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IQE plc

Final Results

Record revenues, profits and cash generation reflect the strength of IQE's IP portfolio, which is delivering continued growth across a diverse range of applications and markets

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 final results for the year ended 31 December 2016.

£' Million (except EPS)	2016	2015	Change
Revenue	132.7	114.0	16.4%
Adjusted* Operating Profit	22.1	18.9	16.6%
Adjusted* Profit Before Tax	20.6	17.6	17.4%
Adjusted* Fully Diluted EPS	3.0p	2.6p	15.4%
Cash generated from operations	22.5	20.9	7.1%
Capital investment (tangible plus intangible)	19.1	10.0	90.6%
Leverage (net debt + deferred consideration)	39.5	40.4	-2.0%

Financial highlights

- Strong financial performance with continued double digit growth in revenues and profits
- Revenues up 16% to £132.7m (PY £114.0m), reflects multiple growth drivers and currency benefits in H2
- Adjusted* operating profit up 17% to £22.1m
- Adjusted* fully diluted EPS up 15% to 3.0p
- Strong conversion of adjusted* operating profit into operating cash of 102% (PY: 111%)
- Capital investment increased to £19.1m to address near term growth opportunities (PY £10.0m)
- Deferred consideration from previous acquisitions settled in full (PY £17.1m outstanding)
- Total leverage reduced by 2% to £39.5m (19% reduction in constant currency)

* *Adjustments reflect non-cash charges and exceptional items as detailed in note 4*

Operational highlights

- Diverse range of growth drivers and end markets enables 19% growth in wafer sales, reflecting organic growth in all markets, supplemented by a currency tailwind in H2
  - Photonics revenues up 43% to £22.8m
  - Wireless revenues up 15% to £91.3m
  - InfraRed revenues up 19% to £10.6m
  - US dollar strengthened 11% against sterling in H2 following Brexit vote in June

- License income of £6.7m higher than expected, but lower than prior year (£8.0m) which included a significant element of upfront income.
- Direct engagement with multiple Tier 1 OEMs reflect IQE's strong IP position and the increasing importance of epitaxial IP as a key enabling technology within electronic systems;
- Major milestones achieved in 2016, enabled by IQE's growing portfolio of leading edge IP, provide a positive lead indicator of significant growth opportunities ahead :
    - Key milestones delivered on several major photonics programmes during H2 2016, providing significant growth opportunities for 2017 and beyond;
    - Excellent progress with new cREO technology delivers some early wins, including delivering a step change in GaN on Silicon technology (the elimination of "parasitic channel"), and engagement in development programmes for advanced RF filter applications;
    - A key customer is engaged in end market qualification using IQE's GaN on Silicon material, signifying that this technology is close to commercialisation; and
    - Significant contract wins in InfraRed, and progress in a number of development programmes underpin the continued growth of this business, and progress towards new high volume applications.
- Positive market dynamics, including increasing M&A and sector investment, reflect the increasing focus on compound semiconductors as a critical enabling technology to major growth themes, including high speed communication, the "internet of things", big data, advanced medical technology, energy efficiency, and autonomous vehicles.
- Good progress by IQE's Joint Ventures in the UK and Singapore mark key milestones in their development as centres of excellence in driving innovation and commercialisation of advanced CS technologies. The UK Joint Venture was a catalyst to securing c.£300m of funding towards the continued development of a UK CS Cluster, and the Singapore JV has been selected as a partner in a major programme for CS on silicon technology.

Dr Drew Nelson, IQE Chief Executive, said:

"IQE delivered a strong set of results in 2016, with revenues up 16%, PBT up 17%, and EPS up 15%. The continuing growth in revenues, profits and cash generation is being enabled by the Group's portfolio of cutting edge intellectual property, and is being delivered through a diverse range of growth engines.

"Revenues were up in all key markets: wireless, photonics and InfraRed. Photonics continues to be the star of the show with 43% year on year growth in sales, and a CAGR of more than 35% over the past three years. This is being driven by VCSEL and InP technologies which enable a broad range of applications from fibre optic communication, to advanced sensors, and industrial processes. The depth and breadth of photonics development programmes and customer qualifications provide a solid platform for continued strong growth over the coming years.

"InfraRed sales were up 19% with a number of notable contract wins during 2016. This division has gone from strength to strength, with good technological and commercial progress. Our largest division, Wireless, also performed well, with revenues up 15%. Good progress within the wireless division in 2016, including continued innovation, new product development and new qualifications, has strengthened IQE's strong leadership position in this space and provides a good platform for further growth.

