

Architects of tomorrow

Annual Report & Accounts 2022



Highlights

Architects of tomorrow

As the world's leading compound semiconductor supplier with a global footprint, we are critical enablers of the digital world.

Revenue

£167m

2021: £154m

Net operating loss

£(73)m

2021: £(20)m

Adjusted EBITDA

£23m

2021: £19m

Adjusted net debt

£(15)m

2021: £(6)m

Capital expenditure

£9m

2021: £15m

The nature and description of alternative performance measures are included in Note 5 on page 125. Adjusted net debt is defined on page 98.

Our vision

Our vision is to deliver the most advanced compound semiconductor solutions to our customers.

Our mission

Our mission is to be at the forefront of technology to help address global challenges and enable the next wave of innovation.

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Our business at a glance

Who we are

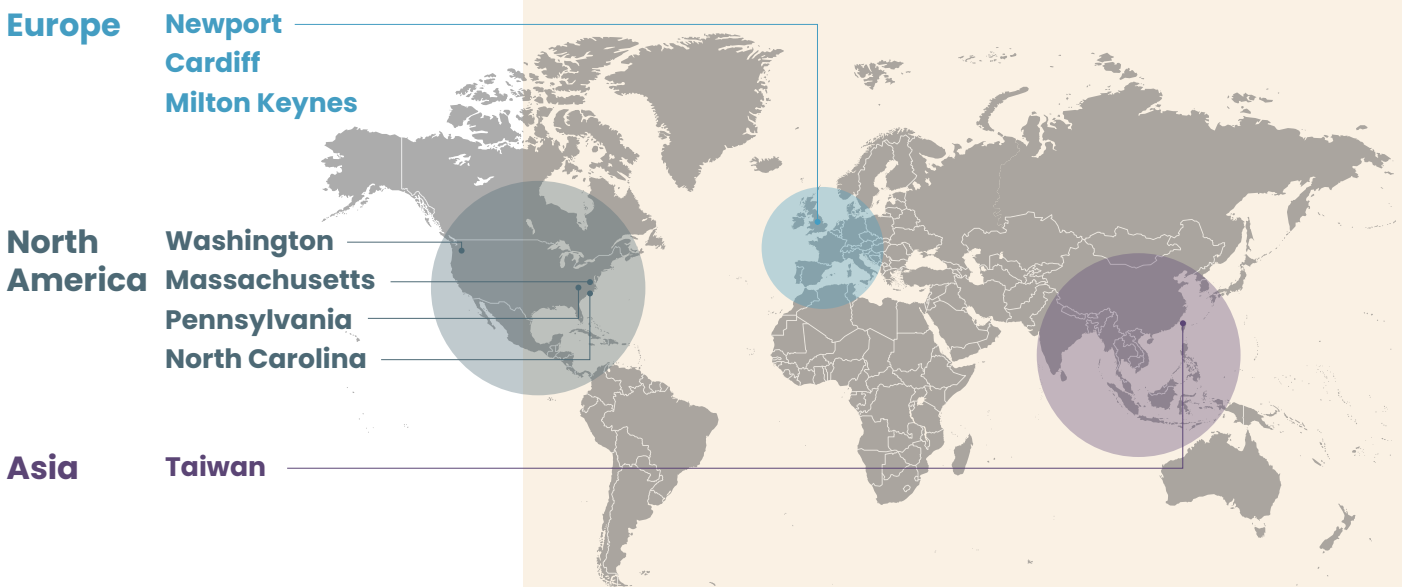
IQE is the world's only pure play compound semiconductor provider with a global footprint, strategically positioned to enable the next wave of innovation. We can service our customers in their geographies with our three-continent manufacturing footprint, offering world-class technology, flexibility and supply chain security.

What we do

IQE offers compound semiconductor manufacturing services that deliver powerful enabling technologies that change how we live and work. We understand that in an intelligently connected world, the megatrends of the future will require the advanced performance characteristics of compound semiconductors.

Our global footprint

We are uniquely positioned for security and scalability.



Our growth potential

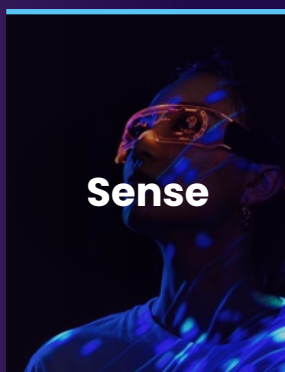
We are focused on enabling key capabilities within growth markets.

+ Read more about our strategy for growth on page 28



Connect

We live in an interconnected digital world where connectivity is no longer optional. From mobile handsets and 5G communications infrastructure, to smart devices in our homes and cars, IQE's connect products enable high-performance wireless communication.



Sense

The connected digital world has become intelligent. The global sensing market is forecast to grow significantly in the coming years, driven by the need for smart connected devices to be able to detect and communicate with the world around them. With a stellar 3D sensing pedigree, IQE is focused on enabling healthcare wearable devices, LiDAR for autonomous vehicles and industrial automation.



Power

Power is fundamental to the digital world and for everyday life. Compound semiconductors will be needed to address the world's power challenges, such as climate change, as their performance advantages result in more efficient power usage. Power electronics is a growth market driven by demand for electric vehicles, smart power grids and efficient consumer applications, which will be necessary to achieve Net Zero.



Display

Display technologies have undergone significant transformation as consumers and industry demand richer, immersive display experiences. IQE is well placed to deliver MicroLED solutions that offer improved performance and lower power consumption. We are proud to work with our key strategic partners to deliver the future of display.

Our future

We have ambitious growth plans.

Increase revenue

3x

by 2027

Over

30%

adjusted EBITDA margin by 2027

Capacity growth of

3x

possible within current footprint



**“We have
unprecedented
opportunities”**

Americo Lemos
Chief Executive Officer

Architects of tomorrow

The world around us is changing rapidly and IQE is at the forefront of technologies that enable smart connected devices and intelligent transportation, and offer energy efficient and carbon-responsible solutions.

We have unprecedented opportunities to enable our customers' technology roadmaps as they respond to the demand for 'more'.

By 2030, the global semiconductor market is estimated to be

\$1tn

driven by the onset and multiplication of megatrends*

* Source: SIA, McKinsey 2022



**Architects
of tomorrow**

Compound semiconductors are critical to the future of technology. As the world's only pure play epitaxy foundry with a global footprint, IQE is able to address the regionalisation of global technology supply chains.

We have manufacturing operations on three continents for flexibility and supply chain resilience. Operating across a full breadth of materials platforms, we are uniquely positioned to capitalise on the megatrends of the future.

22%

epiwafer market CAGR
2022-2027*

\$4.6bn

total epiwafer market in 2027*

* Source: Yole Intelligence Q4 2022, IQE sources

“We are uniquely positioned”

Tim Pullen
Chief Financial Officer

[+ Read about where we sit in the value chain on page 20](#)



Architects of tomorrow

We are market-led, and this is at the core of our approach to innovation. We partner closely with our customers, the market makers, to really understand what they need.

IQE's technologies directly address challenges that the market has, enabling us to pull solutions through the supply chain for full value capture.

Our growth markets



**Smart
Connected
Devices**



**Automotive
and Industrial**



**Communications
Infrastructure
and Security**

**[+ Read more about our growth markets
on page 24](#)**

“We are market-led”

Rodney Pelzel
Chief Technology Officer



**“We are ready
to scale and
grow”**

Christine Dunbar
Senior Vice President, Global Sales

[+ Read more about our strategy on page 28](#)

Architects of tomorrow

IQE is transforming at pace and we are ready to scale and grow to deliver our future plans. We have the facilities and expertise to respond rapidly to market needs within our current site footprint.

Our growth ambitions are focused on our strategic sites for high volume manufacturing. We have significant first mover advantage to get to scale with the tool expansion capacity currently possible at our global sites.

Our unique time to market advantage

3X

capacity growth possible within current footprint

Only

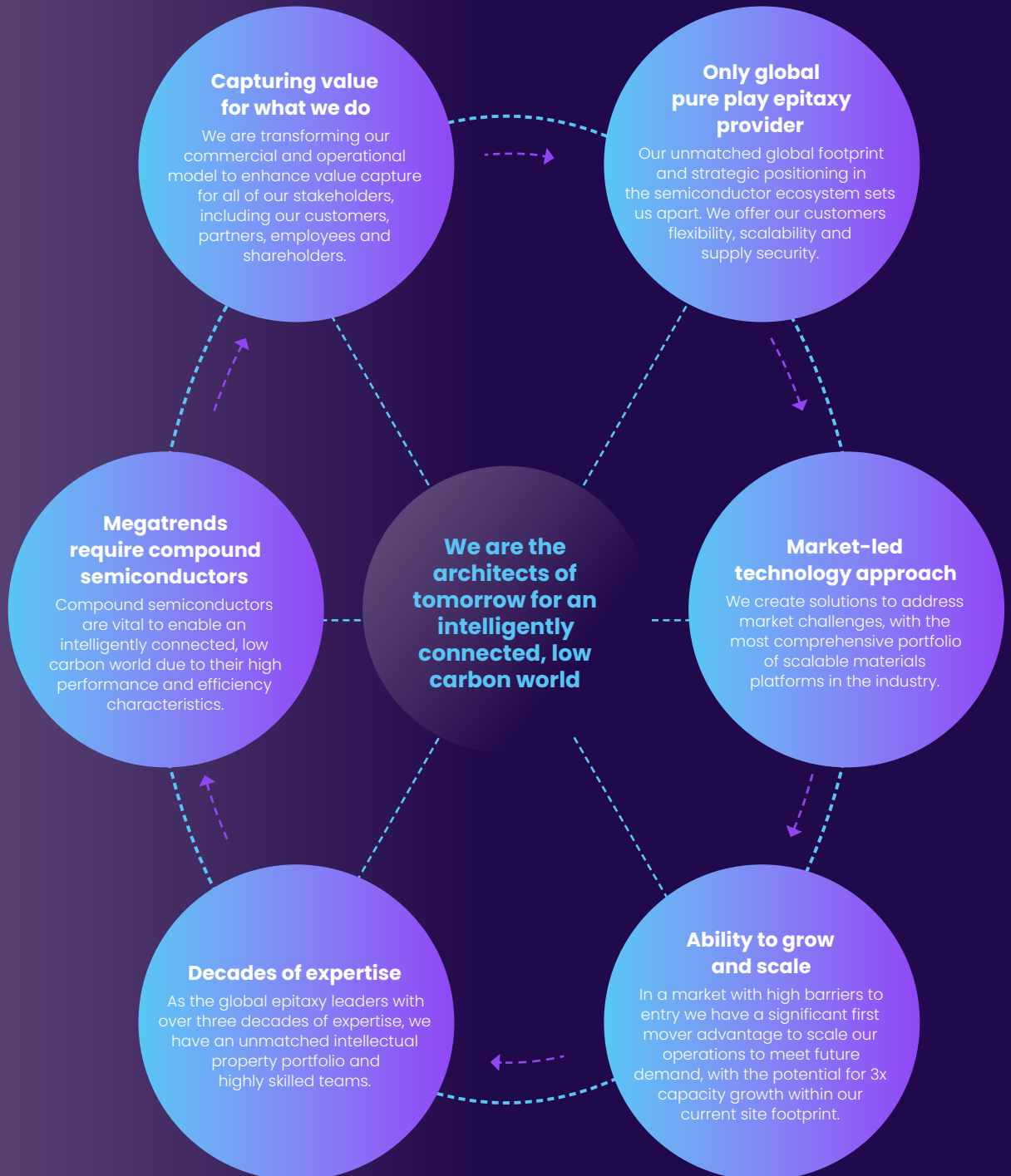
global pure play

epitaxy provider

We are the architects of tomorrow

Connectivity is no longer optional. It is our way of life. Every day each of us makes powerful connections allowing us to share stories, work intelligently and power efficiently. As demand grows for more connections, better energy efficiency and improved performance, our world is increasingly dependent on compound semiconductors to realise the possibilities of tomorrow's megatrends.

For over 30 years, IQE has been at the forefront of advanced semiconductor material innovation, and remains uniquely positioned to capitalise on the next wave of industry innovation.



IQE's products enable the world to connect, power, sense and display, and we operate at the forefront of technology.

“We are industry leaders”

Phil Smith
Chairman



Dear Shareholder,

The last 12 months have been incredibly important for the business. IQE achieved real and continued strategic progress, underpinned by our customer and product platforms which have been built over many years.

Most notably, Americo Lemos joined as Chief Executive Officer in January 2022, the first change of CEO at IQE in over three decades. Americo's ambition and impact in his first year have confirmed what the Board saw during their executive search; he was the right candidate for the position. With exceptional industry knowledge and a network comprising the world's top technology leaders, Americo's leadership and strategy have built a strong and solid platform for future growth.

With a renewed focus on deepening existing customer relationships and forming new strategic partnerships, this customer-centric approach was demonstrated throughout 2022. We were pleased to announce many strategic and long-term customer partnerships, including with Lumentum, AWSC, SK siltron and two MicroLED partners.

During our Capital Markets Day ('CMD') held in November we were able to feature many video testimonials from our customers and strategic partners. The CMD was an incredible event where we set out our refreshed strategy and longer-term financial goals, unveiling our growth targets and ambitions for the business. We simultaneously revealed our updated branding and a new logo which seamlessly links our heritage to our pioneering plans for the future.

Our strategy of diversification is the right approach and will see us maintain and grow in the connect and sense markets, which encompass our historical Wireless and Photonics products. We will diversify by entering into new markets aligned with our customers' needs. These are the Power and Display segments, which are poised for huge growth in the coming years.

For a full replay of our CMD, please visit cmd.iqep.com.

Trading performance

While the effects of COVID lessened in 2022, there was still a lot of uncertainty in the macro environment, notably with the war in Ukraine, the resulting increase in energy costs and inflationary pressures.

In the second half of the year, longer than expected lockdowns in China resulted in weaker semiconductor demand, leading to inventory build-up throughout the supply chain. This unfortunately impacted our end of year revenue performance and has led to IQE guiding reduced H1 2023 revenues after the reporting period.

While our reported revenue for FY 2022 was up 9% year-on-year at £167m, excluding the impact of foreign exchange, revenue was broadly in line with our 2021 figure.

“IQE achieved real and continued strategic progress over the past year, underpinned by our customer and product platforms which have been built over many years.”

It was disappointing we did not achieve the low single digit growth we sought, however despite challenging external conditions in 2023, we remain confident in our strong business fundamentals and market-leading position, and have a solid platform to deliver our ambitious growth trajectory.

Board matters

In 2021, IQE's Environmental, Social and Governance (ESG) Committee was formed, which is tasked with ensuring Board-level oversight of the important ESG issues facing the Company. A key Committee achievement in 2022 was formalising IQE's commitment to Net Zero and carbon neutrality. We are on an important journey towards implementing science-based targets and this is the first step towards our longer-term environmental goals.

As part of his ESG Committee duties, Sir Derek Jones also became the Board member with responsibility for employee engagement. Sir Derek toured IQE sites to speak with employees directly and held roundtables with a selection of employees from various departments, asking for their feedback on engagement activities and the general culture of the business.

Looking ahead

We are industry leaders in a sector that underpins critical technology supply chains. However, we are operating in a difficult external environment in the first half of the year, with the global semiconductor industry downturn negatively impacting our H1 2023 revenue forecast. In light of this, we have taken actions to strengthen our

balance sheet after the reporting period, including an equity fundraise and the refinancing of our banking facility. Our belief remains unchanged that our longer-term strategy is aligned to weather the cyclical uncertainty which is a periodic feature of the industry. I am confident we will emerge from this temporary downturn in the best possible position to capitalise on the megatrends of the future and deliver for all of our stakeholders.



Phil Smith
Chairman

23 May 2023

IQE is focused on delivering the most advanced compound semiconductor solutions to our customers to help address global challenges and enable the next wave of innovation.

“We are positioned for the future”

Americo Lemos
Chief Executive Officer



It is hard to believe that over a year has already passed since I joined IQE. Looking at the business today, it confirms that the decision to join the Company was without doubt the right one. I'm as excited today for the future of IQE as I was when I walked through the door for the first time in January 2022. Despite a challenging macro environment, our team put in a huge effort to deliver strategic progress against our objectives in 2022, to ensure we are well-positioned for the future.

Strategic progress

There are several strategic achievements that stood out to me during 2022. Firstly, I remember saying on day one to the Senior Leadership Team that we need to get even closer to our customers, and to their customers. This is particularly important given the unique position of IQE in the global semiconductor supply chain, where it is essential for us to align with our customers' roadmaps so we can plan for their needs many years into the future. Throughout the year we had a significant increase in the quality and quantity of our customer engagements.

As a result, I was pleased we were able to announce strategic partnerships with Lumentum, MICLEDI, SK siltron, AWSC and Porotech, all evidence of a new customer engagement model for the Company. This approach will remain central to our strategy going forward. When we work closely and align with our customers, we are stronger together.

One of the factors driving these strategic partnerships is the growing recognition of the critical role that semiconductors play in the global economy. In August I was invited to Westminster to appear in front of the BEIS Select Committee as they gathered evidence about the importance of semiconductors, not just to the tech sector, but to the UK economy as a whole. This was a proud moment for IQE and for me, and the subsequent BEIS Select Committee report that was published in November was an

important finding. It highlights the jeopardy facing the UK if it doesn't quickly and meaningfully build a strategy to support a domestic semiconductor ecosystem in the UK, at a time when our global supply chains are transforming before our eyes to become much more siloed and regionalised and a matter of important foreign policy. I welcome all continued engagement with the government as we move to recognise the importance of increased investment in the sector.

However, economic and political leadership is only meaningful when supported by true technological leadership. IQE has a long history of being pioneers of innovation, and in May I was thrilled we were able to announce the development of the world's

IQE's products enable the world to connect, power, sense and display, and key to our future strategy will be maintaining and growing our position in the connect and sense segments, while also diversifying into power and display which are poised for huge growth. I was proud to showcase the strategic importance of IQE as well as to share our updated strategy and growth ambitions with the market.

Our CMD also gave us an opportunity to highlight our new market-led approach to technology innovation. We are orienting the business towards our key end markets. This means we are more focused than ever on our customers, and aligning our technology innovation to meet market needs. This new market-led approach ensures our

“When we work closely and align with our customers, we are stronger together.”

first commercially available 200mm (8") VCSEL epiwafer. This advancement is revolutionary and will transform the economies of scale possible within the compound semiconductor industry, leading to the expansion of the market for IQE. As technology leaders, we are focused on market-led innovation and this is the first step in scaling all our materials platforms to 200mm and beyond. This step will increase our addressable market, allow greater access to silicon fabs, and enable the scaling of compound semiconductors.

In November we held our first Capital Markets Day (CMD) in four years, where we defined our strategy to diversify and grow our future business against the backdrop of our new brand identity. Focusing on key growth markets, we set out targets for the next five years, while being supported by testimonials from our customers and strategic partners. Their support was outstanding, and we were fortunate to hear from a number of CEOs and senior executives.

technology development is linked to a market need to enhance our technology value capture.

The development of the Group's commercial engine would also not be possible without the key appointments we made throughout the year, particularly in the Global Sales and Customer Excellence functions.

These accomplishments over the last year only serve to reinforce our key strategic advantages:

- IQE has the broadest technology roadmap in the industry, across all key materials platforms;
- Our unmatched global footprint makes us the preferred supplier for customers that require a secure and resilient supply chain, in a complex geopolitical environment; and
- We have unique infrastructure and a time to market advantage.

These three advantages are a compelling proposition for our customers, including for those who prefer to outsource their epitaxy to IQE instead of investing in in-house capabilities.

"IQE's products enable the world to connect, power, sense and display."

Operational performance

2022 was a year in which IQE made strong operational progress as part of the Group's refreshed strategy which was focused on building a solid platform for growth throughout the year, in order to deliver further progress in 2023 and beyond.

This has seen the business take a number of actions to create an operating model that is more agile and efficient. In H1 2022 we closed our Singapore site, as part of our global site rationalisation programme.

We also continued to implement the Group's systems transformation. The first release of our new manufacturing system is now live in South Wales. We will continue to build on those capabilities during 2023 as we continue to drive agile and efficient business operations.

offsetting in favour of systemic organisational change.

The announcement of our Net Zero and carbon neutrality plans are an important step which reflects our commitment to continuous improvement and implementing best practice across the business. While we recognise that we are at the beginning of our sustainability journey, our consideration of ESG issues is materially important to our future strategy and will be critical to ensuring a sustainable and viable business in the long term.

Financial performance

IQE's 2022 financial performance reflected the challenging external environment in which we operated.

"IQE focused on building a solid platform for growth throughout 2022, in order to deliver further progress in 2023 and beyond."

ESG progress

Important progress was also made in relation to our ESG commitments. In May 2022 we became signatories to the Science Based Target Initiative (SBTI), committing to abide by their verification framework to implement science-based emission reduction targets within our organisation.

Our decision to commit to Net Zero and carbon neutrality was an obvious one. We recognise that climate change is one of the key challenges facing the world, and as a company we have a duty to respond in a meaningful way. Our longer-term goal is achieving Net Zero and carbon neutrality, meaning our carbon dioxide and greenhouse gas emissions are neutralised by our emissions reduction activities. We are currently in the 24 month target-setting period, and while the final shape of our emissions reduction plans are not exact at this stage, we will look to abide by the SBTI guidance which discourages

Our Photonics business, which encompasses our Sensing product portfolio, benefited from continued strength in demand for VCSELs used for 3D sensing, with revenues increasing 30% year-on-year. Additionally this performance was supported by the announcement of a new multi-year strategic agreement with a global electronics leader, and the rephasing of certain orders from 2021 into Q1 2022.

Unfortunately our Wireless revenues, comprising our connectivity-related products, decreased 9% for the period, reflecting a decline in sales linked to broader softness in the smartphone handset market, as well as weakness in wafer sales for 5G infrastructure related products.

Our CMOS++ revenues were stable year-on-year at £2.8m (2021: £2.8m). Our Display and Power divisions were not reported separately in 2022.

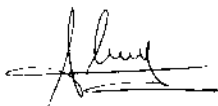
Outlook

Entering 2023 it is hard to ignore that the industry is operating against a backdrop of economic and geopolitical uncertainty, and we are seeing related softness across the semiconductor sector.

While the forecast for the first half of 2023 looks challenging, it is widely expected that this is a temporary downturn. Ours is an industry that has consistently demonstrated periods of growth over many decades and which is forecast to continue. We anticipate that IQE, along with the rest of the industry, will return to growth. During H1 2023 we have taken a number of actions to strengthen our balance sheet and rationalise our cost base, in order to fund our future growth strategy and emerge strongly out of the downturn.

I remain as confident as ever in IQE's growth potential, underpinned by the megatrends that are continuing to shape the way we live, move and communicate. I am excited about the future as we continue to execute our diversification strategy, and the pipeline of opportunities being developed for 2023 and beyond.

As demand grows for more connectivity, higher performance and better efficiency in the Net Zero world of the future, I am proud of the role that compound semiconductors and IQE can play in an intelligently connected, low carbon world.



Americo Lemos
Chief Executive Officer

23 May 2023



Partnerships
in action

Capturing value through long-term and strategic agreements

In 2022 we were pleased to announce the signing of several major strategic partnership agreements. A focus on this type of customer engagement model gives IQE greater predictability and visibility, allowing for greater value capture.

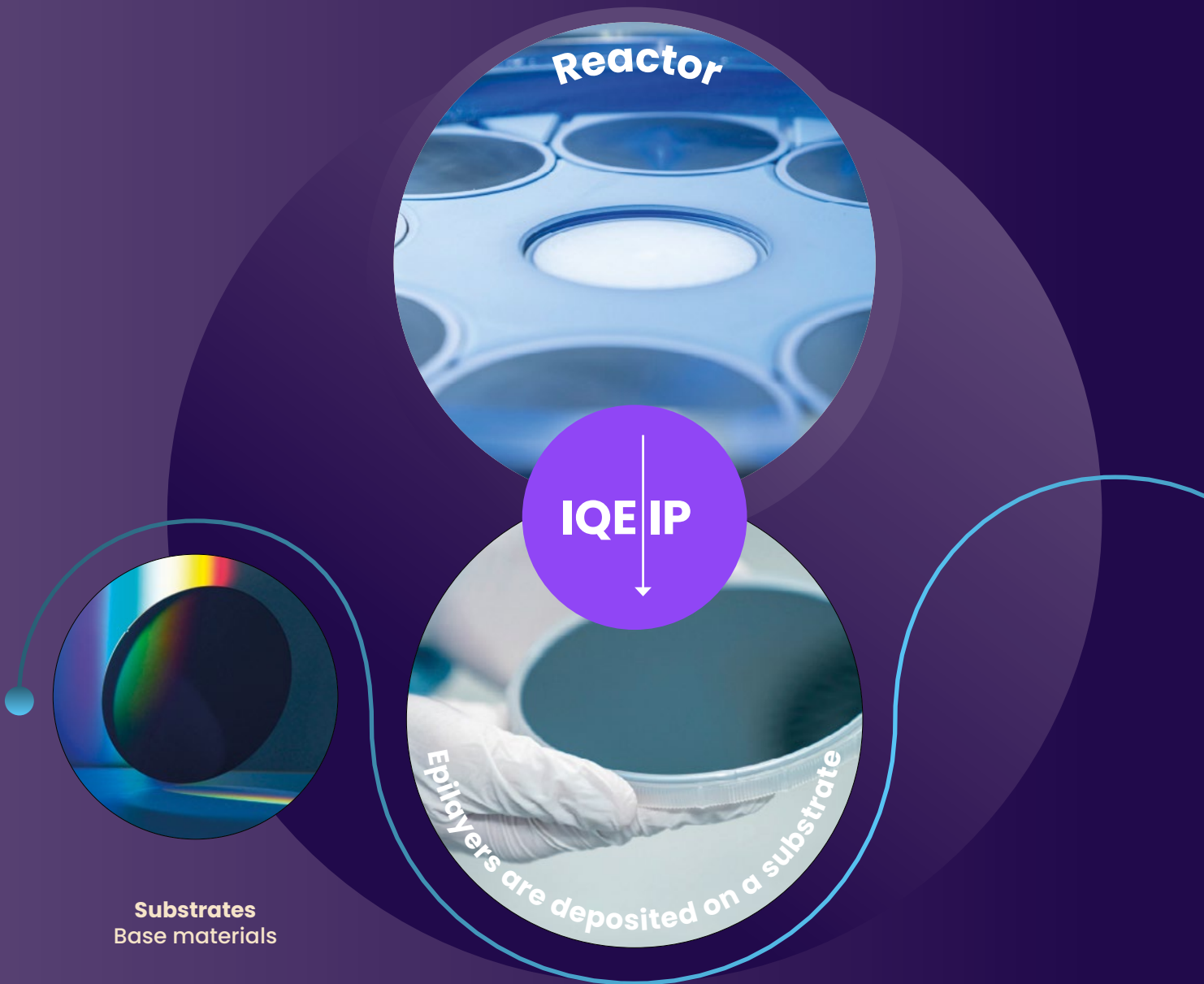


Strategically positioned in the global value chain

IQE has a unique and strategic position within the global semiconductor value chain as the only pure play epitaxy provider with a global footprint.



Epitaxy is where the value is created



Growth markets



**Smart Connected
Devices**



**Automotive
and Industrial**



**Communications
Infrastructure
and Security**

[+ Read more about our growth markets on page 24](#)



Foundries
Device fabrication



Fabless
Design



Device makers
Device manufacture

Business model

What makes our model work

Long-standing partnerships with customers

IQE is a materials solutions provider, enabling advanced technologies throughout major global supply chains. We work with customers up and down the value chain.

Highly skilled and experienced people

IQE attracts and develops the top talent in the compound semiconductor industry, and is therefore able to offer a wealth of technical expertise across our product portfolio.

Breadth of intellectual property portfolio

With a strategic patent portfolio and significant process IP, IQE has an enviable and protected position within diverse technology markets.

Widely recognised technology leadership

As a materials specialist with a commitment to innovation, IQE is at the forefront of new technology and has a track record of enabling major technological product trends, from R&D to mass production.

Global manufacturing footprint

Headquartered in the UK and with manufacturing operations in three major continents, IQE has broad market access, close customer proximity and global manufacturing flexibility and resilience.

Superior quality is a core competence

IQE has a reputation for manufacturing products of the highest quality and our wafers drive superior yields and unit economics for our chip customers.

How we create value



Research & development

A programme of innovation that drives leading edge technologies, working in partnership with the world's major technological supply chains.



New products

Developing leading edge products with superior performance and quality characteristics, enabling the technologies of today and tomorrow.



Manufacturing capacity

Investment in the infrastructure of our mass production foundries in three continents has created the scale for us to capitalise on the expanding compound semiconductor market.

Underpinned by:



Our culture & values

IQE's strength lies in the expertise and diversity of our workforce and we recognise that teamwork and collaboration are at the heart of the Company. Our values of thinking big and striving for more, being driven to deliver more and architecting tomorrow, guide our behaviours.



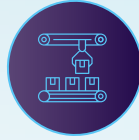
Our strategic goals

By investing in the future of compound semiconductors and scaling the business for growth, IQE is targeting expanding margins and cash flows. Integral to this is the development and mass production of advanced materials that are key to enabling macro trends such as the proliferation of 5G communications, WiFi 6 connectivity, the Internet of Things, Augmented Reality and the Metaverse.



Customer qualification

Exacting quality standards, world-leading IP and process know-how enables broad product qualification with leading international customers.



Mass production

As volumes increase within an expanding industry, superior economies of scale and operating leverage can be achieved.



Sound governance and risk management

As a global operator with a 30-year heritage, IQE has an enviable record of operating safely, compliantly and with continuity of operations. The semiconductor industry is dynamic and fast-paced, however, oversight from our Board ensures the strategy and execution of our business incorporates best practice and proactive risk management.



Responsible business operations

The health and safety of our people, the environment and the communities in which we operate are of paramount importance. We view our global supply chain as an extension of our business and for this reason we are committed to operating responsibly.

