

IQE plc

Cardiff, UK
12 September 2023

Unaudited Results for the six months ended 30 June 2023

Investing for growth and managing costs to navigate temporary industry downturn

IQE plc (AIM: IQE, "IQE" or the "Group"), the leading supplier of compound semiconductor wafer products and advanced material solutions to the global semiconductor industry, announces its interim results for the six months ended 30 June 2023.

Revenue for the period was £52.0m with a reported operating loss of £19.6m, an adjusted non-GAAP LBITDA of (£5.7m) and adjusted net funds position of £5.3m.

Americo Lemos, Chief Executive Officer of IQE, commented:

"IQE has delivered H1 revenue in line with our revised market guidance. In a challenging macro environment, we have taken decisive action to manage costs and deliver immediate efficiencies and longer-term margin benefits. We are accelerating our diversification strategy with new customer designs in GaN Power electronics and broadening our market penetration into the China wireless market. By expanding our customer base across the breadth of our product portfolio and ramping in strategic growth areas, we are focused on improving future business performance."

H1 2023 Financial Results

	H1 2023 £'m*	H1 2022 £'m*
Revenue	52.0	86.2
Adjusted EBITDA**	(5.7)	12.3
Operating loss	(19.6)	(7.4)
Adjusted operating loss**	(17.5)	(1.4)
Reported loss after tax	(21.3)	(8.3)
Diluted EPS	(2.57p)	(1.03p)
Adjusted diluted EPS**	(2.30p)	(0.36p)
Cash generated from operations	2.4	6.2
Adjusted cash from operations**	4.3	8.3
Capital Investment (PP&E)	5.2	3.8
Net funds / (debt)***	5.3	(6.7)

* All figures £'m excluding diluted and adjusted diluted EPS.

** Adjusted Measures: Alternative performance measures are disclosed separately after a number of non-cash charges, non-operational items and significant infrequent items that would distort period on period comparability. Adjusted items are material items of income or expense that have been shown separately due to the significance of their nature or amount as detailed in note 8.

*** Net funds/debt excludes IFRS16 lease liabilities and fair value gains/losses on derivative instruments.

The following highlights of the first half results are based on these adjusted performance measures, unless otherwise stated.

Strategic Highlights

- Commenced sampling for GaN Power with two new customers for 650 V devices
- Design wins with multiple customers to deliver wireless products to leading China cellular and Wi-Fi suppliers for growing China and India smartphone market
- Customer qualifications for high-speed data centre applications, with next-generation VCSELs to enable and support growth in the artificial intelligence (AI) markets
- Customer sampling and qualification in progress to supply automotive-grade LiDAR VCSELs for a major China-based customer
- Production of second generation, high performance VCSELs used in consumer mobile 3D Sensing applications for customers
- Developing industry's first 150mm (6") Indium Phosphide (InP) Photonics device platform, targeting customers in the Cloud/AI data centre markets
- Development of new laser materials technologies for a leading handset manufacturer for next-generation longer-wavelength consumer sensing applications
- Development of 200mm (8") Red, Green and Blue (RGB) epitaxial wafer products for microLED display qualification
- Developing frameworks and processes to adopt and align with the Task Force on Climate-Related Financial Disclosures (TCFD) with first TCFD Statement published in the 2023 Annual Report and Financial Statements
- Developing emissions targets in accordance with the Science Base Targets initiative (SBTi) with IQE on track to submit targets within the 24 month commitment window

H1 2023 Financial Highlights

- **Revenue** of £52.0m (H1 2022: £86.2m) down 39.7% on a reported basis and 42.6% at constant currency
 - **Wireless** revenue of £22.4m (H1 2022: £46.6m) down 51.9% on a reported basis, largely as a result of weakness in global handset demand and supply chain inventory build
 - **Photonics** revenue of £28.0m (H1 2022: £38.5m) down 27.2% on a reported basis, primarily as a result of softness in the handset market and a slowdown in Asian telecoms infrastructure programmes
 - **CMOS++** revenue of £1.6m (H1 2022: £1.1m) up 43.1% on a reported basis, due to growth in Silicon-based switches for power control
- **Adjusted LBITDA** of (£5.7m) (H1 2022: £12.3m EBITDA) down 146.5% on a reported basis, adversely impacted by a reduction in sales and under-utilisation of capacity, particularly in the Wireless business
- **Reported operating loss** of £19.6m (H1 2022: £7.4m loss)

- **Adjusted cash inflow** from operations of £4.3m (H1 2022: £8.3m) benefitting from management of working capital
- **Total net cash capex and cash investment in intangibles** of £8.5m (H1 2022: £7.6m)
 - £5.2m investment in PP&E capex (H1 2022: £3.8m) prioritising high growth GaN power and display capacity as set out at the time of the equity raise
 - Purchase of intangibles of £1.7m (H1 2022: £2.3m) primarily relates to ongoing systems transformation programme
 - Ongoing investment in R&D with £1.6m (H1 2022: £1.6m) of development costs in the period focused on power electronics and microLEDs
- **Adjusted net funds** of £5.3m as at 30 June 2023 (net debt of £15.2m as at 31 Dec 2022, net debt of £6.7m as at 30 June 2022) with an undrawn Revolving Credit Facility of \$35m (£27.3m) available to the Group
- **Equity raise** of £29.7m (net proceeds) completed in May in order to strengthen the balance sheet and underpin strategic investment
- **Cost optimisation**
 - Optimised manufacturing plan for improved asset utilisation
 - Headcount reductions delivering c.10% in year savings, while retaining key skills for growth with associated H1 2023 restructuring costs of £1.2m
 - Reduction in non-labour costs to deliver greater than 20% in year savings
- **Global site optimisation programme**
 - US MBE operations consolidation within North Carolina site on track to be completed by H1 2024
 - Ongoing review into global footprint optimisation to improve operational efficiency and profitability

Current trading and outlook

The current temporary semiconductor industry downturn is stabilising, with continued pockets of recovery expected in H2 2023, albeit more slowly than anticipated at the time of the FY 2022 results.