"Our focus on building a strong IP portfolio reflects our vision of global leadership across a range of markets as advanced semiconductor materials become an increasingly important enabler of a wide range of electronics applications. This strategy underpins our strong financial performance, and the exciting outlook we see for our business."

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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, WiMAX, 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.

Overview

IQE has been at the forefront of the Compound Semiconductor (CS) industry for nearly 30 years, and has developed an unparalleled depth and breadth of technology.

The Group leverages its technology leadership and scale to deliver the performance, cost points and security of supply to support increasing mass market adoption across a significant number of high volume market verticals.

IQE is the clear global leader in the supply of advanced materials to mass market wireless applications. The Groups strategy is to replicate this success in its other markets: photonics, infrared, advanced solar (CPV), LED, power switching and CMOS++(advanced electronics).

The Group has established a powerful platform for delivering this strategy, through the following USPs:

- Global footprint spanning US, Europe and Asia
- Breadth and depth of advanced semiconductor materials technology
- Talented, committed and experienced team
- Proven credibility and reputation
- Secure multi-site supply
- Scale and cost leadership
- Largest capacity in the industry

The Vision

By harnessing the properties of semiconducting materials, scientists and engineers have enabled the electronics revolution that has transformed the way we live our lives.

Silicon has been at the heart of this revolution by virtue of dramatic improvements in performance combined with reducing costs. This has been enabled by the continued reduction in the size of silicon chips ("Moore's Law"), combined with heavy investment in scaling up the industry. However, chip shrinkage is now facing diminishing returns, and the industry needs a new dimension to continue its expansion. This is where epitaxy and compound semiconductors play an enabling role.

Epitaxy is the technology of combining different semiconducting elements to make more advanced semiconductor materials, also known as compound semiconductors. These materials have superior optical and electronic properties, and operate at frequencies and speeds not achievable with silicon. Amongst other things, compound semiconductors are the enabling technology behind high speed wireless communication (enabling the smartphone revolution), fibre optic communication (enabling the internet), and LEDs (the lighting revolution). However, the compound semiconductor industry is far less mature than the silicon industry and is much smaller in scale. As a result, compound semiconductor chips are more costly to produce.

It is widely agreed that the future of the semiconductor industry is to combine the advanced properties of compound semiconductors with the low cost of the silicon industry with a hybrid technology called "compound semiconductors on silicon". In simple terms, this means using epitaxial IP to grow layers of compound semiconductors on a base silicon material. This is a highly complex technology. IQE has been a pioneer in this space over more than a decade, and through its many development programmes and collaborations it has built a powerful portfolio of IP including patents and trade secrets.

With a strong pedigree in high tech manufacturing, IQE is uniquely positioned to commercialise this IP over the coming years and decades.

Innovation through collaboration

Intellectual property relating to advanced materials is playing an increasingly important 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 was evident from the level of M&A activity in the CS space during 2016, including the formation of a JV by Qualcomm and TDK, the acquisitions by II-VI Inc of Epiworks and Anadigics, and the attempted acquisitions of GCS and Aixtron. The multiples being paid in these deals reflect the increasing value being placed on compound semiconductor technology.

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 the breadth and depth of its materials technologies and capabilities. This is now becoming increasingly recognised outside the CS industry, where IQE is becoming recognised 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 which reflect that 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 in the UK and Singapore, 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 was significant progress during 2016, and momentum continues to build :

- Cardiff University is investing c.£75m in the formation of the Institute of Compound Semiconductors as part its £300m innovation campus;
- IQE and Cardiff University invested £24m in the formation of the Compound Semiconductor Centre;
- The UK government has committed £50m funding for a Compound Semiconductor Catapult in Cardiff, which will leverage a further £100m funding from Innovate UK and Industry;
- The Cardiff City Region Deal has identified the emerging CS cluster in Cardiff as one of its 5 headline goals.
- EPSRC's £10m investment to create a CS Manufacturing Hub in Cardiff, led by Cardiff University and partnered by UCL, the University of Manchester and the University of Sheffield.

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 in to a world class end-to-end supply chain for compound semiconductor technologies in the UK.

Financial Review

In order to provide a fuller understanding of the Group's underlying performance, we have included a number of adjusted profit measures as supplementary information. As detailed in note 4, the adjusted measures eliminate the impact of certain non-cash charges and non-recurring items.

Revenues of £132.7m were up 16% on 2015 (£114.0m). Revenues from wafer sales were up 19% reflecting strong growth in each of IQE's primary markets : Photonics revenues were up 43%; wireless revenues up 15% and InfraRed revenues up 19%. Growth in underlying demand was accompanied by a currency tailwind, with the US dollar strengthening 11% against sterling in H2 primarily due to the Brexit vote in June. License revenue of £6.7m was better than expected, albeit down from £8.0m in the prior year, which as flagged benefited from a significant element of up front income.

