Interim Report 2016

IQE plc

Accelerating growth in photonics helps deliver strong uplift in profit and cash generation

Cardiff, UK. 13 September 2016: IQE plc (AIM: IQE, "IQE" or the "Group"), the leading global supplier of advanced wafer products and wafer services to the semiconductor industry, announces its unaudited half year results for the six months to 30 June 2016.

£' MILLION (except EPS)	**30 June 2016**	**30 June 2015**	**Change**
REVENUE	63.0	53.2	+18%
ADJUSTED OPERATING PROFIT*	10.8	6.7	+61%
ADJUSTED PROFIT BEFORE TAX*	10.1	5.9	+71%
NET PROFIT	10.0	4.5	+122%
ADJUSTED FULLY DILUTED EPS*	1.46p	0.90p	+62%
CASH GENERATED FROM OPERATIONS	12.4	4.5	+176%
LEVERAGE (NET DEBT + DEFERRED CONSIDERATION)	35.4	49.0	-28%

FINANCIAL HIGHLIGHTS

- Strong financial performance with double digit growth in revenues, profits and cash generation
- Revenues up 18% reflecting increasing revenues in all markets
- Adjusted fully diluted EPS up 62% with the benefit of the Groups highly geared business model
- Increased profitability converted into 176% increase in cash generated from operations
- Balance sheet leverage reduced by 28% to £35.4m
- Kopin deferred consideration balance of £10.7m settled in full in January 2016
- Remaining balance of deferred consideration will be settled in full by the end of this month (September 16).

OPERATIONAL HIGHLIGHTS

- Continuing diversification of revenues with non-wireless revenues accounting for 31% of sales (H1 2015: 24%)
- Accelerating photonics growth, with sales up 45% year on year
- Wireless performing well with sales up 7%
- Robust performance in Infrared and CMOS++ with sales up in both segments
- License income of £3.5m from joint ventures, which continue to perform well
- Strong progress with new product qualifications underpin the pipeline for continuing growth
- Continuing to strengthen technology leadership and IP portfolio

Dr Drew Nelson, IQE Chief Executive, said:

"IQE's continued strong financial performance reflects the significant progress made in diversifying revenues over the past few years, and its growing portfolio of intellectual property. A healthy performance in Wireless and IR has been supplemented by accelerated growth in photonics which is up 45%. The photonics market is being driven by a diverse range of applications, and is at an early stage in the growth cycle. We expect our photonics business to continue to grow strongly for the foreseeable future.

IQE has developed a broad portfolio of intellectual property for advance semiconductor materials. In addition to the £3.5m of license income generated in the first half, this IP portfolio is increasingly enabling IQE to differentiate itself, and create a platform for continuing growth across its current and emerging markets. IQE has a pipeline of new products and customer qualifications which underpin its growth ambitions, with programs expected to ramp through 2017 and 2018. This includes new photonic applications, wireless base stations, advanced solar, and power switching applications."

Note :
***** the Directors believe that the adjusted measures provide a more useful comparison of business trends and performance. Adjusted measures exclude exceptional items, share based payments and non-cash acquisition accounting charges. Reconciliation of the adjusted measures to the statutory measures are included in note 5.

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Note to Editors

IQE is the leading global supplier of advanced semiconductor wafers with products that cover a diverse range of applications, supported by an innovative outsourced foundry services portfolio that allows the Group to provide a 'one stop shop' for the wafer needs of the world's leading semiconductor manufacturers.

IQE uses advanced crystal growth technology (epitaxy) to manufacture and supply bespoke semiconductor wafers ('epiwafers') to the major chip manufacturing companies, who then use these wafers to make the chips which form the key components of virtually all high technology systems. IQE is unique in being able to supply wafers using all of the leading crystal growth technology platforms.

IQE's products are found in many leading-edge consumer, communication, computing and industrial applications, including a complete range of wafer products for the wireless industry, such as mobile handsets and wireless infrastructure, Wi-Fi, base stations, GPS, and satellite communications; and optical communications.

The Group also manufactures advanced optoelectronic and photonic components such as semiconductor lasers, vertical cavity surface emitting lasers (VCSELs) and optical sensors for a wide range of applications including optical storage, thermal imaging, leading-edge medical products, pico-projection, finger navigation ultra-high brightness LEDs, and high efficiency concentrated photovoltaic (CPV) 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 also provides bespoke R&D services to deliver customised 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. The Group is also able to leverage its global purchasing volumes to reduce the cost of raw materials. In this way, IQE's outsourced services, provide compelling benefits in terms of flexibility and predictability of cost, thereby significantly reducing operating risk.

IQE operates a number of manufacturing and R&D facilities across Europe, Asia and the USA. The Group also delivers its products and services through regional sales offices located in major economic centres worldwide.

INTERIM RESULTS 2016

1. INDUSTRY BACKGROUND

Integrated circuits or "chips" are the critical components which lie at the heart of all electronic devices. These chips are primarily fabricated using silicon. Silicon is an abundant semiconducting element which has enabled the Silicon chip market to grow to over $350 billion pa. However, as a material, silicon has fundamental limitations in its properties.