The value we share

Customers

£4m

Technology-related development expenditure

2021: £3m

Employees

2,064

Hours of learning completed in 2022

2021: 2,719

Investors

£9m

Cash capital expenditure investment in 2022

2021: £15m

Communities

1 day

Annual paid employee volunteering leave entitlement

2021: 1 day

Environment

22,180 tCO₂e

Total GHG emissions

2021: 25,591 tCO₂e

Growth markets

Growth market

Market opportunity

Smart Connected Devices



\$5.5bn

market size by 2027*

Smart Connected Devices encompass everything which defines our connected world. Smartphones are one key platform, hosting high-speed wireless, high-resolution displays and advanced sensing. Augmented and virtual reality technologies and healthcare wearables also create transformative growth opportunities for our industry. With over one billion devices connected to the internet, the Internet of Things is already transformational and is dependent on reliable and secure digital infrastructure powered by IQE materials.

Communications Infrastructure and Security



\$10.1bn

communications infrastructure market size by 2027*

Cutting edge compound semiconductors enable the whole data path. High speed wireless and wireline networks guarantee rapid, reliable data transmission, ensuring that ever-increasing bandwidth requirements can be met. Defence systems and platforms also require compound semiconductors to power secure communications, and enable optical sensing and detection across multiple aerospace, security and intelligence platforms.

Automotive and Industrial



32%

CAGR 2022-2027*

Compound semiconductors that assist with sensing and power conversion are at the core of the digital chassis which is revolutionising vehicle functionality today. Our materials are being architected into multiple new automotive electronics platforms which include driver assistance (ADAS), auto connectivity, multimedia and powertrain technologies. The car as we know it is evolving rapidly, with electric, autonomous and connected cars being the way of the future.

Compound semiconductors are also allowing industrial challenges to be overcome by connecting real and digital worlds. Integrating technologies such as the Internet of Things, cloud computing and machine vision are revolutionising manufacturing and distribution of products. IQE's multi-platform materials solutions are a critical enabler of Industry 4.0.

* Sources: Yole Intelligence, IQE sources Q4 2022

IQE is focused on three strategic markets which offer significant growth potential due to the proliferation of technology megatrends. As these develop, the unique performance characteristics of compound semiconductors will be necessary to enable their success.

Megatrends and opportunities

Augmented/Virtual Reality and the Metaverse

Devices such as smart glasses or headsets that enable people to interact in the real and digital worlds rely on compound semiconductors. From microLED for high-resolution displays, 3D sensing systems and wireless connectivity, compound semiconductors enable the smart devices of today and tomorrow. Our leadership in the material systems which enable this functionality results in IQE content already being designed into new platforms being pioneered by industry leaders.

MicroLED displays

Ultra-high resolution displays made from extremely small LEDs are gearing up to revolutionise the industry. These displays have very low power consumption over long lifetimes. Only with compound semiconductor materials can this be achieved. MicroLED is poised to become the consumer platform with the highest level of compound semiconductor content and will require mass manufacturing capability that only mega foundries can deliver.

Healthcare wearables

The smartwatch is evolving into a sophisticated health and lifestyle tracker, with sensing capabilities only made possible by advanced lasers and detectors engineered from compound semiconductor materials. These devices can non-invasively measure vital bodily functions and will revolutionise healthcare. Additionally, there will be interconnectivity between wearable technologies, smartphones and the Cloud, driving growth in connectivity networks also powered by IQE's materials.

5G/6G

5G delivers high performance mobile and fixed wireless access, made possible by technologies pioneered by IQE. Compound semiconductors transmit and convert data up to 100 times faster than silicon and are more power efficient with greatly reduced network latency. With data bandwidth needs growing exponentially, driven by the Metaverse, machine learning and connected intelligent devices, sixth generation (6G) networks will define the second datacom revolution and these products are now being developed with IQE materials.

Optical networks

IQE is at the heart of the fibre optic networks which satisfy our insatiable appetite for data. The adoption of 5G and 6G will see a rapid increase in fibre,

connecting new small cells to fronthaul networks, while 5G and 6G will also generate very significant increases in backhaul traffic over optical fibre. Scaling optical transport capacity will require new technologies such as Silicon Photonics which are enabled by IQE's materials solutions.

Data centres

The phenomenal growth in internet traffic combined with the migration to cloud-based services is driving rapid growth in new hyper-scale data centres requiring extreme data rates only achievable through compound semiconductors pioneered by IQE. As speed increases, energy consumption also scales. IQE's green photonics and Power electronic materials solutions keep energy consumption in check and allow

the data revolution to be achieved in a sustainable manner.

Intelligent sensing

Optical sensors allow the connected world to see, and compound semiconductor-based detectors enable the world around us to be imaged with vivid resolution. This provides information-rich data which allows better decisions to be made when real and digital worlds intersect. Today's geopolitical environment makes intelligent sensing a security megatrend, and IQE's longstanding leadership in sensing materials is at the very core of the platforms that protect us today.

Power train

Drive cycle efficiency is at the forefront of vehicle powertrain design; increased range and faster charging times are only made possible with compound semiconductors. IQE's 'wide bandgap' power semiconductor solutions provide competitive advantage at scale, enabling customer cost competitiveness across multiple xEV segments and vehicle charging infrastructure platforms. The demand for power compound semiconductors will exceed that of incumbent silicon technology, positioning IQE at the forefront of transport electrification.

Advanced sensing






Optical 3D sensing relies on cutting edge IQE VCSEL technology. The same materials that power smartphone 3D sensing are being designed into commercial automotive LiDAR systems, enabling vehicles to 'see' in ultra-high resolution. This provides autonomous driving functionality which is safe, cost effective and scalable. The same sensing technology is expanding into other wavelengths, enabling higher levels of information capture, with better information resulting in greater autonomy. Our technology is further enhancing vehicle safety, with in-cabin sensing using compound semiconductor photonics mitigating against the dangers of distraction through driver monitoring systems which will be a safety standard in next-generation vehicles.

Communications

Vehicles exchanging data with each other, the Cloud and surrounding infrastructure will revolutionise traffic safety and increase the efficiency of transport. Dedicated short range communication and local cellular networks are creating new 5G exploitation paths for Vehicle to everything (V2X) communications. These require compound semiconductor-based RF devices due to their ultra reliable, low latency performance, enabling the rapid exchange of time sensitive and safety critical information. This key data will also be required for automated driving and intelligent mobility.

Strategic progress in 2022

Throughout 2022, we made strong progress in the execution of our strategic priorities, strengthening our platform for growth to deliver further progress in 2023 and beyond.

Goals	Description
 1 Placing customers at the centre of everything we do	We consider our customers at every stage of our business cycle; from our technology roadmap, to our scaling plans and business model. Increasing our customer pipeline and deepening relationships with our existing customers is foundational for IQE's future growth.
 2 Taking a markets/products-based approach	A new market-led approach to business was announced in 2022, whereby we better align with our customers' needs. This allows us to continue to lead in innovation whilst increasing commercial success and reducing time to market.
 3 Maintaining our technology innovation leadership	As a technology company, we recognise our industry rewards innovation. We are focused on maintaining our leading position across the widest breadth of material systems in the market, and scaling our epiwafer diameters for better economies of scale and to unlock new markets.
 4 Capturing greater value through long-term and strategic agreements	Throughout 2022, we focused on increasing our strategic engagements through long term customer partnerships. We will seek to build on this in 2023 and beyond, in order to increase business resilience and predictability and achieve greater value capture for what we do.
 5 Scaling while optimising our global footprint	We are transforming at pace to standardise, centralise and scale. Our site rationalisation programme is a key step in optimising our global footprint to realise greater efficiencies. We are ready with the facilities and expertise to scale for growth within our existing sites.

In the year

- Significant increase in customer engagement
 - Key appointments in Customer Excellence and Global Sales functions
 - Customer diversification strategy, including both product and market mix
- Maintain and grow our position in connect and sense markets
 - Diversify into power and display markets
 - Entry into microLED market through strategic partnerships
 - Continued to lead in innovation whilst increasing commercial success and reducing time to market
- World's first commercially available 200mm VCSEL
 - Cardiff HQ transitioned to global Innovation Centre for R&D
 - Epitaxy partner of choice for Lumentum's LiDAR for automotive
- Multi-year supply agreement with Lumentum
 - Multi-year agreement with global consumer electronics leader
 - Strategic agreement with SK siltron
 - Multi-year supply agreement with AWSC
 - Strategic partnerships with two microLED technology partners
- Singapore facility closed and site optimisation on track
 - Standardisation roadmap to incorporate systems and processes, manufacturing intelligence and automation
 - Focus on ESG best practice as we prepare to scale, including the formation of a Board-level ESG Committee and commitment to Net Zero and Science Based Targets

Our strategy for growth

Our refreshed strategy is to focus on key capabilities within growth markets and partner with market leaders to diversify and grow our business in a sustainable way. We will leverage our outstanding technology roadmap and unique global footprint to capture value for what we do.

Strategic goals	Capabilities	Description
<p>Maintain and grow IQE's position</p> <p>1</p>	<p>Connect</p>	<p>With a long heritage in Wireless applications, from smartphones to 5G infrastructure, we remain focused on enabling the next generation of smart connected devices.</p>
	<p>Sense</p>	<p>As a pioneer and leader in advanced sensing, IQE is focused on maintaining our technology leadership in this market through expanding use cases and demand from new market applications.</p>
<p>Diversify</p> <p>2</p>	<p>Power</p>	<p>Our strategy to diversify by entering into power electronics is in response to the substantial growth forecast in this market. From 2022-2027 power epitaxy has a projected CAGR of 29%, resulting in a \$2bn market by 2027*.</p>
	<p>Display</p>	<p>The world is at the beginning of a microLED revolution and IQE has partnered with two microLED technology customers to ensure we are enabling the future of display. The display market epitaxy CAGR from 2022-2027 is forecast to be 172%*, signalling huge growth potential.</p>

* Sources: Yole Intelligence Q4 2022

Key objectives

- Protect existing business while diversifying customer base through the establishment of strategic partnerships
- Leverage our technical leadership gained over decades of manufacturing leading edge epitaxy for front-end modules

- Maintain our market-leading position in 3D Sensing
- Develop next-generation sensing products, focusing on larger wafer diameters and long-wavelength technology
- Key engagements with partners who are integral to the LiDAR supply chain

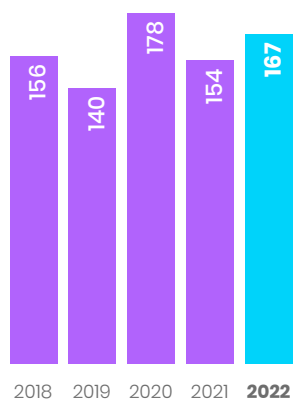
- Leverage longstanding Gallium Nitride (GaN) capability for RF applications
- Develop leading edge GaN-based power products for voltages up to 650 volts (E/D mode)
- Standardise and scale to ensure cost-effective volume manufacture
- Establish unique commercial engagements so that IQE products can enable virtual vertical integration
- Engage with market leaders to create mutually beneficial agreements for improved value capture in power electronics

- Partner with technology leaders to create mutually beneficial agreements that enable value capture
- Create a full portfolio of materials solutions for high-performance red-green-blue (RGB) displays
- Diverse product offerings that enable both pick and place and tri-colour manufacturing
- Focus on large diameter substrates (greater than 200mm) for GaAs and GaN-based products

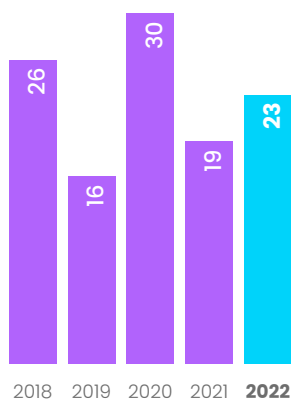
2022 performance review

Financial highlights

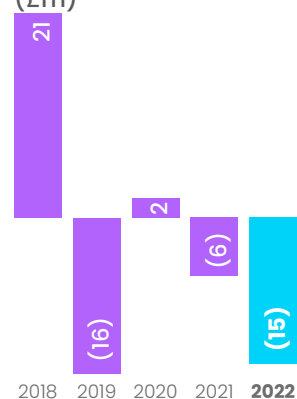
Revenue
(£m)



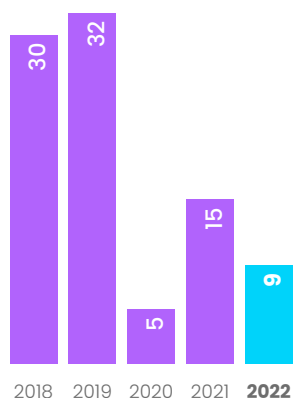
Adjusted EBITDA*
(£m)



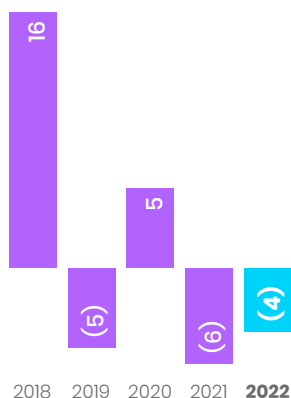
**Adjusted net cash/
(debt)****
(£m)



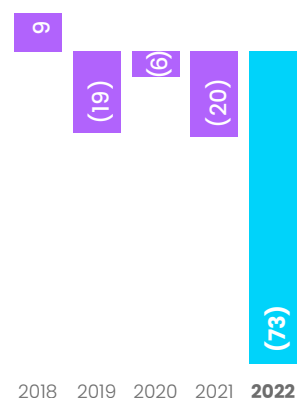
**Capital expenditure
cash flows**
(£m)



**Adjusted operating
profit/(loss)***
(£m)



**Operating profit/
(loss)**
(£m)



* The nature and description of alternative performance measures are included in Note 5 on page 125.

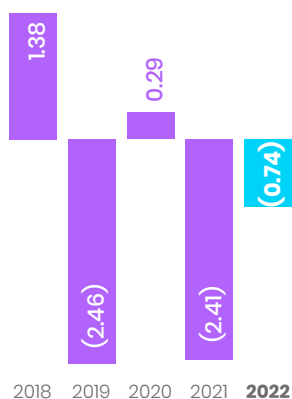
** Adjusted net debt is defined on page 98.

*** The nature of adjusted diluted EPS is referenced in Note 12 on page 131.

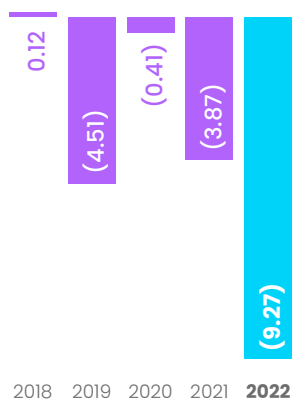
We recognise our success is dependent not only on our financial performance, but achieving our operational and social goals.

Non-financial highlights

Adjusted diluted EPS (£p)***



Diluted EPS (£p)



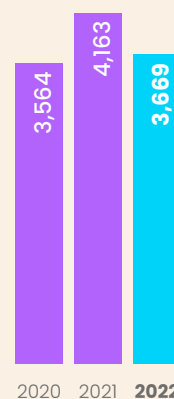
Gender diversity Group level



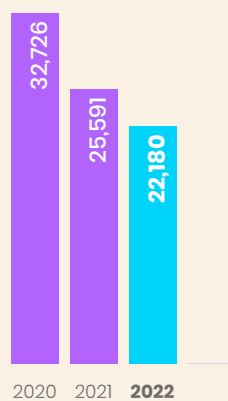
- Female
- Male

Read more about our people on page 40.

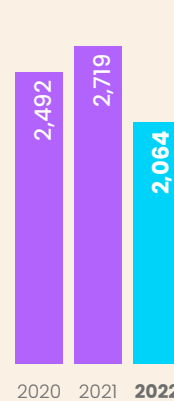
Safety course completions



Total GHG emissions (tCO₂e)



Learning hours completed



The Group's trading in 2022 was largely resilient to the challenging macro environment.

“Laying the foundations for growth”

Tim Pullen
Chief Financial Officer



The Group reports financial performance in accordance with International accounting standards in conformity with UK adopted international accounting standards ('UK adopted IFRS') and provides disclosure of additional alternative non IFRS GAAP performance measures to provide further understanding of financial performance. Details of the alternative performance measures used by the Group, including a reconciliation to reported UK adopted IFRS GAAP performance measures, are set out in note 5 to the financial statements.

Current outlook

The Group's trading in 2022 was impacted by the broader semiconductor industry downturn, in particular increasing softness in smartphone-related demand and weakness in 5G infrastructure demand in the latter part of the year. Group revenue of £167,494,000 (2021: £154,096,000) has increased 8.8% benefiting from a foreign exchange tailwind of 10.6%. The Group has reported an operating loss of £72,976,000 (2021: £19,978,000) which includes a non-cash impairment charge of £62,716,000 related to the write-down of goodwill resulting from a change in forecasts related to the current semiconductor downturn and the associated market softness impacting the Group.

Current trading is affected by the temporary semiconductor industry downturn, with reduced customer forecasts, orders and associated revenue. First half revenue is expected to be in the range of £50,000,000–£56,000,000. Net debt as at 31 March 2023 was c.£24,000,000 (net debt is defined as cash less borrowings but excluding lease liabilities and fair value gains/losses on derivative instruments). Full year revenue for FY23 is expected to include a return to year-on-year growth during the second half. The Group is targeting diversification into the high-growth markets of power and advanced display by investing in the expansion of its GaN capacity. The Company expects PP&E capex related to essential maintenance and health

& safety items and existing commitments to be approximately £7,400,000 in FY23. In addition, the diversification strategy will lead to investment in GaN of approximately £8,300,000.

Steps have been taken by the Directors to strengthen the balance sheet of the business in the short-term, including the renewal of the Group's £28,688,000 (\$35,000,000) multi-currency revolving credit facility provided by HSBC Bank plc and the £31,098,546 equity fundraise. These steps, combined with a number of post-year end cost rationalisation and cash preservation actions that have been implemented by the Directors will provide the necessary liquidity for the Group to navigate the current semiconductor market downturn, provide sufficient headroom to protect against the recovery occurring later than forecast, and allow the Group to continue investing in its growth and diversification strategy.

Review of the year

Group revenue of £167,494,000 (2021: £154,096,000) has increased 8.8%, benefiting from a foreign exchange tailwind of 10.6% on a reported basis where increases in Photonics revenues have offset declines in Wireless revenues.

Revenue

£167m

2021: £154m

Operating loss

£(73)m

2021: £(20)m

Adjusted EBITDA

£23m

2021: £19m

The Group's Photonics business segment represents the largest proportion of the Group's revenue, accounting for 52.9% (2021: 44.2%) of total wafer sales with Wireless representing 45.4% (2021: 54.0%) and CMOS++ representing 1.7% (2021: 1.8%).

Photonics wafer revenues increased 30.2% to £88,637,000 (2021: £68,067,000). The increase in Photonics wafer revenues reflects the continued strength in demand for VCSELs used in 3D sensing, including the impact of increased customer diversification following the Group's announcement of a new multi-year strategic agreement with a global consumer electronics leader in early Q4 2022, and as a result of higher other photonic product sales linked to a combination of factors including the re-phasing of certain defence and security orders associated with large programmes and strong demand for the group's substrate related products.

Wireless wafer revenues decreased 8.7% to £76,016,000 (2021: £83,217,000). The decrease in wireless wafer revenues reflects a decline in wireless GaAs epiwafer sales, continued weakness in GaN epiwafer sales for 5G infrastructure, and the impact of the closure of the Group's manufacturing facility in Singapore that focused on the manufacture and sale of legacy pHEMT epiwafers. The reduction in wireless GaAs epiwafer sales in particular has been impacted by softness in the broader smartphone handset market which has led to increased inventory levels throughout the manufacturing supply chain. This has continued to adversely affect demand for wireless GaAs epiwafers in H1 2023.

Statutory gross profit increased from £17,644,000 to £26,383,000. The increase in gross profit reflects a combination of a favourable shift in sales mix with a higher proportion of the group's revenue derived from higher margin photonics products and the impact of a favourable foreign exchange tailwind which has helped to increase gross profit margin percentage to 15.8% (2021: 11.5%). Adjusted gross profit,

Financial review continued

which excludes the charge for share based payments, increased from £18,771,000 to £26,532,000 with an increase in gross margin from 12.2% to 15.8%.

Selling, general and administrative ('SG&A') expenses have increased 2.9% in the year from £30,322,000 to £31,211,000, excluding the separately disclosed impairment loss on intangible assets of £66,155,000 (2021: £7,411,000) and the impairment loss of £2,300,000 (2021: £34,000 credit) related to a small number of customer specific receivables. Adjusted SG&A expenses, which exclude adjustments for share based payments, restructuring costs, Chief Executive Officer recruitment costs and asset impairments have increased from £25,336,000 to £26,780,000 (5.7%), reflecting a combination of inflationary pressure, certain employee-related investment and increases in certain legal and professional costs.

As part of the Group's global footprint optimisation plan restructuring costs totalling £4,152,000 (2021: £3,681,000) have been incurred relating to costs associated with the announced closure of the Group's manufacturing facility in Pennsylvania, USA and the closure of the Group's manufacturing facility in Singapore. Within the restructuring costs are £3,016,000 (2021: £3,020,000) relating to a combination of site decommissioning, asset write-downs and employee related costs in Singapore and £1,136,000 (2021: £661,000) relating to employee related and asset decommissioning costs associated with the closure of the Pennsylvania, USA site.

Chief Executive Officer recruitment costs of £205,000 (2021: £741,000) include share award and cash costs associated with the new Chief Executive Officer's starting bonus and the partial release of accrued prior period external Chief Executive Officer recruitment fees that were linked to first year annual bonus awards. Chief Executive Officer recruitment costs in 2021 included settlement costs and legal fees of £318,000 associated with the transition of the former Chief Executive Officer

to a non-executive role and external recruitment fees of £423,000.

Impairment of goodwill of £62,716,000 (2021: £nil) principally relates to the Group's wireless operating segment where reductions in sales volumes, primarily linked to lower levels of smartphone-related demand and continuing weakness in 5G infrastructure is forecast to result in lower levels of capacity utilisation and operating segment profitability. The non-cash impairment results from the near-term softness in forecasts for wireless products as a result of the industry-wide semiconductor downturn which, has in turn, resulted from increasing inflation, geopolitical shifts and the lingering effects of the pandemic in which inventory levels built up in the industry.

Impairment of intangibles of £3,439,000 (2021: £7,411,000) 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 impairment in 2021 related to the write-down in value of the Group's cREO™ filter technology development cost and patent assets totalling £4,693,000 and the impairment of Photonic quasi crystal technology-related development costs and patent assets totalling £2,718,000.

A reported operating loss of £72,976,000 has been incurred (2021: £19,978,000), primarily due to the non-cash impairment of goodwill of £62,716,000. Reflecting the adjustments noted above, an adjusted operating loss of £3,557,000 in 2022 compares to an adjusted operating loss of £6,454,000 in 2021. The reduction in the loss principally reflects the positive impact of a favourable shift in sales mix and a foreign exchange tailwind at a gross profit level partially offset by increases in SG&A expenses. The segmental analysis in note 4 reflects the adjusted operating margins for the primary segments (before central corporate support costs). Photonics-adjusted operating margins increased

from 2.6% in 2021 to 12.6% in 2022 reflecting a combination of improved capacity utilisation and favourable customer and product mix. Wireless-adjusted operating margins declined from 8.8% in 2021 to 6.2% in 2022, primarily reflecting reductions in volume and the associated under-utilisation of certain manufacturing capacity. The Group is targeting a reduction in under-utilised capacity through the closure of both the Singapore manufacturing site (completed in mid-2022) and the Pennsylvania site (due to be completed by 2024).

Finance costs of £2,427,000 (2021: £2,213,000) reflect £1,099,000 (2021: £905,000) of bank and other interest costs and the interest expense on lease liabilities of £1,328,000 (2021: £1,308,000). Bank and other interest costs principally relate to the Group's HSBC Bank plc revolving credit and asset finance facilities with the increase in interest cost reflecting a combination of an increase in net debt and an increase in the interest rate as both the Bank of England Base Rate and the Sterling Overnight Index Average ('SONIA') interest rate benchmarks have increased during the year.

The tax credit of £862,000 (2021: £8,811,000 charge) consists of a current tax charge of £89,000 (2021: £1,124,000) primarily relating to taxable profits generated by the Group's Taiwanese operations and a deferred tax credit of £951,000 (2021: £7,687,000 charge). Deferred tax asset recognition has been restricted in the UK to £nil to reflect future forecast profitability, an assessment that includes the impact of market softness in trading forecasts as a result of the industry-wide semiconductor downturn and the impact of the Group's consolidation and investment in central and functional roles, whilst US deferred tax asset recognition has been restricted to £nil to reflect lower future forecast profitability arising from a combination of market softness, the Group's consolidation of its US manufacturing operations and the continued shift in the balance of future forecast manufacturing and hence profits from the Group's US operations



to its UK and Asian operation. The effective tax rate of 1.1% (2021: 13.3%) applicable to the tax credit of £798,000 (2021: £1,803,000) on adjusted items is less than the UK statutory tax rate of 19%, primarily due to the non-recognition of deferred tax assets for current year UK, US and Singapore trading losses which include the adjusted Chief Executive Officer recruitment, Singapore and Pennsylvania site closure costs and intangible asset impairments.

The increase in the loss for the year to £74,541,000 (2021: £31,002,000) reflects a combination of the underlying trading performance noted above and the impact of adjusted non-cash and other non-operational items, which at an adjusted level, has reduced the loss to £5,920,000 (2021: £19,281,000).

Basic and diluted loss per share has increased from a loss per share of 3.87p to a loss per share of 9.27p in the current year with adjusted basic and diluted loss per share of 0.74p (2021: 2.41p), reflecting the Group's loss at a statutory and adjusted profit level.

Cash generated from operations decreased in the year to £8,873,000 (2021: £18,883,000), reflecting the Group's favourable trading performance offset by adverse working capital and the cash impact of adjusted non-operational items. The Group has continued to invest in growing capacity to meet demand with capital expenditure of £9,438,000 (2021: £15,051,000) principally focused in Taiwan and Massachusetts to support future growth opportunities, intangible asset expenditure of £4,699,000 (2021: £345,000) focused on a combination of intellectual property and the Group's multi-year strategic IT transformation programme and investment in targeted capitalised technology development of £3,795,000 (2021: £2,994,000).

The decrease in cash generated from operations, combined with investing activity cash costs of £10,729,000 (2021: £18,305,000) and repayment of lease liabilities of £4,926,000 (2021: £3,705,000), net of proceeds from bank borrowings of £9,558,000 (2021: £6,145,000 repayment), have combined to

maintain the Group's cash position of £11,620,000 (2021: £10,791,000), but increase net debt (excluding lease liabilities and derivative financial instruments) from £5,804,000 to £15,248,000 as at 31 December 2022.

Since the year end, the Group has experienced a deepening of the market softness that has impacted 2022, resulting in an increase in the Group's net debt position prior to the successful steps that have been taken to strengthen the balance sheet of the Group. The £31,098,546 equity fundraise and refinancing of the Group's £28,688,000 (\$35,000,000) multi-currency revolving credit facility provided by HSBC Bank plc provide the necessary liquidity for the business to continue to operate and invest in its growth and diversification strategy.

Equity shareholder funds total £175,060,000 (2021: £234,621,000) with the movement from 2021 primarily reflecting the loss for the year and foreign exchange differences arising on the retranslation of net investments in overseas subsidiaries.

Consistent engagement






Engaging with our stakeholders is critically important as we progress our strategic goals and develop our future plans for continued success.



Tom Dale
General Counsel and Company Secretary

Our impact on, and engagement with, our key stakeholder groups is considered within the implementation of our strategy, which is overseen by the Executive Leadership Team and supported by the Board of Directors. We consider the impact we have on our stakeholders, as well as what our stakeholders consider important when developing IQE's strategies for future success. We have set out below our key groups of stakeholders, the issues and factors relevant to those stakeholders and how we have engaged with those stakeholders.

How the Board has engaged with shareholders, the workforce and other stakeholders

Stakeholder	Stakeholder description	Material issues
 Customers	We provide the best advanced semiconductor materials solutions to our customers, supported by bespoke product offerings and personalised customer support. We have a wide and diverse range of customers serving end applications aligned with our three core markets of Smart Connected Devices, Automotive & Industrial and Communications Infrastructure & Security.	<ul style="list-style-type: none"> • Consistently high quality products • High standard of business conduct • Continuous improvement • Fair pricing • Excellent ongoing customer support
 Employees	Our employees are fundamental to our business success. We continually invest in our people, developing the capabilities that we will need to succeed over the longer term. We are committed to being the company where the best in our sector want to work and strive to offer opportunities that will attract, motivate and retain talented employees, enabling them to give their best.	<ul style="list-style-type: none"> • Opportunities for personal development and career progression • Trust and encouragement to contribute to the success of the business • Consideration of their health and wellbeing • Working as part of an inclusive and diverse culture
 Investors and Shareholders	We place considerable importance on the maintenance of regular and open dialogue with our shareholders. Our goal is to deliver our investors and shareholders with returns through profitable and sustainable growth with the efficient use of capital.	<ul style="list-style-type: none"> • Current and future financial performance • Maximising opportunities for growth • Environmental, social and governance issues
 Partners and Suppliers	We recognise the value of our partners and suppliers. Our supplier chain plays a vital role in supporting our business growth and efficiency. To meet the expectations of our customers, we develop strong working relationships with our suppliers and look for our suppliers to provide added value.	<ul style="list-style-type: none"> • Forecasting visibility • Product quality • Fair pricing • Long-term partnerships
 Society	We believe that our technology and products will benefit and advance society. We work hard to ensure that we have a positive impact on all those around us.	<ul style="list-style-type: none"> • Local investment • Opportunities for local investment • Impact on local and wider environmental and social issues

Section 172(1) statement

Engaging with our stakeholders and acting in a way that promotes the long-term success of the Group, while taking into account the impacts of our business decisions on our stakeholders, is central to our strategic thinking and our statutory duty in accordance with Section 172(1) of the Companies Act 2006. This constitutes our Section 172 Statement as required under the Companies (Miscellaneous Reporting) Regulations 2018.

The Board of Directors consider, both individually and collectively, that they have acted in a way that they consider, in good faith, would be most likely to promote the

success of the Company for the benefit of its members as a whole, having regard to the matters set out in Section 172 (a) to (f), in the decisions taken during the year.