Adjusted gross profit increased from £32.4m to £36.4m largely driven by the increase in revenue. As a percentage of sales, adjusted gross margins reduced from 28% to 27% reflecting the impact of sales mix. In particular, high margin license income reduced from 2015 which included a significant element of upfront income. Adjusted gross margins on wafer sales increased from 23% to 24% driven by increasing efficiencies. Reported gross profit increased from £30.7m to £34.7m, with percentage margin reducing from 27% to 26%.

Other income increased from £0.8m to £2.3m. This relates to gains on the reduction of the estimated remaining balance of contingent deferred consideration payable in respect of a previous acquisition. The balance under this contingent deferred consideration arrangement have now been settled in full. These gains, which do not relate to underlying trade, have been excluded from the adjusted profit measure.

Adjusted selling, general and administration expenses (SG&A) increased from £13.5m to £14.2m, which primarily reflects the impact of currency movements. Reported SG&A increased from £15.5m to £16.4m.

The profit on disposal of fixed assets of £5.2m in the prior year primarily reflected a gain of £4.8m on the establishment of the UK Joint Venture, in which the Group contributed equipment in return for a 50% equity share in the JV. There was a loss on disposal of fixed assets in the ordinary course of business of less than £0.1m (2015: profit £0.4m).

Adjusted operating profit increased by 17% from £18.9m to £22.1m, despite the reduction in high margin license income, reflecting the benefit of higher sales and operational efficiencies. Reported operating profit decreased from £21.2m to £20.7m, primarily reflecting that the prior year included a profit on disposal of fixed assets of £5.2m.

Interest costs increased from £1.4m to £1.5m, largely due to the impact of foreign exchange.

There was a net tax credit of £0.8m on underlying profits compared to £0.5m. In addition there was a £0.4m tax charge relating to exceptional items compared with a tax credit of £0.3m on exceptional items in 2015. The Group has sufficient tax losses available to shield future tax payable of circa £39.9m.

Adjusted profit after tax increased by 19% from £18.1m to £21.4m, and reported profit after tax decreased £20.1m to £19.4m. The adjusted fully diluted earnings per share was 3.00p, up 15% from 2.60p in the prior year. Reported diluted earnings per share was 2.71p, down from 2.90p in 2015. The Board will not be recommending the payment of a dividend.

Cash inflow from operations increased 7% from £20.9m to £22.5m, representing a 102% conversion of adjusted operating profit into cash (2015: 111%).

Capital investment of £19.1m represents a £9.1m increase over the prior year to address growth opportunities, principally in photonics, GaN and cREO. Investment in capital equipment was up £7.1m, and investment in intangibles was up £1.9m.

Balance sheet leverage was down 2% from £40.4m to £39.5m, as gearing reduced from 22% to 17%. Deferred consideration relating to previous acquisitions was reduced by £17.1m in the year and has now been settled

in full. Net debt increased by £16.3m from £23.2m to £39.5m, although c.£7m of this increase represents a presentational foreign currency impact.

Impact of foreign currency

IQE revenues are denominated in a range of currencies, but primarily they are billed in US dollars. Therefore, given that revenues are reported in sterling there is a foreign currency translation benefit, particularly with the dramatic devaluation of sterling in the second half of 2016 following the Brexit referendum on 23rd June 2016. This is estimated to account for approximately 10% of the Group's revenue growth (being the movement in the average exchange rate).

Similarly, IQE's costs are denominated in a range of currencies, but primarily billed in US dollars. As a result, the impact of foreign currency movements on the Group's results presented in sterling is largely presentational because of this underlying natural hedge.

There is also a presentational effect on the Groups balance sheet, as both non-sterling assets and liabilities will be translated at the year-end spot rate. This is estimated to account for an increase in asset and liabilities of approximately 17% (being the movement in the year end spot rates). Therefore, although the balance sheet leverage has reduced by 2%, the underlying increase is approximately 19%.

Operating Review

Organisation

The Group has established six Business Units along market lines, to address its primary and emerging markets:

- IQE Wireless
- IQE Photonics
- IQE InfraRed
- IQE Solar
- IQE Power
- IQE CMOS++

Each Business Unit has a clear product and customer focus, but continues to benefit from the production and technology synergies of the whole Group. The emerging markets of Solar and Power control are not yet significant enough to be separated in our segmental reporting.

Wireless

Compound Semiconductors ("CS") are essential for high speed wireless communication, and have been an enabling technology for mass market applications such as smartphones and wifi. IQE is the market leader with an estimated 55% share of this global market. Wireless accounted for approximately 69% of IQE's sales in 2016.