There is a range of other semiconducting elements which have much more advanced properties than silicon. Compound semiconductors refers to the technology of combining these other semiconducting elements to create materials which overcome the inherent performance limitations of silicon. This enables chip companies to produce compound semiconductor chips which achieve functionality that silicon chips just cannot match. Indeed, the wireless communications revolution, fibre optic communication (the internet), and LED lighting would not be possible without compound semiconductors.

2. OVERVIEW OF IQE

IQE designs and fabricates compound semiconductor wafers. It generates its revenues primarily from selling bespoke wafers to its customers, who in turn fabricate these wafers into compound semiconductor chips such as wireless communication chips, laser devices, or advanced sensors. IQE is also now leveraging its powerful IP portfolio to generate revenues from licensing activities.

IQE differentiates itself from its competitors through technology leadership, economies of scale, and dual site manufacturing for security of supply. This has enabled IQE to develop a strong leadership position, where it is recognised globally as the market leader, with an estimated 55% share of the wireless market and an unparalleled breadth of materials technologies.

IQE has developed a market facing organisational structure, based around its 6 key markets: Wireless, Photonics, Infrared, Solar, Power, and CMOS++.

3. RESULTS

The Group's results are reported after a number of one-off items and non-cash accounting charges. In aggregate, these resulted in a net charge of £0.2m in H1 2016 (H1 2015: £1.7m charge). These items are fully detailed in note 5 in order to assist with an assessment of the Group's underlying business performance. The following commentary on the first half results is based on these adjusted profit measures.

First half revenues increased by 18% to £63.0m (H1 2015: £53.2m). Wireless sales were up 7% to £43.2m (H1 2015: £40.5m). Photonics continued to enjoy strong double digit growth, with sales up 45% to £10.7m (H1 2015: £7.4m). License income from joint ventures was £3.5m (H1 2015: £nil), as both of the Group's joint ventures continued to perform in-line with expectations.

Adjusted gross margins increased from 24% to 28%, which included the benefit of a favourable sales mix. The increase in sales and the higher percentage margin resulted in a £5.0m increase in adjusted gross margin from £12.9m to £17.9m. This was partially offset by higher adjusted SG&A, which increased from £6.2m to £7.3m as the Group invested in anticipation of continuing growth. As a result, the adjusted operating profit increased by 61% from £6.7m to £10.8m.

Adjusted profit after tax increased from £6.3m to £10.2m, resulting in a 62% increase in adjusted fully diluted EPS from 0.90p to 1.46p. After exceptional charges of £0.2m (H1 2015: £1.7m), the reported profit after tax increased from £4.5m to £10.0m and the reported fully diluted EPS more than doubled from 0.65p to 1.43p.

The exceptional charge of £0.2m (H1 2015: £1.7m) relates to an exceptional gain on the reassessment of contingent deferred consideration of £2.2m (H1 2015: £nil), less non-cash accounting charges of £1.8m (H1 2015: £1.9m), and related deferred tax charges of £0.6m (H1 2015: £0.2m credit). These items are fully detailed in note 5.

Net cash generated from operating activities increased more than threefold from £3.5m to £11.0m, due to the improvement in profitability and strong working capital management.

The Group's balance sheet leverage, which comprises bank borrowings and deferred consideration from previous acquisitions, reduced by 28% from £49.0m at 30 June 2015 to £35.4m at 30 June 2016. Since the 31 December 2015, net debt increased by £10.4m to £33.6m largely reflecting that in January 2016 the Group settled the final balance deferred consideration from the Kopin acquisition (£10.7m). Conversely, the deferred consideration balance reduced from £17.9m to £1.8m. The deferred consideration balance will be eliminated in full by the end of September 2016.

The Group's Net Assets at June 2016 were £171.9m (December 2015: £147.0m) which included a presentational foreign exchange benefit of £12.7m arising primarily from the translation of US Dollar denominated assets at spot rate which had shifted significantly following the Brexit vote.

The Group has approximately £139m of accumulated tax losses, which represents a potential reduction in future tax payable of approximately £40m. The adjusted effective tax rate of 1.8% which has reduced from 6.7% in H1 2015 and 2.8% for FY 2015, reflects the anticipated rate for the full year, recognition of additional tax losses and other anticipated deferred tax movements. The reported effective tax rate of -4.2% (H1 2015: 15.4%, FY 2015: 4%) reflects that the Group has utilised its brought forward tax losses in Asia and the deferred tax impact of exceptional items.

4. VISION AND STRATEGY

Our Vision

The advanced properties of compound semiconductors will ensure that they play an increasingly significant role in the electronics industry in the 21st century. Through continuing innovation we are pushing the boundaries of their performance at the same time as reducing manufacturing costs. We are now achieving the cost-performance thresholds that is driving their rapid adoption in a range of photonic applications. Furthermore, we believe that the semiconductor industry is at an inflexion point. The next 'quantum leap' in our industry is the adoption of compound semiconductors on silicon to combine the performance advances of compound semiconductors with the low cost of silicon manufacturing.

Our vision is to be the global number one provider of advanced semiconductor materials as these technologies enable the transformation of the electronics industry.

Our Strategy

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

5. MARKETS

The Group has established six business units along market lines, to address its primary and emerging markets, the emerging markets of Solar and Power control are not yet significant enough to be separated in our segmental reporting.