Recognising that companies are run for the benefit of their shareholders, but that the long-term success of a business is dependent on maintaining relationships with stakeholders, the Board continuously reviews which relationships support the generation and preservation of value in the Company. These relationships include those with our customers, employees, investors and shareholders, partners and suppliers and society.

As a Board, our intention is to behave responsibly and ethically at all times, in line with our Company values, and to ensure that our management teams operate the business in a responsible manner and to the highest standards of business conduct and good governance. As we act in a way which reflects our values, we will contribute to the long-term success of the Company and continue to develop our reputation as a responsible and successful Company that delivers stakeholder value.

Further information as to how the Board has had regard to the Section 172 factors:

Section 172 Factor	Key Examples	Page
A. Consequences of any decision in the long term	<ul style="list-style-type: none"> Consideration of how IQE generates long-term value in the through development of our Business Model and Strategy 	Page 22
B. Interests of employees	<ul style="list-style-type: none"> Participation in Diversity, Equity and Inclusion planning for the business Promotion of employee wellbeing initiatives and benefits awareness Participation in Town Halls and employee forums 	Page 40
C. Fostering business relationships with suppliers, customers and others	<ul style="list-style-type: none"> Building strong relationships with customers and suppliers within the Group's supply chain, which is essential for achieving the Group's long-term strategic goals 	Page 38
D. Impact of operations on the community and the environment	<ul style="list-style-type: none"> Consideration of Environmental, Social and Governance improvement strategies Review of environmental performance, ISO 14001 Environmental management system and emission reduction initiatives 	Page 48
E. Maintaining high standard of business conduct	<ul style="list-style-type: none"> Promotion of responsible business operations, with a focus on the Group's Anti-bribery and Corruption, Confidentiality and Whistleblowing policies, and Anti-Slavery Statement 	Page 39
F. Acting fairly between members of the Company	<ul style="list-style-type: none"> Shareholder engagement Investor information and the Annual General Meeting 	Page 36

Supply chain

We work closely with our suppliers to uphold the highest standards so that the people and environments connected to our supply chains are safe, protected and treated with respect.

Our 'One IQE Management' philosophy reflects our core values and our ongoing commitment to doing business in a responsible manner. Our suppliers share a commitment to responsible sourcing practices which is more important now than ever. They are key partners and continue to play a critical role in helping us achieve our vision and goals. We expect our supply chain partners to uphold the same high standards as IQE leaders and employees, and always to act in an ethical, efficient and transparent manner.

2022 supply chain review

After two tumultuous years, the global economy and supply chains started 2022 with what appeared to be new strength. Unfortunately in February news of the war in Ukraine broke and commodity prices spiked, notably for energy, emphasising the opportunity and need for alternate clean energy sources. Fortunately we were able to lock into lower energy costs in 2020 and hold this through to Q4 2023. Looking forward, IQE is actively working to secure future supply through 100% renewable energy supply agreements, reinforcing our commitment to a Net Zero future.

IQE recognises that one way out of supply chain shortages is through an increased move towards a circular economy, in which more waste is recycled and reused. At IQE we are actively involved in projects to successfully recycle 100% of what have previously been waste materials. In 2022 we strengthened that process, with all our GaAs and InP wafer waste

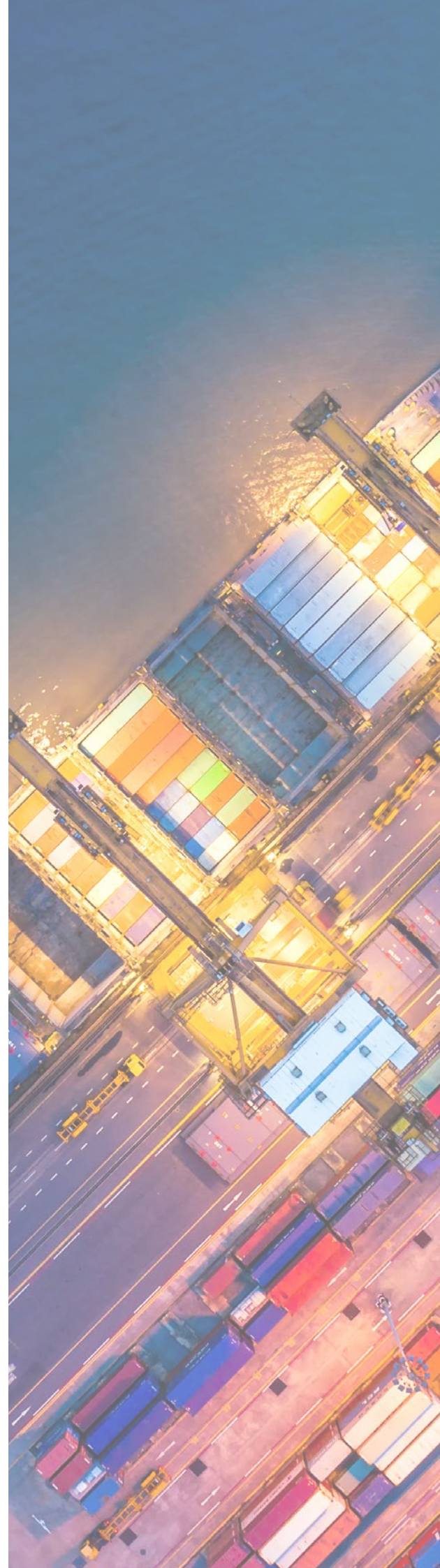
being 100% recycled into high purity raw material that feeds directly back into our supply chain. This has only been possible through ongoing key initiatives with our strategic supply chain partners.

Looking back, 2022 was yet another year of upheaval and the changes we have seen are evidence of a longer-term global geopolitical shift. IQE's supply chain management continues to focus and adapt our supplier relationships and sourcing strategies to meet these challenges, aligning IQE for responsible and carefully planned scaling in line with our future growth targets.

+ Read more at <https://www.iqep.com/responsibility/supply-chain/>

“It is critical that IQE’s ethical standards are upheld by our supply chain partners, and we see these as key strategic relationships. Strong partnerships with our suppliers help to minimise supply chain disruption, minimise cost, increase efficiencies and reduce waste.”

David Bishop
Head of Global Supply Chain



Anti-bribery and corruption

IQE maintains a zero-tolerance approach to bribery and corruption. We have an established Anti-bribery and Corruption policy, which includes guidance on the giving and receiving of gifts and hospitality. A Gifts and Hospitality Register is also maintained to ensure transparency. Our Anti-bribery and Corruption policy applies throughout the Group and was updated in 2020 and is supported by appropriate training which was updated in 2021.

Whistleblowing

IQE offers staff a confidential reporting mechanism, overseen by the Group's General Counsel and Company Secretary, which enables employees to raise concerns of malpractice, non-compliance or unethical conduct. The options for raising concerns are widely communicated to employees and are clearly set out in our Whistleblowing policy.

Confidentiality

Maintaining confidentiality is engrained in our culture. Our policy and practice ensure that all staff fully understand what constitutes confidential information and restrict internal access on a need-to-know basis. Information relating to third parties is not disclosed without the third parties' written consent.

Human Rights and Anti-Slavery Statement

IQE is committed to respecting the human rights of all those working with or for us. We do not accept any form of child or forced labour and we will not do business with anyone who fails to uphold these standards. IQE has a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all of its business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in its business or in any of its supply chains. The Modern Slavery Act addresses the role of businesses in preventing modern slavery within their organisations and in their supply chains. IQE has developed and implemented policies to comply with the requirements of the UK's Modern Slavery Act and our Anti-Slavery Statement can be found at iqep.com.

[+ Read more at iqep.com/responsibility](http://iqep.com/responsibility)

Our people

Gender diversity

Board level



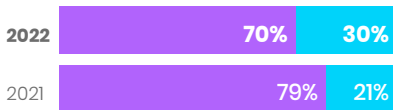
● Female
● Male

Group level



● Female
● Male

Group level recruitment



● Female
● Male

Diversity, Equity, Inclusion and Belonging (DEIB)

IQE's population is made up of different races, genders, ethnicities, backgrounds, religions and beliefs across our global sites. IQE is committed to providing equal opportunity, fair treatment and inclusion for all, without regard to race, gender, age, religion, ethnicity, identity, sexuality, disability, genetic disposition, neurodiversity, veteran status, perspective, experience or any other aspect which makes an individual unique. Following Americo Lemos' arrival as CEO, we are revisiting our Company values to make sure we are cultivating a work environment where different perspectives, inclusive relationships and diverse networks can unlock unlimited potential for all.

A central part of our DEIB commitment is our desire to demonstrate inclusive leadership and represent the diversity of our organisation and the communities where we live and work. In 2022 we invested in developing our Company culture, with our Executive and Senior Leadership Teams beginning their own learning and cultural awareness programmes so they can inspire a culture of belonging from within IQE, and ultimately drive greater representation at the highest levels. We sourced Diversity Partners across the Group who have a shared interest in DEIB education and advocacy.

We recognise that gender diversity remains an ongoing issue within our industry; however, we are committed to improving our gender balance. In 2022 our percentage of female employees increased from 16% to 18%. We are supporting our Talent Acquisition Team to increase inclusion during the hiring process, with the aim of attracting, developing and retaining STEM talent and securing a more diverse pool of joiners.



We are investing in the success of women at IQE with the roll out of the IQE Women's Network on International Women's Day. A highly anticipated employee resource group, the network will be focused on sharing information, supporting development, encouraging leadership, strengthening networks, uncovering opportunities and championing success for women across the IQE Group.

We celebrate diversity through our cultural celebration calendar. Recognising the traditions and celebrations that are important to our employees recognises and embraces the diversity of our global team and fosters a positive and communicative environment.

We are also aiming to build strategic partnerships with diverse organisations and networks who share our commitment to DEIB and can support us with our evolving journey of effective and sustainable transformation.

In 2022

30%

of vacancies were filled by women, up from 21% in 2021

“Our employees are at the heart of the success of IQE and are core to our ability to meet our growth ambitions. To succeed, IQE will attract, develop, reward and retain the best talent across the globe.”

William Chin
Interim Chief People Officer

Employee wellbeing

IQE is focused on the physical and mental health of our employees, particularly after the pressures brought about over the last two years by the global pandemic. We routinely promote wellbeing support available through our employee benefits platforms and undertake benefits sessions facilitated by our brokers to ensure our leaders, people managers and employees are aware of the assistance available to them.

January is Benefits Month and in 2022 we again focused on communicating our employee benefits across the Group, with an emphasis on what we offer and how to access and effectively utilise personal benefits. IQE continuously reviews our benefit offerings to ensure our plans are attractive and market competitive for our employees and, where possible, their families. By the end

of 2022, we saw a 104% increase in the number of employees accessing their benefit offering.

We also increased our qualified Mental Health First Aiders at IQE in 2022 from 10 to 23 (13 in the UK and 10 in the US). We recognise Mental Health Awareness Week, World Mental Health Day and other key Mental Wellness days with a range of communications and support, including a series of webinars for managers to aid their employees with harm prevention strategies and mental health intervention support when required.

Our Employee Assistance Programmes (EAP) offer 24/7 support and include bereavement assistance, counselling, legal and financial support. Early intervention assistance is provided through external specialists and employee wellness plans, mitigating absence and aiding returns to work.

Black History Month (UK)

In October we celebrated UK Black History Month. The highlight was CEO Americo Lemos hosting a live conversation where he discussed his background, the journey he has taken with his career in the technology industry, and how he champions diversity and inclusion. The event had a fantastic turnout both in person and online, and facilitated lots of valuable discussions in recognition of the importance of bringing diversity, equity and inclusion issues to the forefront.



Responsible business continued

Communication and engagement

In 2022 we engaged with Best Companies, a leading employee engagement specialist who delivers powerful data and insights to help positive change in the workplace.

We undertook our second formal employee engagement survey titled 'b-Heard', and were delighted to receive an 85% response rate. We achieved 'One to Watch' status for the second year running, which represents 'Good' levels of workplace engagement, as well as uncovering 3, 2 – and 1-Star functions amongst our Group. We also ranked in the Best Companies to Work for in the Manufacturing Sector Q3 2022.

The b-Heard feedback encouraged us to create action plans where areas of improvement were identified. These were driven bottom-up, reflecting what our employees believe we do well, where they believe we could close engagement gaps whilst also sharing pockets of great practice. We are very proud of our One to Watch status which we will seek to retain and improve upon. We have a strong desire to achieve a star for the Group overall.

Procurement of Workplace in 2020, an internally focused connectivity platform developed by Facebook, Inc., has enabled the continued use of groups, instant messaging and a news feed to encourage employee communication. At the time of writing, we have 477 users and 33 dedicated groups; a 20% increase in users since 2021. Our leaders and employees alike utilise the functionality to talk, share and generally engage with each other virtually. This has been a resounding success for our business and allows us to maintain an all-important social connection whilst working hybridly. In 2022, we saw 799 posts created with 1,409 comments and 9,474 reactions.

In 2022, we launched our UK HR Information System (HRIS) to support our HR and payroll teams to effectively manage employee data and payroll processes. The system also encompasses an employee and manager self-service element, allowing employees to book their annual leave, and update their personal information as well as store correspondence relating to their employment.

Empowering and supporting our talent

IQE attracts the best and brightest global talent and we work hard to offer an unbeatable experience, recruiting, retaining and developing the best talent in our sector. We are continuing to use our Competence Management System which encompasses a formal learning and assessment process and various training and development forms, plans and logs. Training processes are now communicated within departments and formalised via our document control systems.

In 2022, 347 of our employees participated in Personal Development Plans with 63% of employees completing their targets by the year end. Our Talent Development team will continue to work with managers and employees to effectively identify, source and facilitate learning and development activities, supported, where possible, by government funding. This includes supporting professional development through formal qualifications, as well as enhancing on-the-job knowledge and skills.

In partnership with Results Exploration Group and The Engagement Coach, IQE continued leadership development with a focus on engagement, emotional intelligence, and teamwork in 2022. The b-Heard survey supported our focus to develop our people and we continue to do so as we strive to create engagement opportunities for all.



Learning and Development

In 2022, we celebrated Learning at Work Week by showcasing the various ways in which employees can learn and develop in both in a professional and personal capacity. We held webinars with local training and Further Education providers as well as improving the offering on our internal Learning Management System 'The Vault'; we have been working with our global teams to create bespoke content tailored to our colleagues. Recently this has included a series of Risk and Governance courses, and Quality, Health and Safety Modules are being re-worked to raise awareness and mitigate risk. We have also engaged with an IP provider to further support knowledge within this area.

Early careers

Over the past year, IQE has invested time in fostering relationships with local schools, colleges and universities, to provide education and knowledge to students and education leaders on the semiconductor industry and career offerings. From this, we have begun to see a gradual rise in semiconductor modules in the school curriculum. This is an important step in raising awareness of STEM careers, particularly for students from diverse backgrounds.

2022 also saw us attend US and UK careers fairs, which have been a great success, securing hires and building robust talent pipelines. We continue to partner with a local university in South Wales to create content-specific courses to bridge the skills gap.

Communities and social review

Making a positive contribution to the communities in which we live and work is something that IQE, and our employees, care deeply about. IQE provides time for each employee to make a difference, with one full or two half-days paid volunteering entitlement annually. All team members are encouraged to get involved in activities that give back to their communities throughout the year.

Giving Something Back

IQE's Giving Something Back Committee was formed to support charitable and community engagement at all of our global sites. We are focused on a global approach to giving, but with local execution. Each IQE site has a 'Site Champion' who administers a Giving Something Back budget, making sure we are supporting the engagements and initiatives that mean the most to our people and their communities.



Habitat for Humanity

IQE's Pennsylvania team supplied a workforce and gave a monetary donation to Habitat for Humanity on multiple occasions throughout the year. Habitat for Humanity assists in providing community housing. Staff painted interior walls, laid floors, cut and installed trim and helped with deck building.



Food bank donations

One of the first Giving Something Back initiatives we launched was a food bank drive at all of our global sites. This proved to be very successful, with tinned food and other non-perishables being collected for both people and pets alike. In South Wales, donations (pictured) were split between Caerphilly Food Bank and Cardiff Food Bank.



Taiwan beach clean up

IQE's team in Taiwan participated in a beach clean up in October as a way to give back to their community and make a difference. Twenty employees and their family members joined in the event. For over four hours they collected as much rubbish as they could, including abandoned fishing nets. The benefits of the beach clean up were felt by all, and it was a great way to help the environment, get exercise and meet new people.



Angel Tree

In 2021 IQE Massachusetts debuted an 'Angel Tree' for the students at Edward F Leddy Preschool in Taunton. Due to its overwhelming success, IQE MA again participated in 2022. The tree was located on a table in the lobby and its ornaments consisted of numbered tags that held the information specific to a student in need, allowing gifts to be selected based on the age, gender and interests of the child. Donations were also matched with a VISA gift card that was distributed to the child's family. Alongside the Angel Tree gifts, we also collected new or gently used children's winter apparel.

Intellectual property

IQE has a world-leading intellectual property portfolio born from over 30 years of experience. Our IP strategy mirrors and complements our broader business strategy and is concentrated on both core and developing markets.

IQE technology is underpinned by our intellectual property (IP) portfolio. In 2022 we streamlined our portfolio to better match our strategic aims and technology projects. We have around 140 granted patents, with 2022 yielding eight new grants and 16 new patent applications. We have plenty more in the pipeline with our portfolio growth targeted to support IQE's five-year plan and beyond.

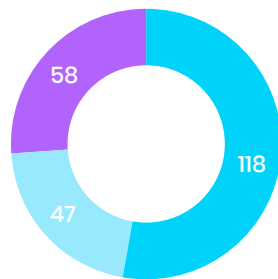
Our patents cover all our technology development areas and are aligned to our market verticals: Smart Connected Devices, Communications Infrastructure, and Automotive and Industrial. Our process know-how, the secrets of our trade which have been gained through more than 30 years in the field, enhances this work and is closely protected by IQE.

With rigorous internal processes to identify and review inventions in our teams, we are able to harvest inventions efficiently and to make strategic decisions over those that we protect by patent and those we protect by trade secrets and confidentiality. Training of our staff ensures that everyone understands the value of our IP in our technology and products.

“A strong, strategic approach to IP enables our strategy by positioning IQE to articulate its intangible asset value, whilst identifying and minimising risks.”

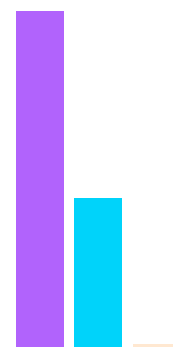
Victoria Yeomans
Head of IP

IQE's patent applications are aligned to our growth markets



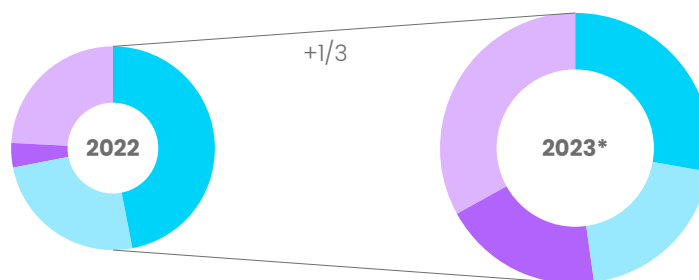
- Smart Connected Devices **118**
- Communications Infrastructure **47**
- Automotive & Industrial **58**

IQE has more patent families than other pure play epiwafer companies



- IQE
- Competitor 1
- Competitor 2

IQE's patent filing profile is growing and adapting to mirror the Company strategy



- | | | | |
|---------|------------|---------|------------|
| Connect | 47% | Connect | 28% |
| Sense | 25% | Sense | 20% |
| Power | 4% | Power | 19% |
| Display | 24% | Display | 33% |

* 2023 figures are target total and profile.

Health & Safety review

During 2022, IQE increased its already considerable focus on Environment, Health and Safety (EHS) in order to drive the necessary improvements required to support our future ambitions. Deployment of the Company's EHS strategy continued, further solidifying the solid foundations put in place during 2021 whilst working to evolve and align systems and processes across IQE to ensure they are world class and fit for the future.

Drive to world class

To drive the journey to world-class performance, focus was placed on six key pillars which are critical to achieving our vision:

- Visible Leadership – Increase the visibility and engagement of leadership to help develop a positive culture
- Governance – Implement robust governance processes for EHS
- Compliance Assurance – Implement robust compliance assurance processes
- Competence – Deploy a framework for demonstrable competence at all organisational levels
- Learning Organisation – Deploy a framework to support sharing and learning from events and best practices across the organisation
- Continuous Improvement – Actively seek out best practices internally and externally to drive continuous improvement across EHS. Existing processes are also regularly reviewed in order to identify opportunities for improvement

Key approach in 2023

During the coming year, EHS initiatives will remain laser-focused on continuing to deploy our strategy, driving towards world-class performance and developing a positive EHS culture at all levels of the organisation. As IQE looks to scale and achieve our future revenue targets, EHS systems and processes are critical to our future success. A focus on standardisation, centralisation and preparing our sites and the EHS systems for scale is key. To support this, a change in reporting structures will bring site-based EHS personnel under the management of the central EHS function. This will allow for an expedience of alignment which is critical to our growth trajectory.

Reporting

As part of our drive for continuous improvement, data reporting within EHS was further reviewed during the past year and aligned to ensure consistent, comparable data can be recorded, trended and analysed, while ensuring key corrective actions can be tracked moving forward.

“As IQE looks to scale and achieve our future revenue targets, EHS systems and processes are critical to our future success.”

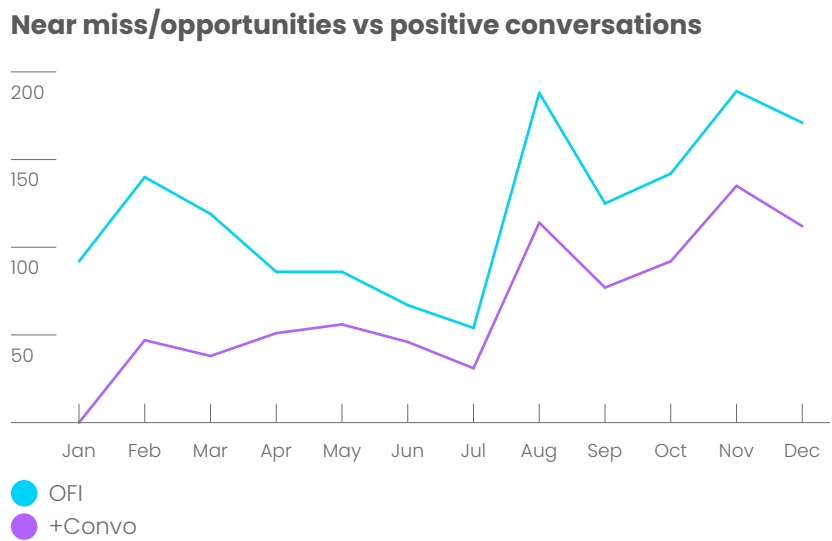
Scott McKinnon
Health, Safety and
Environment Director

Health and safety performance

3
lost time injuries

20
total injuries

1,630
near miss reports/OFIs



During the year, the focus within the business on identifying and reporting opportunities for improvement and near miss events intensified. As an organisation, we realise that by capturing these lessons and taking swift action to remediate any deficiencies, we can prevent events and incidents in the longer term. It is also a key element in driving a positive culture of openness and reporting in the organisation. To achieve this, education activities were completed across the business alongside awareness-raising campaigns, supplemented by regular review and drive from the top of the organisation. The number of reports grew more than 3x from the previous year which is a tremendous achievement. In the coming year this focus will continue, with an emphasis on the quality of the reports being identified.

Three of our colleagues suffered lost time injuries during the year. This was a reduction from six the previous year; however, as an organisation we still see this as three too many. All of the employees were supported following the events and have all been able to return to work on normal duties.

One of these injuries was reportable to the regulator after the injured employee was unable to attend work carrying out normal duties for seven days. No action was taken by the regulator.

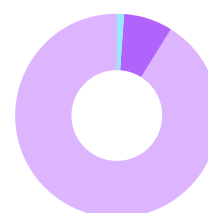
The number of overall injuries (including those which led to lost time) remains fairly constant at 20, a reduction of one from the previous year. Within IQE we encourage reporting of all injuries, no matter how minor, in order that they can be robustly investigated to prevent re-occurrence.

The majority of the injuries reported were very minor and employees were able to return to work on normal duties during the same shift. All injuries were investigated to prevent re-occurrence.

During 2022, in addition to our Taiwan facility, a further two of IQE's sites attained certification to the ISO45001 Occupational Health and Safety standard.

This certificate jointly covers two of the three sites in South Wales, with the third site scheduled to receive certification during 2023. Work is well progressed to ensure we are positioned to attain certification across our US sites and the remaining UK site in the near future.

2022 EHS performance



- Lost time injuries **3**
- Total injuries **20**
- Total events **137**
- Near miss/OIFs **1630**

2022 Safety performance

	2022	2021
Lost Time Injuries	3	6
All Injuries (inc. LTIs)	20	21
<hr/>		
	2022	2021
Near Miss OFI	1,630	452
Average per site	163*	45

* Two sites operated for ~six months each so classed as one site for averaging purposes.



Environment overview

Environmental performance

Following the attainment of an ISO 14064 certification last year independently verifying the Company's greenhouse gas (GHG) emissions, IQE's ESG Committee reviewed the collated data and agreed to further strengthen the Company's environmental goals. In 2022, IQE became a signatory to the Science Based Targets initiative, publicly making commitments to achieve Net Zero and carbon neutrality by 2050. As part of this process IQE will be required to outline our near-term emissions reductions plans.

Disappointingly, during the year at one of our operational sites a limit set out in our operating permit was exceeded. The exceedance was very small; however, this was notified to the relevant authorities in a timely manner along with details of the remedial actions taken to prevent re-occurrence. Following review by the local authorities, no further action was required.

Pleasingly, the focus regarding the reporting of Opportunities for Improvement and Near Misses across the business had a positive effect on environmental reporting across our sites. The average number of Environmental Opportunities or Near Misses reported increased 5x in the past year, from 2.5 average per site to 12.6. All of these were remediated and investigated to prevent re-occurrence.

2022 Environmental performance

	2022	2021
Environmental incidents (reportable)	1	0
Environmental incidents (not reportable)	2	2
NM/OFI environmental	126	25
Average per site	12.6	2.5

Waste generation summary

	2022	2021
Total Waste Generation (tonnes)		
Landfill (non-hazardous) to land	102	121
Recycled	1,548	1,341
Hazardous	236	353
Energy (incineration)	47	13
Total waste	1,933	1,828

Water usage summary

	2022	2021
Total water use (cubic metres)		
Municipal supply	103,610	120,613
Recycled water	373	3,428
Purchased water	647	1,309
Total water used	104,630	125,350

Energy consumption summary

(kWh)	2022	2021
Gas	17,788,539	19,484,146
Electricity	50,014,056	59,514,203





GHG emissions

There was a 13.32% reduction in absolute emissions for 2022 in comparison to 2021. This is due to a number of factors, most notably the closure of the Singapore facility and another smaller site along with the scaling down of the Pennsylvania facility's operations in preparation for closure. These organisational consolidation exercises resulted in a significant drop in electric and gas consumption. Other elements such as air travel witnessed significant rises during 2022 as the restrictions imposed as a result of COVID were lifted across the globe.

Again, this was not unexpected, however, such situations will be monitored to ensure they remain controlled. A small increase in our 2021 total GHG emissions data was seen as last year we were only able to collate category 1 and 2 data. This year we were able to collect data for categories 3 and 4, and we chose to update our historical figures with this additional information.

Certification

IQE successfully achieved certification for ISO 14064-1 for a second consecutive year in 2022. This shows we have quantified and reported our GHG emissions information to an internationally-recognised ISO standard. This is a requirement for the design, development, management, reporting and verification of an organisation's GHG inventory.

Emissions data

Inventory summary (tCO₂e)

Category (ISO 14064-1:2018)	Scopes (ISO 14064-1:2006)	2022	2021
Category 1: Direct emissions	Scope 1	3,334	3,689
Category 2: Indirect emissions from imported energy (location-based method)	Scope 2	16,751	20,084
Category 3: Indirect emissions from transportation	Scope 3	1,083	661
Category 4: Indirect emissions from products used by organisation		1,012	1,157
Category 5: Indirect emissions associated with the use of products from the organisation		0.00	0.00
Category 6: Indirect emissions from other sources		0.00	0.00
Total direct emissions		3,334	3,689
Total indirect emissions		18,846	21,902
Total gross emissions		22,180	25,591

Our approach and appetite for risk

We recognise risk as an inherent part of our business operations and we approach risk with the same deliberate, strategic consideration as other aspects of the business. The effective management of risk contributes significantly to the successful delivery of the Group’s strategic plans and objectives. The Group Risk Committee monitors the risk environment, in particular those risks identified as principal or emerging risks on a regular basis, while the Board is responsible for the overall stewardship of risk management and internal control.

The Group Risk Committee considers risks using a top-down and bottom-up approach, with the Committee members obtaining input from around the business, which together with oversight and support from the Audit & Risk Committee and the Board, creates an effective system for monitoring, planning and developing a Group-wide culture and approach to risk. The Group Risk Committee will periodically report to the Audit & Risk Committee on the Group’s principal risks and the mitigating actions being taken to address those risks.

The Group Risk Committee is responsible for the maintenance and regular updating of a risk register which articulates the Group’s principal risks and the actions being taken to address those risks. The risk register is in a standardised format and includes the likelihood of a risk materialising, and an assessment of that risk both before and after the Group’s mitigation activities.



Principal risks and uncertainties

The table below sets out the Group's principal risks and describes the likelihood, potential impact and the Group's mitigation measures for those risks. We have also identified the direction of change from 2021.