Improvement is expected in 2024 as the supply chain normalises and customer demand recovers.

The Group anticipates double digit revenue growth in H2 2023 versus H1 2023, and expects to be profitable at an adjusted EBITDA level for FY 2023.

Results Presentation

IQE will present its H1 2023 Results via webcast at 9:00am BST today, Tuesday 12 September 2023. If you would like to view this webcast, please register by using the below link and following the instructions:

<https://stream.brrmedia.co.uk/broadcast/64df6b6ae4c3ecf0bd56f5e4>

Glossary

Term	Definition
Artificial intelligence (AI)	A simulation of human intelligence in machines, including machines which are programmed to mimic human action or exhibit humanistic traits such as learning or problem-solving
GaN	Gallium Nitride
InP	Indium Phosphide
LiDAR	Light detection and ranging – a method for measuring distances by illuminating the target with a laser light
MicroLED	Emerging display technology consisting of arrays of microscopic light emitting diodes (LEDs)
VCSEL	Vertical Cavity Surface Emitting Laser, an opto-electronic component used in a variety of applications

Contacts:

IQE plc

+44 (0) 29 2083 9400

Americo Lemos

Neil Rummings

Amy Barlow

Peel Hunt (Nomad and Joint Broker)

+44 (0) 20 7418 8900

Paul Gillam

Richard Chambers

James Smith

Numis (Joint Broker)

+44 (0) 20 7260 1000

Simon Willis

Hugo Rubinstein
Iqra Amin

Headland Consultancy (Financial PR)

+ 44 (0) 20 38054822

Andy Rivett-Carnac: +44 (0) 7968 997 365

Chloe Francklin: +44 (0)78 3497 4624

ABOUT IQE

<http://iqep.com>

IQE is the leading global supplier of advanced compound semiconductor wafers and materials solutions that enable a diverse range of applications across:

- Smart Connected Devices
- Communications Infrastructure
- Automotive and Industrial
- Aerospace and Security

As a scaled global epitaxy wafer manufacturer, IQE is uniquely positioned in this market which has high barriers to entry. IQE supplies the global market and is enabling customers to innovate at chip and OEM level. By leveraging the Group's intellectual property portfolio including know-how and patents, it produces epitaxy wafers of superior quality, yield and unit economics.

IQE is headquartered in Cardiff UK, with employees across eight manufacturing locations in the UK, US and Taiwan, and is listed on the AIM Stock Exchange in London.

Financial Review

Consolidated Income Statement		6 months to	Restated	12 months to
(All figures £'000s)	Note	30 Jun 2023	6 months to	31 Dec 2022
		Unaudited	30 Jun 2022	Audited
			Unaudited	
Revenue	7	52,016	86,198	167,494
Cost of sales		(56,241)	(71,845)	(141,111)
Gross (loss)/profit		(4,225)	14,353	26,383
Selling, general and administrative expenses		(16,404)	(16,514)	(31,211)
Impairment loss on intangible assets		-	(3,363)	(66,155)
Impairment reversal/(loss) on trade receivables and contract assets		355	-	(2,300)
(Loss)/profit on disposal of intangible assets and property, plant and equipment		-	(590)	688
Other gains/(losses)	4	640	(1,317)	(381)
Operating loss	7	(19,634)	(7,431)	(72,976)
Finance costs		(1,832)	(1,100)	(2,427)
Adjusted loss before income tax		(19,291)	(2,540)	(5,984)
Adjustments	8	(2,175)	(5,991)	(69,419)
Loss before income tax	7	(21,466)	(8,531)	(75,403)
Taxation		141	279	862
Loss for the period		(21,325)	(8,252)	(74,541)
Loss attributable to:				
Equity shareholders		(21,325)	(8,252)	(74,541)
		(21,325)	(8,252)	(74,541)
Loss per share attributable to owners of the parent during the period				
Basic loss per share	10	(2.57p)	(1.03p)	(9.27p)
Diluted loss per share	10	(2.57p)	(1.03p)	(9.27p)

Adjusted basic and diluted earnings per share are presented in Note 10.

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

The comparative financial information for 6 months to 30 June 2022 has been restated to reclassify £3,363,000 from 'Selling, general and administrative expenses' to 'Impairment loss on intangible assets' in order to adopt a consistent presentation with the audited financial statements for the year ended 31 December 2022. The reclassification has had no impact on net assets, cash flows or loss after tax for the 6 months to 30 June 2022.

Consolidated statement of comprehensive income	6 months to 30 Jun 2023	6 months to 30 Jun 2022	12 months to 31 Dec 2022
(All figures £'000s)	Unaudited	Unaudited	Audited
Loss for the period	(21,325)	(8,252)	(74,541)
Exchange differences on translation of foreign operations*	(7,682)	16,776	14,500
Total comprehensive (expense) / income for the period	(29,007)	8,524	(60,041)
Total comprehensive (expense) / income attributable to:			
Equity shareholders	(29,007)	8,524	(60,041)
	(29,007)	8,524	(60,041)

* Balance might subsequently be reclassified to the income statement when it becomes realised.

