

IQE plc

Interim Results for the Half Year Ended 30 June 2005

IQE plc (IQE), the leading global outsource supplier of customised wafers to the semiconductor industry, today announces its Interim Results for the half year ended 30 June 2005.

KEY POINTS

- First half revenues increased by **32%** compared with H2/2004 to **£9.665m** (H2/2004: £7.316m) despite continuing adverse dollar exchange rate. In dollar terms, first half revenues increased by 37% compared with H2/2004
- Operating profit achieved in June, the first monthly operating profit since June 2001. Achieved at less than 30% capacity utilisation, demonstrating high level of operational gearing
- Gross loss reduced by **£1.425m** compared with H2/2004 on sales revenue increase of **£2.349m**
- EBITDA loss as detailed in the consolidated profit and loss account reduced by **46%** to **£1.902m** (H2/2004: loss £3.512m)
- Net cash outflow from operating activities reduced by **30%** to **£3.118m** (H2/2004: outflow £4.456m)
- Half year cash at **£5.928m** (H2/2004: £9.923m), ahead of internal budget for first half
- Operating cash breakeven run rate under tight control at £27m per annum with continued improvements in operating margins
- Total wafer area shipped increased by **36%** to **986,000 sq.inches** (H2/2004: 727,000 sq.inches)
- Won major industry award for Ultra Smooth strained silicon product, which was presented at the Semicon West exhibition in July
- Significant outsourcing research and development wins in first half of 2005
- Good prospects for continued increases in revenue in the second half of 2005 and the achievement of a sustainable positive cash flow

Commenting on the results, Dr Drew Nelson, President and CEO, said

“The IQE Group has made major progress in the first half of 2005 towards reaching operating profitability on an ongoing basis. Revenues rose substantially despite the adverse impact of the dollar exchange rate in the early part of H1/2005, fixed costs have been kept under close control and operational efficiencies have resulted in continued operational margin improvements. We exceeded our goal of monthly cash breakeven in June and posted our first monthly operating profit since June 2001 and, although the coming months will see some variability, we expect to achieve monthly cash breakeven or above on an ongoing basis during the latter part of H2/2005. The demonstration of monthly operating profitability is a key milestone, particularly as it was achieved at less than 30% of our overall capacity, which clearly demonstrates the high level of operational gearing of our business model. We have substantial opportunities to further enhance revenues and profitability as a result of numerous outsource qualification programmes and leading edge materials development programmes, and remain confident that our wafer outsourcing strategy, strong investment in productive capacity in prior years and our business model will lead to significant shareholder returns in the future.”

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1. INTRODUCTION

IQE is widely recognised in its market sector as a world leading supplier of advanced wafer products and wafer foundry services to the semiconductor industry. The diverse range of materials which are produced by the Group's four divisions form the enabling technology for many leading-edge consumer, communication and computing applications including mobile phones, satellite navigation devices, personal computers, telecommunication systems, LED technology PDAs, CD/DVD systems and a variety of automotive, aerospace, industrial and medical applications.

The Group's large investment in state-of-the-art manufacturing tools and facilities, coupled with its unique concentration of world-class expertise and experience in semiconductor materials, make it the only supplier worldwide to provide a full range of advanced epi-wafer products using all three leading technology platforms (MOVPE, MBE and CVD) as well as providing a variety of advanced substrates. This in turn makes the Group a highly attractive choice as the ideal outsource partner.

2. OVERVIEW

Sales revenues increased strongly during the first half of the year as a number of contracts and qualifications came to fruition, including the major outsource deal that was completed in November 2004. Some smaller product development opportunities were also secured, notably one with a major global player for advanced materials for future potential integrated circuit (IC) applications. Additional product qualification continues to gather pace, with more and more successful product lines achieving approved status with customers in North America and the Far East.

Although the number of wafers shipped was slightly less than H2/2004, a significant change in the product mix towards larger diameter, higher value wafers meant that the total wafer area shipped increased by 36% to 986,000 sq.inches in H1/2005 (H2/2004: 727,000 sq.inches).

On the basis of this increase, the Group recorded its best sales month for three years in June 2005 and this resulted in an operating profit being achieved in that month for the first time in four years. This was achieved at less than 30% capacity utilisation, fully proving the business model and demonstrating the strong operational gearing of the business. Excellent progress was also made in further improving operational efficiencies and continuing to bear down on the cost base. The annualised breakeven revenue run rate in June was around £27m, which is half the level of two years ago.