Following the launch of the iPhone in 2007 this market enjoyed several years of double digit growth, as the launch of new handsets were usually met with a "feeding frenzy" of consumers eager to secure the latest model. However, market growth cooled in 2013 as the innovation cycle struggled to keep up pace. Indeed, according to industry analyst IDC, smartphone shipments in 2016 increased by 2.8% to 1.47 billion units (2015: 1.43 billion units). This is broadly consistent with IQE's estimate that the market for its wireless materials has been growing at a "mid single digit" rate in recent years.

Nevertheless, the relentless increase in data traffic continues to drive the need for more sophisticated wireless chip solutions in order that handsets continue to meet consumer expectations. This will continue to necessitate an increasing content of CS materials in handsets, and ongoing innovation in the underlying CS materials and chip technologies. These factors underpin wireless as a solid and sustainable market for IQE.

Beyond this, the outlook for the wireless materials market has strong potential to return to double digit growth due to a number of factors, including :

- Innovation in smartphone hardware, including the adoptions of advanced photonics sensors;
- The adoption of GaN on Silicon technology for base stations

- The transition to 5G communications, requiring more advanced CS materials
- The adoption of compound semiconductors using cREO for other wireless communication chips

Photonics

Photonics refers to devices which emit or detect light ie advanced laser and sensors. Photonics chips enable a wide range of end markets in the communications, consumer, and industrial space. This segment accounted for 17% of IQE's sales in 2016. However, as IQE's most rapidly growing market, this is expected to represent an increasing proportion of IQE's sales going forward.

There are two critical technologies which are driving rapid growth in this market for IQE:

- Vertical Cavity Surface Emitting Lasers ("VCSEL") - the key enabling technology behind a number of high growth markets including 3D sensing, data communications, data centres, gesture recognition, health, cosmetics, illumination and heating applications. IQE is the market leader for outsourced VCSEL materials, which has been achieved by virtue of its technology leadership. This includes the demonstration of VCSELs with record speeds, efficiencies and temperature performance. In addition, with its 6" wafer capability IQE has been successful at enabling its customers to reduce significantly the unit cost of chips which is accelerating the adoption of this technology.

- Indium Phosphide ("InP") – this technology enables fibre to the premises ("FTTX"). The continued development of this technology to achieve higher performance at lower costs, plus the explosive growth in data traffic is finally leading to the extension of the fibre optic network "to the premises" – also know as "the last mile". IQE has developed advanced laser technologies with differentiated IP which underpins it high growth expectations for this business.

Optical interconnects
Currently, wired data transmission in the home, the office and in data centres is largely undertaken using copper cables. However, data traffic is growing at an explosive rate due to technologies such as high definition imaging, video streaming, the Internet of Things (IoT) and cloud computing. This phenomenon is necessitating a switch from copper wires to optical communication. This is a natural evolution which mirrors the transformation that has already taken place in the telecoms infrastructure.

Optical interconnects offer significantly higher-speed data transfers over much longer distances than their copper counterparts, and are much more efficient. Data centres have become major consumers of electrical energy, rivalling traditional heavy industries in terms of the power requirements needed to keep large warehouses full of servers operating and cooled. It is therefore of little surprise that enterprises such as data centres are amongst the first adopters, where optical technology now offers both higher performance and lower overall operating cost compared with copper.

Compound semiconductor technology that enable optical interconnects include Vertical Cavity Surface Emitting Lasers (VCSELs). VCSELs are an advanced laser technology geared to mass production and low cost. IQE is the market and technology leader for VCSEL products, with world record data speeds in excess of 64 Gb/s already demonstrated.

3D sensing
There is little doubt that sensing technologies will represent a major growth area in the near term and extending into the future.

Initially, consumer devices are likely to be the early adopters of 3D sensing technologies. In fact, laser (VCSEL)/detector pairs are already being deployed to enable "environment awareness" features in a number of smartphone and wearable applications and "time-of-flight" laser technology is being adopted for high speed auto-focus functionality in camera applications.

3D sensing is an essential feature for devices that need detailed and accurate information about their environment for applications such as augmented reality.

Future applications for 3D sensing will extend into autonomous vehicles for sensing features in the environment in order to make safety judgements.

Gesture recognition
Closely related to 3D sensing, gesture recognition represents the ability of electronic devices to recognise hand and body gestures and movements in order to control any device. The advanced properties of compound semiconductor epiwafers are a key component in gesture recognition devices which are expected to appear in many new product launches over the coming years.