Consolidated Balance Sheet

(All figures £'000s)	Note	As At 30 Jun 2023 Unaudited	As At 30 Jun 2022 Unaudited	As At 31 Dec 2022 Audited
Non-current assets				
Intangible assets		35,061	99,616	37,014
Property, plant and equipment		121,640	126,971	127,055
Right of use assets		38,918	43,350	41,432
Total non-current assets		195,619	269,937	205,501
Current assets				
Inventories		25,874	34,706	34,161
Trade and other receivables		36,996	53,246	44,828
Derivative financial instruments	12	259	-	-
Cash and cash equivalents	12	12,314	15,390	11,620
Total current assets		75,443	103,342	90,609
Total assets		271,062	373,279	296,110
Current liabilities				
Trade and other payables		(33,458)	(44,016)	(37,545)
Current tax liabilities		(65)	(1,230)	(690)
Bank borrowings	12	(6,123)	(14,912)	(6,225)
Derivative financial instruments	12	-	(1,327)	(381)
Lease liabilities	12	(7,140)	(5,287)	(4,843)
Provisions for other liabilities and charges		(2,194)	(3,803)	(1,625)
Total current liabilities		(48,980)	(70,575)	(51,309)
Non-current liabilities				
Bank borrowings	12	(845)	(7,205)	(20,643)
Lease liabilities	12	(42,826)	(48,372)	(46,026)
Provisions for other liabilities and charges		(710)	(1,464)	(1,065)
Deferred tax liabilities		(1,291)	(1,317)	(2,007)
Total non-current liabilities		(45,672)	(58,358)	(69,741)
Total liabilities		(94,652)	(128,933)	(121,050)
Net assets		176,410	244,346	175,060
Equity attributable to shareholders of the parent				
Share capital	13	9,614	8,046	8,048
Share premium		155,825	154,675	154,720
Retained earnings		(39,413)	21,043	(45,246)
Exchange rate reserve		32,853	42,811	40,535
Other reserves		17,531	17,771	17,003
Total equity		176,410	244,346	175,060

Consolidated Statement of Changes in Equity

Unaudited	Share capital	Share premium	Retained earnings	Exchange rate reserve	Other reserves	Total equity
(All figures £'000s)						
At 1 January 2023	8,048	154,720	(45,246)	40,535	17,003	175,060
Loss for the period	-	-	(21,325)	-	-	(21,325)
Other comprehensive expense for the period	-	-	-	(7,682)	-	(7,682)
Total comprehensive expense	-	-	(21,325)	(7,682)	-	(29,007)
Share based payments	-	-	-	-	528	528
Proceeds from shares issued (net of expenses)	1,566	1,105	-	-	27,158	29,829
Transfer of merger reserve to retained earnings (see note 13)	-	-	27,158	-	(27,158)	-
Total transactions with owners	1,566	1,105	27,158	-	528	30,357
At 30 June 2023	9,614	155,825	(39,413)	32,853	17,531	176,410
(All figures £'000s)						
At 1 January 2022	8,036	154,632	29,295	26,035	16,623	234,621
Loss for the period	-	-	(8,252)	-	-	(8,252)
Other comprehensive income for the period	-	-	-	16,776	-	16,776
Total comprehensive (expense)/income	-	-	(8,252)	16,776	-	8,524
Share based payments	-	-	-	-	1,148	1,148
Proceeds from shares issued	10	43	-	-	-	53
Total transactions with owners	10	43	-	-	1,148	1,201
At 30 June 2022	8,046	154,675	21,043	42,811	17,771	244,346
(All figures £'000s)						
At 1 January 2022	8,036	154,632	29,295	26,035	16,623	234,621
Loss for the year	-	-	(74,541)	-	-	(74,541)
Other comprehensive income for the year	-	-	-	14,500	-	14,500
Total comprehensive (expense)/income	-	-	(74,541)	14,500	-	(60,041)
Share based payments	-	-	-	-	289	289
Tax relating to share options	-	-	-	-	91	91
Proceeds from shares issued	12	88	-	-	-	100
Total transactions with owners	12	88	-	-	380	480
At 31 December 2022	8,048	154,720	(45,246)	40,535	17,003	175,060

Consolidated Cash Flow Statement		6 months to	6 months to	12 months to
(All figures £'000s)		30 Jun 2023	30 Jun 2022	31 Dec 2022
	Note	Unaudited	Unaudited	Audited
Cash flows from operating activities				
Adjusted cash inflow from operations		4,296	8,349	15,652
Cash impact of adjustments	8	(1,864)	(2,173)	(6,779)
Cash generated from operations	11	2,432	6,176	8,873
Net interest paid		(1,565)	(1,100)	(2,154)
Income tax paid		(726)	(628)	(775)
Net cash generated from operating activities		141	4,448	5,944
Cash flows from investing activities				
Purchase of property, plant and equipment		(5,183)	(3,751)	(9,438)
Purchase of intangible assets		(1,681)	(2,254)	(4,699)
Capitalised development expenditure		(1,590)	(1,567)	(3,795)
Proceeds from disposal of property, plant and equipment		12	4,091	7,203
Adjusted cash used in investing activities		(8,442)	(7,572)	(16,802)
Cash impact of adjustments – proceeds from disposal of property, plant and equipment and intangible assets	8	-	4,091	6,073
Net cash used in investing activities		(8,442)	(3,481)	(10,729)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		31,219	53	100
Expenses associated with issue of ordinary shares		(1,390)	-	-
Proceeds from borrowings		5,833	7,856	15,814
Repayment of borrowings		(25,302)	(3,156)	(6,256)
Payment of lease liabilities		(748)	(1,923)	(4,926)
Net cash generated from financing activities		9,612	2,830	4,732
Net increase / (decrease) in cash and cash equivalents		1,311	3,797	(53)
Cash and cash equivalents at the beginning of the period		11,620	10,791	10,791
Exchange (losses) / gains on cash and cash equivalents		(617)	802	882
Cash and cash equivalents at the end of the period	12	12,314	15,390	11,620

1. REPORTING ENTITY

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).

These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 30 June 2023 comprise the Company and its Subsidiaries (together referred to as 'the Group'). The principal activities of the Group are the development, manufacture and sale of advanced semiconductor materials.

2. BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2022 which were approved by the Board of Directors on 23 May 2023 and have been delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The interim financial statements do not include all of the information required for a complete set of IFRS financial statements and do not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

Comparative information in the interim financial statements as at and for the year ended 31 December 2022 has been taken from the published audited financial statements as at and for the year ended 31 December 2022. All other periods presented are unaudited.

The Board of Directors and the Audit Committee approved the interim financial statements on 12 September 2023.

3. GOING CONCERN

The Group is currently experiencing weaker customer demand and a reduction in customer orders and forecasts as a result of the global semiconductor industry downturn. The current industry downturn has presented a temporary but significant challenge to sales volumes in the first half of 2023 with market softness expected to extend into H2FY23 prior to an anticipated gradual improvement in market dynamics and customer demand from Q4 2023.