Wireless

"Wireless" refers to a broad range of applications from mobile devices such as smartphones, tablets, routers, and WiFi through to large system applications such as base stations and radar. It is IQE's largest market today, and accounted for 69% of sales in the first half of 2016 (H1 2015: 76%). This has been the main growth driver in IQE's business over the last decade.

The smartphone revolution was triggered by the launch of the iPhone in 2007. The consumer "feeding frenzy" that followed delivered double digit growth in the market for wireless materials, driven by both the increase in the volume of handsets sold and an increasing chip content in each handset. Through this period of strong growth IQE has built its global leadership position in wireless, and now enjoys an estimated 55% global market share. However, the market has been more subdued over the past few years reflecting a lull in mobile phone handset innovation. As a result, we estimate that the materials market is currently growing at approximately 5% per annum. The supply chain has also been characterised by inventory corrections.

Nevertheless, compound semiconductors remain critical to wireless communication which remains an exciting growth area due to the continuing exponential growth in data traffic. Indeed, we expect the growth rate of the wireless market to increase over the next few years due to multiple factors, including :

- Innovation in handset technology (eg advanced photonic sensors) will accelerate replacement cycles
- The emergence of 5G communication
- Technology upgrade in base stations "gallium nitride on silicon technology" (GaN on Si)
- Integration of "front end" components (potential of using IQE's cREO technology)
- The "Internet of Things" increasing the connectivity of devices

Photonics

Photonics relates to semiconductor applications which emit or detect light – essentially lasers and sensors. It accounted for 17% of the Group's sales in the first half of 2016 (H1 2015: 14%). It is the fastest growing segment within IQE, and delivered a growth rate of 45% in the first half following several years of strong double digit growth.

The critical materials technologies in this market are VCSEL (Vertical Cavity Surface Emitting Lasers) and InP (Indium Phosphide). After several years of development, the advances in these technologies and the improvement in manufacturing processes means that these technologies are now hitting the performance and cost points necessary for mass market adoption.

The application space for VCSEL is very broad and includes data centres, consumer applications, industrial applications and health applications. The devices made from these materials include gesture recognition, 3D imaging, industrial heating, machine control, and biometrics to name but a few.

InP is the technology that is critical to fibre optics in telecommunications. The main growth drivers here are "Fibre to the Premises" (FTTx), data centre infrastructure and mobile base station backhaul. The continued exponential growth in data traffic is driving the roll out of fibre "to the last mile" across the planet, the need for greatly increased data storage capacity with rapid access to data, and 4G/LTE backhaul Fibre Optic links. .

The Photonics market is at an early stage of this growth phase. Indeed, we believe that our photonics business is at the start of a long term and exciting high growth curve. Our growth ambitions are underpinned by an impressive pipeline of programmes with blue chip customers for high volume applications.

Infrared

We are the market leader in the supply of indium antimonide (InSb) and gallium antimonide (GaSb) materials used in high resolution infrared systems, with an estimated market share of approximately 80%. This segment accounted for approximately 7% of Group's sales in the first half of 2016.

Sales are currently concentrated in defence related applications, but through our engagement in programmes in consumer, medical and industrial imagining, we expect this segment to increasingly transition into new markets over the coming years.

Power

"Power" relates to the use of semiconductors in Power Switching and LED lighting applications. IQE is developing materials solutions to address some of the key technological challenges faced in these markets. The size and scale of these markets are many time larger than IQE's existing markets, so these represent truly transformational opportunities for IQE.

Power switching devices are used where electricity is switched between AC and DC, or where voltage is switched. The happens throughout electricity generation and distribution, and in virtually all applications that are powered from the grid, from transformers in industrial machinery and electric vehicles, through to power supplies for your laptop. The market for power switching chips is estimated to be worth approximately $12 billion, which is approximately 4x the size of the existing wireless power amplifier chip market. Again, a truly transformational opportunity.

At present, these power switching chips are made using silicon, which has performance limitations. Accordingly, the industry is investing heavily in a step change in technology to overcome this inefficiency and deliver a high performing lower cost solution. That step change is the adoption of a hybrid compound semiconductor on silicon technology called GaN on Si. IQE is at the forefront of the materials development.

We are all becoming accustomed with LED technology as it gathers momentum in a range of lighting applications from automotive lighting to office lighting and residential lighting. The prevalent materials technology in this in industry is currently "gallium nitride on sapphire", but it is widely accepted that GaN on Si will become an important technology in this space. This provides a major opportunity for IQE to leverage its development of GaN on Si for Power into this adjacent market.

Advanced Solar

We are all familiar with solar panels (photovoltaics) as a means of generating electricity. Solar panels are largely made from silicon, which is inherently inefficient in converting sunlight into electricity, typically achieving efficiencies of only 15-20%. In contrast, compound semiconductors are significantly more efficient, and today deliver efficiencies of over 44%. Furthermore, there is a technology roadmap to increase this efficiency to over 50%. With its supply chain partners, IQE has developed technology leadership and is working to qualify this into production.