The potential applications for this technology extend far beyond gaming, from medical applications, disability aids, remote controls, to sign language recognition, and more. In fact, the use of this technology is only limited by human imagination, and has far reaching implications for how we will interface with technology in the near future. It is anticipated that many household appliances will be controlled by gesture.

Laser projection
Conventional projection technologies use incandescent or halogen lamps as their light sources. Such devices are power hungry, physically bulky, have relatively short lifetimes and require focusing optics which can limit the image quality and flexibility.
The emergence of lasers in each of the primary colours (red, green and blue) enables a low cost, high quality laser projection solution which can be miniaturised and does not require focusing optics. This technology is called pico-projection.

Solid state lighting (LEDs)
Light emitting diodes (LEDs) are a high performance, low cost, green alternative to incandescent light bulbs.
Global concerns about climate change and the Earth's dwindling natural resources continue to be a priority for governments worldwide. Significant new policies and legislation continue to be introduced in the direction of renewable and highly efficient energy devices.

Already, many governments have introduced wide-ranging legislation to progressively ban incandescent lighting. Alternative low energy, compact fluorescent lighting is unpopular because of perceptions of low quality lighting and on-going issues with heavy metal content including mercury.

In light of these drivers, we expect this market to continue to deliver strong double digit growth.

InfraRed

IQE is a global leader in the supply of indium antimonide and gallium antimonide wafers for advanced infrared applications. We are the technology leader with the launch of the industry's first 150mm indium antimonide wafers, a major milestone in reducing the overall cost of chips to drive increasing adoption. This success was followed up with a number of significant contract wins for the division. In addition, there has been significant work in developing these materials for consumer sensing applications, which will drive much higher volumes of wafers in the future.

We expect this market to growth at a rate of approximately 5-10% for the near future.

Advanced Solar (CPV)

Technologies which convert sunlight into electricity are also called PhotoVoltaics (or "PV"). The prevalent solar technology is based on silicon material, which typically achieves a conversion of between 15%-18% of the suns energy into electricity. IQE has been at the centre of developing solar materials using compound semiconductors, which can deliver much higher levels of efficiency. This technology, which is also known as Concentrating Photovoltaics, or "CPV", can already deliver efficiencies in excess of 44%, and has a route map to much higher levels of efficiency. Although this offers a lower overall cost of energy generation in sunny territories, the challenge in mass adoption is in reducing the end system install costs, which has been hampered by global macroeconomics as the cost of oil has plummeted.

The terrestrial market remains an exciting market opportunity, but as a result of the shifting macroeconomics, focus has shifted to the space market, where these advanced materials are used to power satellites where the higher efficiency has a dramatic cost benefit on payload. Product qualifications are underway with leading satellite manufacturers, paving the way for commercial revenues.

Power

Gallium Nitride on Silicon (GaN on Si) is driving a technology shift in the multi-billion dollar power switching and LED markets. IQE has continued to push the technology boundaries and is making rapid progress both technically and in developing commercial relationships in the supply chain. The power switching market alone is approximately 3-4 times the size of the current market for wireless PA chip market, and represented a major growth market for IQE. IQE's patented technology, cREO, provides a significant competitive advantage in this space.

CMOS++

Future semiconductor technology architectures are moving strongly toward hybrid integrated chips using a combination of traditional CMOS based chips with Compound Semiconductor chips, all built on a silicon base wafer. This provides the market with the significant technical advantages of Compound Semiconductors at the cost point of silicon, and allows the CS industry to utilise the huge investments already made into large scale Silicon chip manufacturing. As a result, this greatly increases the available market for Compound Semiconductors. IQE has developed multiple routes to delivering this powerful new hybrid, and the addition of cREO and other IP provides a unique solutions to achieving the end goal. IQE is involved in multiple programmes across the globe, which are developing the core technologies from which we expect highly significant revenue streams to emerge over the next 3-5 years.

Current Trading and Outlook

The Group's technology and market leadership, and its strong pipeline of high growth opportunities positions it well to continue its growth profile over the coming years.

The current financial year has started well and trading is in line with expectations. The outlook for the full year remains very positive, with good upside potential. The Board remains confident that the Group is on track to achieve expectations for the full year, and anticipates that the Group will continue to benefit from strong cash flows.