3. RESULTS

The Group's operating results for H1/2005, together with comparative figures for H2/2004 and H1/2004, are detailed in the Consolidated Profit and Loss Account and Consolidated Cash Flow Statement.

H1/2005 sales were 32% up on the second half of last year at £9.665m (H2/2004: £7.316m) due to increased revenues at IQE Europe, IQE Inc and IQE Silicon. With most of those revenues being earned in US dollars, we were once again adversely affected by a weak dollar exchange rate which, at USD 1.8889/GBP, was 4% worse than the rate for the previous half year (H2/2004: USD 1.8208/GBP) and effectively reduced our sales line by approximately £0.400m. If the recent strengthening of the US dollar is maintained, this should contribute to an improvement in our sales line in H2/2005.

In terms of gross margin, we achieved very significant improvements in performance as result of a combination of operational efficiencies, cost reductions and lower supplier prices for raw materials which together reduced the gross loss in H1/2005 to £0.460m (H2/2004: loss £1.885m). This is equivalent to a gross loss of 5% (H2/2004: gross loss 26%). The £1.425m reduction in gross loss for the half year was achieved on a sales revenue increase of £2.349m clearly demonstrating the Group's ability to generate profitability of greater than 50% on incremental revenues.

With many of the key wafer products that have been in research and development over the last couple of years now moving into pre production or full production, research and development expenditure has continued to fall. Current expenditure is being strongly focused on key future materials for both silicon and III-V wafer products. Consequently, research and development costs in the first half were £0.215m (H2/2004: £0.354m) equivalent to 2% of sales (H2/2004: 5%) All research and development costs were expensed in the period.

We also achieved savings in respect of selling, general and administration costs, which comprise distribution costs and other administrative expenses. H1/2005 selling, general and administration costs were £2.294m (H2/2004: £2.494m), which represented an 8% reduction compared with H2/2004 and included certain restructuring costs of £0.110m.

As a result of the above, our H1/2005 operating loss was reduced to £2.968m (H2/2004: £4.732m), which represented a 37% reduction compared with H2/2004. The pre tax loss for H1/2005 was also significantly down on H2/2004 at £2.912m (H2/2004: pre tax loss £4.597m).

Cash management was a priority for the Group throughout the period with the focus continuing to be concentrated on reducing operating costs and carefully managing working capital, which comprises stocks, debtors and creditors. Working capital increased in H1/2005 by £1.127m (H2/2004: increase £0.884m) in line with our revenue increase as shown in the Reconciliation of Operating Loss to Net Cash Outflow from Operating Activities. This was mainly due to increased trade debtors generated by improved sales and a planned build-up of finished goods stock at IQE Inc in accordance with the outsource agreement which was signed last year. Including the significant reduction in operating loss compared with H2/2004, the net result was an overall reduction in net cash outflow from operating activities for H1/2005 to £3.118m (H2/2004: outflow £4.456m).

Capital expenditure was restricted to £0.289m in H1/2005 (H2/2004: £0.215m) with the majority being incurred at Wafer Technology. Loan and lease repayments totalled £0.667m in H1/2005 (H2/2004: £1.148m) and this reduced our total borrowings at the end of the period to £2.541m (H2/2004: £3.160m) with the last of the major lease repayments being made during the first half. Gross cash on hand exiting H1/2005 was £5.928m (H2/2004: £9.923m), ahead of our internal budget expectations.

As an AIM listed company, the Group will adopt International Financial reporting Standards (IFRS) for its financial statements for the year ending 31 December 2007. Accounting for share-based payments (IFRS 2) will be reflected as a result of the implementation of FRS 20 (share-based payments) with effect from 1 January 2006.

4. OPERATIONS

IQE Inc

The Bethlehem-based wireless materials division experienced a sharp increase in demand during the first half year from a number of customers for its pHEMT products for wireless communications applications. The division achieved a monthly operating profit in June despite output being limited as a result of an extensive planned maintenance programme during the first few months of the year. As previously noted in our AGM statement, we experienced a significant increase in sales in June as a result of additional capacity becoming available and this is expected to continue in the second half year.

Additionally, there are several qualification programmes currently underway which, if successful, should lead to further significant increases in revenue. The division has also been successful in attracting significant outsource research and development programmes and recently announced that it had begun shipping antimonide based epitaxial wafers. These are particularly attractive for high-frequency, low noise, low power-consumption electronic devices, and for long wavelength emitters and detectors.