Major health and safety incident and/or major accident to the environment ⬇️ ⬅️ ⬆️		
	Mitigation	Effect
IQE operates in a highly controlled and regulated environment due to the nature of the materials used in its manufacturing processes.	<ul style="list-style-type: none"> Strong internal controls, including technical and engineering control measures Continuous improvement of health, safety and environment management systems Continuous auditing and monitoring of production systems and equipment and close down of audit actions Only trained and competent persons permitted to work with potentially harmful materials ISO 14001 for all operational sites 	Harm to IQE's people or the environment, reputational damage, regulatory investigation and/or legal proceedings, fines and penalties.
Loss of key people ⬇️ ⬆️ ⬆️		
	Mitigation	Effect
IQE's people are fundamental to its success and IQE has a number of individuals in key roles.	<ul style="list-style-type: none"> Competitive reward schemes including comprehensive benefits and an all-employee share option scheme Employee communication and engagement strategy Talent development and retention plans Succession management Corporate processes and infrastructure 	Quality issues, production issues, technology development delays, wage inflation.
Cybersecurity ⬇️ ⬆️ ⬆️		
	Mitigation	Effect
Cybersecurity including risks from malware, malicious actions, accident and other unauthorised access.	<ul style="list-style-type: none"> Investment in people, processes and technology Third-party vulnerability assessments, testing and close down of actions Staff training and IT policies regarding use of IT and systems 	Operational disruption, loss of intellectual property, loss of data.
Intellectual Property ⬇️ ⬆️ ⬆️		
	Mitigation	Effect
Infringement or loss of IQE's intellectual property rights. IQE's intellectual property rights are a core element of its competitive offering.	<ul style="list-style-type: none"> Patent strategy Proactive and rigorous defence of IQE's rights Appropriate contractual confidentiality obligations and controls around the sharing of sensitive information Internal controls to protect IQE's confidential information 	Degradation of IQE's competitive advantage, loss of market opportunity, significant legal fees.

Key: Likelihood ⬇️ Low ⬆️ Medium ⬆️ High

Trend ⬆️ Increased risk ⬆️ Decreased risk ⬆️ No change to risk ⬆️ New risk

Impact ⬆️ Low ⬆️ Medium ⬆️ High

Risk management continued

Breach of legal and regulatory requirements 		
	Mitigation	Effect
IQE operates on a global scale and must ensure compliance with laws and regulations wherever we do business.	<ul style="list-style-type: none"> Global monitoring of commercial arrangements and agreements Global policies and procedures to ensure compliance with our legal obligations – particularly around, health, safety and environment, taxation, export controls and anti-bribery and corruption laws Global whistleblowing policy Monitoring and reporting of legal and regulatory issues to the Audit & Risk Committee 	Harm to IQE's people or the environment, reputational damage, regulatory investigation and/or legal proceedings, fines and penalties.
International trade compliance 		
	Mitigation	Effect
Changes in international export controls laws which impact IQE's ability to serve global markets.	<ul style="list-style-type: none"> Continued development of products and technologies which can be supplied to a number of different geographical markets in compliance with export control laws Diversification of customers and products Use of production equipment which is subject to lesser export control restrictions Monitoring of changes in export control laws 	Loss of market opportunity leading to reduction in revenues and profit.
Greater geopolitical conflict 		
	Mitigation	Effect
Increasing geopolitical risks leading to customs disputes and trade restrictions ie. those between USA and China, and the ongoing conflict between China and Taiwan, may constrain global trade and semiconductor supply specifically.	<ul style="list-style-type: none"> Ensure that IQE's products remain world-leading through investment in opportunities identified in product roadmap Proactive customer engagement including direct engagement with end customers Diversification through new markets, new products and new customers Diversification of supply through IQE's geographically spread manufacturing sites Technology and equipment roadmap planning to maintain compliance with trade restrictions Multiple sourcing for key manufacturing inputs Pursuing long-term commitments from IQE's customers 	Loss of market share, price erosion, reduced sales volume and reduced profitability.
Customer concentration 		
	Mitigation	Effect
High level of customer concentration with the majority of IQE's revenues derived from a small number of key customers.	<ul style="list-style-type: none"> Customer diversification to reduce extent of reliance on key customers Product diversification with existing and new customers Market diversification through new global markets and new product opportunities Strategy as a materials specialist, enabling supply across the market 	Risk of loss of market share, product volume and reduced sales and profitability.


Insufficient cash flow ▲ ▬ ▲		
Insufficient cash flow generation to underpin any capital investment that might be needed to exploit business opportunities.	Mitigation	Effect
	<ul style="list-style-type: none"> Capital structure strategy. The Group completed a £31,098,546 equity raise on 18 May 2023 Capital investment strategy including management of credit facilities. The Group extended its Revolving Credit Facility with HSBC Bank until May 2026 on 17 May 2023 Long-term business planning to determine investment priorities and phasing of investments Cash flow forecasting and working capital management 	Inability to exploit opportunities and grow resulting in lower revenue and profitability.
Failure of new products ▬ ▬ ▲		
New products fail to deliver expected revenue and profitability.	Mitigation	Effect
	<ul style="list-style-type: none"> Engaging with customers early in the product development lifecycle to align new product and technology development with customer requirements Qualifying new products with customers and investment in capacity to support customer qualification and R&D Maintaining a clear product roadmap which ensures that IQE remains at the forefront of new technology 	Lower than expected revenue and profit growth, reduced ability to invest.
Critical supplier disruption ▲ ▲ ▬		
Disruption in the supply of equipment or materials from critical suppliers where there are limited or constrained alternative supply sources.	Mitigation	Effect
	<ul style="list-style-type: none"> Long-term agreements with critical suppliers Qualifying multiple suppliers Capacity and stock planning Forward buying of utility contracts 	Impacts on production resulting in lower revenue and profitability. Increased cost of production.
IT transformation ▬ ● ▬		
Transformation of IT systems or retention of existing legacy IT systems causes disruption to IQE's business	Mitigation	Effect
	<ul style="list-style-type: none"> Development and implementation of IT landscape to support IQE's growth Incremental improvements to existing IT systems Solution due diligence and vendor partnering Senior stakeholder ownership Programme reporting and structured programme governance Extensive planning on business change requirements and time commitments from SMEs 	Business disruption or escalating costs resulting in lower revenue and/or profitability.

Key: Likelihood ▼ Low ▬ Medium ▲ High

Trend ▲ Increased risk ▼ Decreased risk ▬ No change to risk ● New risk











Impact ▼ Low ▬ Medium ▲ High

Risk management continued

Insufficient liquidity 		
Insufficient liquidity or cash funding available to meet obligations as they fall due.	Mitigation	Effect
	<ul style="list-style-type: none"> The Group prepares regular financial forecasts to evaluate its funding and liquidity requirements for the foreseeable future. These forecasts are reviewed and approved by the Board. Based on these forecasts, appropriate funding and liquidity solutions are put in place in order to ensure that appropriate cash liquidity and funding headroom is maintained to meet financial obligations as they fall due The Group's net debt (excluding lease liabilities and fair value gains/losses on derivative instruments) position increased to £15,248,000 at 31 December 2022. The increase in net debt principally reflects the Group's investment activities where investment in capital expenditure, technology development and IT systems has exceeded cash generated from operations The Group's trading in Q1 2023 has experienced an acceleration of the market softness that has impacted 2022 with weaker demand and a reduction in customer orders and forecasts that is expected to result in a decline in 2023 revenue year on year. In this context, the Group has: <ul style="list-style-type: none"> Extended its \$35m USD Revolving Credit Facility with HSBC Bank until May 2026 Completed an equity fundraise on 18 May 2023 for £30,000,000 and a REX retail offer for £1,098,546. These two capital structure actions, which were completed in May 2023, ensure that the Group is able to forecast sufficient liquidity headroom and credit facility covenant compliance in both base case and severe but plausible downside scenarios for the forecast period ended 31 December 2024 	Going concern risk and reputational damage.

Global economic downturn and semiconductor industry cyclical contraction 

<p>The slowdown of the global economy will continue to affect all businesses across the globe. In addition, the global semiconductor industry is in a period of cyclical inventory reduction which is expected to last through at least the first half of 2023.</p>	<p>Mitigation</p> <ul style="list-style-type: none"> • Cost reduction and cash preservation actions and controls • Capital expenditure controls • Inventory management • Customer and supply chain intelligence • Short and long-term financial forecasts • Business diversification strategy 	<p>Effect</p> <p>Reduction in revenue and profitability with corresponding cashflow impact.</p>
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Key: **Likelihood**  Low  Medium  High
Trend  Increased risk  Decreased risk  No change to risk  New risk
Impact  Low  Medium  High

Russia & Ukraine conflict

The ongoing conflict between Russia and Ukraine is demonstrative of the increasingly contested geopolitical environment. IQE has been, and will continue to be, impacted by higher energy prices which are, in part, a result of the conflict. Higher inflation and the higher nominal interest rates used by national governments to combat inflation are expected to have an impact on IQE consistent with the effects felt globally.

Climate risk

IQE is in the process of building the required processes to support the identification and assessment of climate risks. IQE supports the TCFD framework and will develop disclosures in line with the TCFD’s recommendations. Our first TCFD statement will be in our Annual Report published in 2024 and will be supported by our very first sustainability report.

Long-term viability

Viability statement

As required by provision 31 of the UK Corporate Governance Code 2018, the Board has assessed the prospects of the Company over a five-year period, considering the Group's current financial position, business strategy and the results of it performing a robust assessment of emerging and principal risks (see pages 51 to 55).

The Board believes that a five-year period is an appropriate time frame for assessing the Group's longer-term viability. This period is covered by the Group's strategic planning horizon and considers the nature of the Group's principal risks. The Board believes that a five-year period reflects a period of time over which information and forecasts concerning demand for the development, qualification and production of compound semiconductor wafers, is considered reasonably reliable. In making this assessment, the Directors have taken account of the Group's current strategy, funding arrangements and ability to raise new finance in most market conditions if required and includes the Board's view that the Group will be able to renew or refinance its existing £28,688,000 (\$35,000,000) revolving credit facility agreement which expires in May 2026.

The Board's key criteria for considering the Group's viability is the maintenance of a net cash position or the ability to operate within agreed debt arrangements, demonstrating that the Group would be able to meet its liabilities as they fall due.

Whilst all of the risks identified on pages 51 to 55 of this Annual Report could have an impact on the Group's performance, in making this assessment, the Directors have considered the following issues which could threaten the business model, future performance, solvency and liquidity of the Group and which, given the magnitude of their potential impact, the Board

considers appropriate for the purposes of this assessment:

- the current semiconductor industry and economic outlook, which the Directors' believe presents a temporary but significant challenge to the business in 2023 where market softness, weaker demand and a reduction in customer orders and forecasts is expected to result in a significant year-on-year decline in revenue; and
- a material escalation in geopolitical tensions, particularly in respect of any potential conflict between China and Taiwan, as a risk that could have a significant impact on the global semiconductor industry.

To ensure IQE continues to be well positioned to exploit opportunities within an industry that is forecast to continue to grow in accordance with strong historical long-term industry trends, the Directors' have completed the following steps in the post balance sheet period to strengthen the balance sheet of the business. This includes the refinancing of the Group's £28,688,000 (\$35,000,000) multi-currency revolving credit facility and the successful £31,098,546 equity fundraise. These steps will provide the Group with the necessary liquidity to continue trading during the current semiconductor market downturn, provide sufficient headroom to protect against a later than forecast recovery from the market downturn and allow the Group to continue to invest in its growth and diversification strategy.

In order to deliver the short and longer term plan the Group has taken a number of actions to rationalise cost in order to maintain investment which is aligned with a clearly defined technology and product roadmap that is supported by a combination of strategic consolidation of the Group's manufacturing sites, capital investment in manufacturing capacity and investment in next

generation compound semiconductor research and development. Cost rationalisation and efficiency saving actions include staff redundancies, operational efficiencies and reductions in areas of discretionary expenditure whilst the completed closure of the Group's Singapore facility and the announced closure of the Pennsylvania (US) facility, with the resultant consolidation of molecular beam epitaxy (MBE) capacity into the Group's North Carolina (US) site, will deliver improved production efficiency and margins in the medium to long term. Capital investment in manufacturing capacity at the Group's sites in Newport (UK), Massachusetts (US) and Hsinchu (Taiwan), combined with further capital investment planned in GaN related capacity across the Group, provides capacity for growth that is aligned with the Group's strategy and its technology and product roadmap. This investment in GaN will underpin the Group's diversification into advanced displays and power electronics segments of the compound semiconductor market.

Stress tests and scenario analyses to determine the Group's viability have been performed as part of the assessment. The assessment takes account of the post year end actions implemented by the Directors to mitigate the financial impact of current market softness, including the results of the completed refinancing of the Group's £28,688,000 (\$35,000,000) multi-currency revolving credit facility and the successful £31,098,546 equity fundraise. In performing these tests, the Group considered a severe but plausible downside scenario in which the Group's business performance is adversely affected by a slower recovery in the broader semiconductor industry aligned with its going concern review and a reverse stress test extended over the longer five-year plan period. The Board have signed off

on a strategy and five-year plan to grow and diversify revenues over the five-year period. This growth will be generated from a combination of the Group's existing manufacturing capacity and investment in new capacity, funded from a combination of improved operational cashflows and additional finance which the Board believe can be raised from a variety of sources. Over the period to 2027, a reverse stress test demonstrates that in the event that operational cash flows or funding for investment in new capacity beyond the going concern review period to 31 December 2024 is not available, forecast revenue generated from existing manufacturing capacity could fall by 30% before a typical leverage covenant test of 3x would be breached.

A material escalation in the geopolitical tensions relating to China and Taiwan, in particular any escalation into military conflict, could have a material impact on both the Group and the wider semiconductor industry. Given the wide range of potential scenarios, and the unpredictability inherent in this risk, the potential impact of this risk has not been estimated by the Directors. Notwithstanding the high level of uncertainty, the Directors are confident that the Group's global site portfolio and the Group's growth and diversification strategy will sufficiently mitigate the range of potential impacts.

The Board confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period to 31 December 2027.

This strategic report has been approved by the Board and signed on their behalf by:



Phil Smith
Chairman

23 May 2023



Strong governance and leadership



Phil Smith CBE, FREng, FIET (65)
Chairman



Americo Lemos (55)
Chief Executive Officer



Tim Pullen BA, ACA (45)
Chief Financial Officer



Dr Drew Nelson OBE, BSc, PhD, FREng (68)
President and Non-Executive Director

E N R

Phil Smith joined the IQE Board in 2016 and took over as Chairman in April 2019 and Executive Chairman from September 2021 to January 2022.

Previously he was appointed Chairman of Cisco for the UK in 2016, after eight years as Cisco's Chief Executive. He is also the Chairman of Innovate UK and Chairman of the Tech Partnership. Additionally, he sits on the Board of the National Centre for Universities and Business (NCUB). Mr Smith has a 35 year track record in the technology industry in leading companies including Philips Electronics and IBM. As Chief Executive and now Chairman of Cisco, he leads around 5,500 people in the UK and Ireland. He created Cisco's British Innovation Gateway (BIG) programme, as a legacy of London 2012 to spark nationwide ingenuity, ambition and growth through technology entrepreneurship. In September 2014 he was awarded an Honorary Doctorate by Birmingham City University, cited for his outstanding contribution to the IT industry, a "leader among leaders". In March 2015, Mr Smith was awarded an Honorary Degree of Doctor of Laws by the University of Warwick and in 2016 an Honorary Degree of Doctor of Science by his alma mater, Glasgow University. He was honoured in the 2019 Queen's Birthday Honours List with the award of Commander of the Order of the British Empire (CBE) for services to technology, business and skills.

Americo joined IQE from the executive team at GlobalFoundries Inc., a New York headquartered semiconductor designer and manufacturer.

Americo Lemos joined IQE in January 2022 from the executive team at GlobalFoundries, one of the world's leading semiconductor manufacturers. As GF's Senior Vice President of Business Development for Asia Pacific and China Country President, Mr Lemos was responsible for driving the business's efficiency and growth in these critical markets. Prior to this, he was Senior Vice President at Qualcomm, responsible for its data center business. Before joining Qualcomm, Mr Lemos was Vice President of Platform Engineering at Intel, responsible for strategic ventures with China semiconductor companies from 2009 to 2015. Before Intel, he held leadership roles with Texas Instruments, Quanta Computer in Taiwan and Skyworks. Mr Lemos holds a Master of Sciences, Electronics and Computers degree from École Nationale Supérieure de Sciences Appliquées et de Technologie (ENSSAT) in Lannion, France.

Tim Pullen joined IQE as the Chief Financial Officer in February 2019. Prior to this, Mr Pullen was the Chief Financial Officer of Arm Limited, a global semiconductor and software design company owned by Softbank Group.

Before joining Arm, he was Finance Director at O2/Telefonica UK, where he held a variety of senior financial positions, including responsibility for Technology Operations, B2B and Digital segments and Finance Operations. In connection with his time at O2, Mr. Pullen also held roles as a Non-Executive Director of Tesco Mobile, O2's joint venture with Tesco, and was a Director of Cornerstone Telecommunications Infrastructure Limited, O2's network sharing joint venture with Vodafone. Mr Pullen has also worked in a number of technology and services businesses, including Serco, Fujitsu and Dell. Mr Pullen is a Chartered Accountant and qualified with Ernst & Young.

Dr Drew Nelson has over 30 years' experience in the semiconductor industry in a variety of research and managerial positions.

Following a PhD in Semiconductor Physics, he joined BT Research Laboratories in 1981, leading the group responsible for the development of advanced optoelectronic devices for optical fibre communications. He subsequently managed the technology transfer from BT to Agilent for mass production. He co-founded EPI in 1988 (which became IQE in 1999) and was appointed Chief Executive Officer of IQE plc in April 1999 until September 2021. Dr Nelson has held several Non-Executive Directorship roles, and served on several government and industry bodies. He received an OBE in 2001 for services to the electronics industry. He is currently a member of the high level group appointed by the EC to oversee the implementation of Key Enabling Technologies (KETs) throughout Europe.

Key for Committee membership

A Audit Committee member

R Remuneration Committee member

N Nomination Committee member

E Environmental, Social & Governance Committee member

 Chair of Committee



Carol Chesney FCA (60)
Senior Independent
Director

A **R** **N**

Carol Chesney joined IQE's Board in May 2019 and was appointed as a Senior Independent Director in November 2020.

Since October 2012, Mrs Chesney has served as a Non-Executive Director and Chair of the Audit Committee of Renishaw plc. In addition, she is a Non-Executive Director and Chair of the Audit Committees of Imagination Technologies, Hunting plc and Biffa plc. Until 2018 Mrs Chesney served as the Company Secretary of Halma plc, a FTSE 100 health, safety and environmental technology group, having also served as the group's Financial Controller. During her time at Halma, Mrs Chesney's role included corporate governance, legal compliance, equity incentives, pensions, internal audit management, taxation, property, health and safety compliance, environmental reporting and anti-bribery and corruption compliance. Mrs Chesney is a Fellow of the Institute of Chartered Accountants in England and Wales, and qualified with Arthur Andersen in the UK.



Victoria Hull (60)
Non-Executive Director

R **N** **A**

An experienced Non-Executive Director, Victoria Hull is currently serving Non-Executive Directorship and Remuneration Committee roles for listed technological companies including Alphawave IP Group plc and Network International Holdings plc.

Victoria is also the Senior Independent Director for Ultra Electronics Holdings plc. Prior to these appointments, Ms Hull held an executive directorship at Invensys, now Schneider Electric. Having worked in a variety of global companies at Executive Committee or Board level, her appointment to the Board of IQE brings an extensive understanding of legal, commercial and governance matters. Victoria has a strong background in corporate finance and began her career as a trainee solicitor at Clifford Chance LLP.



Sir Derek Jones KCB (70)
Non-Executive Director

E **R** **N** **A**

Sir Derek Jones KCB is Chair of Keolis UK, the international transport company; he is also Chair of the Prince's Trust in Wales.

He is also an independent adviser at Cardiff University, where he is an Honorary Fellow and Professor, and a Vice President of Cardiff Business Club. Sir Derek was the Permanent Secretary of the Welsh Government until February 2017. Sir Derek spent the earlier part of his government career in Whitehall, working at HM Treasury and the Department for Trade & Industry, where he headed the Far East Trade Desk. In government in Wales he also served as Director of Finance and Director of Economic Affairs, during which time he was instrumental in securing major inward investment projects, particularly from Japan and the USA. Outside government, Sir Derek was Director of Business & Strategic Partnerships at Cardiff University, responsible for securing long-term collaborations with the private sector. He was made Companion of the Order of the Bath (CB) in 2009 and subsequently Knight Commander (KCB) in 2014, for services to economic and social conditions. Sir Derek is also the Director responsible for employee engagement.

Chairman's Governance overview

“The Board is focused on delivering”

Phil Smith
Chairman

Dear Shareholders,

I am pleased to introduce IQE's Governance Report on behalf of the Board. The Board is collectively responsible for IQE's long-term success and hence committed to conducting business responsibly, maintaining high standards of corporate governance, and to aspiring to the highest levels of quality in everything it does.

I'm confident the Board's continued focus on these areas will support IQE's performance and its position in the market, and will enable it to grow and embrace its opportunities as they arise.

The Board is committed to driving IQE's long-term objectives and to overseeing IQE's operations to ensure competent and prudent management. The approach to governance is set by the Board, charging the Executive Leadership Team with the responsibility to ensure that the approach is effectively implemented across IQE's global business.

It has been my privilege to continue to lead the Board through 2022 as IQE launched its five-year plan at a very successful Capital Markets Day on 9 November 2022. The Board and the Executive are focused on delivering for all of IQE's stakeholders.



Board changes in 2022

The Board went through a number of changes in 2020 and 2021 and consequently was stable throughout 2022 with no changes to the Board or any of the Committees, other than the appointment of Americo Lemos as Chief Executive Officer which was reported in last year's Annual Report.

Board evaluation

The Board has a well-established process for undertaking an annual review of the performance of the Board, its Committees and the Chair. This year, the Board selected BoardClic to complete an external evaluation. There is no connection between BoardClic and any of the Directors. The Board has followed the steps set out in the graphic below.

More details on the findings from the evaluation are outlined on page 63.

I encourage all of our shareholders to engage with us ahead of the AGM which will be held on Wednesday 28 June 2023. Notice of, and details of the arrangements for, the AGM will be provided to shareholders at the usual time.

I am confident that the steps we have taken through 2022 will make a strong positive contribution to IQE as we drive to achieve the vision and goals we have set.



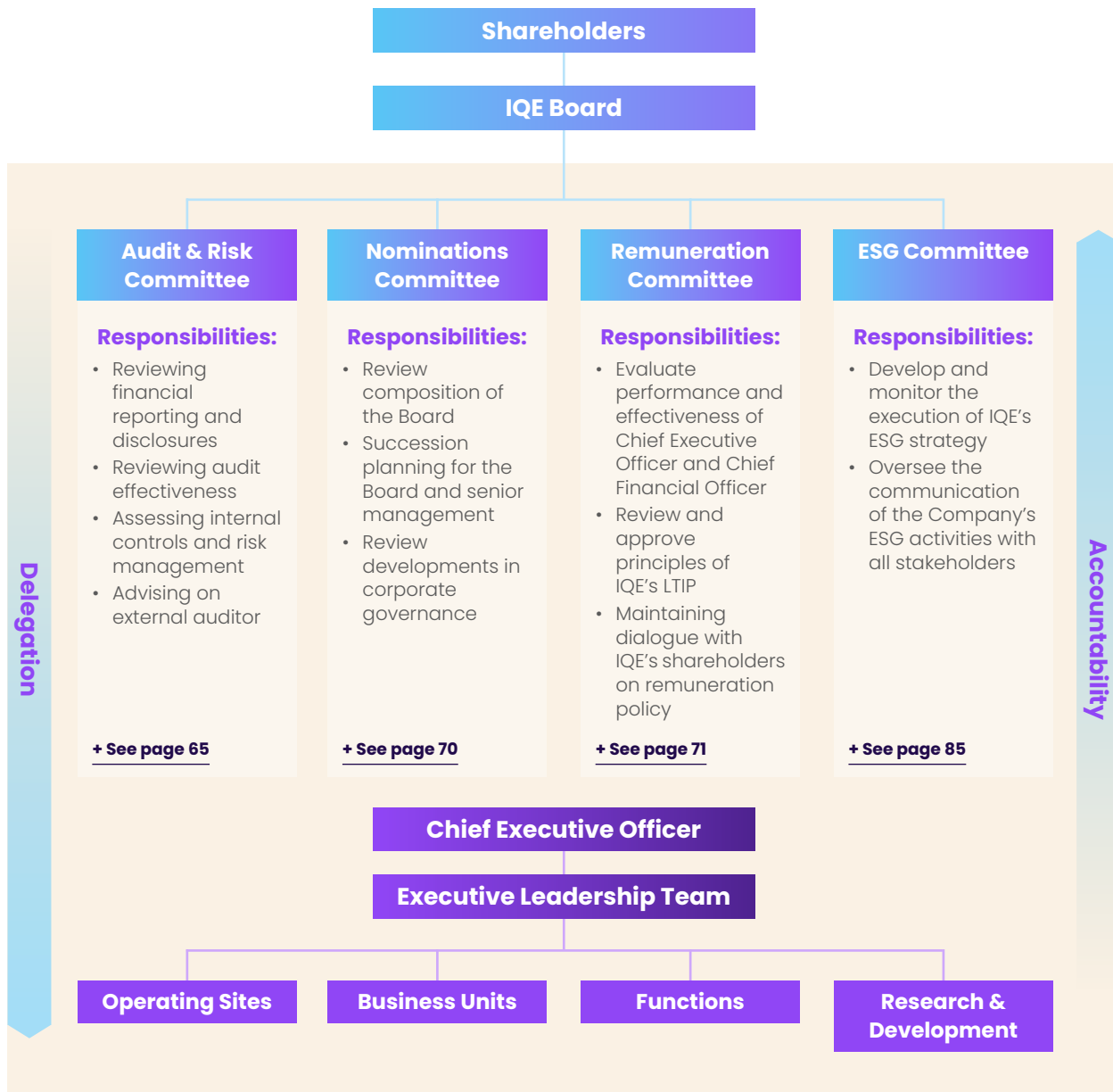
Phil Smith
Chairman

23 May 2023

“The Board is committed to driving IQE’s long-term objectives and to overseeing IQE’s operations to ensure competent and prudent management.”



Governance structure



Role of the Board

The Board is responsible for the overall conduct of IQE's business and the Directors have responsibilities under both the Company's Articles of Association and UK company law. The Board delegates day-to-day management of IQE to the Chief Executive Officer and the Executive Leadership Team.

The primary tasks of the Board in 2022 included:

Strategy

- Reviewed, challenged and approved the Group's strategy for the five-year period 2023 to 2027
- Regular reviews of key business decisions and their impact on the Group's strategy

Operations

- Regularly received operational, including health, safety and environment, updates at scheduled meetings

- Monitored performance and provided challenge in key areas of operations

Leadership and people

- Worked with the Chief Executive Officer to review IQE's leadership team
- Supported the Group's leadership conference

Board and Committee attendance

	Board	Audit & Risk Committee	Remuneration Committee	Nominations Committee
Number of meetings in 2022	9	4	2	*
Attendance				
Executive				
Mr Americo Lemos	9	■	■	
Mr Tim Pullen	9	■	■	
Non-Executive				
Mr Phil Smith	9	■	2	
Mrs Carol Chesney	9	4	2	
Sir Derek Jones	9	4	2	
Ms Victoria Hull	9	4	2	
Dr Andrew Nelson	9	■	■	

* The Nominations Committee met on an informal basis throughout the year, often following the conclusion of Board meetings.

■ Not a member of the Committee or not required to attend meetings.

Finance

- Reviewed, approved and monitored progress against the financial plan for the 2022 financial year
- Monitored, challenged and approved capex and other significant capital expenditure ('capex')
- Approved the Annual Report, half-year results and interim trading updates
- Considered and approved IQE's going concern and viability statements

Governance and ethics

- Carried out an external Board evaluation, discussed the output with the Board and agreed areas for improvement
- Received and reviewed feedback from institutional investors
- Reviewed the requirements of the 2018 UK Corporate Governance Code and areas of non-conformity
- Regular meetings between the Non-Executive Directors only

Independence

The Board considers that, with the exception of Andrew Nelson, all of the Non-Executive Directors are independent in character and judgement and free from any business or other relationship that could materially interfere with exercising that judgement. Andrew Nelson was appointed as President and Non-Executive Director in 2021 following his transition from Chief Executive Officer.

The Board is also satisfied that there is no compromise to the independence of, and nothing which would give rise to conflicts of interest for, those Directors who serve as Directors on other company boards or who hold other external appointments. The Board considers potential for conflicts of interest at every Board meeting and ensures that Directors present sufficient information for those to be reviewed.

Appointment and time commitment

The Chairman and each of the other Non-Executive Directors have letters of appointment.

The Chairman's letter of appointment sets out the time commitment expected of him. The other Non-Executive Directors' letters of appointment set out a minimum expected time commitment but do not set out a fixed time commitment.

The Non-Executive Directors are expected to allocate appropriate time to IQE to perform their duties and to make themselves available for all regular and ad hoc meetings. The Board believes each of the Non-Executive Directors has sufficient time to perform their duties.

Board evaluation

The Chair and Company Secretary facilitated an external review of the Board during 2022, using BoardClic as the external provider. The process used in the process is explained in the graphic on page 61. The process identified the following key areas for action and attention:

- Review of the Board's composition to assess the right skills and experience required to support the five-year plan
- Improve Board dynamics through improved information flow and in-person meetings
- Improve engagement with staff and the Board's understanding of organisational health
- Refine Board KPIs to improve the Board's monitoring of business performance



UK Corporate Governance Code compliance

IQE complied throughout 2022 with the principles and provisions of the UK Corporate Governance Code 2018 except in the following areas:

Provision 17

IQE does not currently maintain a succession plan for the Company Secretary or all senior management immediately below Board level. IQE will work to develop such plans based on merit and objective criteria. As part of its consideration of developed succession plans, the Nominations Committee will consider the linkage of its diversity objectives with Company strategy and the gender balance of those in senior management and their direct reports.

Provision 33

The Remuneration Committee has responsibility for determining the policy and setting remuneration for the Executive Directors and the Chairman. It also has responsibility to recommend and monitor the policy, level and structure of remuneration for senior management. However actual remuneration for senior management and the Company Secretary (noting that the Company Secretary is part of the Executive Leadership Team and senior management) is set and determined by the CEO in consultation with the Group's Chief People Officer and appropriate external advice and benchmarking.

Provision 36

Share options granted to the Executive Directors under IQE's LTIP are subject to total vesting and

holding periods of three years. In addition, Executive Directors are subject to a minimum holding requirement equal to 200% of their base salary and will have a post-employment shareholding requirement for two years. The minimum holding will be equal to 200% of base salary in the first year post-employment, reducing to 100% of base salary in the second year.

