

2 September 2008

IQE plc

Strong demand for high speed wireless products drives rapid growth in sales and profit

IQE plc (AIM: IQE, the "Group"), the leading global supplier of advanced wafer products and wafer services to the semiconductor industry, announces its Interim Results for the half year ended 30 June 2008.

FINANCIAL HIGHLIGHTS

- Sales up 27% to £30.2m (H1 2007: £23.7m)
- Gross profit up 42% to £5.5m (H1 2007: £3.9m)
- EBITDA profit up 135% to £3.6m before exceptional one-off relocation cost (H1 2007: £1.5m). High operational gearing delivers treble digit growth in EBITDA profit before exceptional item
- The exceptional cost of £1.6m (H1 2007: £nil) relates to the relocation of the Singapore facility. This relocation is progressing on plan and will be completed during the second half of 2008, at an estimated additional cost of £0.8m
- Operating profit of £1.6m before exceptional item (H1 2007: profit £0.1m), and £11,000 after exceptional item
- Cash inflow from operating activities of £3.4m before exceptional item (H1 2007: inflow £0.4m), and £2.8m after exceptional item
- Retained profit of £0.9m before exceptional item (H1 2007: retained loss £0.5m), and £0.7m retained loss after exceptional item
- Earnings per share of 0.19 pence before exceptional items (H1 2007: 0.12 pence loss per share), and 0.16 pence loss per share after exceptional item

BUSINESS HIGHLIGHTS

- Rapid sales growth driven by continuing focus on high speed wireless communications.
- Wireless sales growth continues to outstrip growth in mobile device sales due to increasing Gallium Arsenide ('GaAs') content in 3G, smartphone and other high speed wireless systems.
- Singapore relocation on track, majority of the tools already transferred and in production at new facility. Successfully achieved without disruption to customers, during a period of strong growth in demand.
- Independent industry analyst, Strategy Analytics, identifies IQE as the leading global supplier of GaAs epitaxial wafers.

TRADING OUTLOOK

- Trading in Q3 2008 continues in line with expectations. Increasing demand for GaAs based products across a range of technologies, including communications, office, solar and solid state lighting.
- Market conditions continuing to show robust demand for GaAs based products for mobile devices, driven principally by 3G and other high speed wireless applications that require a greater density of GaAs components per handset. Consequently, growth in GaAs demand is significantly outstripping growth in the overall handset and wireless communication markets.
- IQE bringing new products to market including advanced laser products, solar cells for efficient energy generation and solid state lighting devices.

Dr Drew Nelson, IQE Chief Executive, commenting on the results said:

“Our strong performance during the first half of 2008 reflects our robust strategy and focus on high growth high volume markets. In particular the wireless communications market, where 3G and “smartphone” technology is being rapidly adopted to meet the growing demand from users for advanced mobile features such as email, internet browsing and video streaming.

“The relentless drive for higher performance mobile devices and lower power consumption is only made possible through the increasing use of GaAs based products. This is driving a significant increase in the GaAs content of mobile devices, and hence the rapidly increasing demand for our products.

“In addition we have a range of new technologies that we are currently in the process of bringing to market, including high efficiency solar cells, ultra high brightness LEDs for solid state lighting, advanced laser products, and advanced microprocessor and memory products.

“The Board remains confident that the strong markets for our products as well as our high operational gearing will ensure that we remain on course to deliver strong growth in sales and profits for the full year.”

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NOTE TO EDITORS

IQE plc is this year celebrating its twentieth anniversary as the leading global supplier of advanced semiconductor wafers with products that cover a diverse range of applications. It is able to provide a 'one stop shop' for the wafer needs of the world's leading compound semiconductor manufacturers, who in turn use these wafers to make the chips which form the key components of virtually every high technology system. IQE has particular focus on the growing global wireless sector for applications including; mobile handsets, wireless infrastructure, Wi-Fi, WiMAX, base stations, GPS and satellite communications; as well as for the optical communication sector including; optical storage (CD, DVD), laser optical mice, laser printers & photocopiers, thermal imagers, leading-edge medical products, bar-coding, high efficiency LEDs and advanced solar cells.

The manufacturers of these chips are increasingly seeking to outsource wafer production to specialist foundries such as IQE in order to reduce overall wafer costs and accelerate time to market. IQE is unique in being able to supply wafers using all of the leading crystal growth technology platforms including Metal Organic Vapour Phase Epitaxy (MOVPE) and Molecular Beam Epitaxy (MBE) and the Group is able to leverage its global purchasing volumes to reduce the cost of raw materials.