The Directors have taken steps to strengthen the balance sheet of the Group in order to mitigate the financial impact of the current semiconductor market downturn. Actions taken include:

- The successful refinancing of the Group's £27,300,000 (\$35,000,000) multi-currency revolving credit facility provided by HSBC Bank plc on 16 May 2023. The tenor of the facility has been extended to 1 May 2026 with quarterly leverage and interest cover covenant tests applicable to the facility, commencing at December 2023
- The successful £31,098,546 equity fund raise (net proceeds of £29,708,392) completed on 18 May 2023 in order to ensure that the Company can continue to invest to execute on its strategy, meet its near-term liquidity requirements and deliver a sustainable balance sheet position going forward
- The implementation of cost management actions, including staff redundancies, operational efficiencies and reductions in areas of discretionary expenditure which are under the control of the Directors
- Deferral of capital and intangible asset expenditure under the control of the Directors

In the six months to 30 June 2023, reported revenue declined 40% and the group made a loss for the period of £21,325,000 (H1 2022: £8,252,000, FY22: £74,541,000). The cash impact of the loss for the period has been mitigated by a combination of the Group's successful equity fund raise, careful working capital management and the deferral of certain capital and intangible asset expenditure resulting in an improvement in the Group's net funds position (excluding lease liabilities and fair value gains/losses on derivative instruments) to £5,346,000 (H1 2022: £6,727,000 net debt, FY22: £15,248,000 net debt) At 30 June 2023 the Group had undrawn committed funding of £27,300,000 (\$35,000,000) available under the terms of its credit facilities.

In assessing the going concern basis of preparation the Directors have reviewed financial projections to 31 December 2024 ('the going concern assessment period'), containing both a 'base case' and a 'severe but plausible downside case'. The review period extends beyond the minimum required 12-month period from the date of

approval of the interim financial statements to protect against the recovery in the semiconductor market occurring later than forecast by the Directors.

Base Case

The base case is the Group's latest 2023 Board approved 2023 and 2024 forecasts. The base case incorporates the impact of current market softness, weak customer demand and cost management actions implemented by the Board.

The base case was prepared with the following key assumptions:

- Revenue for 2023 in line with current analyst consensus, with a forecast return to year-on-year growth in 2024
- Direct wafer product margins for 2023 and 2024 consistent with H1 2023
- Labour inflation in 2024 in line with labour market norms
- Cost inflation in 2024 operating and administrative costs in line with the current inflationary environment
- c.£14,000,000 of capital expenditure in 2023 and 2024 which includes investment in Gallium Nitride (GaN) related manufacturing capacity, enabling diversification into the high-growth power electronics and advanced display (uLED) markets

In the base case the Group is forecast to maintain significant levels of funding headroom throughout the going concern assessment period and is forecast to comply with its leverage and interest cover banking covenants throughout the going concern assessment period. A mid-single digit £m net debt (excluding lease liabilities and fair value gains/losses on derivatives) position is forecast at the end of 2023 and a high-single digit £m net debt position is forecast at the end of 2024.

Severe but plausible downside case

The severe but plausible downside case was prepared using the following key assumptions:

- Revenue is assumed at 17% down on the base case for Q4 2023 and 10% down on the base case for FY24 with a return to growth deferred to Q2FY24.
- In line with the revenue reduction in both years, there is a reflective reduction in variable operating costs for 2023 and 2024 along with additional incremental cost savings that primarily include idling of tools, labour savings and reductions in certain non-manufacturing related discretionary expenditure that can be controlled by the Directors

In the severe but plausible downside case the Group's liquidity is reduced to mid-single digit £m at the end of 2023, increasing to low teen £m at the end of 2024 and is forecast to comply with its leverage and interest cover banking covenants throughout the going concern assessment period. A mid-single digit £m net debt (excluding lease liabilities and fair value gains/losses on derivatives) position is forecast at the end of 2023 and a low teen £m net debt position is forecast at the end of 2024.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

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 described in the last annual financial statements except as follows:

Impairment of Cash Generating Units ('CGU')

At the end of each reporting period, the Group assesses whether there is any indication of impairment of non-current assets allocated to the Group's CGU's. Multiple production facilities and production assets are included in a single CGU reflecting that production can (and is) transferred between sites and production assets for different operating segments to suit capacity planning and operational efficiency. Given the interdependency of facilities and production assets non-current assets are tested for impairment by grouping operational sites and production assets into CGUs based on type of production.

In the six months to 30 June 2023, the current industry downturn has negatively impacted the Group's results with a loss for the period of £21,325,000 and operating losses in each of its Wireless and Photonics CGU's. As a result of this, non-current assets allocated to the Wireless and Photonics CGUs have been tested for impairment.

The recoverable amount of the CGUs has been determined based on value in use calculations, using cash flow projections for a five-year period plus a terminal value based upon a long-term growth rate of 2% in line with The Bank of England's monetary policy 2% inflation target.

Value in use calculations are based on the Group's latest Board approved 2023 and 2024 forecast and five-year plan which has been adjusted to exclude the impact of expansionary capital expenditure and certain linked earnings and cash flows. Revenue assumptions in year 1 reflect the impact of current market softness, a reduction in customer demand, orders and forecasts, prior to an expected improvement in market dynamics and customer demand in years 2 and 3. Revenue assumptions in the adjusted cash flow projections for years 4 and 5 have typically been extrapolated from year 3 using business segment growth rates that take account of industry trends and external market research.