Dr Drew Nelson OBE
President & Chief Executive Officer
21 March 2017

Consolidated income statement for the year ended 31 December 2016	2016	2015
	£'000	£'000
Revenue	132,707	114,024
Cost of sales	(97,979)	(83,372)
Gross profit	34,728	30,652
Other income and expenses	2,340	779
Selling, general and administrative expenses	(16,356)	(15,452)
(Loss) / profit on disposal of property, plant and equipment	(47)	5,187
Operating profit	20,665	21,166
Finance costs	(1,633)	(1,790)
Adjusted profit before tax	20,630	17,574
Adjustments	(1,598)	1,802
Profit before tax	19,032	19,376
Taxation	408	773
Profit for the year	19,440	20,149
Profit attributable to:		
Equity shareholders	19,276	19,864
Non-controlling interest	164	285
	19,440	20,149
Adjusted basic earnings per share	3.17p	2.68p
Basic earnings per share	2.87p	3.00p
Adjusted diluted earnings per share	3.00p	2.60p
Diluted earnings per share	2.71p	2.90p

Consolidated statement of comprehensive income for the year ended 31 December 2016	2016	2015
	£'000	£'000
Profit for the year	19,440	20,149
Currency translation differences on foreign currency net investments*	24,347	3,165
Total comprehensive income for the year	43,787	23,314
*This may be subsequently reclassified to profit or loss		
Total comprehensive income attributable to:		
Equity shareholders	43,063	23,000
Non-controlling interest	724	314
	43,787	23,314

Consolidated Balance Sheet as at 31 December 2016	2016	2015
	£'000	£'000
Non-current assets:		
Intangible assets	103,972	86,843
Property, plant and equipment	85,001	65,154
Deferred tax assets	18,181	14,210
Financial Assets	8,000	8,000
Total non-current assets	215,154	174,207
Current assets:		
Inventories	28,498	21,215
Trade and other receivables	30,868	23,050
Cash and cash equivalents	4,957	4,644
Total current assets	64,323	48,909
Total assets	279,477	223,116
Current liabilities:		
Borrowings	(7,652)	(3,241)
Trade and other payables	(36,939)	(43,693)
Provisions for other liabilities and charges	(1,421)	(1,116)
Total current liabilities	(46,012)	(48,050)
Non-current liabilities:		
Borrowings	(36,854)	(24,626)
Other payables	-	(484)
Provisions for other liabilities and charges	(2,167)	(2,922)
Total non-current liabilities	(39,021)	(28,032)
Total liabilities	(85,033)	(76,082)
Net assets	194,444	147,034
Equity attributable to the shareholders of the parent:		
Share capital	6,755	6,655
Share premium	51,081	49,600
Retained earnings	89,476	70,200
Other reserves	43,975	18,146
	191,287	144,601
Non-controlling interest	3,157	2,433
Total equity	194,444	147,034

Consolidated statement of changes in equity for the year ended 31 December 2016

	Share capital	Share premium	Retained earnings	Exchange rate reserve	Other reserves	Non-controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2016	6,655	49,600	70,200	7,925	10,221	2,433	147,034
Comprehensive income							
Profit for the year	-	-	19,276		-	164	19,440
Foreign exchange	-	-	-	23,787	-	560	24,347
Total comprehensive income	-	-	19,276	23,787	-	724	43,787
Transactions with owners							
Share based payments	-	-	-	-	2,042	-	2,042
Issues of ordinary shares	100	1,481	-	-	-	-	1,581
Total transactions with owners	100	1,481	-	-	2,042	-	3,623
Balance at 31 December 2016	6,755	51,081	89,476	31,712	12,263	3,157	194,444

	Share capital	Share premium	Retained earnings	Exchange rate reserve	Other reserves	Non-controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2015	6,603	49,108	50,336	4,789	8,220	2,119	121,175
Comprehensive income							
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
Transactions with owners							
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 for year ended 31 December 2016	2016 £'000	2015 £'000
Cash flows from operating activities:		
Adjusted cash inflow from operations	24,281	22,575
Cash impact of adjustments	(1,818)	(1,604)
Cash inflow from operations	22,463	20,971
Net interest paid	(1,489)	(1,403)
Income tax paid	(839)	(459)
Net cash generated from operating activities	20,135	19,109
Cash flows from investing activities:		
Acquisition deferred consideration Kopin Wireless	(11,250)	-
Capitalised development expenditure	(6,310)	(4,979)
Investment in other intangible fixed assets	(1,794)	(1,198)
Purchase of property, plant and equipment	(10,956)	(3,825)
Net cash used in investing activities	(30,310)	(10,002)
Cash flows from financing activities:		
Issues of ordinary share capital	578	544
Repayment of borrowings	(3,341)	(15,109)
Increase in borrowings	12,623	4,349
Net cash generated from/(used in) financing activities	9,860	(10,216)
Net decrease in cash and cash equivalents	(315)	(1,109)
Cash and cash equivalents at 1 January	4,644	5,584
Exchange gains on cash and cash equivalents	628	169
Cash and cash equivalents at 31 December	4,957	4,644

NOTES TO THE RESULTS

GENERAL INFORMATION

The company is a public limited company, admitted to trading on AIM, a market operated by The London Stock Exchange plc and incorporated and domiciled in England and Wales. The address of its registered office is Pascal Close, St Mellons, Cardiff, CF3 0LW.