IQE's approach aligns with market practice across IQE's peer group on AIM and the Remuneration Committee considers the current holding periods to be the right balance between incentivising Executive Directors and aligning with the interests of the Group's stakeholders

A copy of the 2018 UK Corporate Governance Code is available at frc.org.uk.

Audit & Risk Committee Chair's introduction



"I am pleased to present the Report of the Audit Committee, which provides a summary of the Committee's role and activities during the 2022 financial year. The Audit Committee continues to play a vital role in ensuring the integrity of our financial statements, the effectiveness of our risk management processes and internal controls, and in evaluating the performance of the external audit process."

Carol Chesney
Chair

The Board considers the maintenance of high standards in its governance and management of the affairs of IQE as fundamental to the discharging of its stewardship responsibilities. Accordingly, both the Board and the Audit & Risk Committee continue to keep under review IQE's whole system of internal control, which comprises not only financial controls, but also business & operational controls, compliance and risk management.

The Committee works with IQE's internal finance function and external auditors discussing, assessing and challenging financial reporting and going concern assessments.

The Committee also continues to assess IQE's internal controls and monitors the need for the establishment of an internal audit function.

The Committee used its structured meeting schedule to ensure that it provides robust challenge in the areas relating to financial reporting, internal controls and risk management, the external auditors and other issues pertinent to IQE.

Carol Chesney
Chair

23 May 2023

Audit & Risk Committee Report continued

Role of the Committee

The Audit & Risk Committee is responsible for monitoring the effectiveness of IQE's financial reporting, internal controls and risk management systems and processes and the effectiveness and independence of IQE's external auditors.

Key responsibilities

- reviewing the effectiveness of IQE's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk
- reviewing significant financial reporting issues and judgements including the potential for asset impairment and assessment of viability and going concern
- monitoring the integrity of IQE's financial statements and any formal announcements relating to IQE's financial performance
- keeping the relationship with the external auditors under review, including their terms of engagement, fees and independence
- reviewing and monitoring the need to establish a dedicated internal audit function
- advising the Board on whether the Committee believes the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess IQE's performance, business model and strategy
- conducting the tender process and making recommendations to the Board, about the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor
- reviewing and monitoring the external auditor's independence and objectivity
- reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, considering the relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvement or action required
- reporting to the Board on how it has discharged its responsibilities

Membership

- Carol Chesney – Chair
- Derek Jones
- Victoria Hull

Carol Chesney is Chair of the Audit & Risk Committee. Carol is a Chartered Accountant and has also held a number of senior finance roles. The Board is satisfied that Carol is the Committee member with recent and relevant financial experience as required by the UK Corporate Governance Code 2018. The Board is also satisfied that the Committee as a whole, including invited attendees as necessary, has a mix of experience and competencies to assess the issues facing the Group within the semiconductor industry.

Meetings and attendance

The Audit & Risk Committee meets at least quarterly, with additional meetings as required. There were four meetings in 2022 and all of the Committee members attended each meeting.

The meetings are also regularly attended by the Chairman, Chief Executive Officer, Chief Financial Officer and other senior members of the finance team.

IQE's external auditors attend every quarterly meeting and time is allowed at the end of each meeting for the Audit & Risk Committee to discuss issues with the external auditors without management being present. The Chair also holds at least one separate meeting with the audit partner ahead of each Committee meeting.

Activities during 2022

The Committee continues to oversee a range of risk areas that are key to IQE's long-term success and compliance with applicable laws and regulations.

The majority of the Committee's work derives from a structured programme that is designed to fulfil its responsibilities as set out in its terms of reference. The table below summarises the key activities at each meeting during 2022:

Agenda item	March	May	September	December
Review financial performance with focus on liquidity and covenant strength	•	•	•	•
Review of financial statements, going concern assumption and compliance with accounting standards	•		•	
Review and recommend for approval year-end and half-year announcements	•		•	
Review of significant reporting issues and material judgements	•		•	
Review of key business risks	•		•	
Consider requirements for internal audit function				•
Consider any material breach of law	•	•	•	•
Review Whistleblowing policy and procedures for preventing fraud, bribery and corruption			•	
Review of insurance programme, policies and material judgements			•	
Review representation letter for full-year and half-year	•		•	
Review effectiveness of Audit & Risk Committee				•
Review of auditor quality and independence		•		
Consider audit effectiveness		•		
Review accounting and corporate governance developments		•		•
Committee-only meeting with external auditor	•	•	•	•

The UK Corporate Governance Code 2018 requires the Directors to prepare the Annual Report and Accounts and to state that they consider them, taken as a whole, to be fair, balanced and understandable and provide the information necessary for shareholders to assess IQE's position and performance, business model and strategy. The Board requested that the Audit & Risk Committee advise it as to whether the Annual Report and Accounts meet those requirements.

This work formed part of the review of the draft financial statements that was undertaken by the Committee in September 2022 and April 2023.

Through consideration of reports from, and meetings with, management and the external auditors, the Committee has reviewed and determined the following:

- judgemental areas and whether revenue recognition and the provisioning policies have been applied consistently and the level of provisions remains appropriate
- whether the expected future cash flows of IQE support the carrying value of goodwill, and whether there are any triggering events which suggest any potential impairment of other intangible assets including the valuation of development intangibles and the capitalisation of development costs
- whether the presentation of the financial statements, including the presentation of adjusted performance measures, is appropriate and balanced

Through consideration of reports by independent tax specialists assessing IQE's tax affairs in the UK, the US, Taiwan and Singapore as appropriate, and consideration of reports by and meetings with management assessing current and deferred tax accounting,

the Committee has reviewed and determined whether the provision for tax liabilities, and the current and deferred tax accounting is appropriate.

The Committee has reviewed the resources available to IQE, taking account of IQE's trading and cash flow forecast together with available funding headroom to assess the appropriateness of the going concern assumption.

Significant matters relating to the financial statements

The Committee performs a review of significant matters that relate to the financial statements. The matters that the Committee considers are significant are set out below:

- Going concern and the appropriateness of the disclosure contained within the significant accounting policies note relating to the application of the going concern basis of accounting in the financial statements;

Audit & Risk Committee Report continued

- Compliance with financial covenants contained within the Group's committed bank facilities and the associated availability of the Group's bank facilities;
- Goodwill impairment and the revenue growth rates and discount factor applied in the Wireless and Photonics value in use calculations that support the carrying value of goodwill;
- Intangible development cost carrying values and associated markets, end use applications and customer demand for the technologies which support asset carrying values;
- Revenue recognition and any judgements associated with the satisfaction of performance obligations for significant transactions; and
- Presentation and disclosure of adjusted performance measures including appropriate clarity of reconciliation between each GAAP and non GAAP measure

External Auditors

The Audit & Risk Committee has developed an auditor independence policy. In accordance with this policy, the Committee oversees the relationship with the external auditors and monitors all services provided by them and all fees payable to them. This is to ensure that potential conflicts of interest are considered and that an independent, objective and professional relationship is maintained.

The Committee has a policy on the provision of non-audit services by the external auditor in line with the Financial Reporting Council's Revised Ethical Standard 2019. The Group has a policy prohibiting the use of the Group's auditors for the provision of non-audit services other than an interim half year review.

The Audit & Risk Committee also monitors the effectiveness of the external audit. Before the end of the financial year, the Committee receives a detailed audit plan from the auditors that identifies the auditors' assessment of the key risks and their intended areas of focus. This is agreed with the Committee to ensure that the scope and coverage of audit work is appropriate. IQE's management also provide the Committee with feedback on the effectiveness of the audit and the quality of the audit firm and lead audit partner.

In addition, the Group's auditors are required to make a formal report to the Audit & Risk Committee annually on the safeguards that are in place to maintain their independence and the internal safeguards in place to ensure their objectivity.

A resolution to reappoint KPMG will be proposed at the forthcoming Annual General Meeting.

	2022 £'000	2021 £'000
KPMG LLP		
Fees payable to the Company's auditor and its associates for the audit of parent company and consolidated financial statements	547	335
Fees payable to Company's auditor and its associates for other services:		
• The audit of the Company's subsidiaries	20	27
• Audit related assurance services	-	20
• Tax and other advisory services	-	-
Total KPMG LLP (Group auditors)	567	382
Ernst and Young (auditors of MBE Technology Pte & CSDC)		
• Subsidiary company's audit	39	34
• Tax services	12	9
Total Ernst and Young (auditors of MBE Technology Pte & CSDC)	51	43
Total	618	425

Internal audit and controls

The Audit & Risk Committee reviewed the effectiveness of IQE's system of internal controls and risk management activities bi-annually as part of the half-year and full-year public reporting.

The system of internal control comprises those controls established in order to provide assurance that IQE's assets are safeguarded against unauthorised use or disposal, and to ensure the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

The key procedures that IQE has established with a view to providing effective internal control include the following:

- a clearly defined organisational structure and limits of authority
- corporate policies and procedures for financial reporting and control, project appraisal, human resources, quality control, health and safety, information security and corporate governance
- the preparation of annual budgets and regular forecasts which require approval from the Board
- the monitoring of performance against budget and forecasts and the reporting of any variances in a timely manner to the Board
- regular review and self-assessment of IQE's risks, taking steps to monitor and mitigate these wherever possible
- where appropriate, taking out insurance cover
- approval by the Audit & Risk Committee of audit plans and, on behalf of the Board, receipt of reports on IQE's accounting and financial reporting practices and its internal controls together with reports from the external auditors as part of their normal audit work

This process remained in operation for the year under review and as part of that process, management report any material exceptions to the Audit & Risk Committee.

IQE does not have an independent internal audit function, however it does operate internal audit on an ad hoc peer review basis, with a scope of evaluating and testing IQE's financial control procedures. The Committee considers that this remains appropriate for IQE's size and geographical spread, but the Committee keeps this under constant review.

In completing its review of the effectiveness of IQE's system of internal controls the Audit & Risk Committee has taken account of any material developments up to the date of the signing of the most recent financial statements.

In addition, recognition is given to the external audit findings, which help to inform the Audit & Risk Committee's views of areas of increased risk.

Risk Management

The Group Risk Committee identifies, reviews, assesses and tracks IQE's key risks and mitigating actions. The Group Risk Committee documents its approach through a risk register which is shared and discussed with the Audit & Risk Committee.

Key risk management activities performed by IQE are summarised on page 50. The Committee takes an active role in the risk management process that includes a regular review of IQE's risk register and 'deep dives' into specific areas of risk.

IQE's principal risks and uncertainties are set out on pages 51 to 55. While many of the key risks identified recur from year to year, the relative importance evolves over time and may require IQE to refocus its assurance activities. In the year ahead, the Committee will continue to work with the Board, Executive Leadership Team and other senior management to ensure that there is appropriate focus on the most significant risk areas together with the associated plans for mitigating their impact.

The Audit & Risk Committee will also be working closely with IQE's ESG Committee and IQE staff to understand, assess and mitigate climate-related risks.

Anti-bribery and corruption

IQE maintains a zero-tolerance approach to corruption. It has an established Anti-bribery and Corruption policy, which includes guidance on the giving and receiving of gifts and hospitality. This policy applies throughout IQE's business. A Gifts and Hospitality Register is maintained to ensure transparency.

Whistleblowing

IQE operates a confidential reporting mechanism, overseen by IQE's General Counsel and Company Secretary, which enables employees to raise concerns of malpractice, non-compliance or unethical conduct. The options for raising concerns are widely communicated to employees. These channels are clearly set out in IQE's Whistleblowing Policy. IQE's reporting policy and procedures provide a framework for protected disclosure.

Nominations Committee Chair's introduction



“The leadership talent we have at IQE will be vital to the Company’s long-term success. For that reason, the Nominations Committee is critically important. We need to ensure we are consistently hiring and retaining the best talent for the future. The battle for talent will be one of the key challenges for companies over the next decade and beyond, and we are committed to providing IQE with the best talent we can.”

Phil Smith
Chair

Phil Smith became Chair of the Nominations Committee in January 2021 and has overseen a number of changes to IQE’s Board since his appointment.

As reported in last year’s Annual Report, Americo Lemos joined IQE on 10 January 2022 as Chief Executive Officer. There have been no other changes to the Board in 2022.

In 2022 the Committee has worked with the Chief Executive in the evaluation and succession planning of the Executive Leadership Team. The Board is also in the process of reviewing the mixture of skills, experience and diversity on the Board with a view to ensuring that the Board is able to provide the appropriate strategic and governance support for the Executive.

The Committee has engaged Lygon Group to assist with the search for any additional Non-Executive Directors.

Phil Smith
Committee Chair

23 May 2023

Role of the Committee

The Nominations Committee is responsible for leading the process for the selection and appointment of Directors and for ensuring plans are in place for an orderly succession of Board and senior management positions.

Key responsibilities

- review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes
- identify, evaluate and recommend candidates for appointment as Directors
- succession planning for Directors and other senior management
- review developments in law, regulation and best practice relating to corporate governance and make recommendations to the Board on appropriate action

Membership

- Phil Smith – Chair
- Carol Chesney
- Derek Jones
- Victoria Hull

Meetings and attendance

The Committee meets regularly on an ad hoc basis, often following the conclusion of scheduled Board meetings. All members attended each meeting.

Activities during 2022

The Committee continues to review the skills, experience and diversity on the Board and is in the process of considering further appointments to the Board. The Committee has also worked closely with the Chief Executive on developments with the Executive Leadership Team.

Remuneration Committee Chair's introduction



“Over the last 12 months the Company, under Americo’s leadership, has made significant strategic progress in terms of customer relationships, new strategic partnerships and a focus on diversification into new markets with ambitious longer-term financial goals.”

Victoria Hull

Non-Executive Director and Chair of the Remuneration Committee

On behalf of the Board I present the Remuneration Report for the Company. Over the last 12 months the Company, under Americo’s leadership, has made significant strategic progress in terms of customer relationships, new strategic partnerships and a focus on diversification into new markets with ambitious longer-term financial goals. This said, our financial year end was adversely impacted by (largely) macro environmental factors which also lead to reduced H1 guidance for 2023 revenues.

The annual bonus for 2022 was determined by a combination of cash, revenue and non-financial strategic and personal performance targets. The 2022 financial performance was below threshold and therefore no payment accrued in this regard. While a number of the non-financial goals were met, the Committee determined it was not appropriate to pay any bonus and therefore exercised discretion to reduce the pay out to zero. Similarly, in these circumstances, the Committee determined there would be no salary increase for the CFO and CEO.

The LTIPs awarded to the previous CEO and the CFO in 2020 lapsed as the applicable performance conditions were not met.

Victoria Hull

Non-Executive Director and Chair of the Remuneration Committee

23 May 2023

Directors' Remuneration Report continued

Remuneration at a glance

	Purpose and link to strategy	Key features	Planned for 2023	Implementation in 2022
Salary	Supports the attraction and retention of the best global talent with capability to deliver IQE's strategy	Reviewed annually Salaries take account of external market and internal employee context	Effective 1 April 2023: <ul style="list-style-type: none"> CEO £575,000 (no increase) CFO £369,706 (no increase) Salaries for the wider workforce have been frozen for 2023, however, the Company may review employee salaries later in the year, taking account of business performance and wider market conditions	No increase for CFO. CEO joined at the start of 2022 In line with approach for wider workforce
Allowance and benefits	Provision of market-competitive and cost-effective benefits to support attraction and retention of talent	Provision of competitive benefits linked to local market practice Maximum Company pension contribution is 10% of salary	Company pension contribution: <ul style="list-style-type: none"> CEO 10% of salary CFO 10% of salary The 10% pension contribution is consistent with that available to the wider workforce	Allowances and benefits unchanged from prior year. CEO and CFO pension contributions 10% of salary
Annual incentive	Incentivises delivery of IQE's financial and strategic targets. Provides focus on key financial metrics and the individual's contribution to IQE's performance	Target opportunity is 50% of salary and maximum is 120% of salary Performance measures, weightings and stretching targets set annually Paid out in cash after end of the financial year, save that any payout above 100% of salary will be made in the form of share grant Subject to malus and clawback provisions	For the year ending 31 December 2023, the maximum opportunity remains 120% of salary for both the CEO and the CFO. The performance measures will be set across financial (70%) and personal and strategic measures (30%)	The 2022 annual bonus payout for the CEO and CFO was nil
Long-term incentives	Provides alignment with shareholders by ensuring a significant percentage of remuneration is delivered in shares and rewards long-term performance in line with IQE's strategy	Annual awards under IQE's LTIP: <ul style="list-style-type: none"> CEO 150% of salary CFO 150% of salary Maximum annual awards of up to 200% of salary in exceptional circumstances, such as recruitment 3-year performance period Performance measures, weightings and stretching targets reviewed annually Subject to malus and clawback provisions	The performance measures for the 3-year performance period ending 31 December 2024 will be absolute TSR (35%), revenue (40%) and adjusted EBITDA margin (25%) 25% of the award will vest at threshold, increasing on a straight-line basis to 100% for stretch. There is nil vesting below the threshold level	The LTIP awards granted to the previous CEO and the CFO in 2020 lapsed as the applicable performance conditions were not met
Shareholding requirement	Ensures alignment between the interests of Executive Directors and shareholders	Minimum shareholding requirements: <ul style="list-style-type: none"> CEO 200% of salary CFO 200% of salary New joiners given time to reach threshold and not expected to self-fund		CEO shareholding as at 31 December 2022 equal to approximately 84% of salary CFO shareholding as at 31 December 2022 equal to 0% of salary. Tim Pullen joined IQE at the start of 2019

Directors' remuneration policy

IQE aims to attract, retain and motivate high calibre executives in a highly competitive global industry, whilst recognising the need to be cost effective, and to incentivise significant industry out-performance. The Remuneration Committee established the current remuneration policy with the aim of balancing these factors, taking account of investor feedback and prevailing best practice. This Policy section of the Directors' Remuneration Report sets out the Policy for Executive Director remuneration which was adopted by the Company in 2020, and approved by shareholders at the AGM in June 2021 for the period up to 31 December 2022.

The Remuneration Committee has been reviewing the remuneration arrangements of the Executive Directors and members of the ELT, with a view to ensuring that the arrangements are competitive in the relevant marketplace for each senior role and incentivise and reward exceptional performance against IQE's strategy over the longer-term. In particular, this has focussed on changes to the long-term incentives for senior executives, which are key to IQE's ability to attract senior talent, for whom many of our principal competition is headquartered in the US. The Committee intends to discuss the conclusions of this review with the Company's major investors during 2023 to understand their views on potential changes to the arrangements for Executive Directors. Provided that shareholders are supportive of changes to the long-term incentives, they will be asked to approve a new Policy at a future general meeting, and no later than the 2024 AGM. However, in the event that the Committee decides not to make any changes to the remuneration of Executive Directors it is intended that the current Policy will continue to be operated until at least 31 December 2023 with changes to its implementation, principally aimed at simplifying the performance measures used. In particular, the Committee intends to reduce the number of metrics used in the 2023 LTIP grants from five in 2022 (EPS, Relative TSR, Absolute TSR, Revenue Growth and Strategic) to three in 2023 (Absolute TSR, Revenue and adjusted EBITDA margin). These measures have been selected as they provide a clear link to our plans for growth and a recovery in the share price

Function	Operation	Opportunity	Performance metrics
Base salary To recognise the individual's skills and experience and to provide a competitive total package	Base salaries are normally reviewed annually, with reference to market levels, individual contribution, the experience of each Executive and increases across the Group. Any adjustments normally become effective on 1 April.	In respect of existing Executive Directors, it is anticipated that salary increases will normally be no higher than those of salaried employees as a whole. In exceptional circumstances (including, but not limited to, a material increase in job size or complexity, material market misalignment) the Remuneration Committee has discretion to make appropriate adjustments to salary levels to ensure they remain appropriate.	n/a
Pension To provide an opportunity for Executives to build up income on retirement	All Executives are members of the Group pension scheme and/or receive a cash pension allowance. Salary is the only element of remuneration that is pensionable.	Executive Directors receive a pension contribution of 10% of salary or an equivalent cash allowance. This aligns with the pension arrangements for IQE's employees who can receive matching contributions from IQE of up to 10% of salary.	n/a

Directors' Remuneration Report continued

Function	Operation	Opportunity	Performance metrics
<p>Benefits To provide non-cash benefits which are competitive in the market in which the Executive is employed</p>	<p>Executives receive benefits which consist primarily of health cover, life assurance, long-term disability insurance and reimbursement for fuel, although may include other benefits that the Remuneration Committee deems appropriate in the circumstances.</p> <p>Relocation and expatriation related benefits may also be provided where appropriate.</p>	<p>Benefits may vary according to role and individual circumstances. Eligibility to benefits and the cost of benefits are reviewed periodically.</p> <p>The cost of benefits is dependent on market rates and is not capped.</p>	n/a
<p>Annual Bonus To incentivise and reward strong performance against financial and personal annual targets, thus delivering value to shareholders and being consistent with the delivery of the strategic plan</p>	<p>Performance measures, targets and weightings are set at the start of the year.</p> <p>The scheme is based on a combination of financial performance and personal objectives. At the end of the year, the Remuneration Committee determines the extent to which the financial performance targets and personal objectives have been achieved.</p> <p>Bonus payments are delivered in cash.</p> <p>Clawback (of any bonus paid) may be applied during employment or for two years post-termination in the event of gross misconduct, material financial misstatement, error in calculation of outcomes or in any other circumstance that the Remuneration Committee considers appropriate</p>	<p>For Executive Directors, the maximum annual bonus opportunity will be 120% of base salary.</p> <p>The bonus pays 0% at Threshold, 50% at Target and 100% at stretch, with straight-line vesting between these levels.</p>	<p>Performance is assessed on an annual basis against financial and personal/strategic objectives set at the start of each year.</p> <p>Financial measures will be weighted appropriately each year according to business priorities, and will represent no less than 70% of the annual plan.</p> <p>Personal/strategic objectives will have a weighting of no more than 30% of the maximum opportunity and will be set annually to capture expected individual contributions to IQE's strategic plan. The payout for the personal element will be reduced by 50% in the event the thresholds for two out of the three relevant financial measures are not met.</p> <p>The Remuneration Committee has discretion to adjust formulaic bonus outcomes to ensure fairness for shareholders and participants, to ensure pay aligns with underlying Company performance, and to avoid unintended outcomes. These adjustments can be either upwards (within plan limits) or downwards (including down to zero). The Remuneration Committee may consider measures outside of the bonus framework to ensure there is no reward for failure. Any adjustment would be carefully considered and fully explained in the Annual Report on Remuneration.</p> <p>Further details of the measures, weightings and targets applicable are provided on page 78 in the Annual Report on Remuneration.</p>

Function	Operation	Opportunity	Performance metrics
LTIP To provide alignment with shareholders and competitive rewards by delivering a significant proportion of remuneration in company shares and incentivise sustained long-term performance that supports the creation of shareholder value.	Under the long-term incentive plan (LTIP) annual awards of shares or nominal-cost options may be made to participants. Award levels and performance conditions are reviewed before each award cycle to ensure they remain appropriate. The Committee has the discretion to authorise a payment, in shares, equal to the value of dividends which would have accrued on vested shares during the vesting period. Malus (of any unvested LTIP) and clawback (of any vested LTIP) may be applied during employment or for two years post-termination in the event of gross misconduct, material financial misstatement, error in calculation of outcomes or in any other circumstance that the Remuneration Committee considers appropriate.	The LTIP provides for normal awards of up to 150% of salary. In exceptional circumstances, including but not limited to recruitment, normal awards may be made up to 200% of salary to secure the right individual. Up to 25% of the LTIP will be paid for achieving Threshold performance, increasing on a straight-line basis to full vesting for achieving Stretch performance.	Vesting of LTIP awards is subject to achieving performance conditions and continued employment. LTIP awards to Executive Directors have the same vesting period as those issued to IQE's other employees, normally being measured over three consecutive financial years. The Remuneration Committee has limited discretion to amend the performance conditions provided that the amended performance condition is not materially easier to satisfy than the original condition. The Remuneration Committee has discretion to adjust outcomes to ensure they fairly reflect underlying performance. The Remuneration Committee also considers environmental, social, governance and health and safety criteria, to ensure there is no reward for failure.

Notes to the policy table

Performance measure selection and approach to target setting:

The measures used under the annual bonus plan are selected annually to reflect IQE's main objectives for the year and reflect both financial performance and personal contributions to delivering the strategic plan. The performance conditions for new LTIP awards are selected to reflect IQE's long-term objectives which support the creation of shareholder value.

In terms of the performance conditions for the 2023 LTIP awards, the Remuneration Committee considers Revenue and adjusted EBITDA margin to be key measures of IQE's sustainable growth which are aligned with our longer-term strategy, while Total Shareholder Return ('TSR') is a measure which strongly aligns management and shareholder interests. Targets applying to the bonus and LTIP awards are reviewed annually, based on a number of internal and external reference points. Performance targets are intended to be stretching and achievable, and reflect IQE's strategic priorities and its market opportunities.

Remuneration policy for other employees

IQE provides all employees with a consistent package of benefits that includes private medical insurance, life assurance, long-term disability insurance and reimbursement for fuel.

All employees are eligible to participate in a discretionary annual bonus and receive awards under the LTIP. The same principles apply to the assessment of performance for determining the individual component of bonuses for all employees. For other employees, grants under the LTIP are subject to a pre-grant minimum personal performance condition and vest in annual tranches over three years subject to the employee remaining employed by the Group.

Directors' Remuneration Report continued

Shareholding guidelines

The Remuneration Committee wishes to encourage Executive Directors to build up a significant shareholding in the Company. Shareholding guidelines are therefore in place to require Executive Directors to acquire a shareholding (excluding shares held conditionally pursuant to LTIP performance) equivalent to 200% of base salary. 50% of any shares vesting (post-tax) under the new LTIP are required to be held until the relevant shareholding level is achieved. Executive Directors are expected to build up the required shareholding within five years of appointment to the Board, although the Remuneration Committee will exercise appropriate discretion where Executive Directors have been impeded from building up the requisite shareholding due to business performance. Details of the Executive Directors' current shareholdings are provided in the Annual Report on Remuneration at page 84.

Non-Executive Director remuneration

Non-Executive Director	Date of appointment letter	Remuneration per annum
Phil Smith*	19 December 2016	£125,000
Sir Derek Jones	29 November 2017	£50,000
Carol Chesney	13 May 2019	£50,000
Victoria Hull	1 August 2021	£50,000
Andrew Nelson	30 October 2021	£75,000

*Other fees received by Phil Smith in the year relating to an executive role are disclosed on page 80.

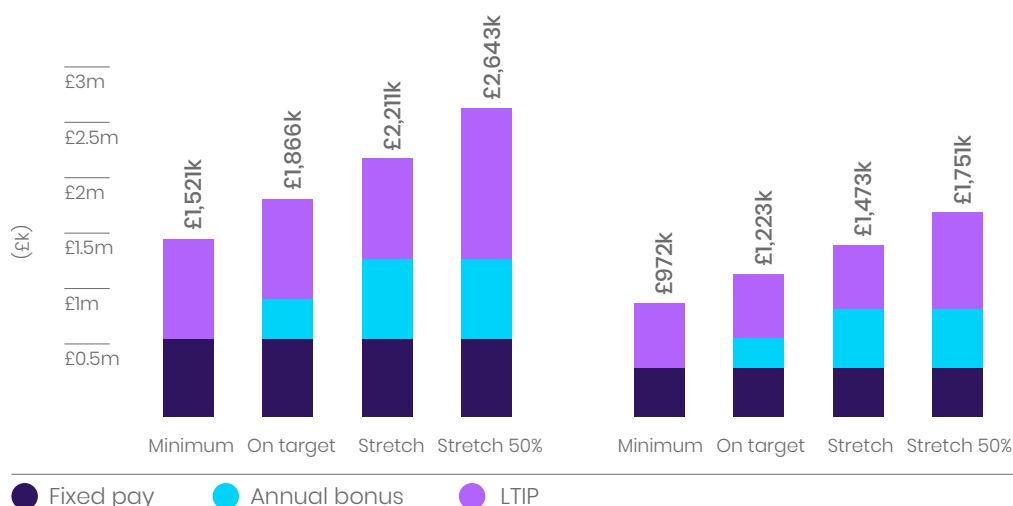
Subject to re-election by shareholders, Non-Executive Directors are appointed by the full Board and retire annually in accordance with the Company's Articles of Association. The remuneration of Non-Executive Directors is a matter reserved for the full Board, subject to an individual limit of £150,000 per annum or such other figure as shareholders may approve plus reasonable expenses in accordance with the Company's Articles of Association.

The Non-Executive Directors are not eligible to participate in IQE's performance related bonus plan, long-term incentive plans or pension arrangements. Copies of the Non-Executive Directors' appointment letters are available for inspection at the Company's registered office during normal business hours.

2023 Executive Director remuneration

Americo Lemos

Tim Pullen



* LTIP value calculated based on market value of the options at the date of grant less the nominal grant price.

The 'Minimum' scenario comprises fixed remuneration, i.e. base salary, pension, and benefits, which are the elements of the remuneration package not linked to performance. The figures for base salary and pension (10% of salary) are as of 1 January 2023, while those for taxable benefits are based on the latest single figure table for 2022. The 'On-Target' scenario reflects fixed remuneration as above, plus a target bonus payout of 50% of maximum and threshold vesting for the LTIP of 25% of maximum. The 'Stretch' scenario reflects fixed remuneration, plus full payout of the annual bonus (120% of salary) plus full vesting of the normal LTIP of 150% of salary. The 'Stretch + 50%' reflects the 'Stretch' scenario plus an assumed 50% share price appreciation over the LTIP performance period.

Approach to recruitment remuneration

External appointments

When hiring or appointing a new Executive Director from outside the Company, the Remuneration Committee may make use of all the existing components of remuneration, as follows:

Component	Approach
Base salary	The base salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and current basic salary. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases over multiple years subject to the individual's development in the role.
Pension	New appointees will receive pension contributions or an equivalent cash supplement in line with existing policy.
Benefits	New appointees will be eligible to receive benefits which may include those outlined in the policy table but may also include additional benefits consistent with market practice in their home location (if based outside of the UK).
Annual Bonus	The structure described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year. Targets for the personal element will be tailored to each executive.
LTIP	New appointees will be granted awards under the LTIP on the same terms as other executives, as described in the policy table.