The calculation of the recoverable amount of each CGU in the value in use calculations is highly sensitive to small changes in the following key assumptions applied in the 2023 cash flow forecast:

	Year 1 %	Year 2 %	Year 3 %	Year 4 %	Year 5 %	5 Year CAGR %
Risk adjusted discount rate	19.2%	19.2%	19.2%	19.2%	19.2%	N/A
Photonics revenue growth rate	Latest 2023 and 2024 Board approved forecast	Latest 2023 and 2024 Board approved forecast	34.3%	17.3%	18.1%	12.3%
Wireless revenue growth rate	Latest 2023 and 2024 Board approved forecast	Latest 2023 and 2024 Board approved forecast	29.7%	31.3%	11.5%	12.5%

Wireless CGU

The recoverable amount of the Wireless CGU of £89,086,000, determined based on value in use calculations is greater than the carrying amount (£82,833,000) of the associated intangible assets, property, plant and equipment and right of use assets allocated to the CGU such that no impairment of Wireless CGU assets has been identified.

The Group has carried out a sensitivity analysis on the impairment test for the Wireless CGU, using various reasonably plausible scenarios focused on changes in business segment growth rates, direct wafer product margins and changes in the discount rate applied in the value in use calculations.

- Growth rates in the value in use calculations take account of continuing market demand for compound semiconductors and associated technology advancement, driven by macro trends of 5G and connected devices where 5G network infrastructure and 5G mobile handsets are being enabled by next generation wireless compound semiconductor material. If the aggregated compound annual revenue growth rate used in the value in use calculations to determine the recoverable amount was to decrease by 1.0%, the magnitude of the adverse impact on the recoverable amount of Wireless CGU non-current assets would be £11,267,000

- If the discount rate used in the value in use calculations to determine the recoverable amount was to increase by 0.5%, the magnitude of the adverse impact on the recoverable amount of Wireless CGU non-current assets would be £3,416,000.

Photonics CGU

The recoverable amount of the Photonics CGU of £137,515,000, determined based on value in use calculations is greater than the carrying amount (£136,870,000) of the associated intangible assets, property, plant and equipment and right of use assets allocated to the CGU such that no impairment of Photonics CGU assets has been identified.

The Group has carried out a sensitivity analysis on the impairment test for the Photonics CGU, using various reasonably plausible scenarios focused on changes in business segment growth rates, direct wafer product margins and changes in the discount rate applied in the value in use calculations.

- Growth rates in the value in use calculations take account of continuing market demand for compound semiconductors and associated technology advancement, driven by macro trends of 5G and connected devices, and the increasing proliferation of 3D and advanced sensing end user applications that require enabling compound semiconductor material. If the aggregated compound annual revenue growth rate used in the value in use calculations to determine the recoverable amount was to decrease by 1.0%, the magnitude of the adverse impact on the recoverable amount of Photonics CGU non-current assets would be £19,732,000
- If the discount rate used in the value in use calculations to determine the recoverable amount was to increase by 0.5%, the magnitude of the adverse impact on the recoverable amount of Photonics CGU non-current assets would be £5,158,000.

5. MATERIAL ACCOUNTING POLICIES

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2022. A number of new standards are effective from 1 January 2023 but they do not have a material effect on the Group's financial statements.

Recent accounting developments and the policy for recognising and measuring income taxes in the interim period are described below.

5.1 Recent accounting developments

In preparing the interim financial statements, the Group has adopted the following Standards, amendments and interpretations, which are effective for 2023 and will be adopted in the financial statements for the year ended 31 December 2023:

- IFRS 17 'Insurance contracts' which establishes the principles for the recognition, measurement and presentation and disclosure of insurance contracts and supersedes IFRS 4 'Insurance contracts'.
- Amendments to IAS 1 'Presentation of financial statements' on classification of liabilities which is intended to clarify that liabilities are classified as either current or non-current depending upon the rights that exist at the end of the reporting period and amendments to the disclosure of accounting policies will require disclosure of material rather than significant accounting policies.
- Amendment to IAS 8 'Accounting policies, changes in accounting estimates and errors' to introduce a new definition for accounting estimates which clarifies that an accounting estimate is a monetary amount in the financial statements that is subject to measurement uncertainty.
- Amendment to IAS 12 'Income taxes' to clarify the accounting treatment for deferred tax on certain transactions with a narrowing of the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences.

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

5.2 Income tax expense

Income tax expense is recognised at an amount determined by multiplying the loss before tax for the interim reporting period by management's best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognised in full in the interim period. As such, the effective tax rate in the interim financial statements may differ from management's estimate of the effective tax rate for the annual financial statements.

6. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties affecting the Group are set out in the Strategic Report in the 2022 Annual report and financial statements and remain unchanged at 30 June 2023.

The principal risks and uncertainties include health, safety and environment, loss of key personnel, cybersecurity, infringement or loss of intellectual property, legal and regulatory compliance, changes in international export control laws, competition and/or erosion of market opportunity, customer concentration, insufficient cash or funding to underpin investment opportunities, the failure of new products or technology to deliver expected levels of revenue and profitability, disruption or inflation in global supply chains, transformation of IT systems causing business disruption and insufficient liquidity or cash funding to meet financial obligations as they fall due.

7. SEGMENTAL INFORMATION

	6 Months to 30 June 2023 Unaudited £'000	6 Months to 30 June 2022 Unaudited £'000	12 Months to 31 Dec 2022 Audited £'000
Revenue			
Wireless	22,438	46,629	76,016
Photonics	28,012	38,475	88,637
CMOS++	1,566	1,094	2,841
Revenue	52,016	86,198	167,494
Adjusted operating loss			
Wireless	(2,978)	5,533	4,705
Photonics	(6,354)	1,899	11,162
CMOS++	(932)	(704)	(1,513)
Central corporate costs	(7,195)	(8,168)	(17,911)
Adjusted operating loss	(17,459)	(1,440)	(3,557)
Adjusted items			
Wireless	(284)	(943)	(63,754)
Photonics	(825)	(3,883)	(5,438)
CMOS++	(15)	(7)	(10)
Central corporate costs	(1,051)	(1,158)	(217)
Operating loss	(19,634)	(7,431)	(72,976)
Finance costs	(1,832)	(1,100)	(2,427)
Loss before tax	(21,466)	(8,531)	(75,403)

8. ADJUSTED PERFORMANCE MEASURES

The Group's results report certain financial measures after a number of adjusted items that are not defined or recognised under IFRS including, adjusted earnings before interest, tax, depreciation and amortisation, adjusted operating loss, adjusted loss before income tax and adjusted losses per share. The Directors believe that the adjusted performance measures provide a useful comparison of business trends and performance and allow management and other stakeholders to better compare the performance of the Group between the current and prior year, excluding the effects of certain non-cash charges, non-operational items and significant infrequent items that would distort period on period comparability. The Group uses these adjusted performance measures for internal planning, budgeting, reporting and assessment of the performance of the business. The tables below show the adjustments made to arrive at the adjusted performance measures and the impact on the Group's reported financial performance.