1 BASIS OF PREPARATION

All figures are taken from the 2016 audited annual accounts which were approved by the directors on 21st March 2017, unless denoted as 'unaudited'. Comparative figures in the results for the year ended 31 December 2015 have been taken from the 2015 audited annual accounts.

This financial information has been prepared in accordance with the Companies Act 2006 applicable to companies reporting under International Financial Reporting Standards ("IFRS") as adopted by the European Union and IFRIC interpretations. The application of these standards and interpretations necessitates the use of estimates and judgements. This financial information is also prepared on a going concern basis under the historical cost convention except where fair value measurement is required by IFRS.

Certain statements in this announcement constitute forward-looking statements. Any statement in this announcement that is not a statement of historical fact including, without limitation, those regarding the Company's future expectations, operations, financial performance, financial condition and business is a forward-looking statement. Such forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. These risks and uncertainties include, among other factors, changing economic, financial, business or other market conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this announcement and the Company undertakes no obligation to update its view of such risks and uncertainties or to update the forward-looking statements contained herein. Nothing in this announcement should be construed as a profit forecast.

These results will be announced to all shareholders on the London Stock Exchange and published on the Group's website on 21st March 2017. Copies will be available to members of the public upon application to the Finance Director at Pascal Close, Cardiff, CF3 0LW.

2 ACCOUNTING POLICIES

The accounting policies adopted are set out in the annual financial statements for the year ended 31 December 2016, as described in those financial statements.

The financial information does not constitute statutory accounts within the meaning of sections 434(3) and 435(3) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards (IFRS).

The Company’s auditors, PricewaterhouseCoopers LLP, have given an unqualified report on the consolidated financial statements for the year ended 31 December 2016. The auditor’s report did not include reference to any matters to which the auditors drew attention without qualifying their report and did not contain any statement under section 498 of the Companies Act 2006.

The consolidated financial statements will be filed with the Registrar of Companies, subject to their approval by the Company’s shareholders at the Company’s Annual General Meeting.

3 Segmental analysis

	2016 £'000	2015 £'000
Revenue		
Wireless	91,291	79,482
Photonics	22,792	15,985
Infra Red	10,560	8,878
CMOS++	1,406	1,655
Total Segment Revenue	126,049	106,000
License income from sales to joint ventures	6,658	8,024
Total Revenue	132,707	114,024
Adjusted operating profit		
Wireless	7,950	7,147
Photonics	6,888	4,320
Infra Red	2,227	1,181
CMOS++	(1,604)	(1,695)
Segment adjusted operating profit	15,461	10,953
Profit from license income from sales to joint ventures	6,658	8,024
Adjusted operating profit	22,119	18,977
Gain on disposal of fixed assets (note 4)	-	5,187
Non-cash accounting charges (note 4)	(3,560)	(3,596)
Net reduction in contingent deferred consideration (note 4)	2,340	779
Restructuring and reorganisation (note 4)	(378)	(568)
Finance Costs	(1,489)	(1,403)
Profit before tax	19,032	19,376

4 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.

	2016	2015
	£'000	£'000
Gain on disposal of fixed assets	**-**	**5,187**
Non-cash accounting charges	**(3,560)**	**(3,596)**
Gain on release of contingent deferred consideration	**2,340**	**779**
Restructuring and reorganisation	**(378)**	**(568)**
Total before tax	**(1,598)**	**1,802**
Deferred tax on adjustments	**(402)**	**281**
Total after tax	**(2,000)**	**2,083**

The non-cash accounting charges of £3.6m (2015: £3.6m) reflect a charge for share based payments of £2.0m (2015 £2.0m), the amortisation of acquired intangibles £1.4m (2015 £1.2m) and the unwind of the discounting of long term balances £0.2m (2015 £0.4m).

The Group generated a non-cash profit of £2.3m (2015 £0.8m) arising from a reduction in the estimated remaining deferred consideration (settled via trade discount) in respect of a previous acquisition. The deferred consideration has now been fully settled. This has been classified within other income and expenses in the consolidated income statement.

The restructuring and reorganisation costs of £0.4m (2015: £0.6m) reflects some one-off costs relating to staff, facility and asset write downs associated with the restructuring of the Groups manufacturing operations.

The deferred tax charge of £0.4m (2015: £0.3m credit) reflects the net deferred tax impact associated with these adjustments.