IQE also provides bespoke R&D services to deliver customized materials for specific applications and offers specialist technical staff to manufacture to specification either at its own facilities or on the customer's own sites. This is backed by a strategy of duplicating each key product processes over multiple sites to assure customers of security of supply as well as provide compelling customer benefits in terms of flexibility and predictability of cost, thereby significantly reducing operating risk.

IQE operates six manufacturing facilities; two in Cardiff and one in Milton Keynes in the UK; two more in Bethlehem, Pennsylvania and Somerset, New Jersey in the USA; and its most recent acquisition in Singapore. The Group also has 11 sales offices located in major economic centres worldwide.

INTERIM RESULTS 2008

1. OVERVIEW

IQE celebrates its twentieth anniversary during 2008, demonstrating the Group's ability to withstand difficult economic cycles. IQE's robust strategy and sound execution is now delivering continued rapid growth in sales and profits, and positions the business well to continue this trend.

During the first half of 2008 IQE delivered rapid sales growth, and treble digit growth in EBITDA, before the one off exceptional costs relating to the Singapore relocation. The powerful leverage of sales growth into EBITDA growth clearly demonstrates the high operational gearing developed by the Group.

The Singapore relocation is progressing according to plan and without any disruption to customers. The relocation will be completed during the second half of 2008 at a total expected cost of £2.4m.

IQE's strategy is to focus on high growth, high volume markets. The mobile communications market, which in the past proved resilient to global economic slowdown, continues to drive strong demand for IQE's products. The reliance on GaAs devices for advanced mobile features means that the growth rate for IQE's high speed wireless components continues to exceed the growth in demand for mobile handsets.

IQE has also developed a unique set of competitive advantages to ensure that it provides a world leading epitaxial wafer foundry service to its customers. By delivering against these advantages and through strong operational performance, IQE has achieved a market leading position. This was independently corroborated by Strategy Analytics in its research published in August 2008 which identifies IQE as the global market leader by a considerable margin.

2. RESULTS

Strong growth in the wireless market contributed to the 27% increase in sales to £30.2m (H1 2007: £23.7m), representing sequential growth of 14% compared to the previous six months.

Gross profit increased by 42% to £5.5m reflecting the strong dynamics within the business and the tight control of costs in this rapid growth environment.

Selling, general and administrative expenses ("SG&A") were tightly controlled and, despite the jump in sales, increased only marginally to £3.9m before exceptional costs (H1 2007: £3.8m), equivalent to 13% of sales (H1 2007: 16%). The exceptional costs, which amounted to £1.6m in the half year (H1 2007: £nil), relate to the one-off costs incurred in relocating the Singapore operation to a new state-of-the-art facility. This project remains on track for completion during the second half of 2008. The new facility will provide considerable room for future expansion in a highly cost effective manner.

EBITDA before exceptional costs increased by 135% to £3.6m compared with the first half of 2007, clearly demonstrating the powerful operational gearing of the business model and the benefit of improved efficiencies.

Operating profit before exceptional item jumped to £1.6m compared with £0.1m in the first half of 2007, continuing the clear trend of increasingly profitable trading.

Retained profit before exceptional item was £0.9m (H1 2007: £0.5m retained loss). This represents 0.19 pence earnings per share (H1 2007: 0.12 pence loss per share). After exceptional items the retained loss was £0.7m, representing 0.17 pence loss per share.

The Group has not suffered a tax charge during the period, which reflects the benefit of the substantial tax losses at its disposal. These tax losses will enable the Group to shelter up to £90 million of future taxable profits.

The cash inflow from operations before exceptional items was £3.4m, compared with £0.4m inflow in the first half of 2007. This powerful conversion of EBITDA into cash reflects the careful management of working capital in a high growth environment. Overall working capital was reduced by a £0.6m on a sales increase of £6.5m.

As planned, capital expenditure of £3.4m (H1 2007: £4.0m) was directed at bringing additional capacity on-line to address growing customer demand. The Group also invested £0.8m (H1 2007: £0.7m) in developing and bringing to market new customer products.

The Group negotiated new significantly increased banking facilities with Lloyds TSB Corporate Markets for the purpose of financing continued growth. With its current facilities the Group now has £9.0m of working capital facilities available. Cash on hand at the half year was £1.6m (H1 2007: £1.3m).

Net debt of £15.7m (H1 2007: £10.4m) was lower than expected as a result of strong working capital management. With the additional capacity that is being brought on-line in 2008, and the completion of the Singapore relocation in the second half, the Group is expecting strong free cash flow generation and the reduction of net debt in 2009.