£'000s	6 months to 30 Jun 2023			Restated 6 months to 30 Jun 2022			2022		
	Adjusted Results	Adjusted Items	Reported Results	Adjusted Results	Adjusted Items	Reported Results	Adjusted Results	Adjusted Items	Reported Results
Revenue	52,016	-	52,016	86,198	-	86,198	167,494	-	167,494
Cost of sales	(56,088)	(153)	(56,241)	(71,475)	(370)	(71,845)	(140,962)	(149)	(141,111)
Gross (loss)/profit	(4,072)	(153)	(4,225)	14,723	(370)	14,353	26,532	(149)	26,383
Other gains/(losses)	640	-	640	(1,317)	-	(1,317)	(381)	-	(381)
SG&A	(14,382)	(2,022)	(16,404)	(14,252)	(2,262)	(16,514)	(26,780)	(4,431)	(31,211)
Impairment of intangibles	-	-	-	-	(3,363)	(3,363)	-	(66,155)	(66,155)
Impairment reversal/(loss) of receivables	355	-	355	-	-	-	(2,300)	-	(2,300)
(Loss)/profit on disposal of PPE	-	-	-	(594)	4	(590)	(628)	1,316	688
Operating loss	(17,459)	(2,175)	(19,634)	(1,440)	(5,991)	(7,431)	(3,557)	(69,419)	(72,976)
Finance costs	(1,832)	-	(1,832)	(1,100)	-	(1,100)	(2,427)	-	(2,427)
Loss before tax	(19,291)	(2,175)	(21,466)	(2,540)	(5,991)	(8,531)	(5,984)	(69,419)	(75,403)
Taxation	141	-	141	(395)	674	279	64	798	862
Loss for the period	(19,150)	(2,175)	(21,325)	(2,935)	(5,317)	(8,252)	(5,920)	(68,621)	(74,541)

£'000s	6 months to 30 Jun 2023			6 months to 30 Jun 2022			2022		
	Pre-tax Adjustment	Tax Impact	Reported Results	Pre-tax Adjustment	Tax Impact	Reported Results	Pre-tax Adjustment	Tax Impact	Reported Results
Share based payments	(460)	-	(460)	(1,110)	-	(1,110)	(223)	(200)	(423)
Share based payments – Chief Executive Officer recruitment	(6)	-	(6)	(38)	-	(38)	(109)	-	(109)
Chief Executive Officer recruitment	(147)	-	(147)	(154)	-	(154)	(96)	-	(96)
Chief Finance Officer severance	(326)	-	(326)	-	-	-	-	-	-
Impairment – goodwill	-	-	-	-	-	-	(62,716)	-	(62,716)
Impairment -other intangibles	-	-	-	(3,363)	410	(2,953)	(3,439)	724	(2,715)
Restructuring	(1,236)	-	(1,236)	(1,330)	-	(1,330)	(4,152)	-	(4,152)
Restructuring – profit on disposal of PPE	-	-	-	4	264	268	1,316	274	1,590
Total	(2,175)	-	(2,175)	(5,991)	674	(5,317)	(69,419)	798	(68,621)

The nature of the adjusted items is as follows:

Current period:

- Share based payments – The charge recorded in accordance with IFRS 2 'share based payment' of which £153,000 (H1 2022: £370,000, FY22: £149,000) has been classified within cost of sales in gross (loss)/profit and £307,000 (H1 2022: £740,000, FY22: £74,000) in selling, general and administrative expenses within operating loss.
- Chief Executive Officer recruitment – The Chief Executive Officer's starting bonus of £1,000,000, of which £200,000 relates to a share-based payment award and £800,000 relates to a cash award is payable over the first three years of employment. The charge of £153,000 (H1 2022: £192,000, FY22: £205,000) includes share award and cash costs associated with the new Chief Executive Officer's starting bonus of £153,000 (H2 2022: £192,000, FY22: £435,000) and a credit of £nil (H1 2022: £nil, FY22: £230,000) relating to external recruitment fees. Cash costs defrayed in the period total £463,000 (H1 2022: £582,000, FY22: £715,000).
- Chief Finance Officer severance – The charge of £326,000 (H1 2022: £nil, FY22 £nil) consists of settlement costs and legal fees in relation to the former Chief Financial Officer. Cash costs defrayed in the period total £280,000 (H1 2022: £nil, FY22: £nil).
- Restructuring – The charge of £1,236,000 (H1 2022: £1,330,000, FY22: £4,152,000) relates to restructuring costs relating to labour cost reductions within the Group, the closure of the Group's manufacturing facility in Pennsylvania, USA and the closure of the Group's manufacturing facility in Singapore.
 - Restructuring charges of £786,000 (H1 2022: £nil, FY22: £nil) relate to employee related costs relating to labour cost associated with employee redundancies across the Group (excluding costs relating to facility closures separately disclosed). The charge was classified as selling, general and administrative expenses within operating loss. Cash costs defrayed in the period total £786,000 (H1 2022: £nil, FY22: £nil).
 - Restructuring charges of £450,000 (H1 2022: £323,000, FY22: £1,136,000) relate to employee related costs relating to the announced closure of the Group's manufacturing facility in Pennsylvania, USA. The charge was classified as selling, general and administrative expenses within operating loss. Cash costs defrayed in the period total £186,000 (H1 2022: £131,000, FY22: £606,000).
 - Restructuring charges of £nil (H1 2022: £1,007,000, FY22: £3,016,000) consist of employee related costs of £nil (H1 2022: £148,000, FY22: £220,000), site decommissioning costs of £nil (H1 2022: £859,000, FY22: £1,512,000), asset write downs of £nil (H1 2022: £nil, FY22: £863,000) and asset transfer costs of £nil (H1 2022: £nil, FY22: £421,000) relating to the closure of the Group's manufacturing facility in Singapore. The prior period charge was classified as selling, general and administrative expenses within operating loss. Cash costs defrayed in the period total £108,000 (H1 2022: £1,075,000, FY22: £5,088,000).