IQE (Europe) Limited

The Cardiff-based optoelectronic materials division reported significantly increased revenues which, together with increased batch sizes on a number of important product lines during the first half year, helped to ensure that it achieved a monthly operating profit in June and contributed strongly to the Group recording an operating profit in that month.

The division remains qualified on a wide range of products including lasers and detectors for telecoms and datacomms applications as well as optical components for consumer products. Feedback from customers and ongoing market research suggests a steady and sustained demand for the range of materials produced by this division for the remainder of the year. Notable achievements in the first half year included the development of an industry leading high power visible laser product for DVD RW applications, particularly for the PC market, and the qualification of our VCSELs for optical mouse applications.

IQE Silicon Compounds Limited

The Cardiff-based silicon compounds division experienced a strong increase in demand for its standard Si and SiGe epitaxy from a number of major European-based customers during the first half year. Some of the increased activity was as a direct result of a major competitor being acquired as an in-house supplier for a major, global wafer fabrication business. Other recent order wins were due to the increasing use of epitaxy in the fabrication of silicon devices with many customers believing that outsourcing is the most cost effective way of acquiring the technology.

The division's key technology lead remains its UltraSmooth strained silicon product that recently gained a prestigious industry award for "best enabling material" at the Semicon West industry show in San Francisco. This product is now being used to develop fully bonded strained silicon on insulator wafers in conjunction with one of our key development partners. This represents a very significant milestone in the

development of strained silicon, as the SSOI product is fully compatible with existing fab processes.

Wafer Technology Limited

The Milton Keynes-based substrate division underwent some significant restructuring during the first half year in order to reduce its cost base and enable it to be more competitive, given the adverse dollar exchange rate. Dr Andrew Johnson, who was appointed General Manager in March 2005, was appointed Operations Director with effect from June 2005. Following a full review of the operation, the cost base was significantly reduced through a reduction in headcount numbers and some operational changes, which will improve manufacturing efficiencies.

The division already has a world leading position as a supplier of advanced substrate materials such as antimonides referred to earlier for high-frequency, low noise, low power-consumption electronic devices. With improved surface finish products now undergoing qualification for a wide range of laser applications and the return of a stronger LED market, which had been weak in the first half of 2005 as a result of periodic inventory correction, this division also has strong growth prospects in the second half year.

5. TRADING PROSPECTS

The Group's profile within the industry continues to grow in both new and established markets as acknowledged by the recent winning of an industry award for its strained silicon product offering and the continued winning of new outsource opportunities. In addition, the Group made major progress in the first half of 2005 and achieved a significant increase in revenues despite continuing adverse exchange rates, which culminated in full Group profitability in June on a capacity utilisation of less than 30%. This was achieved through strong operational and financial management, increased operational efficiencies and close cost control across the Group.

The Board believes that the achievement of operating profitability in June 2005 marks a key milestone, clearly demonstrating the Group's strong operational gearing as revenues increase and offering a highly cost effective outsource route for major industry players. Further increases in revenue in the second half of this year and beyond are expected to lead to cash generation on an ongoing basis, full profitability and strong shareholder returns in the future.

Dr Drew Nelson
President and Chief Executive
IQE plc

INTERIM RESULTS FOR 6 MONTHS TO 30 JUNE 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT		6 months to 30 Jun 2005	6 months to 31 Dec 2004	6 months to 30 Jun 2004	12 months to 31 Dec 2004
(All figures GBP000s)	Note	Unaudited	Unaudited	Unaudited	Audited
Turnover from Continuing Operations		9,665	7,316	8,028	15,344
Cost of Sales		(10,125)	(9,201)	(9,956)	(19,157)
Gross Loss		(460)	(1,885)	(1,929)	(3,813)
Gross Loss %		(5)	(26)	(24)	(25)
Operating Expenses :					
Distribution Expenses		(870)	(794)	(605)	(1,399)
Administrative Expenses :					
Research/Development		(215)	(354)	(481)	(835)
Other Administrative Expenses (including exceptional items)	1,2	(1,424)	(1,700)	(2,604)	(4,304)
		(2,509)	(2,848)	(3,690)	(6,538)
Operating Loss from Continuing Operations		(2,968)	(4,732)	(5,619)	(10,351)
Operating Loss % from Continuing Operations		(31)	(65)	(70)	(67)
Interest Received		57	135	111	246
Loss on Ordinary Activities before Taxation		(2,912)	(4,597)	(5,507)	(10,104)
Loss %		(30)	(63)	(69)	(66)
Current Taxation		0	0	0	0
Deferred Taxation		0	0	0	0
Retained Loss for the Period		(2,912)	(4,597)	(5,507)	(10,104)
Basic Loss Pence per Share	3	(0.92)	(1.46)	(1.75)	(3.20)
Diluted Loss Pence per Share	3	(0.92)	(1.46)	(1.75)	(3.20)
Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA) have been calculated as follows :					
Retained Loss for the Period		(2,912)	(4,597)	(5,507)	(10,104)
Interest Received		(57)	(135)	(111)	(246)
Current and Deferred Taxation		0	0	0	0
Depreciation		1,067	1,221	1,019	2,240
Earnings before Interest, Taxes, Depreciation and Amortisation		(1,902)	(3,511)	(4,599)	(8,111)