There are two key markets for this Compound Semiconductor solar technology : "space" (satellite power supplies) and "terrestrial" (renewable energy). The adoption of this technology in terrestrial has been slower than anticipated, largely due to the collapse of the global oil price and over-supply within the silicon panel market, but this remains a major market opportunity as these issues resolve themselves. In the meanwhile, we have been switching our primary focus to penetrating the space market, where this technology is already embedded. As technology leader we have a clear strategy to penetrate the market and win market share. The current pipeline of activities suggests that IQE can expect to see good commercial progress in the next 1-2 years.

CMOS++

The ever-increasing demand for higher speed and improved performance from today's electronic devices is ushering in a new era of semiconductor materials that combine the scale of the silicon industry with the power and performance of compound semiconductors.

IQE is at the forefront of developing this technology, and is working with a range of partners from global industry giants, universities and governments to dynamic start-ups. As a result, we have developed an enviable portfolio of technologies and patents which position us well to increasingly participate in the continuing evolution of the semiconductor industry.

6. INNOVATION AND COLLABORATION

Intellectual property relating to advanced materials is playing an increasing role in the evolution of the semiconductor industry. It is widely accepted that advanced materials are needed to overcome the challenges and realise the opportunities facing the electronics industry. This is evident from recent M&A activity in the "Compound Semiconductor" CS space, including the formation of a Joint Venture by Qualcomm and TDK (January 2016), the acquisitions by II-VI Inc of Epiworks (January 2016) and Anadigics (March 2016). The prices being paid in these deals are running into revenue multiples of 3x to 4x, reflectingstrong recognition of the value and importance of CS materials technology to future advanced systems deployment..

IQE has been at the forefront of advanced semiconductor technology for over a quarter of a century. It has built a reputation within the CS industry for an unparalled breadth and depth of its materials technologies and capabilities. This is now becoming increasingly recognised outside the CS industry, where IQE is becoming viewed as the 'go to' advanced materials innovator and provider. Indeed, IQE is now engaged directly with a number of Tier 1 OEMs, bypassing the normal "materials-chip-OEM" model.

There are many examples in history that show collaboration is a powerful tool in accelerating innovation. The benefits are even greater when whole ecosystems "cluster" in the same location, breaking down the barriers created by geography and time zones. Indeed, Silicon Valley in California is a prime example of how the benefit of clustering can propel an industry to a global platform. It is the benefits of collaboration and clustering that underpin IQE's strategic rationale for the joint venture partnerships it announced during 2015, and its highly successful Open Innovation programme (openiqe.com).

The silicon supply chain is no stranger to the benefits of clustering. Indeed, there are 4 clusters within Europe which are centred around the development and commercialisation of Silicon technology. These are strongholds of innovation and value creation, with over 800 companies and 150,000 employees. IQE's vision is to be at the epicentre of the world's first compound semiconductor cluster, based in the UK. There has been significant progress in making this a reality over the past 12 months, and momentum continues to build:

- Cardiff University is investing c.£75m in the creation of the Institute of Compound Semiconductors as part of its £300m innovation campus;
- IQE and Cardiff University invested £24m in the formation of the Compound Semiconductor Centre Joint Venture;
- In January 2016 the Chancellor of the Exchequer announced £50m funding for a Compound Semiconductor Catapult in Wales, which will leverage a further £100m funding from Innovate UK and Industry; and,
- In March 2016, the Cardiff City Region Deal was announced which identifies the emerging CS cluster in Cardiff as one of its 5 headline goals.

This level of investment is recognition of the increasing significance of compound semiconductor technology in the electronics industry, and the UK's ambitions to build on its existing academic and industrial strengths to develop a world class end-to-end supply chain for compound semiconductor technologies in the UK.

6. CORPORATE GOVERNANCE

Following the AGM on 23rd June 2016, the Nominations Committee of the Board has appointed an independent external advisor to undertake an executive search for Non-Executive Director candidates. In addition, the Remuneration Committee has appointed independent external advisors to undertake a benchmarking of Executive Remuneration.

7. CURRENT TRADING AND OUTLOOK

The Group has continued to make good strategic, operational and financial progress in 2016, and has a clear vision and roadmap for the continuing growth of the business. Trading in the second half has commenced well, and with the benefit of a strong pipeline and increasing revenue diversification the Board remains confident that the Group is on track to deliver full year earnings in line with expectations.

Dr Drew Nelson, CEO

CONSOLIDATED INCOME STATEMENT		6 months to 30 Jun 2016	6 months to 30 Jun 2015	12 months to 31 Dec 2015
(All figures £'000s)	**Note**	**Unaudited**	**Unaudited**	**Audited**
Revenue		**63,010**	**53,219**	**114,024**
Cost of sales		(45,766)	(40,980)	(83,372)
Gross profit		**17,244**	**12,239**	**30,652**
Other income		2,163	-	779
Selling, general and administrative expenses		(8,270)	(7,160)	(15,452)
Profit on disposal of property, plant and equipment		137	-	5,187
Operating profit		**11,274**	**5,079**	**21,166**
Net finance costs		(802)	(1,145)	(1,790)
Adjusted profit before tax		**10,061**	**5,871**	**17,574**
Adjustments	5	411	(1,937)	1,802
Profit before tax		**10,472**	**3,934**	**19,376**
Income tax (charge)/credit		(444)	607	773
Profit for the period		**10,028**	**4,541**	**20,149**
Profit attributable to:				
Equity shareholders		9,936	4,388	19,864
Non-controlling interests		92	153	285
		10,028	**4,541**	**20,149**
Basic earnings per share	6	1.49p	0.67p	3.00p
Diluted earnings per share	6	1.43p	0.65p	2.90p