The gain on disposal of fixed assets in 2015 related to a non-cash exceptional gain of £4.8m relating to IQE's contribution to the creation of a joint venture Compound Semiconductor Centre Limited. In addition, other unrelated disposals of fixed assets in 2015 realised a net gain of £0.4m.

Certain items noted above are accounting estimates based on judgements, accordingly, the actual amounts may differ from these estimates. The adjustments above are classified £1.7m (2015: £1.8m) within gross margin, and £2.1m (2015: £2.0m) within selling, general and administrative expenses.

	2016	2015
	£'000	£'000
Adjusted gross margin	**36,415**	**32,439**
Reported gross margin	**34,728**	**30,652**
Adjusted sales, general and administrative expenses	**(14,249)**	**(13,462)**
Reported sales, general and administrative expenses	**(16,356)**	**(15,452)**
Adjusted operating profit	**22,119**	**18,977**
Reported operating profit	**20,665**	**21,166**
Adjusted profit before tax	**20,630**	**17,574**
Reported profit before tax	**19,032**	**19,376**
Adjusted profit after tax	**21,440**	**18,066**
Reported profit after tax	**19,440**	**20,149**

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

	2016	2015
	£'000	£'000
Profit attributable to equity shareholders	**19,276**	**19,864**
Non-controlling interest	**164**	**285**
Tax	**(408)**	**(773)**
Share based payments	**2,042**	**2,001**
Finance costs	**1,633**	**1,790**
Depreciation of tangible fixed assets	**5,561**	**6,192**
Amortisation of intangible fixed assets	**5,377**	**5,040**
Loss/(profit) on disposal of fixed assets	**47**	**(5,187)**
Impairment of assets*	**-**	**453**
Gain on release of contingent deferred consideration*	**(2,340)**	**(779)**
Restructuring and re-organisation costs*	**378**	**115**
EBITDA	**31,730**	**29,001**

*** Exceptional items impacting EBITDA include the following items: impairment of assets, wireless business unit re-organisation costs, and the release of contingent deferred consideration.**

5 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.
Diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of shares and the dilutive effect of 'in the money' share options in issue. Share options are classified as 'in the money' if their exercise price is lower than the average share price for the year. As required by IAS 33, this calculation assumes that the proceeds receivable from the exercise of 'in the money' options would be used to purchase shares in the open market in order to reduce the number of new shares that would need to be issued.
The directors also present an adjusted earnings per share measure which eliminates certain non-cash items in order to provide a more meaningful underlying profit measure. The adjustments are detailed in note 4.

	2016 £'000	2015 £'000
Profit attributable to ordinary shareholders	19,276	19,864
Adjustments to profit after tax (note 4)	2,000	(2,083)
Adjusted profit attributable to ordinary shareholders	21,276	17,781

	2016 Number	2015 Number
Weighted average number of ordinary shares	671,532,674	662,633,162
Dilutive share options	38,548,084	21,247,935
Adjusted weighted average number of ordinary shares	710,080,758	683,881,097
Adjusted basic earnings per share	3.17p	2.68p
Basic earnings per share	2.87p	3.00p
Adjusted diluted earnings per share	3.00p	2.60p
Diluted earnings per share	2.71p	2.90p

6 CASH GENERATED FROM OPERATIONS

	2016 £'000	2015 £'000
Profit before tax	19,032	19,376
Finance costs	1,633	1,790
Depreciation of property, plant and equipment	5,561	6,192
Amortisation of intangible assets	5,377	5,040
Loss/(profit) on disposal of fixed assets	47	(5,187)
Non cash element of joint venture transactions	-	(714)
Impairment of assets	-	453
Gain on release of contingent deferred consideration	(2,340)	(779)
Contingent deferred consideration (settled through contractual discounts)	(3,959)	(4,837)
Share based payments	2,042	2,001
Cash inflow from operations before changes in working capital	27,393	23,335
Increase in inventories	(4,206)	(2,813)
Decrease in trade and other receivables	1,437	2,739
Decrease in trade and other payables	(2,161)	(2,290)
Cash inflow from operations	22,463	20,971

7 ANALYSIS OF NET DEBT

	At 1 January 2016 £'000	Cash flow £'000	Other non-cash movements £'000	At 31 December 2016 £'000
Bank borrowings due after one year	(24,626)	(12,623)	395	(36,854)
Bank borrowings due within one year	(3,162)	3,252	(7,742)	(7,652)
Finance leases due after one year	-	-	-	-
Finance leases due within one year	(79)	89	(10)	-
Total borrowings	(27,867)	(9,282)	(7,357)	(44,506)
Cash and cash equivalents	4,644	(315)	628	4,957
Net debt	(23,223)	(9,597)	(6,729)	(39,549)