TOTAL RECOGNISED GAINS AND LOSSES AND MOVEMENT IN SHAREHOLDERS' FUNDS	6 months to 30 Jun 2005	6 months to 31 Dec 2004	6 months to 30 Jun 2004	12 months to 31 Dec 2004
(All figures GBP000s)	Unaudited	Unaudited	Unaudited	Audited

TOTAL RECOGNISED LOSSES

Loss for the Period	(2,912)	(4,597)	(5,507)	(10,104)
Currency Translation Differences on Foreign Currency				
Net Investments	134	(125)	(43)	(168)
Total Recognised Losses Relating to the Period	(2,778)	(4,722)	(5,550)	(10,272)

MOVEMENT IN SHAREHOLDERS' FUNDS

Opening Balance as Previously Reported	15,891	20,560	26,042	26,042
Shares Issued net of Issue Costs	22	53	68	121
Foreign Exchange Translation Differences	134	(125)	(43)	(168)
Loss Attributable to Members of the Group	(2,912)	(4,597)	(5,507)	(10,104)
Closing Balance	13,136	15,891	20,560	15,891

CONSOLIDATED BALANCE SHEET		As At 30 Jun 2005	As At 31 Dec 2004	As At 30 Jun 2004
(All figures GBP000s)	Note	Unaudited	Audited	Unaudited
Fixed Assets		8,588	9,204	10,363
Current Assets :				
Stocks		4,191	3,433	3,978
Debtors		3,388	2,604	2,356
Cash at Bank and in Hand	4	5,928	9,923	15,552
Total Current Assets		13,507	15,959	21,886
Creditors Falling Due within One Year		(6,433)	(6,470)	(8,124)
Net Current Assets		7,074	9,490	13,762
Total Assets less Current Liabilities		15,662	18,693	24,125
Creditors Falling Due after more than One Year :				
Deferred Income		(218)	(308)	(385)
Long Term Borrowings		(2,042)	(2,150)	(2,387)
Total Creditors Falling Due after more than One Year		(2,260)	(2,458)	(2,772)
Provision for Liabilities and Charges		(266)	(344)	(793)
Net Assets		13,136	15,891	20,560
Capital and Reserves :				
Called-up Share Capital		3,159	3,157	3,154
Share Premium		157,216	157,188	157,147
Shares to be Issued		216	225	216
Investment in Own Shares		(13)	(14)	(15)
Merger Reserve		(605)	(605)	(605)
Profit and Loss Account		(146,163)	(143,251)	(138,653)
Exchange Rate Reserve		(674)	(808)	(683)
Total Equity Shareholders' Funds		13,136	15,891	20,560

Approved by the Directors of IQE plc on 23 August 2005

CONSOLIDATED CASH FLOW STATEMENT	6 months to 30 Jun 2005	6 months to 31 Dec 2004	6 months to 30 Jun 2004	12 months to 31 Dec 2004
(All figures GBP000s)	Unaudited	Unaudited	Unaudited	Audited
Net Cash Outflow from Operating Activities	(3,118)	(4,456)	(4,642)	(9,098)
Returns on Investment and Servicing of Finance :				
Interest Received	57	135	111	246
Capital Expenditure :				
Payments to Acquire Fixed Assets	(289)	(215)	(134)	(349)
Net Cash Outflow before Management of Liquid Resources and Financing	(3,350)	(4,536)	(4,665)	(9,201)
Management of Liquid Resources	4,137	5,065	6,921	11,986
	787	529	2,256	2,785
Financing :				
Issues of Ordinary Share Capital	22	53	68	121
Repayment of Loans	(116)	(157)	(202)	(359)
Repayment of Leases	(551)	(991)	(1,387)	(2,378)
Net Cash Outflow from Financing	(645)	(1,095)	(1,521)	(2,616)
Increase/(Decrease) in Cash	142	(566)	736	170

RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES	6 months to 30 Jun 2005	6 months to 31 Dec 2004	6 months to 30 Jun 2004	12 months to 31 Dec 2004
(All figures GBP000s)	Unaudited	Unaudited	Unaudited	Audited
Operating Loss	(2,968)	(4,732)	(5,619)	(10,351)
Depreciation of Fixed Assets	1,067	1,221	1,019	2,240
Loss on Sale of Fixed Assets	0	17	0	17
Movement in Stocks	(759)	545	(514)	31
Movement in Debtors	(784)	(248)	83	(165)
Movement in Creditors	416	(1,181)	388	(793)
Government Grants Released	(389)	(78)	0	(78)
Government Grants Received	300	0	0	0
Net Cash Outflow from Operating Activities	(3,118)	(4,456)	(4,642)	(9,098)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS	6 months to 30 Jun 2005	6 months to 31 Dec 2004	6 months to 30 Jun 2004	12 months to 31 Dec 2004
(All figures GBP000s)	Unaudited	Unaudited	Unaudited	Audited
Increase/(Decrease) in Cash	142	(566)	736	170
Management of Liquid Resources	(4,137)	(5,065)	(6,921)	(11,986)
Loans Repaid	116	157	202	359
Leases Repaid	551	991	1,387	2,378
Change in Net Funds Resulting from Cash Flows	(3,328)	(4,483)	(4,596)	(9,079)
New Finance Leases	0	0	0	0
New Loans Non Cash	0	0	0	0
Movement in Net Funds	(3,328)	(4,483)	(4,596)	(9,079)
Opening Net Funds	6,763	11,206	15,776	7,959
Exchange Differences	(48)	39	27	7,883
Net Funds	3,387	6,763	11,206	6,763

ANALYSIS OF NET FUNDS	As At 30 Jun 2005	As At 31 Dec 2004	As At 30 Jun 2004
(All figures GBP000s)	Unaudited	Audited	Unaudited
Cash at Bank and in Hand	1,251	1,109	1,673
Cash at Bank Accessible between One and Seven Days	4,677	8,814	13,879
Total Cash at Bank and in Hand	5,928	9,923	15,552
Loans Due after more than One Year	(2,042)	(2,150)	(2,308)
Loans Due within One Year	(449)	(409)	(446)
HP/Finance Leases Due after more than One Year	0	0	(78)
HP/Finance Leases Due within One Year	(50)	(601)	(1,514)
Total Borrowings	(2,541)	(3,160)	(4,346)
Net Funds	3,387	6,763	11,206

NOTES TO THE INTERIM RESULTS

1 ACCOUNTING POLICIES

Basis of preparation

The interim financial information has been prepared on the basis of the material accounting policies set out in the 2004 Annual Report and Accounts. The interim financial information was approved by the Board of Directors and Audit Committee on 23 August 2005. The financial information set out above does not constitute statutory accounts within the meaning of the Companies Act 1985. Comparative figures in the financial statements for the year ended 31 December 2004 have been taken from the Group's audited statutory accounts on which Deloitte & Touche LLP expressed an unqualified opinion. The results for the six months to 30 June 2005, 31 December 2004 and 30 June 2004 are unaudited.

The statement of interim results will be announced to all shareholders on the London Stock Exchange and published on the Group's website on 24 August 2005. Copies will be available to members of the public upon application to the Company Secretary at Pascal Close, Cypress Drive, St Mellons, Cardiff CF3 0EG.

Accounting convention

The financial information is prepared under the historical cost convention and in accordance with applicable UK accounting standards, which have been applied on a consistent basis during the period under review.

Basis of consolidation

The financial information consolidates the financial statements of the Company and all of its subsidiaries.