Adjusted basic and diluted earnings per share is presented in Note 6.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	6 months to 30 Jun 2016	6 months to 30 Jun 2016	12 months to 31 Dec 2015
(All figures £'000s)	**Unaudited**	**Unaudited**	**Audited**
Profit for the period	10,028	4,541	20,149
Currency translation differences on foreign currency net investments*	12,713	(1,756)	3,165
Total comprehensive income for the period	**22,741**	**2,785**	**23,314**
Total comprehensive income attributable to:			
Equity shareholders	22,333	2,605	23,000
Non-controlling interests	408	180	314
	22,741	**2,785**	**23,314**

* This may be subsequently reclassified to the income statement when it becomes realised.

CONSOLIDATED BALANCE SHEET		As At 30 Jun 2016	As At 30 Jun 2015	As At 31 Dec 2015
(All figures £'000s)		**Unaudited**	**Unaudited**	**Audited**
Non-current assets :				
Intangible assets		95,990	81,309	86,843
Property, plant and equipment		73,331	64,968	65,154
Deferred tax asset		15,745	13,239	14,210
Financial Assets		8,000	-	8,000
Total non-current assets		**193,066**	**159,516**	**174,207**
Current assets :				
Inventories		23,767	18,857	21,215
Trade and other receivables		25,838	23,483	23,050
Cash and cash equivalents	8	4,311	5,356	4,644
Total current assets		**53,916**	**47,696**	**48,909**
Total assets		**246,982**	**207,212**	**223,116**
Current liabilities :				
Borrowings	8	(3,344)	(3,596)	(3,241)
Trade and other payables		(33,083)	(40,306)	(43,693)
Provisions for other liabilities and charges	9	(1,351)	(1,432)	(1,116)
Total current liabilities		**(37,778)**	**(45,334)**	**(48,050)**
Non-current liabilities :				
Borrowings	8	(34,553)	(32,875)	(24,626)
Other payables		-	(484)	(484)
Provisions for other liabilities and charges	9	(2,778)	(3,369)	(2,922)
Total non-current liabilities		**(37,331)**	**(36,728)**	**(28,032)**
Total liabilities		**(75,109)**	**(82,062)**	**(76,082)**
Net assets		**171,873**	**125,150**	**147,034**
Equity attributable to shareholders :				
Share capital	10	6,723	6,621	6,655
Share premium		50,609	49,282	49,600
Retained earnings		80,136	54,724	70,200
Other reserves		31,564	12,224	18,146
		169,032	**122,851**	**144,601**
Non-controlling Interest		2,841	2,299	2,433
Total equity		**171,873**	**125,150**	**147,034**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited (All figures £'000s)	**Share capital**	**Share premium**	**Retained earnings**	**Exchange rate reserve**	**Other reserves**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2016	**6,655**	**49,600**	**70,200**	**7,925**	**10,221**	**2,433**	**147,034**
Profit for the period	-	-	9,936	-	-	92	10,028
Foreign exchange	-	-	-	12,397	-	316	12,713
Total comprehensive income	**-**	**-**	**9,936**	**12,397**	**-**	**408**	**22,741**
Employee share scheme	-	-	-	-	1,021	-	1,021
Issues of ordinary shares	68	1,009	-	-	-	-	1,077
Total transactions with owners	**68**	**1,009**	**-**	**-**	**1,021**	**-**	**2,098**
Balance as at 30 June 2016	**6,723**	**50,609**	**80,136**	**20,322**	**11,242**	**2,841**	**171,873**

Unaudited (All figures £'000s)	**Share capital**	**Share premium**	**Retained earnings**	**Exchange rate reserve**	**Other reserves**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2015	**6,603**	**49,108**	**50,336**	**4,789**	**8,220**	**2,119**	**121,175**
Profit for the period	-		4,388	-	-	153	4,541
Foreign exchange	-	-	-	(1,783)	-	27	(1,756)
Total comprehensive income/(expense)	**-**	**-**	**4,388**	**(1,783)**	**-**	**180**	**2,785**
Employee share scheme	-	-	-	-	998	-	998
Issues of ordinary shares	18	174	-	-	-	-	192
Total transactions with owners	**18**	**174**	**-**	**-**	**998**	**-**	**1,190**
Balance as at 30 June 2015	**6,621**	**49,282**	**54,724**	**3,006**	**9,218**	**2,299**	**125,150**

Audited (All figures £'000s)	**Share capital**	**Share premium**	**Retained earnings**	**Exchange rate reserve**	**Other reserves**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2015	**6,603**	**49,108**	**50,336**	**4,789**	**8,220**	**2,119**	**121,175**
Profit for the year	-	-	19,864	-	-	285	20,149
Foreign exchange	-	-	-	3,136	-	29	3,165
Total comprehensive income	**-**	**-**	**19,864**	**3,136**	**-**	**314**	**23,314**
Share based payments	-	-	-	-	2,001	-	2,001
Issues of ordinary shares	52	492	-	-	-	-	544
Total transactions with owners	**52**	**492**	**-**	**-**	**2,001**	**-**	2,545
Balance at 31 December 2015	**6,655**	**49,600**	**70,200**	**7,925**	**10,221**	**2,433**	**147,034**