In determining the appropriate remuneration for a new Executive Director appointee, the Remuneration Committee will take into consideration all relevant factors (including nature and quantum of each component of remuneration and the jurisdiction from which the candidate was recruited) to ensure that arrangements are in the best interests of IQE and its shareholders. The Remuneration Committee may make an award in respect of a new appointment to 'buy out' remuneration arrangements forfeited on leaving a previous employer. This may be granted in addition to the ongoing remuneration elements outlined in the table above. In doing so, the Remuneration Committee will consider relevant factors, including the value and form of the award, time to vesting, performance conditions attached to awards, and the likelihood of these conditions being met. Any 'buy-out' awards will typically be made under the existing annual bonus and LTIP schemes, although in exceptional circumstances the Remuneration Committee may make awards using a different structure. Any 'buy - out' awards would have a fair value no higher than the awards forfeited. The Remuneration Committee will take advice from independent remuneration consultants on the structure and award package for a new Executive Director.

Internal appointments

Internal promotions to the Board will be appointed on terms in line with the Policy. Any existing entitlement made prior to their appointment to the Board, which are not consistent with the Policy may be allowed to continue on their original terms.

Non-Executive Directors

In recruiting a new Non-Executive Director, the Remuneration Committee will utilise the policy as set out on pages 73-78.

Service contracts and treatment for leavers and change of control

Executive	Date of service contract
Mr Americo Lemos	10 January 2022
Mr Tim Pullen	4 February 2019

Directors' Remuneration Report continued

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Remuneration Committee. Each of the Executive Directors has a rolling service contract requiring six months' notice of termination on either side. Such contracts contain no specific provision for compensation for loss of office, other than an obligation to pay for any notice period waived by the Company, where pay refers to salary, benefits and pension only. Executive Directors' service contracts are available to view at the Company's registered office.

When considering exit payments, the Remuneration Committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants. The table below summarises how the awards under the annual bonus and LTIP are typically treated in different circumstances, with the final treatment remaining subject to the Remuneration Committee's discretion:

Reason for leaving	Calculation of vesting/payment
Annual bonus	
Resignation	No annual bonus payable.
'Good leaver' ¹	Cash bonuses will typically be paid to the extent that performance objectives have been met. Any resulting bonus will typically be pro-rated for time worked. The Remuneration Committee retains discretion to vary this treatment in individual circumstances.
Change of control	
Resignation	Outstanding awards lapse
LTIP	
'Good leaver' ¹ and change of control	<p>The Committee determines whether and to what extent outstanding awards vest based on the extent to which performance conditions have been achieved and the proportion of the vesting period worked. The Remuneration Committee retains discretion to vary this treatment in individual circumstances.</p> <p>The determination of vesting will be made as soon as reasonably practical following the end of the performance period or such earlier date as the Remuneration Committee may agree (within 12 months in the event of death).</p> <p>In the event of a change of control, awards may alternatively be exchanged for new equivalent awards in the acquirer where appropriate.</p>

1. A 'good leaver' is a participant ceasing to be employed by the Group by reason of death, disability, ill health, retirement in agreement with the Company or any other reason that the Committee determines in its absolute discretion.

External appointments

With the approval of the Board in each case, and subject to the overriding requirements of the Group, Executive Directors may accept external appointments as Non-Executive Directors of other companies and retain any fees received. None of the Executive Directors received any remuneration from external directorships during the year.

Consideration of conditions elsewhere in the Company

When making decisions on changes to Executive Director remuneration, the Remuneration Committee considers changes to pay and conditions across the Group. To this end, the Remuneration Committee receives a summary of the proposed level of average increase for employees prior to the annual salary review. For Executive Directors, the Remuneration Committee does not formally consult with employees on the executive remuneration policy and implementation.

Consideration of shareholder views

The Remuneration Committee maintains a regular dialogue with the Company's major shareholders. Following the 2019 AGM, IQE management consulted with shareholders regarding the concerns raised regarding the adoption of the new all-employee LTIP plan. IQE has made the necessary changes to the administration of the LTIP to align leaver provisions for all employees to those set out for the Executive Directors. 'Good Leavers' will receive a pro-rated reduction to vesting based on performance and the portion of the vesting period expired up to the time of the termination of employment. The Committee maintains a view of the commitments to issue shares under the LTIP as a percentage of the issued share capital in any rolling 10-year period, acknowledging the Investment Association principles recommending a 10% limit and the report from the Institutional Shareholder Service in connection with the adoption of the LTIP in 2019. The LTIP currently allows for a maximum dilutive effect of 15%. The dilutive effect of commitments issued under the LTIP has declined year on year and current and anticipated levels of dilution over the next few years are expected to be below 10%. Nevertheless, as the Company grows, the Remuneration Committee wishes to maintain flexibility for dilution to exceed 10% subject to an overriding objective of achieving an average dilution of 10% or below over the long-term.

Annual Report on Remuneration

Role of the Committee

The Remuneration Committee has responsibility for determining the policy for Executive Director remuneration and setting remuneration for the Company Chair and Executive Directors.

Key responsibilities

- recommending the remuneration policy for Executive Directors, whilst considering the remuneration for the Executive Leadership Team and remuneration policies for employees below the Board
- approving the principles of IQE's long-term incentives and the parameters, including performance conditions, for the annual awards under long-term incentives
- maintaining appropriate dialogue with shareholders on remuneration matters
- preparing the annual remuneration report to shareholders to show how the remuneration policy has been implemented.

Membership

- Victoria Hull – Chair
- Phil Smith
- Derek Jones
- Carol Chesney

Meetings and attendance

The Remuneration Committee met twice in 2022. All members attended each meeting. The Chief Executive Officer and Chief Financial Officer attended meetings to present proposed performance ratings for the Executive Directors and Executive Management Board and remuneration policy's principles for the workforce. The Chief Executive Officer and Chief Financial Officer did not attend those parts of the Committee meetings relating to the Committee's decisions on their own performance and remuneration.

Remuneration Committee role, membership and advice

The primary role of the Remuneration Committee is to determine and agree with the Board fair and reasonable remuneration arrangements for the Chairman and Executive Directors.

The main activities of the Remuneration Committee during the year were as follows:

- evaluated the performance of the Chief Executive Officer and Chief Financial Officer;
- determined annual bonuses payable to Executive Directors and the Executive Leadership Team in 2022;
- determined basis of salary increases for IQE's employees, including the Executive Directors and the Executive Leadership Team;
- evaluated the proposed awards under the Company's LTIP;
- reviewed and approved performance conditions for LTIP awards;
- reviewed and approved the Executive Directors' salaries for 2023;
- determined performance targets for the Executive Directors' 2023 annual bonus and LTIP awards in line with IQE's strategic plan;
- evaluated revisions to IQE's LTIP and cash bonus schemes for employees;
- considered proposed workforce policies on performance rating and proposed policy for workforce pay increases;
- drafted the Directors' Remuneration Report; and
- considered benchmarking and advice from independent remuneration consultants, Mercer.

The Remuneration Committee's Terms of Reference are set out on the Company's website at www.iqep.com.

During the year, the Remuneration Committee comprised all of the Non-Executive Directors.

Mercer provides independent advice to the Remuneration Committee. Mercer is a signatory to the Code of Conduct for Remuneration Consultants in the UK, operated by the Remuneration Consultants Group, and which requires all advice to be objective and independent (see www.remunerationconsultantsgroup.com for more information).

Directors' Remuneration Report continued

Fees of £65,126 inclusive of VAT were paid to Mercer in respect of services it provided to the Company in 2022. The Committee considers that Mercer is independent, does not have any connections with IQE that may impair their independence, and does not provide any services to the Group other than its advice on remuneration.

Board changes

Americo Lemos was appointed as CEO on 10 January 2022. His salary is £575,000, and he receives benefits and pension in line with the remuneration policy. In 2022 he was eligible for an annual bonus of up to 120% of salary, subject to the normal performance targets, and he received an exceptional award under the LTIP of 200% of salary in 2022, again subject to the normal performance targets. It is anticipated that from 2023, Americo's LTIP award will be 150% of salary. As part of the terms of his recruitment, Americo Lemos was granted a buyout award in respect of remuneration foregone at his previous employer. This comprised £800,000 in cash payable over the first 12 months of his appointment and an award of 583,709 shares, worth £200,000 at the time of grant. The buyout award was not subject to any performance conditions, though malus and clawback provisions apply.

Single total figure of remuneration for Executive Directors (audited information)

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 December 2022 and the prior year:

	Mr Americo Lemos		Mr Tim Pullen		Mr Phil Smith ⁷		Dr Andrew Nelson ⁸		Total	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Salary ¹	564	–	370	368	6	97	–	450	939	915
Benefits ²	27	–	11	11	–	–	–	7	37	18
Pension ³	56	–	37	37	–	–	–	50	90	87
Buy out – cash ⁴	400	–	–	25	–	–	–	–	400	25
Buy out – shares ⁵	200	–	–	–	–	–	–	–	200	–
Total fixed	1,247	–	418	441	6	97	–	507	1,666	1,045
Annual bonus	–	–	–	–	–	–	–	–	–	–
Long term incentive ⁶	–	–	–	–	–	–	–	–	–	–
Total variable	–	–	–	–	–	–	–	–	–	–
Total Executive Remuneration	1,247	–	418	441	6	97	–	507	1,666	1,045
Non-executive fees	–	–	–	–	125	125	75	13	200	138
Total Director Remuneration	1,247	–	418	441	131	222	75	520	1,866	1,183

- Americo Lemos' annual salary is £575,000. The 2022 remuneration figure reflects his start date of 10 January 2022
- Benefits consist of health cover, private medical insurance, life assurance, long term disability insurance, car allowance and travel allowance.
- Executive Directors are entitled to participate in a defined contribution scheme, in relation to which the Company contributes 10% of salary or equivalent cash allowance.
- Cash award of £800,000 agreed as part of Americo Lemos' recruitment arrangements. £200,000 was paid on 28 February 2022 and £200,000 was paid on 31 July 2022. The final £400,000 was paid on 31 January 2023. The cash award is subject to 3 year clawback provisions.
- Equity award of 583,709 shares with a fair value at grant of £200,000 as part of Americo Lemos' recruitment arrangements. The shares were issued on 10 January 2022. The share award is subject to 3 year clawback provisions.
- No long-term incentives vested.
- Mr Phil Smith took on an executive role for the period 7 September 2021 to 9 January 2022 to support the CEO transition from Dr Andrew Nelson to Americo Lemos. Executive fees in the table above reflect the additional time commitment associated with the executive role performed by Phil Smith in the period 7 September to 9 January 2022. Non-executive fees in 2022 relate to Mr Phil Smith's role as Non-Executive Chairman following the appointment of Mr Americo Lemos as the Group's Chief Executive Officer on 10 January 2022.
- Dr Andrew Nelson was entitled to payments in lieu of notice totalling £275,000 that were payable in six equal monthly instalments starting on 31 October 2021.

Incentive outcomes for year ending 31 December 2022

Annual bonus

The annual bonus for 2022 was determined by a combination of cash, revenue and profit targets and non-financial personal/strategic targets. The Committee set stretching performance targets for 2022 which were linked to the strategy and financial performance of the Group. Financial performance for 2022 was below threshold resulting in no payment in respect of the financial element for the Chief Executive Officer or the Chief Financial Officer. Whilst a number of the non-financial goals had been met, the Committee felt that it would not be appropriate to pay bonuses to Executive Directors in the current circumstances and exercised its discretion to reduce the bonus payout to nil.

The Committee is satisfied the policy has operated as intended and has concluded that there are no circumstances arising where it would need to exercise discretion to adjust any of the variable pay outcomes.

Long-term incentive plan

1,097,247 LTIP options awarded to Tim Pullen in 2020 have not satisfied the applicable performance criteria and have lapsed.

Percentage change in CEO remuneration

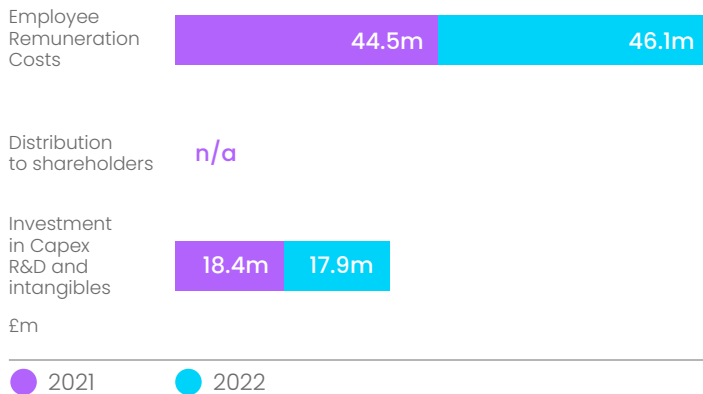
The table below shows the percentage change in CEO remuneration from the prior year compared to the average percentage change in remuneration for other employees. The CEO's annual remuneration includes base salary, taxable benefits and annual bonus. The percentage change in annual remuneration for other employees is calculated using the increase in the earnings of all employees who were employed in the UK throughout 2021 and 2022. The Committee considers the UK employee population to be the most appropriate comparison for CEO vs. other employee pay, as all Executive Directors are currently employed in the UK, our UK employee population includes employees at all levels of the organisation, and pay inflation in our other geographies is affected by different local market factors.

	Americo Lemos		All UK Employees	
	2022' £'000	2021 £'000	Increase %	Increase %
Salary	564	N/A	N/A	5.7
Benefits	79	N/A	N/A	-2.4
Annual bonus	0	N/A	N/A	N/A
Total	643			

1. Americo Lemos was appointed as the Group's Chief Executive Officer on 10 January 2022.

Relative importance of spend on pay

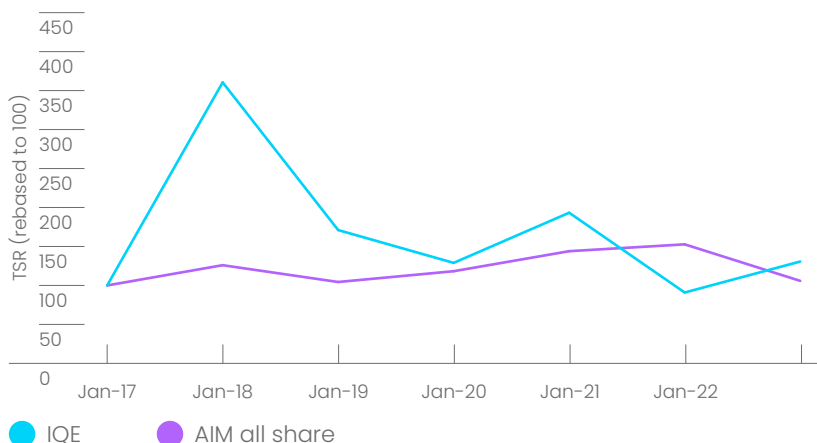
The graph below shows shareholder distributions (i.e. dividends and share buybacks), total employee pay expenditure and investment in capital expenditure, research & development and intangibles for the financial years ended 31 December 2021 and 31 December 2022.



Review of past performance

The following graph charts the Total Share Return ('TSR') of the Company and the FTSE AIM Index (of which IQE is a member) over the period from 1 January 2017 to 31 December 2022. The table below details the Chief Executive's single figure remuneration over the same period.

Historical TSR performance



Directors' Remuneration Report continued

Historical CEO remuneration

	2022	2021	2020	2019	2018
CEO single figure of remuneration (£'000)	643	507	1,110	599	3,683
STI award as a % of maximum opportunity	0%	0%	79%	0%	20%
LTI award as a % of maximum opportunity	0%	0%	0%	0%	62%

Scheme interests awarded in 2022 (audited information)

Executive Director	Award type	Date of award	# shares awarded	Face value	End of performance period
Americo Lemos	Nil-cost option	25 February 2022	3,065,591	1,119,344	1 January 2022 to 31 December 2024
Tim Pullen	Nil-cost option	25 February 2022	1,478,306	539,776	1 January 2022 to 31 December 2024

The face value of shares was based on the average share price over the three days prior to the date of grant of the award of 37.51p at 25 February 2022, less the 1p nominal value exercise price.

Performance measure	Weighting (% of award)	Threshold (25% vesting)	Stretch (100% vesting)
EPS (IQE plc's fully diluted adjusted Earnings per Share achieved for the year ended 31 December 2024)	40%	0.6	1
Relative TSR vs. FTSE All-Share Index	15%	TSR equal to index	TSR equal to index +30% over the period
Absolute TSR	15%	8% p.a.	16% p.a.
Revenue growth	10%	10% p.a.	20% p.a.
Strategic scorecard	20%	Targets are deemed commercially sensitive and will be disclosed at vesting	

40% of the award will vest on EPS performance, 15% on relative TSR performance vs. the FTSE All-Share Index, 15% on absolute TSR performance, 10% on revenue growth, and 20% on strategic objectives. The performance targets for the financial and TSR measures are set out below:

Exit payments made in the year

None.

Payments to past Directors

Payments made to past Directors totalled £48,125 (2021: £82,500) reflecting employee services received from Dr Howard Williams following his retirement from the Board in 2019.

Single total figure of remuneration for Non-Executive Directors (audited information)

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 December 2022 and the prior year:

	NED fees		Other		Total	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Phil Smith ¹	125	125	6	97	131	222
Carol Chesney	50	50	0	0	50	50
Sir Derek Jones	50	50	0	0	50	50
Andrew Nelson ²	75	13	0	507	75	520
Victoria Hull ³	50	50	0	0	50	50
Sir David Grant ⁴	0	50	0	0	0	50

- Phil Smith took on an executive role for the period 7 September 2021 to 9 January 2022 to support the CEO transition from Dr Andrew Nelson to Americo Lemos. Other fees in the table above reflect the additional time commitment associated with the executive role performed by Phil Smith in the period 7 September to 9 January 2022.
- Dr Andrew Nelson was appointed to the Board as an independent non-executive director on 31 October 2021 following the completion of his transition from Chief Executive Officer. The NED fees shown in the table above relate to his non-executive role from 1 November 2021 onwards and Other relates to his Chief Executive Officer remuneration in the period up to 31 October 2021. Dr Andrew Nelson has also provided the Group with consultancy services in the period 1 January 2022 to 31 December 2022 and was paid an aggregate amount of £72,000.
- Victoria Hull was appointed to the Board as an independent non-executive director on 1 August 2021.
- Sir David Grant retired from the Board as an independent non-executive director on 18 September 2021

Implementation of remuneration policy for 2023

Base salary

The salaries of the Executive Directors, which have not been increased for 2023, are as follows:

Executive Director	Annual base salary at 1 January 2022	Annual base salary at 1 January 2023	Percentage increase
Andrew Nelson	N/A	N/A	N/A
Americo Lemos ¹	575,000	575,000	N/A
Tim Pullen	369,706	369,706	Nil

1. Americo Lemos was appointed as the Group's CEO on 10 January 2022.

Pension

Executive Directors are entitled to a pension contribution of 10% of salary or equivalent cash allowance. The typical employee pension contribution is up to 10% of salary.

Annual bonus

For 2023, the Executive Directors will have the opportunity to receive a cash bonus to be paid after the announcement of full year results for 2023, based on a mix of financial measures (70% weighting) for the 2023 financial year and agreed personal and strategic objectives (30% weighting): adjusted EBITDA (weighted 35% of the maximum opportunity), revenue (35%), and personal and strategic objectives (30%).

Each measure has a threshold, on-target, and stretch target approved by the Board of Directors in at the time of budget approval. Threshold and on-target performance will result in a bonus payment of 0% and 50% of the maximum opportunity, respectively.

There will be no bonus for the financial element of the bonus if threshold adjusted EBITDA is not satisfied. In the event of zero payout for financial performance, the maximum payout for personal and strategic measures will be restricted to 50% of the maximum bonus amount for that element.

LTIP (audited information)

For 2023, the CEO and CFO will receive awards of 150% of salary, in line with the policy. The Committee has sought to simplify the measures used by focusing solely on financial and share price growth measures. The performance metrics and targets are as follows:

Performance measure	Weighting (% of award)	Threshold (25% vesting)	Stretch (100% vesting)
Absolute TSR (share price plus the value of reinvested dividends, if any)	35%	45p	60p
Revenue	40%	£206m £34.5m (16.7% margin vs revenue threshold)	£228.9m £43.1m (18.8% margin vs revenue stretch)
Adjusted EBITDA margin	25%		

No award will vest below Threshold performance, and vesting will increase on a straight-line basis between Threshold and Stretch.

Directors' Remuneration Report continued

Directors' interests

A table setting out the beneficial interests of the Directors and their families in the share capital of the Company as at 31 December 2022 is set out below.

Since 1 January 2022 there have been the following changes in Directors' interests in shares:

2022	Shares owned as at 1 Jan 2022	Shares owned as at 1 Jan 2023	Shareholding requirement % salary/fee	Current shareholding % salary/fee
Americo Lemos	–	970,457	200%	84%
Tim Pullen	–	–	200%	0%
Phil Smith	40,000	40,000	N/A	N/A
Carol Chesney	40,000	40,000	N/A	N/A
Dr Andrew Nelson	36,190,417	40,567,234	N/A	N/A
Sir Derek Jones	–	–	N/A	N/A
Victoria Hull	–	231,192	N/A	N/A

Executive Directors are expected to build up a shareholding of 200% of salary within five years of appointment to the Board.

As first announced on 6 August 2019, Andrew Nelson has entered into a sale and repurchase agreement with Equities First Holdings pursuant to which 12,121,711 Ordinary Shares are held subject to the Agreement. Andrew Nelson, including persons closely associated with him, maintains a beneficial interest in 40,567,234 Ordinary Shares, representing approximately 5.04% of the Company's issued share capital.

As part of the Group's share placing which was announced on 17 May 2023, the following Directors purchased ordinary shares of 1p each in the Company as set out below:

Names	Position	No. Ordinary shares acquired	Resultant share holding*
Americo Lemos	Chief Executive Officer	7,500,000	8,470,457
Dr Andrew W Nelson	President and Non-Executive Director	5,000,000	45,567,234
Phil Smith	Chairman	100,000	140,000
Carol Chesney	Non-Executive Director	50,000	90,000
Victoria Hull	Non-Executive Director	50,000	281,192

* As at admission of the 150,000,000 new Ordinary Shares issued as a result of the placing, expected to take place on or around 22 May 2023.

Directors outstanding share awards

2022	Unvested and subject to continued performance	Unvested and subject to continued employment	Vested but unexercised	Vested during year	Lapsed during year	Exercised during year
Americo Lemos	3,065,591	–	–	–	–	–
Tim Pullen	3,328,789	–	–	–	1,097,247	–
2021						
Dr Andrew Nelson	2,899,470	–	–	–	966,246	–
Tim Pullen	1,850,483	–	–	–	699,814	–

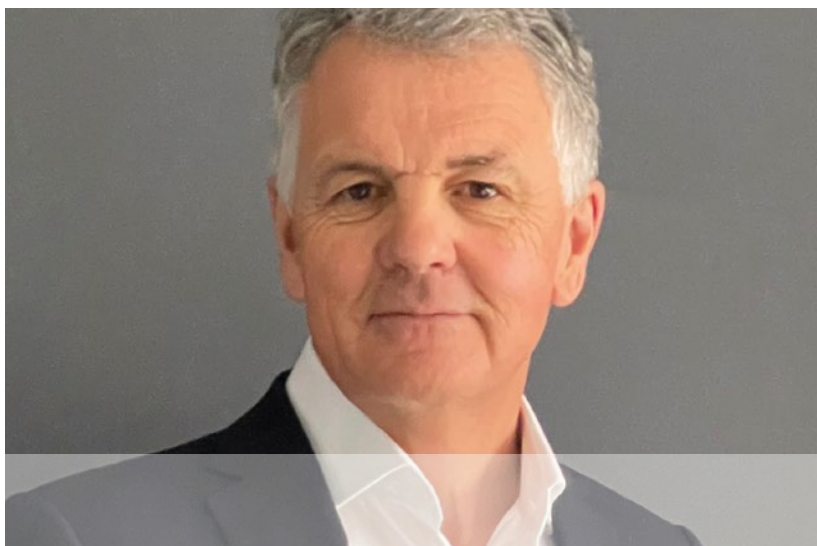
1,097,247 LTIP options awarded to Mr Tim Pullen in 2020 were due to vest on 31 December 2022. The performance criteria for these awards were not met and these options have lapsed in 2023.

Summary of shareholder voting at the 2022 AGM

Results of the vote on the Remuneration Report at the IQE's AGM on 28 June 2022 are as below:

	Total number of votes	% of votes cast
For (including discretionary)	433,500,728	99
Against	4,376,693	1
Total votes cast (excluding withheld votes)	437,877,421	
Votes withheld	52,913	
Total votes cast (including withheld votes)	437,930,334	

ESG Committee Chair's introduction



"We are committed to all aspects of our ESG strategy and I am delighted we have an engaged and enthusiastic Committee that are not only helping to shape IQE's approach to ESG, but want to establish IQE as a leader in this area. IQE has the opportunity not only to be compliant but through its technology, which is vital for the path to Net Zero, to establish a true leadership position. We are at the beginning of our journey but are keen to show progress and make ESG a part of everything we do."

Phil Smith
Committee Chair

The Environmental, Social and Governance (ESG) Committee was established on 24 January 2022 to enhance the Board's oversight of ESG matters. The ESG Committee is responsible for developing and monitoring the execution of IQE's sustainability strategy and the communication of IQE's activities with our stakeholders.

The ESG Committee is also responsible for monitoring the Board's engagement with IQE's people, with Derek Jones acting as the Board's workforce representative.

The ESG Committee is working with the Executive Leadership Team and colleagues within IQE to develop IQE's sustainability strategy. In 2023, the Committee will be

focused in driving momentum and providing guidance in the development of the sustainability strategy and its alignment with IQE's broader strategic objectives.

We look forward to communicating progress with our stakeholders through 2023, and working towards our first sustainability report.

Phil Smith
Committee Chair

23 May 2023

Role of the Committee

The ESG Committee is responsible for developing and monitoring the execution of IQE's ESG strategy and the communication of that strategy to IQE's stakeholders.

Key responsibilities

- ensure that IQE has a fit-for-purpose ESG strategy and drive momentum behind the development and implementation of that strategy
- be responsible for communicating IQE's position on Environmental, Social and Governance issues
- ensure that the strategy meets IQE's short and long-term business objectives
- review the effectiveness of the strategy and the governance for its successful delivery
- approve ESG reporting and specifically any reporting and data included in IQE's Annual Report
- report to the Board about the Committee's work and progress against the strategy

Membership

- Phil Smith – Chair
- Drew Nelson
- Derek Jones (responsible for workforce engagement)

Meetings and attendance

The ESG Committee meets at least twice a year.

Directors' Report

The Directors present their Annual Report and the Financial Statements for IQE plc (the "Company") for the year ended 31 December 2022.

Principal Activities and Future Development

The Company is the ultimate holding company of a group of subsidiary undertakings (the "Group") engaged in the research, design, development, manufacture and sale of compound semiconductor materials. An overview of our principal activities and an indication of likely future developments in the Group is given in the Strategic Report.

Strategic Report

The Strategic Report is set out on pages 2-57 of the Annual Report.

Directors & Directors' Interests

Biographies of all of the Company's Directors at the date of this Annual Report, including Non-Executive Directors, appear on pages 58-59 of the Annual Report. Americo Lemos was appointed as the Group's new Chief Executive Officer and a director on 10 January 2022.

The beneficial interests of the Directors in the Company's share capital is shown on page 84 of the Remuneration Report. The beneficial interests of Americo Lemos, CEO, and Tim Pullen, CFO, have changed during the year as they participate in the Company's LTIP.

No Director was beneficially interested in the shares of any subsidiary company at any time during the year.

In the year to 31 December 2022, no Director had a material interest in any contract of significance with the Company or any of its subsidiaries.

Insurance and Indemnities

The Group maintains insurance to cover its Directors and officers against their costs in defending themselves in legal proceedings taken against them in that capacity and in respect of damages resulting from the unsuccessful defence of any proceedings. In addition, to the extent permitted by UK law, the Group indemnifies its Directors and officers for liabilities arising from such proceedings. Neither the insurance nor the indemnity provides cover for situations where the Director has acted fraudulently or dishonestly.

Risk Management and Principal Risks

A description of risk management and the principal risks facing the business are set out on pages 50-55 of the Annual Report.

Relationship with Suppliers and Customers

Our relationships with our customers are explained throughout the Annual Report, particularly on page 36. Our relationships with our suppliers are specifically covered on page 38 of the Annual Report.

The Group seeks to agree favourable credit terms with its suppliers where possible. Payment is made in accordance with the agreed terms.

Auditor and Disclosure of Information to the Auditor

The Company's auditor throughout the period of this Annual Report was KPMG LLP, who were appointed in December 2017.

As at the date of the approval of this Annual Report, as far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all such steps as he or she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Share Capital

The Company's share capital is made up of one class of ordinary shares of 1p each which each carry one vote at general meetings of the Company. Except as set out in the Articles of Association or in applicable legislation, there are no restrictions on the transfer of shares in the Company and there are no restrictions on the voting rights in the Company's shares. The full rights and obligations attaching to the Company's ordinary shares, as well as the powers of the Directors, are set out in the Company's Articles of Association, a copy of which is available on the Company's website. These can also be obtained from Companies House or by writing to the General Counsel and Company Secretary.

The Company is not aware of any agreements entered into between any shareholders in the Company which restrict the transfer of shares or the exercise of any voting rights attached to the shares.

The Company has not acquired any of its own shares during 2022 (2021: nil).

Substantial shareholdings

As at 31 March 2023, the following are beneficial interests of 3% or more (where the holding is direct) or of 5% or more (where the holding is indirect) which have been notified to the Directors of the Company.

Shareholder	Shares	Issued Capital %
Invesco	142,305,599	17.67
Lombard Odier Investment Managers	86,348,402	10.72
T Rowe Price Global Investments	79,176,738	9.83
Canaccord Genuity Wealth Management	71,366,260	8.86
Hargreaves Lansdown	56,341,085	7.00
Interactive Investor	43,185,510	5.36
Dr Andrew W Nelson	40,567,234	5.04

Source: Equiniti Investor Analytics

Going Concern

The Group has reported an operating loss of £72,967,000 for the year (2021: £19,978,000 loss), which includes a non-cash impairment charge of £62,716,000 related to the write-down of goodwill which has arisen from a change in forecasts related to the current semiconductor industry downturn. The Group increased its net debt position (excluding lease liabilities and fair value gains/losses on derivative instruments) to £15,248,000 (2021: £5,804,000) and at 31 December 2022 the Group had undrawn committed funding of £12,400,000 (\$15,000,000) available under the terms of its credit facilities.