Prior periods:

- Restructuring profit on disposal of PPE – The profit on disposal of PPE of £nil (H1 2022: £4,000, FY22: £1,316,000) consists of the sale of assets in Singapore following the cessation of trade and the sale of assets in North Carolina to facilitate the consolidation of the Group's manufacturing operations from Pennsylvania. Cash proceeds received in the period for the sale of plant and equipment total £nil (H1 2022: £4,091,000, FY22: £6,073,000).
- Impairment of goodwill – The non-cash charge of £nil (H1 2022: £nil, FY22: £62,716,000) relates to impairment costs associated with the Wireless CGU of £nil (H1 2022: £nil, FY22: £62,382,000) and the Photonics CGU of £nil (H1 2022: £nil, FY22: £334,000).
- Impairment of other intangibles – The non-cash charge of £nil (H1 2022: £3,363,000, FY22: £3,439,000) relates to the impairment of distributed feedback laser technology development costs where the Group has taken the decision to discontinue the development and commercialisation of the technology.

The cash impact of adjusted items in the consolidated cash flow statement represent costs associated with the recruitment of the group's Chief Executive Officer (£463,000), the recruitment and severance of the group's Chief Finance Officer (£280,000), onerous contract royalty payments related to the Group's cREO™ technology (£41,000), payment of employee related costs associated with labour cost reductions within the Group (£786,000), payment of employee related costs associated with the announced closure of the Group's site in Pennsylvania (£186,000) and payment of employee and site related decommissioning costs associated with the closure of the Group's manufacturing facility in Singapore (£108,000).

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

(All figures £'000s)	6 months to 30 June 2023 Unaudited	6 months to 30 June 2022 Unaudited	12 months to 31 Dec 2022 Audited
Loss attributable to equity shareholders	(21,325)	(8,252)	(74,541)
Finance costs	1,832	1,100	2,427
Tax	(141)	(279)	(862)
Depreciation of property, plant and equipment	6,073	7,359	14,529
Depreciation of right of use assets	1,898	1,989	3,981
Amortisation of intangible fixed assets	3,750	3,831	7,784
Loss on disposal of PPE and intangibles*	-	590	628
Adjusted Items	2,175	5,995	69,419
Share based payments	460	1,110	223
Share based payments – CEO recruitment	6	38	109
CEO recruitment	147	154	96
CFO recruitment & severance	326	-	-
Restructuring	1,236	1,330	4,152
Restructuring – profit on disposal of PPE	-	-	(1,316)
Impairment of intangibles	-	3,363	66,155
Adjusted EBITDA	(5,738)	12,333	23,365
Share based payments	(460)	(1,110)	(223)
Share based payments – CEO recruitment	(6)	(38)	(109)
CEO recruitment	(147)	(154)	(96)
CFO recruitment & severance	(326)	-	-
Restructuring	(1,236)	(1,330)	(4,152)
EBITDA	(7,913)	9,701	18,785

*Excludes the adjustment 'Restructuring – profit on disposal of PPE' which is separately disclosed as part of the groups adjusted items

9. TAXATION

The Group's consolidated effective tax rate for the six months ended 30 June 2023 was 0.7% (H1 2022: 3.3%, FY22: 1.1%). The effective tax rate differs from the theoretical amount that would arise from applying the standard corporation tax in the UK of 19.0% (H1 2022: 19.0%, FY22: 19.0%) principally due to non-recognition of current year tax losses in the UK and USA.

10. LOSS PER SHARE

(All figures £'000s)	6 months to 30 June 2023 Unaudited	6 months to 30 June 2022 Unaudited	12 months to 31 Dec 2022 Audited
Loss attributable to ordinary shareholders	(21,325)	(8,252)	(74,541)
Adjustments to loss after tax (note 8)	2,175	5,317	68,621
Adjusted loss attributable to ordinary shareholders	(19,150)	(2,935)	(5,920)
Number of shares:			
Weighted average number of ordinary shares	830,940,409	804,236,241	804,466,357
Dilutive share options	4,621,705	7,369,508	8,797,413
	835,562,114	811,605,749	813,263,770
Basic loss per share	(2.57p)	(1.03p)	(9.27p)
Adjusted loss per share	(2.30p)	(0.36p)	(0.74p)
Diluted loss per share	(2.57p)	(1.03p)	(9.27p)
Adjusted diluted loss per share	(2.30p)	(0.36p)	(0.74p)

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

Diluted loss per share is calculated by dividing the loss 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.

11. CASH GENERATED FROM OPERATIONS

(All figures £'000s)	6 months to 30 June 2023 Unaudited	6 months to 30 June 2022 Unaudited	12 months to 31 Dec 2022 Audited
Loss before tax	(21,466)	(8,531)	(75,403)
Finance costs	1,832	1,100	2,427
Depreciation of property, plant and equipment	6,073	7,359	14,529
Depreciation of right of use assets	1,898	1,989	3,981
Amortisation of intangible assets	3,750	3,831	7,784
Impairment of intangible assets	-	3,363	66,155
Inventory write downs	760	499	2,811
Loss/(profit) on disposal of property, plant and equipment	-	590	(688)
Movement on trade receivable expected credit losses	(355)	-	2,300
Provision movements	404	(208)	3,049
Fair value (gain)/loss on derivative financial instruments	(640)	1,317	-
Share based payments	466	1,148	332
Cash inflow from operations before changes in working capital	(7,278)	12,457	27,277
Decrease/(increase) in inventories	5,946	(1,376)	(2,904)
Decrease/(increase) in trade and other receivables	7,185	(6,092)	(5,534)
(Decrease)/increase in trade and other payables	(3,043)	1,187	(3,893)
Decrease in provisions	(378)	-	(6,073)
Cash inflow from operations	2,432	6,176	8,873