CONSOLIDATED CASH FLOW STATEMENT		6 months to 30 Jun 2016	6 months to 30 Jun 2015	12 months to 31 Dec 2015
(All figures £'000s)		**Unaudited**	**Unaudited**	**Audited**
Cash flows from operating activities :				
Adjusted cash inflow from operations		**13,010**	**5,322**	**22,575**
Cash impact of adjustments	5	(605)	(773)	(1,604)
Cash inflow from operations	7	**12,405**	**4,549**	**20,971**
Net interest paid		(723)	(809)	(1,403)
Income tax paid		(684)	(192)	(459)
Net cash generated from operating activities		**10,998**	**3,548**	**19,109**
Cash flows from investing activities :				
Acquisition deferred consideration for Kopin Wireless		(10,650)	-	-
Capitalised development expenditure		(2,784)	(2,109)	(4,979)
Investment in other intangible fixed assets		(755)	(216)	(1,198)
Purchase of property, plant and equipment		(4,323)	(1,296)	(3,825)
Proceeds from disposal of property, plant and equipment		258	-	-
Net cash used in investing activities		**(18,254)**	**(3,621)**	**(10,002)**
Cash flows from financing activities :				
Issues of ordinary share capital		74	191	544
Repayment of borrowings		(1,765)	(13,125)	(15,109)
Increase in borrowings		8,269	12,830	4,349
Net cash generated from/(used in) financing activities		**6,578**	**(104)**	**(10,216)**
Net decrease in cash and cash equivalents		**(678)**	**(177)**	**(1,109)**
Cash and cash equivalents at the beginning of the period		4,644	5,584	5,584
Exchange gains/(losses) on cash and cash equivalents		345	(51)	169
Cash and cash equivalents at the end of the period	8	**4,311**	**5,356**	**4,644**

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 2016.

The interim results were approved by the Board of Directors and the Audit Committee on 13 September 2016. The interim results do not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 and have not been audited. Comparative figures in the interim results for the year ended 31 December 2015 have been taken from the published audited statutory financial statements. All other periods presented are unaudited. Statutory accounts for the year ended 31 December 2015 were approved by the Board of Directors on 22 March 2016 and were delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

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).

As permitted these interim results for the half-year ended 30 June 2016 have been prepared in accordance with UK AIM rules and the IAS 34, 'Interim financial reporting' as adopted by the European Union. These interim financial results should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with IFRSs as adopted by the European Union. The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements.

The financial information contained in these interim results has been reviewed by the Company's auditor in accordance with ISRE 2410 however this does not constitute an audit.

Having considered the Group's forecasts the Directors have formed a judgment that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the condensed consolidated financial information.

2 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those financial statements on pages 60 to 65.

Recent accounting developments

In preparing the condensed consolidated half-yearly financial information the Group has adopted the following Standards, amendments and interpretations which are effective for 2016 and will be adopted for the year ended 31 December 2016:

- Annual improvements 2014 (2012-2014 cycle)
- Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38,'Intangible assets', on depreciation and amortisation
- Amendments to IAS 27, 'Separate financial statements' on the equity method
- Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative

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

The following new standards and amendments to standards and interpretations have been issued but are not yet endorsed for annual periods beginning after 1 January 2016 (noted below), and have not been adopted in preparing the condensed consolidated half-yearly financial information.

- IAS Amendments to IAS 7, Statement of cash flows on disclosure initiative
- Amendments to IAS 12,'Income taxes' on Recognition of deferred tax assets for unrealised losses
- Amendments to IFRS 2 'Share based payments' on clarifying how to account for certain types of share based payment transactions
- IFRS 15 Revenue from contracts with customers
- IFRS 9 Financial instruments
- IFRS 16 Leases

Financial Instruments

The carrying value of cash, trade and other receivables, trade and other payables and borrowings also represent their estimated fair values. There are no material differences between carrying value and fair value at 30 June 2016.

Additional disclosure of the basis of measurement and policies in respect of financial instruments are described on pages 83 to 87 of our 2015 Annual Report and remain unchanged at 30 June 2016.

Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015, with the exception of changes in estimates that are required in determining the provision for income taxes.

Impairment

No Impairment charges have been recognised in the period to 30 June 2016.

3 PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties impacting the Group are described on pages 33 to 36 of our 2015 Annual Report and remain unchanged at 30 June 2016.

They include: competition, technological change, financial liquidity, natural disasters, retention of key employees, business interruption - supply chain, customer concentration and legislative compliance.