The directors have prepared the financial statements on a going concern basis following a number of steps that have been taken post year end to strengthen the balance sheet of the business, including the renewal of the Group's £28,688,000 (\$35,000,000) multi-currency revolving credit facility provided by HSBC Bank plc and the successful £31,098,546 equity fundraise announced in Q2FY23. The Group's 'base case' and 'severe but plausible downside' cash flow forecasts and projections, in conjunction with the level of assessed covenant headroom on the Group's committed bank facilities illustrate that the Group and the Company have adequate cash resources to continue operating and to meet its liabilities as they fall due for a period up to and including 31 December 2024, such that the directors consider it appropriate to adopt the going concern basis of accounting in

preparing the financial statements. Details of the going concern assumption and basis of accounting is set out in note 2.2 to the financial statements.

Dividends

The Directors do not recommend the payment of a dividend (2021: £nil).

Research and Development

The Group continues to devote significant resources to the research and development and the updating and expansion of its range of products in order to remain at the forefront of its world markets. Further information on the expenditure on research and development is contained in Note 6 of the Financial Statements. The amount of research and development expenditure capitalised, and the amount amortised, in the year, are given in Note 6 of the Financial Statements.

Employment Policies

A review of the Group's employment policies is provided on pages 40-42 of the Annual Report.

Political Donations

The Group has a policy of not making political donations and no political donations were made during the year (2021: nil).

Climate Change, Greenhouse Gas and Energy Emissions

The Group recognises Climate Change is a key challenge for the world and is working to minimise its environmental impact through a rigorous environmental management system, in order to minimise greenhouse gas (GHG)

and energy emissions. We recognise that as a technology leader, IQE is in a unique position to be able to improve energy efficiency through our products.

Our approach to environmental protection is underpinned by our Environmental Policy and Environmental Management System, which ensures all our sites operate in compliance with ISO 14001 requirements. We target minimisation of GHG and energy emissions, as well as focusing on waste, water and recycling initiatives.

Details of our GHG and energy emissions figures, as well as the measures we are undertaking to promote energy efficiency, including incorporating energy saving features into facility design, can be found on pages 48-49.

In January 2022 the Group formed an Environment, Social and Governance Committee in recognition of the importance of ESG to IQE's stakeholders and the wider environment. The Committee is chaired by me and is responsible for ensuring that the Group has a fit-for-purpose ESG strategy and for supporting management with building momentum behind that strategy. We look forward to bringing further updates on ESG matters through 2023.



Phil Smith
Chairman, IQE plc

23 May 2023

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and they have elected to prepare the parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;

- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they intend either to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors have decided to prepare voluntarily a Directors' Remuneration Report in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements applied to the company. The directors have also decided to prepare voluntarily a Corporate

Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We consider the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Approved by the Board and signed on its behalf by:



Phil Smith
Chairman, IQE plc.

23 May 2023



Independent auditor's report

to the members of IQE plc

1. Our opinion is unmodified

We have audited the financial statements of IQE plc ("the Company") for the year ended 31 December 2022 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cashflow statement, parent company balance sheet, parent company statement of changes in equity, parent company cash flow statement and the related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed other entities of public interest. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview		
Materiality:	£1.4m (2021: £1.2m)	
group financial statements as a whole	0.8% (2021: 0.8%) of revenue	
Coverage	88% (2021:88%) of group revenue	
Key audit matters vs 2021		
Recurring risks	Goodwill impairment	▲
	Revenue recognition	▲
	Carrying amount of development intangibles	◀▶
Parent Company only	Recoverability of parent company's investments in subsidiaries and group debtor balances	◀▶
Event driven risk	Going concern	▲

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the other key audit matters, in decreasing order of audit significance, were as follows:

	The risk	Our response
<p>Goodwill impairment</p> <p>(£8.0 million; 2021: £64.3 million)</p> <p>Impairment charge: £62.7 million; 2021: £0m)</p> <p><i>Refer to note 2.5 and 2.8 (accounting policy), note 3.1 (accounting estimate) and note 13 (financial disclosures).</i></p>	<p>Forecast based assessment</p> <p>Goodwill is significant and is at increased risk of irrecoverability due to weak demand in end user markets expected during the remainder of 2023.</p> <p>The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill in respect of the Wireless and Photonics CGU's has a high degree of uncertainty with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 13) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Benchmarking assumptions: Comparing the Group's assumptions, in particular those relating to forecast revenue growth and inflation to externally derived data, such as independent market reports and customer communications where available. — Valuation expertise: We derived a reasonable range of appropriate discount rates independently, with the support of our valuation specialists and compared these with those calculated by the Group. — Sensitivity analysis: We performed reasonably foreseeable scenario sensitivity analysis on the discount rate and growth assumptions. — Comparing valuations: Comparing the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cashflows; and — Assessing transparency: Assessing whether the Group's disclosures about the sensitivity of the outcome of impairment assessment to changes in key assumptions reflected the risks inherent in the recoverable amount of goodwill. <p>We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p>

	The risk	Our response
<p>Going concern</p> <p><i>See Note 2.2 (accounting policy and financial disclosures)</i></p>	<p>Disclosure Quality</p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model, and how those risks might affect the Group's and Company's financial resources or ability to continue operations for a period of at least 18 months from the date of approval of the financial statements.</p> <p>The risks most likely to adversely affect the Groups' and Company's available financial resources and metrics relevant to debt covenants over this period is a continuous deepening of the market softness experienced in the latter part of 2022 and first half of 2023.</p> <p>The risk to our audit was whether or not those risks were such that they amounted to a material uncertainty which may have cast doubt on the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p>	<p>We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the director's sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.</p> <p>Our procedures also included:</p> <ul style="list-style-type: none"> — Funding assessment: We obtained the agreement for the revolving credit facility that was refinanced subsequent to the year end. We recalculated covenant compliance and headroom based on management's forecasts and the severe but plausible downside scenario. — Funding assessment: We verified cash collected via the recent equity fund raise to the Group's bank account. — Assessing transparency: We considered whether the going concern disclosure in note 2.2 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and dependencies and related sensitivities. — Sensitivity analysis: <ul style="list-style-type: none"> • We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of plausible (but not unrealistic) adverse effects that could arise from these risks individually and collectively; • We challenged the assumptions in the base case as well as requesting the directors to apply more severe but plausible downside assumptions for some sensitivities. — Historical comparisons: We considered management's accuracy when preparing forecast data by performing a retrospective review of previous forecasts to actuals. — Benchmarking assumptions: <ul style="list-style-type: none"> • We benchmarked the key assumptions behind the cashflow forecasts to customer forecasts where available. We also benchmarked product trends with analyst expectations; • We compared the assumptions around market return to other externally available sources. — Evaluating Directors' intent: We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise, which include additional restructuring within the Group and reduction of Research and Development expenditure, taking into account the extent to which the Directors can control the timing and outcome.

3. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
<p>Revenue recognition</p> <p>(£167.5 million; 2021: £154.0 million)</p> <p><i>Refer to note 2.22 (accounting policy) and page 4.3 (financial disclosures).</i></p>	<p>Revenue recognised in the incorrect period</p> <p>There are pressures on achieving internal and external expectations of results, in particular Revenue and Adjusted EBITDA targets, which increases the risk of fraudulent revenue recognition, in particular the recognition of sales around the year-end date.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Test of detail: We agreed a sample of sales transactions around the year-end based on their financial significance, to purchase order and external delivery confirmation, to assess whether the performance obligation has been met and that revenue has not been over- or understated at the year end date. — Test of detail: We agreed a sample of post year-end credit notes, based upon their financial significance, to sales order and external delivery confirmation, to assess that revenue has not been overstated to date. <p>We performed the tests above rather than seeking to rely on any of the Group’s controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p>
<p>Carrying amount of development intangibles</p> <p>(£23.0 million; 2021: £27.9 million)</p> <p><i>Refer to page 2.5c, (accounting policy) and note 13 (financial disclosures).</i></p>	<p>Subjective assessment:</p> <p>There is inherent subjectivity in assessing whether development costs meet the technological and commercial feasibility criteria to be capitalised as development intangibles not yet available for use.</p> <p>The associated subjectivity gives rise to the incentive for manipulation, given the internal and external pressures to achieve financial measures such as Adjusted EBITDA.</p> <p>The impact of these matters is that we determine there is an increased risk in applying judgement to whether or not the criteria for capitalisation has been met for development costs in relation to development intangibles that are not yet available for use.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Challenging assumptions: We challenged the Group’s assessment of the future viability of development intangibles which are not yet available for use, considering their commercial viability with reference to external evidence including customer correspondence for specific projects and/or external market analysis reports in respect of the associated technologies. — Comparing valuations: Comparing the sum of the discounted cash flows to the Group’s market capitalisation to assess the reasonableness of those cashflows. — Personnel interviews: We held discussions with the Group’s Chief Technology Officer to corroborate our understanding of the future uses, opportunities and intention for the development of intangibles. — Assessing application: We have critically assessed the capitalisation criteria for costs incurred on development projects, examining relevant evidence such as employment agreements, external invoices and time spent of internal employees and considering the allocation of overhead costs — Assessing transparency: We have assessed whether the Group’s disclosures reflect the inherent risks in the valuation and existence of development intangibles not yet available for use. <p>We performed the tests above rather than seeking to rely on any of the Group’s controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p>

3. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
<p>Parent company: Recoverability of parent company's investments in subsidiaries and group debtor balances</p> <p>(Investments: £76.2 million; 2021: £76.1million, Receivables: £135.5 million; 2021: £132.7million)</p> <p><i>Refer to notes 2.10 and 2.29 (Accounting policy) and notes 16 and 18 (financial disclosures).</i></p>	<p>Forecast based assessment</p> <p>The carrying amount of the parent company's investments in subsidiaries and receivables from its subsidiaries represents 96% (2021: 95%) of the company's total assets.</p> <p>The recoverable amount of these assets is subjective due to the inherent uncertainty involved in forecasting and discounting future cashflows however, this is not considered to be at a high risk of significant misstatement of subject to high levels of judgement. Due to their size in the context of the parent company financial statements, this is considered to be the area which has the greatest impact on our overall parent company audit.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Test of detail: We compared the carrying amount of 100% of the investments and receivables with the associated subsidiaries' balance sheet to identify whether their net assets exceeded the carrying amount, as this is the most appropriate approximation of their minimum recoverable amount. We also assessed whether those subsidiaries have historically been profitable; — Assessing subsidiary audit: We assessed the work performed by the component auditor of the relevant subsidiary and considered the results of that work on the subsidiary's profit and net assets; — Comparing valuations: For the investments and receivables where the carrying amount exceeded the net asset value, we compared their carrying amount with the expected value of the business based on the subsidiaries' value in use. <p>We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p>

4. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £1,400k (2021: £1,200k) determined with reference to a benchmark of revenue which represents 0.8% of group revenue (2021: 0.8%).

We consider total revenue to be the most appropriate benchmark because of losses before tax from continuing operation in recent periods. The level of materiality is reflective of the size of the group.

Materiality for the parent company financial statements as a whole was set at £1,390k (2021: £1,199k) determined with respect to a benchmark of total assets of the parent company, limited to be less than materiality for the group as a whole. It represents 0.7% (2021: 0.6%) of the stated benchmark.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2021: 75%) of materiality for the financial statements as a whole, which equates to £0.9m (2021: £0.9m) for the group and £901k (2021: £899k) for the parent company. We have applied this percentage in our determination of performance materiality based on the level of identified misstatements and control deficiencies during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected misstatements identified exceeding £65k (2021: £60k), in addition to other identified misstatements which warranted reporting on qualitative grounds.

Of the group's 18 reporting components (2021: 18), we subjected 6 (2021: 6) to full scope audits for group purposes and 1 (2021: 1) to specified risk-focused audit procedures. The latter was not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks which need to be addressed.

The components within the scope of our work accounted for the percentages illustrated opposite. The remaining 10% (2021: 12%) of total group revenue and 14% (2021: 13%) of total group assets is represented by 11 (2021: 11) reporting components, none of which represented more than 2% (2021: 5%) of total group revenue or total group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The work on 1 of the 6 components (2021: 1 of the 6 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

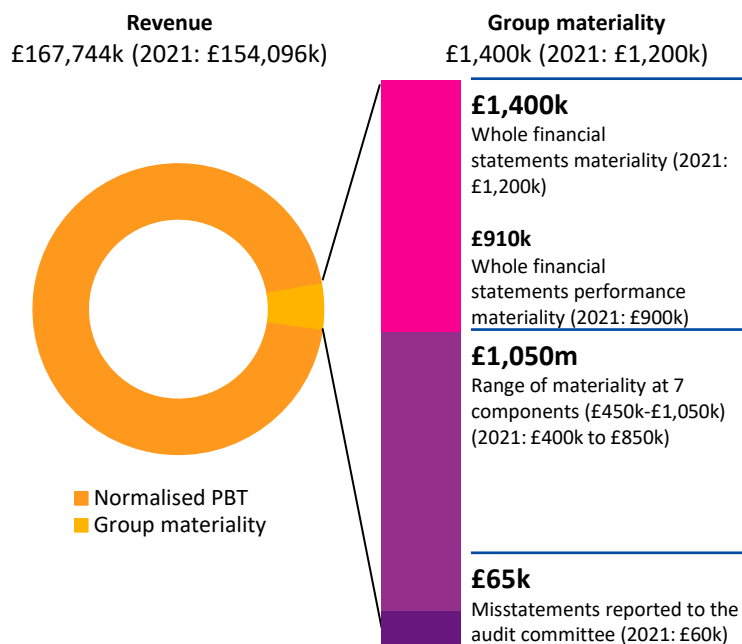
The Group team issued audit instructions to component auditors on the scope of their work, including minimum procedures to perform in their audit of revenue.

The Group team approved the component materialities which ranged from £490k to £1,050k (2021: £400k to £850k), having regard to the mix, size and risk profile of the Group across the components.

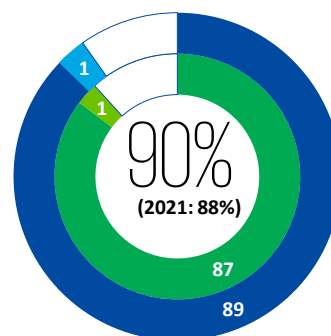
The Group team visited 2 (2021: nil) component locations to assess audit risk and strategy.

Video and telephone conference meetings were held with the component auditor. At these meetings, the findings reported to the Group team were discussed in more detail and any further work required by the Group team was then performed by the component auditor.

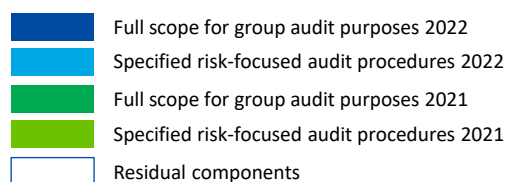
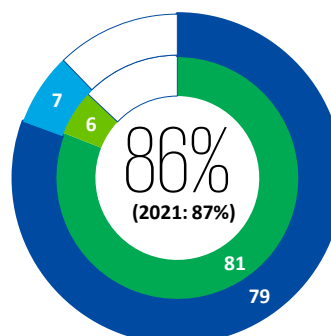
The scope of audit work performed was predominately substantive as we placed limited reliance on the Group's internal controls over financial reporting.



Group revenue



Group total assets



5. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for 18 months from the date of approval of the financial statements ("the going concern period").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we have nothing material to add or draw attention to in relation to the directors' statement in note 2.2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

6. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included :

- Enquiring of directors, the Audit Committee and the Company Secretary and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit Committee and Remuneration Committee meeting minutes.
- Considering remuneration incentive schemes and performance targets for directors and management including bonus targets and Long Term Incentive Plan EPS growth targets for director and management remuneration.

6. Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement due to fraud (continued)

We communicated identified fraud risks throughout the audit and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to the one full scope component audit team of relevant fraud risks identified at the Group level and request to the full scope component audit team to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet profit targets and revisions to market guidance, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is overstated or understated through recording revenues in the wrong period.

We also identified a fraud risk related to the inappropriate capitalisation of development costs to intangible assets not yet available for use in response to possible pressures to meet profit targets.

Further detail in respect of these risks are set out in the key audit matter disclosures in section 2 of this report.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to revenue and cash accounts with an unusual account pairing.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards) and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to the one full-scope component audit team of relevant laws and regulations identified at the Group level, and a request for the full scope component auditor to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

6. Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations (continued)

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety and hazardous material legislation, export control legislation, anti-bribery, employment law and certain aspects of company legislation, recognising the nature of the Group's global manufacturing and development activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

7. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7. We have nothing to report on the other information in the Annual Report (continued)

Directors' remuneration report

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the directors have decided to prepare as if the Company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, as if those requirements applied to the Company.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, other than the material uncertainty related to going concern referred to above, we have nothing further material to add or draw attention to in relation to:

- the directors' confirmation within the long term viability statement on page 56 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principle Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the long term viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

7. We have nothing to report on the other information in the Annual Report (continued)

Corporate governance disclosures (continued)

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

In addition to our audit of the financial statements, the directors have engaged us to review their Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters. Under the terms of our engagement we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. We have nothing to report in this respect.

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report which are were engaged to audit are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report which are were engaged to audit are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 88, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

KATE TEAL

Kate Teal (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

66 Queen Square

Bristol

BS1 4BE

23 May 2023

Five-year financial summary

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Revenue	167,494	154,096	178,016	140,015	156,291
Adjusted EBITDA (see below)	23,365	18,679	30,101	16,246	26,404
Operating (loss)/profit					
• Adjusted*	(3,557)	(6,454)	5,386	(4,676)	16,040
• Reported	(72,976)	(19,978)	(5,517)	(18,802)	8,660
(Loss)/profit after tax					
• Adjusted*	(5,920)	(19,281)	2,702	(19,010)	11,229
• Reported	(74,541)	(31,002)	(2,893)	(35,128)	1,189
Net cash flow from operations					
Adjusted* (note 5)	15,652	17,940	36,324	16,530	16,982
Reported	8,873	18,883	35,457	8,948	16,988
Free cash flow**					
Before exceptional cash flows	4,148	(1,640)	24,929	(25,445)	(26,045)
Reported	(2,631)	(697)	24,062	(33,027)	(26,039)
Adjusted net (debt)/cash***	(15,248)	(5,804)	1,923	(15,970)	20,807
Equity shareholders' funds	175,060	234,621	260,435	266,593	305,730
Basic EPS – adjusted****	(0.74p)	(2.41p)	0.29p	(2.46p)	1.44p
Basic EPS – unadjusted	(9.27p)	(3.87p)	(0.41p)	(4.51p)	0.13p
Diluted EPS – adjusted****	(0.74p)	(2.41p)	0.29p	(2.46p)	1.38p
Diluted EPS – unadjusted	(9.27p)	(3.87p)	(0.41p)	(4.51p)	0.12p

* The adjusted performance measures for 2022 and 2021 are reconciled in note 5. The adjusted performance measures for 2018-2020 are reconciled in those financial statements.

** Free cash flow is defined as net cash outflow of £53,000 (2021: £14,080,000 outflow) before cash flows from financing activities of £4,732,000 (2021: outflow of £11,170,000) and net interest paid of £2,154,000 (2021: £2,213,000).

*** Adjusted net (debt)/cash is defined as cash less borrowings but excluding lease liabilities and fair value gains/losses on derivative instruments.

**** Adjusted EPS measures exclude the impact of certain non-cash charges, non-operational items and significant infrequent items that would distort period on period comparability (see note 12).

Adjusted EBITDA has been calculated as follows:

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000
(Loss)/profit after tax	(74,541)	(31,002)	(2,893)	(35,128)	1,189
Tax charge / (credit)	(862)	8,811	(1,001)	10,180	5,558
Interest expense/(income)	2,427	2,213	2,165	1,458	(87)
Share based payments	332	1,691	265	(771)	(1,044)
(Profit)/Loss on disposal of PPE and intangibles	(688)	(77)	182	(245)	-
Adjusted items	70,403	11,833	6,850	18,463	7,906
Depreciation of PPE	14,529	13,309	12,983	10,477	6,773
Depreciation of right of use asset	3,981	3,854	3,681	3,590	-
Amortisation of intangible assets	7,784	8,047	7,869	8,222	6,109
Adjusted EBITDA	23,365	18,679	30,101	16,246	26,404

Consolidated income statement

for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Revenue	4	167,494	154,096
Cost of sales		(141,111)	(136,452)
Gross profit		26,383	17,644
Selling, general and administrative expenses		(31,211)	(30,322)
Impairment loss on intangible assets	5	(66,155)	(7,411)
Impairment (loss)/reversal on trade receivables and contract assets	22	(2,300)	34
Profit on disposal of intangible assets and property, plant and equipment	5	688	77
Other losses	6	(381)	–
Operating loss	6	(72,976)	(19,978)
Finance costs	8	(2,427)	(2,213)
Adjusted loss before income tax		(5,984)	(8,667)
Adjustments	5	(69,419)	(13,524)
Loss before income tax		(75,403)	(22,191)
Taxation	9	862	(8,811)
Loss for the year		(74,541)	(31,002)
Loss attributable to:			
Equity shareholders		(74,541)	(31,002)
		(74,541)	(31,002)
Loss per share attributable to owners of the parent during the year			
Basic loss per share	12	(9.27p)	(3.87p)
Diluted loss per share	12	(9.27p)	(3.87p)

Adjusted basic and diluted loss per share are presented in note 12.

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

The notes on pages 107 to 157 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2022

	2022 £'000	2021 £'000
Loss for the year	(74,541)	(31,002)
Exchange differences on translation of foreign operations*	14,500	4,744
Total comprehensive expense for the year	(60,041)	(26,258)
Total comprehensive expense attributable to:		
Equity shareholders	(60,041)	(26,258)
	(60,041)	(26,258)

* Items that may subsequently be reclassified to profit or loss.

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive expense is disclosed in note 9.

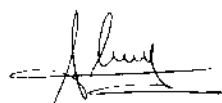
The notes on pages 107 to 157 form an integral part of these consolidated financial statements.

Consolidated balance sheet

as at 31 December 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Intangible assets	13	37,014	95,866
Fixed asset investments	16	–	–
Property, plant and equipment	14	127,055	129,730
Right of use assets	15	41,432	44,267
Deferred tax assets	10	–	–
Other financial assets	18	–	–
Total non-current assets		205,501	269,863
Current assets			
Inventories	17	34,161	31,710
Trade and other receivables	18	44,828	38,860
Cash and cash equivalents		11,620	10,791
Total current assets		90,609	81,361
Total assets		296,110	351,224
Current liabilities			
Trade and other payables	19	(37,545)	(37,083)
Current tax liabilities		(690)	(1,342)
Bank borrowings	20	(6,225)	(6,230)
Derivative financial instruments	22	(381)	–
Lease liabilities	20	(4,843)	(4,694)
Provisions for other liabilities and charges	21	(1,625)	(3,686)
Total current liabilities		(51,309)	(53,035)
Non-current liabilities			
Bank borrowings	20	(20,643)	(10,365)
Lease liabilities	20	(46,026)	(49,693)
Deferred tax liabilities	10	(1,065)	(2,060)
Provisions for other liabilities and charges	21	(2,007)	(1,450)
Total non-current liabilities		(69,741)	(63,568)
Total liabilities		(121,050)	(116,603)
Net assets		175,060	234,621
Equity attributable to the shareholders of the parent			
Share capital	23	8,048	8,036
Share premium		154,720	154,632
Retained earnings		(45,246)	29,295
Exchange rate reserve		40,535	26,035
Other reserves		17,003	16,623
Total equity		175,060	234,621

The notes on pages 107 to 157 form an integral part of these consolidated financial statements. The financial statements on pages 98 to 157 were authorised for issue by the Board of Directors and approved on 23 May 2023 and were signed on its behalf.



Mr A Lemos



Mr T Pullen

Consolidated statement of changes in equity

for the year ended 31 December 2022

	Share capital £'000	Share premium £'000	Retained earnings / (losses) £'000	Exchange Rate reserve £'000	Other reserves £'000	Total equity £'000
At 1 January 2022	8,036	154,632	29,295	26,035	16,623	234,621
Comprehensive expense						
Loss for the year	–	–	(74,541)	–	–	(74,541)
Other comprehensive expense for the year	–	–	–	14,500	–	14,500
Total comprehensive expense for the year	–	–	(74,541)	14,500	–	(60,041)
Transactions with owners						
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
	Share capital £'000	Share premium £'000	Retained earnings £'000	Exchange Rate reserve £'000	Other reserves £'000	Total equity £'000
At 1 January 2021	8,004	154,185	62,089	21,291	14,866	260,435
Comprehensive expense						
Loss for the year	–	–	(31,002)	–	–	(31,002)
Other comprehensive expense for the year	–	–	–	4,744	–	4,744
Total comprehensive expense for the year	–	–	(31,002)	4,744	–	(26,258)
Transactions with owners						
Share based payments	–	–	–	–	1,850	1,850
Tax relating to share options	–	–	–	–	(93)	(93)
Proceeds from shares issued	32	447	–	–	–	479
Acquisition of non-controlling interest	–	–	(1,792)	–	–	(1,792)
Total transactions with owners	32	447	(1,792)	–	1,757	444
At 31 December 2021	8,036	154,632	29,295	26,035	16,623	234,621

Other reserves relate to share based payments.

The notes on pages 107 to 157 form an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Cash flows from operating activities			
Adjusted cash inflow from operations		15,652	17,940
Cash impact of adjustments	5	(6,779)	943
Cash generated from operations	26	8,873	18,883
Net interest paid		(2,154)	(2,213)
Income tax paid		(775)	(1,275)
Net cash generated from operating activities		5,944	15,395
Cash flows from investing activities			
Purchase of property, plant and equipment		(9,438)	(15,051)
Purchase of intangible assets		(4,699)	(345)
Capitalised development expenditure		(3,795)	(2,994)
Proceeds from disposal of property, plant and equipment and intangible assets		7,203	85
Adjusted cash used in investing activities		(16,802)	(18,305)
Cash impact of adjustments – proceeds from disposal of property, plant and equipment and intangible assets	5	6,073	–
Net cash used in investing activities		(10,729)	(18,305)
Cash flows from financing activities			
Acquisition of minority interest		–	(1,792)
Proceeds from issuance of ordinary shares		100	472
Proceeds from borrowings	27	15,814	–
Repayment of borrowings	27	(6,256)	(6,145)
Payment of lease liabilities	27	(4,926)	(3,705)
Net cash generated from / (used in) financing activities		4,732	(11,170)
Net decrease in cash and cash equivalents		(53)	(14,080)
Cash and cash equivalents at 1 January		10,791	24,663
Exchange losses on cash and cash equivalents		882	208
Cash and cash equivalents at 31 December		11,620	10,791

The notes on pages 107 to 157 form an integral part of these consolidated financial statements.

Parent company balance sheet

for the year ended 31 December 2022

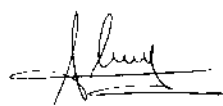
	Note	2022 £'000	2021 £'000
Non-current assets			
Intangible assets	13	5,315	1,943
Property, plant and equipment	14	389	107
Investments	16	76,248	76,069
Deferred tax assets	10	–	127
Trade and other receivables	18	135,464	132,677
Total non-current assets		217,416	210,923
Current assets			
Trade and other receivables	18	605	2,125
Cash and cash equivalents		2,436	262
Total current assets		3,041	2,387
Total assets		220,457	213,310
Current liabilities			
Trade and other payables	19	(29,753)	(30,387)
Bank borrowings	20	–	–
Derivative financial instruments	22	(381)	–
Provisions for other liabilities and charges	21	(573)	(740)
Total current liabilities		(30,707)	(31,127)
Non-current liabilities			
Bank borrowings	20	(16,529)	–
Provisions for other liabilities and charges	21	(909)	(962)
Total non-current liabilities		(17,438)	(962)
Total liabilities		(48,145)	(32,089)
Net assets		172,312	181,221
Shareholders' equity			
Share capital	23	8,048	8,036
Share premium		154,720	154,632
Retained (losses) / earnings		(7,468)	1,829
Other reserves		17,012	16,724
Total equity		172,312	181,221

The company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company profit and loss account.

The parent company's (registered number: 03745726) loss for the financial year amounted to £9,297,000 (2021: £29,272,000 loss).

The notes on pages 107 to 157 form an integral part of these consolidated financial statements.

The financial statements on pages 99 to 157 were authorised for issue by the Board of Directors and approved on 23 May 2023 and were signed on its behalf.



Mr A Lemos



Mr T Pullen

Parent company statement of changes in equity

for the year ended 31 December 2022

	Share capital £'000	Share premium £'000	Retained earnings / (losses) £'000	Other reserves £'000	Total Equity £'000
At 1 January 2022	8,036	154,632	1,829	16,724	181,221
Comprehensive expense					
Loss for the year	–	–	(9,297)	–	(9,297)
Total comprehensive expense	–	–	(9,297)	–	(9,297)
Transactions with owners					
Share based payments	–	–	–	289	289
Tax relating to share options	–	–	–	(1)	(1)
Proceeds from shares issued	12	88	–	–	100
Total transactions with owners	12	88	–	288	388
At 31 December 2022	8,048	154,720	(7,468)	17,012	172,312
At 1 January 2021					
	Share capital £'000	Share premium £'000	Retained earnings £'000	Other reserves £'000	Total Equity £'000
At 1 January 2021	8,004	154,185	31,101	14,920	208,210
Comprehensive expense					
Loss for the year	–	–	(29,272)	–	(29,272)
Total comprehensive expense	–	–	(29,272)	–	(29,272)
Transactions with owners					
Share based payments	–	–	–	1,850	1,850
Tax relating to share options	–	–	–	(46)	(46)
Proceeds from shares issued	32	447	–	–	479
Total transactions with owners	32	447	–	1,804	2,283
At 31 December 2021	8,036	154,632	1,829	16,724	181,221

Other reserves relate to share based payments.