12. ANALYSIS OF NET DEBT

(All figures £'000s)	6 months to 30 June 2023 Unaudited	6 months to 30 June 2022 Unaudited	12 months to 31 Dec 2022 Audited
Bank borrowings due after one year	(845)	(7,205)	(20,643)
Bank borrowings due within one year	(6,123)	(14,912)	(6,225)
Lease liabilities due after one year	(42,826)	(48,372)	(46,026)
Lease liabilities due within one year	(7,140)	(5,287)	(4,843)
Total borrowings	(56,934)	(75,776)	(77,737)
Fair value of derivative financial instruments	259	(1,327)	(381)
Cash and cash equivalents	12,314	15,390	11,620
Net debt	(44,361)	(61,713)	(66,498)

On 17 May 2023, the Company refinanced its £27,300,000 (\$35,000,000) multi-currency revolving credit facility, provided by HSBC Bank plc. The facility is secured on the assets of IQE plc and its subsidiary companies with a committed term to 1 May 2026. Interest on the facility is payable at a margin of between 2.50 and 3.50 per cent per annum over SONIA on any drawn balances and the facility is subject to quarterly leverage and Interest cover covenants tests which commence at 31 December 2023.

On 29 August 2019, the Company agreed a new £30,000,000 asset finance facility, provided by HSBC Bank plc that is secured over various plant and machinery assets. The facility has a five-year term and an interest rate margin of 1.65% per annum over base rate on any drawn balances.

Bank borrowings relate to amounts drawn down on the Group's asset finance facility.

Cash and cash equivalents comprise balances held in instant access bank accounts and other short-term deposits with a maturity of less than 3 months.

13. SHARE CAPITAL

Number of shares	6 months to 30 June 2023 Unaudited	6 months to 30 June 2022 Unaudited	12 months to 31 Dec 2022 Audited
As at 1 January	804,841,965	803,555,756	803,555,756
Employee share schemes	1,052,260	419,252	702,500
Placing	150,000,000	-	-
Retail Offer	5,492,730	-	-
Chief Executive Officer's starting bonus – share award	-	583,709	583,709
As at 30 June / 31 December	961,386,955	804,558,717	804,841,965

(All figures £'000s)	6 months to 30 June 2023 Unaudited	6 months to 30 June 2022 Unaudited	12 months to 31 Dec 2022 Audited
As at 1 January	8,048	8,036	8,036
Employee share schemes	11	10	12
Placing	1,500	-	-
Retail Offer	55	-	-
As at 30 June / 31 December	9,614	8,046	8,048

On 17 May 2023, IQE plc raised funds by way of a Placing and a Retail Offer to all existing shareholders. In each case these were offered at an issue price of 20 pence per share (the 'Issue Price'). The Placing utilised a cashbox structure and therefore the premium on the ordinary shares and associated costs, in accordance with section 612 of the Companies Act 2006, were initially recognised within the merger reserve (incorporated within 'Other reserves'). The investment in the newly incorporated subsidiary utilised within the cashbox structure has been fully impaired in the period and the merger reserve has subsequently been transferred into retained earnings as it is determined to be distributable in accordance with the Companies Act 2006. The Placing and Retail Offer raised net funds of £29,708,000 from the issue of 155,492,730 ordinary shares.

14. RELATED PARTY TRANSACTIONS

Transactions with Joint Ventures

Compound Semiconductor Centre Limited ('CSC')

The Group established CSC with its joint venture partner as a centre of excellence for the development and commercialisation of advanced compound semiconductor wafer products in Europe and on its formation, the Group contributed assets to the joint venture valued at £12m as part of its initial investment.

The activities of CSC include research and development into advanced compound semiconductor wafer products, the provision of contract manufacturing services for compound semiconductor wafers to certain subsidiaries within the IQE plc Group and the provision of compound semiconductor manufacturing services to other third parties.

CSC operates from its manufacturing facilities in Cardiff, United Kingdom and leases certain additional administrative building space from the Group. During the period the CSC leased this space from the Group for £58,000 (H1 2022: £58,000, FY22: £115,000) and procured certain administrative support services from the Group for £118,000 (H1 2022: £118,000, FY22: £235,000). As part of the administrative support services provided to CSC the Group procured goods and services, recharged to CSC at cost, totalling £2,359,000 (H1 2022: £2,069,000, FY22: £4,031,000).

CSC granted the Group the right to use its assets following its formation for a minimum five-year period. Costs associated with the right to use the CSC's assets are treated by the Group as operating lease costs. Costs are charged by the CSC at a price which reflects the CSC's cash cost of production (including direct labour, materials and site costs) but excludes any related depreciation or amortisation of the CSC's property, plant and equipment and intangible assets respectively under the terms of the joint venture agreement between the parties. Costs associated with the right to use the CSC's assets totalled £3,488,000 (H1 2022: £3,288,000, FY22: £6,822,000) in the period.

At 30 June 2023 an amount of £243,000 (H1 2022: £439,000, FY22: £137,000) was owed from the CSC.

In the Groups balance sheet 'A' Preference Shares with a nominal value of £8,800,000 (H1 2022: £8,800,000, FY22: £8,800,000) are included in financial assets at an amortised cost of £nil (H1 2022: £nil, FY22: £nil) and the Group has a shareholder loan of £248,000 (H1 2022: £246,000, FY22: £247,000) due from CSC.

15. COMMITMENTS

The Group had capital commitments at 30 June 2023 of £12,197,000 (H1 2022: £3,527,000, FY22: £1,740,000).

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK;
- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Americo Lemos

Neil Rummings

Chief Executive Officer, IQE plc.

Interim Chief Financial Officer, IQE plc.

12 September 2023

12 September 2023