4. SEGMENTAL INFORMATION

	6 Months to 30 June 2016 Unaudited	6 Months to 30 June 2015 Unaudited	12 Months to 31 Dec 2015 Audited
	£'000	**£'000**	**£'000**
Revenue			
Wireless	43,228	40,454	79,482
Photonics	10,705	7,359	15,985
Infra Red	4,689	4,584	8,878
CMOS++	871	822	1,655
Total Segment Revenue	**59,493**	**53,219**	**106,000**
License income from sales to joint ventures	3,517	-	8,024
Total Revenue	**63,010**	**53,219**	**114,024**
Adjusted operating profit			
Wireless	5,085	5,045	7,147
Photonics	2,734	1,631	4,320
Infra Red	830	655	1,181
CMOS++	(1,384)	(650)	(1,695)
Segment adjusted operating profit	**7,265**	**6,681**	**10,953**
Profit from license income from sales to joint ventures*	3,517	-	8,024
Adjusted operating profit	**10,782**	**6,681**	**18,977**
Exceptional gain on disposal of fixed assets	-	-	5,187
Non-cash accounting charges	(1,752)	(1,937)	(3,596)
Net reduction in contingent deferred consideration	2,163	-	779
Restructuring and reorganisation	-	-	(568)
Underlying finance costs	(721)	(810)	(1,403)
Profit before tax	**10,472**	**3,934**	**19,376**

* The profit arising for the 12 months to 31 December 2015 from license income sales to joint ventures represents revenue of £15,310,000 offset by an elimination of unrealised profit of £7,286,000 relating to our retained interest in the Compound Semiconductor Centre Limited joint venture. No elimination of unrealised profit occurred in the 6 months to 30 June 2016.

5 ADJUSTED PROFIT MEASURES

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

Adjustments to profit **(All figures £'000s)**	**6 months to 30 Jun 2016 Unaudited**	**6 months to 30 Jun 2015 Unaudited**	**12 months to 31 Dec 2015 Audited**
Exceptional gain on disposal of fixed assets	-	-	5,187
Non-cash accounting charges	(1,752)	(1,937)	(3,596)
Gain on release of contingent deferred consideration	2,163	-	779
Restructuring and reorganisation	-	-	(568)
Total before tax	**411**	**(1,937)**	**1,802**
Deferred tax on adjustments	(629)	212	281
Total after tax	**(218)**	**(1,725)**	**2,083**

The Group incurred a number of non-cash accounting charges relating to acquisition accounting £0.8m (H1 2015: £0.9m, FY15: £1.6m) and share based payments £1.0m (H1 2015: £1.0m, FY15: £2.0m).

These are classified £0.7m (H1 2015: £0.7m, FY15: £1.8m) within gross margin, £1.0m (H1 2015: £1.0m, FY15: £2.0m) in selling, general administrative expenses and £0.1m (H1 2015: £0.3m, FY15: £0.4m) in net finance costs.

The Group generated a non-cash profit of £2.2m (H1 2015: £nil, FY 16: £0.8m) arising from a reduction in the estimated remaining deferred consideration (settled via trade discount) in respect of a previous acquisition. This has been classified within other income and expenses in the consolidated income statement.

The deferred tax debit of £0.6m (H1 2015: £0.2m credit, FY15: £0.3m credit) reflects the deferred tax impact associated with the adjustments to profit.

In addition the year-end adjustments to profit included the following items:

In July 2015 the group established a joint venture with Cardiff University to develop and commercialise compound semiconductor technologies in Europe. To establish the joint venture, IQE contributed equipment with a market value of £12m, which was matched by a £12m cash contribution from Cardiff University. This created a non-cash exceptional gain of £4.8m in IQE's accounts reflecting the Group's share of the difference between the book value and market value of the equipment contributed. In addition, other unrelated disposals of fixed assets realised a net gain of £0.4m.

The restructuring and reorganisation costs of £0.6m (H1 2015: £nil) reflects some one-off redundancy and asset write downs associated with the restructuring of the groups manufacturing operations.

The cash flow impact of adjustments in the first half of 2016 relates to the onerous lease rental payments which are offset by the unwind of the onerous lease provision.

Certain items noted above are accounting estimates based on judgements, accordingly, the actual amounts may differ from these estimates.

(All figures £'000s)	6 months to 30 Jun 2016 Unaudited	6 months to 30 Jun 2015 Unaudited	12 months to 31 Dec 2015 Audited
Adjusted gross margin	17,925	12,904	32,439
Reported gross margin	17,244	12,239	30,652
Adjusted sales, general and administrative expenses	(7,280)	(6,223)	(13,462)
Reported sales, general and administrative expenses	(8,270)	(7,160)	(15,452)
Adjusted operating profit	10,782	6,681	18,977
Reported operating profit	11,274	5,079	21,166
Adjusted profit before tax	10,061	5,871	17,574
Reported profit before tax	10,472	3,934	19,376
Adjusted profit after tax	10,246	6,266	18,066
Reported profit after tax	10,028	4,541	20,149

Earnings before interest, tax, depreciation and amortisation (EBITDA) have been calculated as follows:

(All figures £'000s)	6 months to 30 Jun 2016 Unaudited	6 months to 30 Jun 2015 Unaudited	12 months to 31 Dec 2015 Audited
Profit attributable to equity shareholders	**9,936**	**4,388**	**19,864**
Minority interest	92	153	285
Tax	444	(607)	(773)
Finance costs	802	1,145	1,790
Depreciation of tangible fixed assets	3,120	3,260	6,192
Amortisation of intangible fixed assets	2,444	2,031	5,040
Share based payments*	1,021	998	2,001
Profit and Loss on disposal*	(137)	-	(5,187)
Impairment of assets*	-	-	453
Release of contingent deferred consideration*	(2,163)	-	(779)
Restructuring and re-organisation*	-	-	115
EBITDA	**15,559**	**11,368**	**29,001**

*Exceptional items impacting EBITDA include the following items: share based payments, profit and loss on disposal, impairment of assets, provision for onerous lease, wireless business unit re-organisation costs and the release of contingent deferred consideration.