3. STRATEGY

IQE continues to focus on fast growing, large volume technologies, and in particular, high speed wireless communications and advanced opto electronics. In this respect, the Group is actively engaged in developing advanced solar cell technology, high efficiency solid state light sources, advanced lasers and ultra high speed microprocessor and memory chip materials technology for these fast growing, large volume emerging markets.

In order to provide customers with the most competitive outsource wafer service globally, IQE has developed a unique set of advantages, including:

- offering a complete range of products covering all major applications;
- offering global multi-site production capabilities in the primary manufacturing platforms to allow efficient capacity planning and for disaster scenario contingency;
- maintaining a broad contact base and global presence with access to all the key global markets;
- delivering benefits from economies of scale including purchasing power and research and development efficiencies;
- promoting the sharing of best practices and innovation across the group to deliver improved operating and cost efficiencies; and
- providing surge capacity to meet the expected growth in demand in the mobile device sector and other high volume activities.

This strategy has delivered tangible results in the current generation of wireless products that have dominated IQE's output during 2008 and will continue to deliver on current and next generation products. In addition, IQE is also able to leverage its large manufacturing capacity in order to deliver tangible benefits to customers, shareholders and other stakeholders.

4. PRODUCTS AND MARKETS

IQE's product roadmap and strategy continues to be driven by four key market dynamics, all of which have high growth, high volume prospects:

- The increasing adoption of high speed mobile communications, including 3G, WiFi, WiMAX, WiBro, GPS and other wireless technologies . As mobile technologies continue to advance at an enormous pace with new features constantly emerging, the role of advanced compound semiconductor materials such as GaAs has become critical in enabling high speed data processing whilst maintaining low levels of power consumption. IQE's products are absolutely critical in the drive to 3G and beyond, along with the need for backward compatibility and the speed and power to accommodate features such as high resolution imaging, video, high speed wireless data access, VoIP and satellite navigation. Each high speed communication device now contains multiple numbers of GaAs components compared with earlier generations, creating a powerful demand driver for GaAs components and wafers which far outstrips the growth of the overall communications market which is in excess of 10% pa.
- The ubiquity of applications for high volume semiconductor lasers, including HD DVD, laser mouse, laser projection, gaming and office and industrial applications. In particular, laser projection is viewed as one of the most exciting applications of this technology, eventually being incorporated into mobile handsets.
- The accelerating drive for clean, efficient and sustainable energy sources (solar cells), and highly efficient light sources (LEDs) in order to reduce the impact on global warming, reliance on fossil fuels and provide a much cleaner environment. Compound semiconductors are playing a critical role, and IQE is involved in leading edge development for these applications, having achieved world leading results through its partners for solar cell efficiencies.
- The continuing need for higher speed, more powerful microprocessors and higher speed, ultra high density memories. This is driving the demand for new materials solutions based on silicon substrates including the incorporation of compound semiconductors directly onto silicon substrates. IQE has established powerful positions in both technologies, working with some of the biggest names in the industry.

Each of these markets has very powerful growth potential, with wireless being the current key driver.

5. TRADING OUTLOOK

IQE's markets continue to prove resilient to the global economic slowdown, as demonstrated by strong customer demand and echoed by recent market comments on the strength of 3G handset and smartphone sales. The growth in demand for IQE's products is largely being driven by the increasing content of GaAs within mobile devices, which reflects the rapid adoption of 3G and "smartphone" technology to meet the growing demand from users for advanced mobile features such as email, internet browsing and video streaming. 3G handset sales currently represent around 12% of the general market but are forecast to grow 52% in 2008 (Gartner; August 2008).

In addition, IQE continues to innovate and is working with a number of customers in developing cutting edge technologies in key emerging fast growing, large volume markets, including solar power generation, high efficiency solid state light sources, advanced lasers, and advanced micro processor and memory products. The Group continues to make good progress in these areas and is on track in bringing these products to market in the near term.

The Group's diverse customer base and multi-channel supply strategy ensure a high level of resilience to changes in the market landscape within its supply chain.

The successful implementation of the Group's strategy, combined with a strong operational gearing give the Board confidence in both the short term and long term growth prospects of the business. The Group remains on course to deliver strong growth in both sales and profits for the full year.

Dr Drew Nelson
President and CEO
2nd September 2008.

