year.

CSC sold property, plant and equipment to the Group during the year for £1,423,750 (2019: £nil). The purchase price was based upon an independent valuation performed by Liquidity Services UK with the consideration settled in cash.

At 31 December 2020 an amount of £322,000 (2019: £222,000 owed from) was owed from the CSC at year end.

In the Groups balance sheet 'A' Preference Shares with a nominal value of £8,800,000 (2019: £8,800,000) are included in financial assets at an amortised cost of £nil (2019: £3,951,000) and the Group has a shareholder loan of £241,000 (2019: £239,000) due from CSC.

33. Commitments

The Group had no capital commitments at 31 December 2020 of (2019: £nil).

Glossary

APD	Avalanche Photodiode. A high-performance detector used for high-speed communication systems
Artificial intelligence (AI)	A simulation of human intelligence in machines, including machines which are programmed to mimic human action or exhibit humanistic traits such as learning or problem-solving
Augmented Reality (AR)	A technology that superimposes a computer-generated image on a user's view of the real world to provide a composite view
BiHEMT	A device that integrates a PHEMT and HBT into the same structure in order to reduce device footprint, commonly used in RF systems such as mobile handsets
Compound semiconductor	A semiconductor formed from more than one element, typically comprising a mixture of elements from Groups III and V of the Periodic Table
Cloud computing	A network of remote servers hosted on the internet to store, manage and process data
cREO®	Crystalline Rare Earth Oxide. This is a novel material developed by IQE for next generation filter and GaN applications.
CVD	Chemical Vapour Deposition. IQE's technique for making Advanced Silicon/Group IV epiwafers, characterised by using compound sources (typically hydrides) flowed across a hot wafer where they are "cracked" (reacted) to get the desired material. CVD occurs in a similar pressure regime to MOCVD
Device structure	The term used to describe the particular series of epitaxial layers on a substrate crystal. They are typically specified by their thickness, composition, electrical and opto-electronic properties
DFB Laser	Distributed Feedback Laser. An EEL where a grating is integrated into the layer stack to improve performance, commonly used in high speed communication systems
Dilute Nitride	A material where small amounts of Nitrogen are added to GaAs in order to enable GaAs to be used in applications typically reserved for InP
EEL	Edge Emitting Laser. A laser characterised by an elliptical light beam emitting from the edge of the wafer, often used in high-speed communication systems
EMB	Executive Management Board
Epitaxy (epitaxial growth)	Deposition of high quality, crystalline layers on a substrate. By specifically choosing the composition and sequence of the layers in epitaxial growth, the optical and electrical properties of the epiwafer are able to be tuned and these individual layers are referred to as 'epilayers'
Epiwafer or epitaxial wafer	The term used to describe the substrate crystal with epitaxial layers deposited thereon (see also ("wafer"))
GaAs	Gallium Arsenide
GaN	Gallium Nitride
GaSb	Gallium Antimonide
Ge	Germanium
HBT	Heterojunction Bipolar Transistor, a commonly used device for power amplification in mobile handsets
InP	Indium Phosphide
Integrated circuit	A combination of electronic devices integrated onto a single substrate or chip
Internet of Things (IoT)	Network of physical objects – "things" which are able to collect and transfer data over a wireless network without human intervention

Glossary continued

IQepiMo™	A template technology developed by IQE for RF filters and other applications requiring low resistance buried electrodes
IQGeVCSEL 150™	A technology developed by IQE for 6" VCSELs on Germanium
IR	Infrared
LiDAR	Light detection and ranging – a method for measuring distances by illuminating the target with a laser light
MBE	Molecular Beam Epitaxy. One of IQE's primary techniques for making compound semiconductor epiwafers, characterised by deposition using elemental sources impinging on a hot wafer where a reaction occurs to get the desired material. MBE occurs at extremely low pressures (known as ultra-high vacuum) that are comparable to that of outer space.
MOCVD	Metal Organic Chemical Vapour Deposition. One of IQE's primary techniques for making compound semiconductor epiwafers, characterised by deposition using compound sources (typically metal organics and hydrides) that are flowed across a hot wafer where they are "cracked" (reacted) to get the desired material. MOVCD occurs at much higher pressures than MBE and also goes by the name MOVPE (Metal Organic Vapour Phase Epitaxy)
Nanoimprint Lithography	A method of wafer patterning that allows cost effective, mass production of very small feature sizes
OEM	Original equipment manufacturer
Opto-electronic device	A device or structure in which light and electricity interact to produce, detect or manipulate light
PiN	A detector used in high-speed communication systems
PHEMT	Pseudomorphic High Electron Mobility Transistor. A commonly used device for high-speed switching for wireless communications
PQC	Photonic Quasi-crystal. A unique technology owned by IQE that enables beam steering capabilities for advanced optical products
Reactor	The equipment used to produce epitaxial layers on a substrate
RF	Radio frequency
Semiconductor	A material with resistivity which lies somewhere between that of a conductor and an insulator
Si	Silicon
SiC	Silicon Carbide
Structured light scanner	A 3D scanning device which measures the an object using projected light patterns and a camera system
Substrate	The term used to describe the base wafer used for the epitaxial substrate crystal growth process
Time of Flight (ToF) camera	A camera which calculates the distance between the subject by measuring the trip time of an artificial light signal emitted by a laser or LED
VCSEL	Vertical Cavity Surface Emitting Laser, an opto-electronic component used in a variety of applications
Wafer	The term used to describe the substrate crystal in the form of thinly sliced discs or the substrate disc with one or more epitaxial layers deposited upon it
3D Sensing	Three-dimensional depth sensing technology which is enabled by IQE's VCSELs
5G	5th generation mobile network designed to provide enhanced connectivity and higher speeds

Investor information

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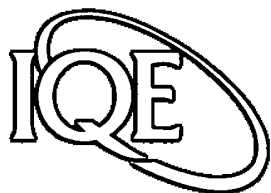
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Share price information

Exchange: London Stock Exchange FTSE AIM Index
Ticker: IQE:LN
ISIN: GB0009619924

Share price performance

as at 31 December 2020
Earning/loss per share: (0.41p)



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