6 EARNINGS PER SHARE	6 months to 30 Jun 2016 Unaudited	6 months to 30 Jun 2015 Unaudited	12 months to 31 Dec 2015 Audited
Results in £'000s:			
Profit attributable to ordinary shareholders	9,936	4,388	19,864
Adjustments to profit after tax (note 5)	218	1,725	(2,083)
Adjusted profit attributable to ordinary shareholders	10,154	6,113	17,781
Number of shares:			
Weighted average number of ordinary shares	666,683,779	657,385,746	662,633,162
Dilutive share options	27,885,351	20,835,987	21,247,935
Adjusted weighted average number of ordinary shares	694,569,130	678,221,733	683,881,097
Adjusted basic earnings per share	1.52p	0.93p	2.68p
Basic earnings per share	1.49p	0.67p	3.00p
Adjusted diluted earnings per share	1.46p	0.90p	2.60p
Diluted earnings per share	1.43p	0.65p	2.90p

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

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

7 CASH GENERATED FROM OPERATIONS	6 months to 30 Jun 2016	6 months to 30 Jun 2015	12 months to 31 Dec 2015
(All figures £'000s)	Unaudited	Unaudited	Audited
Profit before tax	**10,472**	**3,934**	**19,376**
Finance costs	802	1,145	1,790
Depreciation of property, plant and equipment	3,120	3,260	6,192
Amortisation of intangible assets	2,444	2,031	5,040
Profit and loss on disposal	(137)	-	(5,187)
Non cash element of joint venture transactions	-	-	(714)
Impairment of assets	-	-	453
Release of contingent deferred consideration	(2,163)	-	(779)
Contingent deferred consideration (settled through contractual discounts)	(2,528)	(2,744)	(4,837)
Share based payments	1,021	998	2,001
Cash inflow from operations before changes in working capital	**13,031**	**8,624**	**23,335**
(Increase) in inventories	(1,546)	(656)	(2,813)
Decrease in trade and other receivables	774	946	2,739
Increase/(decrease) in trade and other payables	146	(4,365)	(2,290)
Cash inflow from operations	**12,405**	**4,549**	**20,971**

8 ANALYSIS OF NET DEBT	As At 30 Jun 2016	As At 30 Jun 2015	As At 31 Dec 2015
(All figures £'000s)	Unaudited	Unaudited	Audited
Bank borrowings due after one year	(34,553)	(32,875)	(24,626)
Bank borrowings due within one year	(3,344)	(3,081)	(3,162)
Finance leases due after one year	-	-	-
Finance leases due within one year	-	(515)	(79)
Total borrowings	(37,897)	(36,471)	(27,867)
Cash and cash equivalents	4,311	5,356	4,644
Net debt	**(33,586)**	**(31,115)**	**(23,223)**

9 PROVISIONS FOR OTHER LIABILITIES AND CHARGES	As at 30 Jun 2016	As at 30 Jun 2015	As at 31 Dec 2015
(All figures £'000s)	Unaudited	Unaudited	Audited
As at 1 January	**4,038**	**5,485**	**5,485**
Charged to the income statement	53	-	116
Utilised during the period	(605)	(715)	(1,489)
Foreign exchange	643	31	(74)
As at 30 June / 31 December	**4,129**	**4,801**	**4,038**

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

10 SHARE CAPITAL	As At 30 Jun 2016	As at 30 Jun 2015	As at 31 Dec 2015
Number of shares	**Unaudited**	**Unaudited**	**Audited**
As at 1 January	**665,533,170**	**660,327,767**	**660,327,767**
Employee share schemes	1,667,010	1,799,123	5,205,403
Shares issue to settle Translucent consideration	5,141,467	-	-
As at 30 June / 31 December	**672,341,647**	**662,126,890**	**665,533,170**

In the period to the 30 June 2016 1,667,010 (H1 2015: 1,799,123) ordinary shares were issued to satisfy employee share schemes.

	As At 30 Jun 2016	As at 30 Jun 2015	As at 31 Dec 2015
(All figures £'000s)	**Unaudited**	**Unaudited**	**Audited**
As at 1 January	**6,655**	**6,603**	**6,603**
Employee share schemes	17	18	52
Shares issue to settle Translucent consideration	51	-	-
As at 30 June / 31 December	**6,723**	**6,621**	**6,655**

11 RELATED PARTY TRANSACTIONS

The Group recognised revenue of £0.8m and made purchases of £4.2m from its joint venture in Singapore the Compound Semiconductor Development Centre Private Limited. The Group also recognised revenue of £2.8m, made purchases of £2.0m and recharged costs of £0.2m with its joint venture in the UK the Compound Semiconductor Centre Limited.