CONSOLIDATED INCOME STATEMENT		6 months to 30 Jun 2008	6 months to 30 Jun 2007	12 months to 31 Dec 2007
(All figures GBP000s)	Note	Unaudited	Unaudited	Audited
Revenue from continuing operations		30,178	23,680	50,065
Cost of sales		(24,675)	(19,808)	(41,838)
Gross profit		5,503	3,872	8,227
Gross profit %		18.2	16.4	16.4
Selling, general and administrative expenses (including exceptional items)	3	(5,492)	(3,808)	(8,053)
Operating profit		11	64	174
Operating profit %		0.0	0.3	0.3
Operating profit before exceptional items		1,579	64	613
Exceptional items	3	(1,568)	0	(439)
Operating profit		11	64	174
Operating profit % before exceptional items		5.2	0.3	1.2
Finance income		20	5	58
Finance costs		(740)	(572)	(1,094)
Loss for the period attributable to equity shareholders		(709)	(503)	(862)
Loss pence per ordinary 1p share	4	(0.16)	(0.12)	(0.20)
Diluted loss pence per ordinary 1p share	4	(0.16)	(0.12)	(0.20)
EBITDA before exceptionals is calculated as follows:				
Loss for the period attributable to equity shareholders		(709)	(503)	(862)
Share based payments		434	198	571
Exceptional items		1,568	0	439
Net interest payable		720	567	1,036
Depreciation of tangible fixed assets		1,382	1,111	2,400
Amortisation of intangible fixed assets		205	157	307
Earnings before interest, taxes, depreciation, amortisation and exceptionals		3,600	1,530	3,891

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE	6 months to 30 Jun 2008	6 months to 30 Jun 2007	12 months to 31 Dec 2007
(All figures GBP000s)	Unaudited	Unaudited	Audited
Loss for the period	(709)	(503)	(862)
Currency translation differences on foreign currency net investments	241	(234)	(743)
Total recognised expense for the period	(468)	(737)	(1,605)

CONSOLIDATED BALANCE SHEET	As At 30 Jun 2008	As At 30 Jun 2007	As At 31 Dec 2007
(All figures GBP000s)	Unaudited	Unaudited	Audited
Non-current assets :			
Intangible assets	12,856	11,643	12,110
Property, plant and equipment	19,703	14,510	17,243
Total non-current assets	32,559	26,153	29,353
Current assets :			
Inventories	8,829	8,094	7,643
Trade and other receivables	12,534	8,540	10,599
Cash and cash equivalents	1,646	1,263	11
Total current assets	23,009	17,897	18,253
Total assets	55,568	44,050	47,606
Current liabilities :			
Borrowings	(6,254)	(3,584)	(5,911)
Trade and other payables	(14,208)	(8,851)	(10,354)
Total current liabilities	(20,462)	(12,435)	(16,265)
Non-current liabilities :			
Borrowings	(11,142)	(8,046)	(8,259)
Long term creditors	(829)	0	0
Deferred income	(102)	(141)	(122)
Total non-current liabilities	(12,073)	(8,187)	(8,381)
Total liabilities	(32,535)	(20,622)	(24,646)
Net assets	23,033	23,428	22,960
Shareholders' equity :			
Ordinary shares	4,324	4,308	4,310
Share premium	172,281	172,154	172,183
Other reserves	(422)	(952)	(1,092)
Profit and loss account	(153,150)	(152,082)	(152,441)
Total shareholders' equity	23,033	23,428	22,960

CONSOLIDATED CASH FLOW STATEMENT		6 months to 30 Jun 2008	6 months to 30 Jun 2007	12 months to 31 Dec 2007
(All figures GBP000s)		Unaudited	Unaudited	Audited
Cash flows from operating activities :				
Cash inflow from operations	6	2,758	393	1,827
Interest received		20	5	58
Interest paid		(475)	(427)	(762)
Net cash inflow/(outflow) from operating activities		2,303	(29)	1,123
Cash flows from investing activities :				
Development expenditure		(786)	(730)	(1,372)
Investment in other intangible fixed assets		(100)	0	(20)
Purchase of property, plant and equipment		(2,605)	(3,974)	(7,814)
Proceeds from sale of tangible fixed assets		0	0	97
Net cash used in investing activities		(3,491)	(4,704)	(9,109)
Cash flows from financing activities :				
Issues of ordinary share capital		107	127	154
Loans and leases received/(repaid)		3,738	1,798	2,750
Net cash generated from financing activities		3,845	1,925	2,904
Net increase/(decrease) in cash and cash equivalents		2,657	(2,808)	(5,082)
Cash and cash equivalents at the beginning of the period		(1,011)	4,071	4,071
Cash and cash equivalents at the end of the period	7	1,646	1,263	(1,011)

1 BASIS OF PREPARATION

These interim results have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS") and interpretations in issue at 30 June 2008.