The acquisition of EPI Holdings Limited and IQE Inc (formerly Quantum Epitaxial Designs Inc) by IQE plc, a new holding Company established for that purpose, on 16 May 1999 has been accounted for under merger accounting whereby the financial information is disclosed as if the companies had always been part of the Group. The acquisition of IQE (Europe) Limited (formerly Epitaxial Products International Limited) and its subsidiary Epitaxial Products Inc by EPI Holdings Limited, a new Company established for that purpose, on 27 March 1996 and the acquisition of Wafer Technology International Limited and its subsidiary Wafer Technology Limited on 22 November 2000 have been accounted for under acquisition accounting, whereby these companies became part of the Group on the date of acquisition.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business net of value added tax and other sales related taxes. Turnover is recognised on despatch of goods.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment. Cost comprises all costs that are directly attributable to bringing the asset into working condition for its intended use, as defined by Financial Reporting Standard Number 15. Depreciation has been calculated so as to write down the cost of assets to their residual values over the following estimated useful economic lives. No depreciation is provided on land or assets yet to be brought into use.

Freehold buildings	25 years
Short leasehold improvements	5/27 years
Plant and machinery	5/10 years
Fixtures and fittings	4/5 years

Stocks

Stocks are stated at the lower of cost and net realisable value.

Research and development

Research and development expenditure is fully written off when incurred.

Foreign currencies

Transactions in foreign currencies during the period are recorded at the rates ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. All exchange differences are taken to the profit and loss account. The balance sheets of IQE Inc are translated into sterling at the closing rates of exchange for the period, while the profit and loss accounts are translated into sterling at the average rates of exchange for the period. The resulting translation differences are taken directly to reserves.

Pension costs

The Group operates defined contribution pension schemes. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the schemes.

Government grants

Government grants receivable in connection with expenditure on tangible fixed assets are accounted for as deferred income, which is credited to the profit and loss account by instalments over the expected useful economic life of the related assets on a basis consistent with the depreciation policy. Revenue grants for the reimbursement of costs incurred are deducted from the costs to which they related, in the period in which the costs are incurred.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account. Operating lease rentals are charged to the profit and loss account in equal amounts over the lease term. Provision is made at the balance sheet date for the present value of future rentals under operating leases on vacated properties.

Financial instruments

The only derivative instruments utilised by the Group are forward exchange contracts. The Group does not enter into speculative derivative contracts. Forward exchange contracts are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Group in line with the Group's risk management policies.

	6 months to 30 Jun 2005 Unaudited GBP000s	6 months to 31 Dec 2004 Unaudited GBP000s	6 months to 30 Jun 2004 Unaudited GBP000s
2 EXCEPTIONAL ITEMS			
Exceptional items comprise :			
Restructuring costs	0	6	221
Onerous lease provisions	0	(398)	0
Exceptional items	0	(392)	221

The exceptional credit in H2/2004 of £398,000 relates to the release of an onerous lease provision in respect of a previously vacant property at Wafer Technology Limited. Included in administration expenses for the six months to June 2005 are restructuring costs of £110,000 relating to staff redundancies which, although not exceptional, the Directors consider to be one-off expenses in the period.

	6 months to 30 Jun 2005 Unaudited	6 months to 31 Dec 2004 Unaudited	6 months to 30 Jun 2004 Unaudited
3 LOSS PER SHARE			
Retained Loss GBP000s	(2,912)	(4,597)	(5,507)
Weighted Average Number of Ordinary Shares	315,813,351	315,466,318	315,401,383
Diluted Share Options	5,735,597	4,538,582	2,474,166
Adjusted Weighted Average Number of Ordinary Shares	321,548,948	320,004,900	317,875,549
Basic Loss Pence per Share	(0.92)	(1.46)	(1.75)
Diluted Loss Pence per Share	(0.92)	(1.46)	(1.75)

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares during the period. Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares.

FRS 22 requires the presentation of diluted LPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss-making company with outstanding share options and warrants, net loss per share would only be increased by the exercise of the out of the money options and warrants. Since it seems inappropriate to assume that option holders would act irrationally, no adjustment has been made to diluted LPS for out of the money share options and warrants.

4 CASH AT BANK AND IN HAND

Cash at bank at 30 June 2005 includes £1,302,000 (31 December 2004: £1,212,000) which has been placed on an interest bearing US dollar escrow account. The funds are intended to be used to purchase equipment from the counter party to the escrow account during the second half of 2005.

INDEPENDENT REVIEW REPORT TO IQE PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2005 the profit and loss account, the statement of total recognised gains and losses and movement in shareholders' funds, the balance sheet, the cash flow statement, notes to the cash flow statement and related notes 1 to 4. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company, in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are also responsible for ensuring that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

Deloitte & Touche LLP
Chartered Accountants
Cardiff, United Kingdom

23 August 2005