The interim results were approved by the Board of Directors and the Audit Committee on 01 September 2008. The interim results do not constitute statutory accounts within the meaning of the Companies Act 1985 and have not been audited. Comparative figures in the interim results for the year ended 31 December 2007 have been taken from the published audited statutory financial statements. All other periods presented are unaudited.

2 SEGMENTAL INFORMATION	6 months to 30 Jun 2008	6 months to 30 Jun 2007	12 months to 31 Dec 2007
(All figures GBP000s)	Unaudited	Unaudited	Audited
Revenue by business segment :			
Wireless	23,646	17,327	38,088
Optoelectronics	5,278	5,097	9,212
Electronics	1,254	1,256	2,765
Total revenue	30,178	23,680	50,065
Operating profit by business segment :			
Wireless (including exceptional items £1,568,000; 2007 £nil)	1,523	1,260	3,583
Optoelectronics	(893)	(938)	(2,840)
Electronics	(619)	(258)	(569)
Total operating profit	11	64	174

3 EXCEPTIONAL ITEMS	6 months to 30 Jun 2008	6 months to 30 Jun 2007	12 months to 31 Dec 2007
(All figures GBP000s)	Unaudited	Unaudited	Audited
Exceptional items comprise :			
Relocation costs	1,568	0	439

The exceptional charge of £1,568,000 (2007- £nil) relates to the one-off costs incurred in relocating the Singapore operation to a new state-of-the-art facility. The relocation is progressing according to plan and will be completed during the second half of 2008.

4 LOSS PER SHARE	6 months to 30 Jun 2008	6 months to 30 Jun 2007	12 months to 31 Dec 2007
	Unaudited	Unaudited	Audited
Profit/(loss) for the period (before exceptional items) GBP 000s	859	(503)	(423)
Loss for the period GBP 000s	(709)	(503)	(862)
Weighted average number of ordinary shares	431,500,695	430,362,629	430,601,406
Dilutive share options	12,451,008	6,931,004	14,883,360
Adjusted weighted average number of ordinary shares	443,951,703	437,293,633	445,484,766
Profit/(loss) pence per share (before exceptional items)	0.19	(0.12)	(0.09)
Loss pence per share	(0.16)	(0.12)	(0.20)
Diluted loss pence per share	(0.16)	(0.12)	(0.20)

Profit/(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.

IAS 33 requires the presentation of diluted loss pence per share 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, net loss per share would only be increased by the exercise of the out of the money options. Since it seems inappropriate to assume that option holders would act irrationally, no adjustment has been made to diluted loss per share for out of the money share options.

5 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	6 months to 30 Jun 2008	6 months to 30 Jun 2007	12 months to 31 Dec 2007
(All figures GBP000s)	Unaudited	Unaudited	Audited
At the beginning of the period	22,960	23,840	23,840
Loss for the period attributable to equity shareholders	(709)	(503)	(862)
Share option costs credited to reserves	434	198	571
Shares issued net of issue costs	107	127	154
Net exchange differences offset in reserves	241	(234)	(743)
At the end of the period	23,033	23,428	22,960

6 CASH GENERATED FROM OPERATIONS	6 months to 30 Jun 2008	6 months to 30 Jun 2007	12 months to 31 Dec 2007
(All figures GBP000s)	Unaudited	Unaudited	Audited
Operating profit	11	64	174
Depreciation of tangible assets	1,382	1,111	2,400
Amortisation of intangible assets	205	157	307
Loss/(gain) on sale of tangible assets	0	0	(5)
Government grants released	(19)	(19)	(39)
Non cash exceptional costs	961	0	0
Non cash share option costs	434	198	571
Operating profit before changes in working capital	2,974	1,511	3,408
(Increase)/decrease in inventories	(1,186)	487	937
(Increase) in trade and other receivables	(1,935)	(2,060)	(4,119)
Increase in trade and other payables	2,905	455	1,601
Cash inflow generated from operations	2,758	393	1,827

7 ANALYSIS OF NET DEBT	As At 30 Jun 2008	As At 30 Jun 2007	As At 31 Dec 2007
(All figures GBP000s)	Unaudited	Unaudited	Audited
Cash at bank and in hand	1,646	1,252	0
Highly liquid investments	0	11	11
Total cash and cash equivalents	1,646	1,263	11
Overdraft	0	0	(1,022)
Loans due after one year	(11,073)	(8,040)	(8,170)
Loans due within one year	(6,211)	(3,583)	(4,844)
Finance leases due after one year	(69)	(6)	(89)
Finance leases due within one year	(43)	(1)	(45)
Total borrowings	(17,396)	(11,630)	(14,170)
Net debt	(15,750)	(10,367)	(14,159)