The notes on pages 107 to 157 form an integral part of these consolidated financial statements.

Parent company cash flow statement

for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Cash flows from operating activities			
Cash outflow from operations	26	(11,004)	(2,337)
Interest received		1,244	1,905
Net cash used in operating activities		(9,760)	(432)
Purchase of intangible assets		(3,683)	(314)
Purchase of property plant and equipment		(297)	(106)
Net cash used in investing activities		(3,980)	(420)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		100	479
Proceeds from borrowings		15,814	–
Net cash generated from financing activities		15,914	479
Net increase/(decrease) in cash and cash equivalents		2,174	(373)
Cash and cash equivalents at 1 January		262	635
Cash and cash equivalents at 31 December		2,436	262

The notes on pages 107 to 157 form an integral part of these consolidated financial statements.

Notes to the financial statements

for the year ended 31 December 2022

1. General information

IQE plc ('the company') and its subsidiaries (together 'the Group') develop, manufacture and sell advanced semiconductor materials. The Group has manufacturing facilities in Europe, United States of America and Asia and sells to customers located globally.

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). The address of the Company's registered office is Pascal Close, St Mellons, Cardiff, CF3 0LW.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented.

2.1 Basis of preparation

The financial statements have been prepared and approved by the directors in accordance with international accounting standards in conformity with UK adopted international accounting standards ("UK adopted IFRS"). The financial statements have been prepared under the historical cost convention except where fair value measurement is required by IFRS. The Group applies fair value measurement in its accounting for derivative foreign currency financial instruments (see note 2.18).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

2.2 Going concern

The financial statements are prepared on a going concern basis as the Directors believe that the Group has a strong strategy, exciting future opportunities and have taken the necessary steps to capitalise the Group with sufficient liquidity to navigate the current temporary semiconductor industry downturn.

The Group is currently experiencing weaker customer demand and a reduction in customer orders and forecasts as a result of the industry downturn. The Directors consider that the current industry and economic outlook presents a temporary but significant challenge to sales volumes in the first half of 2023. The Group's trading in Q1 2023 has experienced a deepening of the market softness that impacted the latter part of 2022 as weaker customer demand, orders and forecasts are expected to result in a year-on-year decline in revenue of approximately £30,000,000 in H1 2023 prior to an anticipated improvement in market dynamics and customer demand in H2 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 since the year-end:

- The implementation of cost cutting actions, including staff redundancies, operational efficiencies and reductions in areas of discretionary expenditure which are under the control of the Directors
- Deferral of capital expenditure under the control of the Directors

Actions taken since the year-end to capitalise the Group with sufficient liquidity:

- Refinancing of the Group's £28,688,000 (\$35,000,000) multi-currency revolving credit facility provided by HSBC Bank plc on 16 May 2023 (see note 33). The tenor of the facility has been extended to 1 May 2026. Quarterly leverage and interest cover covenant tests will apply to the facility, commencing at December 2023
- The successful £31,098,546 equity fund raise completed on 18 May 2023 (see note 33) 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

In the year to 31 December 2022, reported revenue growth of 9% was recorded, although the Group has reported an operating loss of £72,976,000 for the year (2021: £19,978,000 loss). This includes a non-cash impairment charge of £62,716,000 related to the write-down of goodwill, which results from a change in forecasts related to the current semiconductor industry downturn. The Group increased its net debt position (excluding lease liabilities and fair value gains/losses on derivative instruments) to £15,248,000 (2021: £5,804,000). At 31 December 2022 the Group had undrawn committed funding of £12,400,000 (\$15,000,000) 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 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 Q1 2023 Board approved 2023 and 2024 forecasts. The base case incorporates the impact of current market softness, weak customer demand and post year end actions taken by the Directors including the impact of the successful 31,098,546 equity fund raise and refinancing of the Group's £28,688,000 (\$35,000,000) multi-currency revolving credit facility.

Notes to the financial statements continued

for the year ended 31 December 2022

2. Significant accounting policies continued

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 consistent with 2022
- Labour inflation in 2024 in line with labour market norms
- Cost inflation in operating and administrative costs in line with the current inflationary environment
- Mitigating cost actions, resulting in a reduction in total overheads by c.7% year-on-year in 2023, despite inflationary pressures in some cost categories
- c.£15,000,000 of capital expenditure in 2023 and 2024 reflecting a combination of essential maintenance capital expenditure and 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 with liquidity of £36,348,000 at the end of 2023 and £41,776,000 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 position of net funds (excluding lease liabilities and fair value gains/losses on derivatives) is forecast throughout the review period with a net funds position of £3,458,000 at the end of 2023 and £13,088,000 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 15% down on the base case for 2023 and 14% down on the base case for 2024
- 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 include idling of tools, labour savings, reductions in research and development expenditure and reductions in certain non-manufacturing related discretionary expenditure that can be controlled by the Directors
- Deferral of certain capital expenditure in 2023 and 2024 that can be controlled by the Directors

The severe but plausible downside case would leave the Group with liquidity of £25,559,000 at the end of 2023 and £17,232,000 at the end of 2024 with minimum liquidity in the going concern assessment period of £12,545,000 in Q4 2024. The leverage and interest cover covenants apply quarterly from 31 December 2023 and pass at each test point in the going concern assessment period.

The Group is forecast to maintain compliance with all covenants associated with its bank facilities and have positive liquidity throughout the 2023 and 2024 going concern assessment period, in both the base case and severe but plausible downside scenarios following the successful steps taken by the Directors to capitalise the Group with sufficient liquidity 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. On this basis, the Directors believe that the Company and Group have adequate cash resources to continue operating for the foreseeable future and to meet their liabilities as they fall due for the going concern assessment period, such that the directors consider it appropriate to adopt the going concern basis of accounting in preparing the Company and Group consolidated financial statements.

2.3 Changes in accounting policy and disclosures

a) New standards, amendments and interpretations

The following new standards, amendments and interpretations have been adopted by the Group for the first time for the financial year beginning on 1 January 2022:

- Amendment to IFRS 3 'Business combinations' to update references to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- Amendments to IAS 16 'Property, plant and equipment' to prohibit the deduction from cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use with any such sales and related cost recognised in profit or loss.
- Amendments to IAS 37 'Provisions, contingent liabilities and contingent assets' to specify which costs a company includes when assessing whether a contract will be loss making.
- Annual improvements to IFRSs 2018-2020 cycle to make minor amendments to IFRS 1 'First-time adoption of IFRS', IFRS 9 'Financial Instruments', IAS 41 'Agriculture' and amendments to the illustrative examples accompanying IFRS 16 'Leases'.

The adoption of these standards, amendments and interpretations has not had a material impact on the financial statements of the Group or parent company.

2. Significant accounting policies continued

b) New standards, amendments and interpretations issued but not effective and not adopted early

A number of new standards, amendments to standards and interpretations which are set out below are effective for annual periods beginning after 1 January 2023 and have not been applied in preparing these consolidated financial statements:

- IFRS 17 'Insurance contracts' which establishes the principles for the recognition, measurement, 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 which 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 Directors anticipate that at the time of this report none of the new standards, amendments to standards or interpretations are expected to have a material effect on the financial statements of the Group or parent company.

2.4 Consolidation

The consolidated financial statements comprise the results of IQE plc (the Company) and its subsidiary undertakings, together with the Group's share of the results of its associates and joint venture.

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated and accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Joint ventures

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified

as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The nature of the Group's joint arrangements has been assessed and each joint arrangement has been determined to be a joint venture. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

Gains by the Group on transactions with joint ventures are eliminated against the carrying value of the Group's interest in its joint ventures to the extent that the gain does not exceed the carrying amount. In circumstances where a gain exceeds the carrying amount the Group has made an accounting policy choice to recognise the gain in the comprehensive income statement, subject to an assessment of recoverability of value from the joint venture rather than recognising the gain as deferred income in the consolidated balance sheet.

When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures. Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the financial statements continued

for the year ended 31 December 2022

2. Significant accounting policies continued

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Where the fair values of acquired identifiable assets, liabilities and contingent liabilities are initially recognised on a provisional basis, these are reassessed during the 12-month period following the date of the business combination. Adjustments to the fair values as at the date of acquisition that result from new information that existed at the date of acquisition which, if known at the time, would have resulted in a different amount being recognised within this 'measurement period', are recorded with any net impact being added to or deducted from the goodwill recognised. Such adjustments are recognised in both the current period and the restated comparative period balance sheets as if the final fair values had been used in the initial recognition of the acquisition. Subsequent to the measurement period, any adjustments to the recorded fair value of identifiable assets, liabilities and contingent liabilities are taken through the income statement as an exceptional income or expense.

The Group recognises any non-controlling interest on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred.

2.5 Intangible assets

a) Goodwill

Goodwill arising on an acquisition is recognised as an asset and initially measured at cost, being the excess of the fair value of the consideration over the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is not amortised but is reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. For the purpose of impairment testing, goodwill is allocated to each of the Cash Generating Units to which it relates. Any impairment identified is immediately charged to the Consolidated Income Statement. Subsequent reversals of impairment losses for goodwill are not recognised.

Negative goodwill arising on an acquisition where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of the consideration is credited and recognised in the consolidated income statement immediately.

b) Patents, trademarks and licences

Separately acquired patents, trademarks and licences are shown at historical cost. Patents, trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Patents, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation.

Amortisation is calculated using the straight-line method to allocate the cost of the assets over their estimated useful lives of 10 to 15 years. Amortisation is charged to selling and general administration expenses in the income statement.

The carrying value of patents, trademarks and licences is reviewed for potential impairment if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement.

c) Development costs

Expenditure incurred that is directly attributable to the development of new or substantially improved products or processes is recognised as an intangible asset when the following criteria are met:

- the product or process is intended for use or sale;
- the development is technically feasible to complete;
- there is an ability to use or sell the product or process;
- it can be demonstrated how the product or process will generate probable future economic benefits;
- there are adequate technical, financial and other resources to complete the development; and
- the development expenditure can be reliably measured.

Directly attributable costs refer to the materials consumed; the directly attributable labour; and the directly attributable overheads incurred in the development activity. General operating costs, administration costs and selling costs do not form part of directly attributable costs.

All research and other development costs are expensed as incurred.

Capitalised development costs are amortised in line with the expected production volume profile over the period during which the economic benefits are expected to be received, which typically ranges between 3 and 8 years. The estimated remaining useful lives of development costs are reviewed at least on an annual basis. Amortisation commences once the project is completed and the development has been released into production. Amortisation is charged to selling and general administration expenses in the income statement.

2. Significant accounting policies continued

The carrying value of capitalised development costs in respect of completed projects is reviewed for impairment if events or circumstances indicate a potential impairment. Projects that remain under development at the reporting date are reviewed for impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement.

d) Software

Directly attributable costs incurred in the development of bespoke software for the Group's own use are capitalised and amortised on a straight-line basis over the expected useful life of the software, which typically ranges between 3 and 10 years. Amortisation is charged to selling and general administration expenses in the income statement.

The carrying value of capitalised software costs is reviewed for potential impairment if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement. The costs of maintaining internally developed software and annual license fees paid to utilise third-party software are expensed as incurred.

2.6 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment. Cost comprises all costs that are directly attributable to bringing the asset into working condition for its intended use. Depreciation is calculated to write down the cost of property, plant and equipment to its residual value on a straight-line basis over the following estimated useful economic lives:

Freehold buildings	10 to 40 years
Short leasehold improvements	5 to 27 years
Plant and machinery	5 to 15 years
Fixtures and fittings	3 to 5 years

No depreciation is provided on land or assets yet to be brought into use. Depreciation is charged to cost of sales and selling and general administration expenses in the income statement.

Costs incurred after initial recognition are included in the assets' carrying amounts, or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'profit/loss on disposal of property, plant and equipment' in the income statement.

Assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The carrying value of property, plant and equipment is reviewed for potential impairment if events or circumstances indicate a potential impairment. Any impairment identified is immediately charged to the Consolidated Income Statement.

2.7 Leases

The Group assesses whether a contract is, or contains, a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less), leases of low value assets (such as small items of office furniture and equipment) and leases with variable rentals not linked to a relevant index (see note 3a). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Right-of-use assets and lease liabilities are recognised at the lease commencement date. Right-of-use assets are initially measured at cost, and subsequently measured at cost less any accumulated depreciation and impairment losses, adjusted for certain remeasurements of the lease liability.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Notes to the financial statements continued

for the year ended 31 December 2022

2. Significant accounting policies continued

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when there is a change in future lease payments. Changes in future lease payments can arise from a change in an index or rate, a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or from a change in assessment about whether a termination option is reasonably certain not to be exercised.

The Group did not make any such adjustments during the current year.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Cost of sales" in profit or loss (see note 3a).

2.8 Impairment of non-financial assets

Intangible assets that have an indefinite useful life, or intangible assets not ready to use, are not subject to amortisation and are reviewed for potential impairment at least annually, or more frequently if events or circumstances indicate a potential impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value (less disposal costs) and value in use.

Value in use is based on the present value of the future cash flows relating to the asset, discounted at the Group's risk adjusted pre-tax discount rate. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Indicators that impairment losses might have reversed are assessed annually.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Cost comprises direct materials and, where applicable, direct labour costs and attributable overheads that have been incurred in bringing the inventories to their present location and condition based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

2.10 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.11 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are presented within cash and cash equivalents where the Group has a right of set-off under its treasury arrangements that are pooled by territory.

2.12 Preference share debt instruments

Preference share financial assets are debt instruments due from a related party (see note 31). Debt instruments are initially recognised at fair value and subsequently measured at amortised cost on the basis that the financial asset is held with the objective of collecting the contractual cash flows, and the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2.13 Financial assets

Financial assets are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the financial instrument and are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income – debt investment, fair value through other comprehensive income – equity investment or fair value through profit or loss.

The classification depends on the purpose for which the financial assets were acquired and the classification is determined at the date of initial recognition. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period following the change in business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. Significant accounting policies continued

Amortised cost financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting period where the item is classified as a non-current asset. The Group's financial assets comprise trade and other receivables (note 2.10), cash and cash equivalents (note 2.11), preference share debt instruments (note 2.12) and contract assets (note 2.22).

Amortised cost and effective interest method

Financial assets are measured at amortised cost using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ('ECL') on trade receivables, contract assets and investments in debt instruments that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Expected credit losses are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In circumstances where credit risk increases to the point that it becomes highly probable that the debt instrument will not become recoverable, the Group considers that this would represent a default event and moves to stage 3.

The Group recognises lifetime ECL for trade receivables and contract assets. The ECL on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors including observable data such as changes in arrears, or economic conditions that provide an indication that a debtor is experiencing significant financial difficulty, default or delinquency in payment that correlate with defaults.

For preference share debt instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has

not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to twelve-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Credit impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Significant increase in credit risk – Preference share debt instruments

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the joint venture entity in which the Group holds its preference share debt, obtained primarily from financial forecasts and projections prepared by management of the joint venture entity as well as consideration of various external sources of actual and forecast economic information that relate to the joint venture's core operations.

In particular, the following information is considered when assessing whether credit risk has increased significantly since initial recognition:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the joint venture's ability to redeem the preference share debt;
- existing or forecast adverse changes in the joint venture's business plan and financial projections, indicating a significant extension to the period prior to redemption of the preference share debt;
- an actual or expected significant deterioration in the operating results of the joint venture;
- significant increases in credit risk on other financial assets of the joint venture; and
- an actual or expected significant adverse change in the regulatory, political or technological environment that results in a significant decrease in the joint venture's ability to redeem the preference share debt.

Notes to the financial statements continued

for the year ended 31 December 2022

2. Significant accounting policies continued

In the event that the credit risk assessment results in a probable delay in forecast repayment of the debt instrument compared to the original expectation, the Group considers that this represents a significant increase in credit risk.

In circumstances where credit risk increases to the point that it becomes highly probable that the debt instrument will not become recoverable, the Group considers that this would represent a default event.

Measurement and recognition of expected credit losses

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. Exposure at default is represented by the gross carrying amount of the financial asset at the reporting date.

ECL for financial assets is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract, and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for financial assets with a corresponding adjustment to the carrying amount in the consolidated balance sheet.

2.14 Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity, in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised as the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or fair value through profit and loss. A financial liability is classified as fair value through profit and loss if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at fair value through profit and loss are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are measured at amortised cost using the effective interest method.

Financial liabilities are non-derivative financial liabilities with fixed or determinable payments and they are included in current liabilities, except for maturities greater than 12 months after the reporting period where the item is classified as a non-current liability. The Group's financial liabilities comprise trade and other payables (note 2.15), borrowings (note 2.16) and lease liabilities (note 2.7) in the consolidated balance sheet.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost using the effective interest method.

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.18 Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

2. Significant accounting policies continued

Cash flow hedges and derivatives that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other gains/(losses).

Cash flow hedges and derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other gains/(losses).

Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other gains/(losses). Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

2.19 Government grants

Government grants are recognised at fair value when there is reasonable assurance that the Group has complied with the conditions attaching to them and the grants will be received. Grants related to purchase of assets are treated as deferred income and allocated to the income statement over the useful lives of the related assets, while grants related to expenses are treated as other income in the income statement.

2.20 Share capital and other reserves

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Other reserves relate to share based payment transactions.

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Restructuring provisions comprise site closure costs and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the time value of money and the risks specific to the obligation.

2.22 Revenue recognition

Revenue represents the transaction price specified in a contract with a customer for goods, services and intellectual property licenses provided in the ordinary course of business net of value added and other sales related taxes.

Standard Customer Products

Revenue is recognised when the goods are delivered and have been accepted by customers. For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of revenue recognised will not occur.

The amount of revenue recognised is adjusted for expected returns, which are estimated based on historical data for each specific type of product, with a refund liability recognised as part of provisions. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of any liability accordingly.

A receivable is recognised when the goods are delivered, since this is the point in time that the consideration is unconditional, performance obligations have been satisfied and only the passage of time is required before the payment is due.

Bespoke Customer Products

Revenue is recognised for bespoke customer products with no alternative use where the Group has a guaranteed contractual right to payment on an over time basis prior to the delivery of goods to the customers' premises. Revenue is recognised on an input basis by reference to the stage of completion of the manufacturing process, a process which includes an epitaxial wafer manufacture stage and a metrology and wafer test stage which are both typically completed within a limited number of days.

The amount of revenue recognised is adjusted for expected returns, which are estimated based on historical data for each specific type of product with a refund liability recognised as part of provisions. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of any liability accordingly.

The Group operates supplier managed inventory arrangements for certain global customers where the Group is responsible for ensuring that contractually agreed levels of inventory are maintained at specified locations. The Group has a guaranteed contractual right to payment for the bespoke customer products manufactured under these arrangements with revenue recognised on an over time basis.

Assets and liabilities arising from contracts with customers are separately identified. Contract assets relate to consideration recognised for work completed but not billed at the balance sheet date. Contract liabilities relate to obligations to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer.

Notes to the financial statements continued

for the year ended 31 December 2022

2. Significant accounting policies continued

Intellectual Property Licenses

Intellectual property license income relates to the sale of finite and perpetual period licenses.

Revenue is recognised for intellectual property licenses with a right to use over a finite period when control of the license is transferred to the customer in accordance with the terms of the relevant licensing agreement and collection of the resulting receivable is reasonably assured.

Revenue is recognised for perpetual intellectual property licenses with a right to use at a point in time when the following conditions are met:

- when a signed agreement or other persuasive evidence of an arrangement exists;
- the intellectual property has been delivered;
- the license fee is fixed or determinable; and
- collection of the resulting receivable is reasonably assured.

2.23 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Directors, who oversee the allocation of resources and the assessment of operating segment performance.

2.24 Finance income and finance costs

The Group's finance income and finance cost include interest income and interest expense.

Interest income or expense is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset, or the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. However, for financial assets that have become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset.

2.25 Pension costs

The Group operates defined contribution pension schemes. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Contributions are charged in the Consolidated Income Statement as they become payable in accordance with the rules of the scheme. The Group has no further obligations once the contributions have been made.

2.26 Share based payments

The Group operates a number of equity-settled share based compensation plans under which the Group receives services from employees as consideration for equity instruments in IQE plc. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the consolidated income statement, and as a credit in other reserves in the consolidated statement of changes in equity, except for the social security element of the award which is treated as cash settled with the liability recognised in other taxation and social security within trade and other payables in the consolidated balance sheet. The total amount to be expensed is determined by reference to the fair value of the options granted, including any market performance conditions (for example, an entity's share price); excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period) and including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and the balance to share premium. In the company's own financial statements, the grant of share options to the employees of subsidiary undertakings is treated as a capital contribution. Specifically, the fair value of employee services received (measured at the date of grant) is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

2. Significant accounting policies continued

2.27 Foreign currency

Items included in the financial statements of each subsidiary are measured using the currency of the primary economic environment in which the subsidiary operates (“the functional currency”). The consolidated financial statements are presented in sterling, which is the Group’s presentational currency.

Foreign currency transactions are translated into the subsidiaries’ functional currency at the rates of exchange ruling at the date of the transaction, or at the forward currency hedged rate where appropriate. Monetary assets and liabilities in foreign currencies are translated into the subsidiaries’ functional currency at the rates ruling at the balance sheet date. All exchange differences are taken to the income statement.

The balance sheets of overseas subsidiaries are translated into sterling at the closing rates of exchange at the balance sheet date, whilst the income statements are translated into sterling at the average rate for the period. The resulting translation differences are taken directly to reserves.

Foreign exchange gains and losses on the retranslation of foreign currency borrowings that are used to finance overseas operations are accounted for on the ‘net investment’ basis and are recorded directly in reserves provided that the hedge is effective.

2.28 Current and deferred tax

Income tax for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income, or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year using rates substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years.

Amounts receivable from tax authorities in relation to research and development tax relief under the RDEC scheme are recognised within operating profit in the period in which the research and development costs are treated as an expense. Where amounts are outstanding at the year end and have not been formally agreed, an appropriate estimate of the amount is included within other receivables.

Deferred tax is provided in full on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for taxation purposes. Deferred tax is calculated at the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax liabilities are recognised for taxable temporary differences, unless specifically exempt. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

2.29 Investment in subsidiaries

Investments in subsidiaries are held at cost of investment less provision for impairment in the parent company financial statements.

2.30 Other equity investments

Other equity investments are held at cost less provision for impairment in both the parent company and Group financial statements on the basis that the Group (and Company) does not have the ability to exert significant influence or control over the strategic and operating activities of the other equity investments.

2.31 Alternative performance measures

Income Statement

Alternative income statement performance measures are disclosed separately in the financial statements after a number of adjusted non-cash items, non-operational items and significant infrequent items that would distort period on period comparability, where it is deemed necessary by the Directors to do so to provide further understanding of the financial performance of the Group. Adjusted items are material items of income or expense that have been shown separately due to the significance of their nature or amount. The tax impact of adjusted items is calculated applying the relevant enacted tax rate for each adjusted item. Details of the adjusted items are included in note 5.

Balance Sheet

Alternative balance sheet performance measures for net debt are disclosed separately in the financial statements after adjustments to exclude lease liabilities where it is deemed necessary by the Directors to do so to provide further understanding of the financial position, gearing and liquidity of the Group.

Cashflow Statement

Alternative cash flow statement performance measures are disclosed separately in the financial statements that reflect the cash impact of adjusted items included in alternative income statement performance measures. Adjusted items are material items of income or expense that have been shown separately due to the significance of their nature or amount. Details of the adjusted items are included in note 5.

Notes to the financial statements continued

for the year ended 31 December 2022

3. Critical accounting judgements and key sources of estimation uncertainty

The Group's principal accounting policies are described in note 2. The application of these policies necessitates the use of estimates and judgements in a number of areas. Accordingly, the actual amounts may differ from these estimates. The main areas involving significant judgement and estimation are set out below:

a) Critical accounting judgements in applying the Group's accounting policies

Joint Venture – Evaluation of rights, levels of control and influence

The determination of the level of influence or control that the Group has over a business is a mix of contractually defined and subjective factors that can be critical to the appropriate accounting treatment of an entity in the Group's consolidated financial statements. Control or influence is achieved through Board representation and by obtaining rights of veto over significant decisions relevant to the activities of the entity.

Compound Semiconductor Centre Limited ('CSC')

On 9 July 2015, the Group entered into a joint venture agreement with Cardiff University to create the CSC in the United Kingdom. The commercial purpose of the CSC is the research, development and manufacture of advanced compound semiconductor materials by metalorganic vapour phase epitaxy ('MOVPE').

The manufacturing and technical capability of the CSC was established with the Group contributing fixed assets, transferring employees (including the current Managing Director of the CSC) and licensing intellectual property, with Cardiff University contributing cash. The Group also entered into an agreement with CSC that conveyed to the Group the right to use the CSC's assets, establishing the Group as the CSC's cornerstone customer during the early stages of the development of the CSC's business (see note 30).

The Shareholder Agreement establishes that the CSC is jointly controlled by the shareholders. Key decisions, defined as part of contractually agreed Board reserved matters, require approval from directors representing each joint venture partner who have equal Board representation and voting rights.

The Group does not control the CSC, such that its 50% equity investment in the joint venture is accounted for using the equity method in accordance with the accounting policies set out in note 2.

Joint Venture – Right of use asset

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.

On establishment of the joint venture, the Group contributed assets as part of its initial investment and entered into an agreement with the joint venture that has been extended in the current year and conveys to the Group the right to use the assets of the joint venture for a minimum period up to 31 March 2024. This agreement, which contains rights attaching to the use of the joint venture's assets, meets the definition of a lease. In the Group's judgement, due to the variable nature of the lease payments, which are directly linked to the actual usage of the assets, the lease payments continue to be excluded from the measurement of right of use assets and lease liabilities with the variable lease costs recognised in operating expenses in the income statement as incurred.

Joint Venture – Classification of preference share debt

The Group classifies its preference share financial assets due from the CSC as debt instruments, rather than treating the preference shares as part of the Group's net investment in the CSC. This is on the basis that these preference shares, redeemable at par, contingent on the generation of cash by CSC, are not deemed to be tantamount to equity.

Preference share funding was provided to the CSC by the joint venture partners to accelerate the development and growth of the CSC's business. The contractual arrangements between the joint venture partners and the CSC require that any surplus cash generated by the CSC is used to redeem the preference share funding provided by the joint venture partners, as envisaged in the CSC business plan contained within the original Joint Venture Shareholder Agreement.

Upon transition to IFRS 9, the Group assessed that this financial asset meets the requirements to be measured at amortised cost in line with the treatment previously adopted under IAS 39. The instrument is held within a business model whose sole objective is to collect the contractual cash flows. These cash flows, in turn, represent solely payments of principal and interest on the principal amount outstanding.

3. Critical accounting judgements and key sources of estimation uncertainty continued

Joint Ventures – Credit risk associated with preference share debt

As explained in note 2.13, expected credit losses are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. The Group has assessed, based on its joint venture's latest forecast, that recovery of the preference share debt within a reasonable period remains unlikely such that the credit risk remains at a level where the definition of default has been met and the asset continues to be classified at stage 3. In making this assessment, qualitative and quantitative reasonable and supportable forward-looking information associated with the forecast future financial performance and cash generation of CSC has been used (see note 3.5 for details of the calculation of the loss allowance and the associated impairment of the financial asset).

Intangible assets – Technology development costs (distributed feedback laser technology assets)

The Group has product development costs totalling £3,439,000 linked to its distributed feedback laser technology where the Group has taken the decision to discontinue the development and commercialisation of the technology.

Although distributed feedback laser technology has a number of potential applications, the level of customer and partner engagement that is required to develop the technology has remained low, a position that has led to the decision to discontinue the development and commercialisation of the technology given the lack of a clear near-term route to the delivery of commercial volumes and cash flows.

The current lack of visibility on the timeline to commercialise the product development technology assets and the decision to discontinue development of the assets, has resulted in a non-cash intangible asset charge of £3,439,000 that has been charged to 'selling, general and administrative expenses' in the consolidated income statement, following the write-down of all distributed feedback laser product development cost assets to £nil.

Intangible assets – Technology development assets not yet available for use

Intangible assets include development cost assets not yet available for use of £4,278,000 (2021: £3,046,000) which have been reviewed for impairment as at the reporting date.

The Group is committed to the technical completion and commercialisation of each of its technology development assets which are governed and controlled by reference to a combination of technical development objectives and market and customer related commercial plans. The recoverable amount of each technology development project is determined based on value in use calculations, using cash flow projections in line with the expected useful economic life of each asset. The value in use calculations are based on management approved risk-adjusted cash flow

forecasts for each project and comprise assumptions that include cost to complete forecasts for each technology development, and commercial forecasts relating to the level of market penetration, revenue and cost of production for each technology.

Adjustments to profit

Alternative performance measures are disclosed separately in the financial statements after a number of adjusted exceptional, non-cash, non-operational or significant and infrequent items that would distort period on period comparability, where it is deemed necessary by the Directors to do so to provide further understanding of the financial performance of the Group. Details of the adjusted items are included in note 5.

b) Critical accounting estimates and key sources of estimation uncertainty

3.1 Goodwill impairment testing

Wireless

Following the assessment of the goodwill allocated to the Wireless cash generating unit ('CGU'); to which goodwill of £64,138,000 (2021: £57,173,000) is allocated, the directors consider that the current year impairment of £62,382,000 (2021: £nil) and the associated recoverable amount of goodwill allocated to the Wireless CGU of £nil (2021: £57,173,000) to be sensitive to the achievement of the Group's five-year internal forecasts which have been adjusted to exclude the impact of expansionary capital expenditure and certain linked earnings and cash flows. The five-year forecasts comprise forecasts of revenue, material costs and site manufacturing labour and overhead costs, based on current and anticipated market conditions that have been considered and approved by the Board. Whilst the Group is able to manage most of its Wireless CGU costs, significant elements of the Wireless revenue forecasts are inherently linked to global demand for smartphones and the adoption of 5G technology, where uncertainty about both the timing and level of growth remains such that the revenue growth rates used within the forecasts are a key sensitivity given current global macro-economic conditions and consumer, market and regulatory dynamics.

The sensitivity analysis in respect of the recoverable amount of 'Wireless' goodwill is presented in note 13.

Notes to the financial statements continued

for the year ended 31 December 2022

3. Critical accounting judgements and key sources of estimation uncertainty continued

Photonics

Following the assessment of the goodwill allocated to the Photonics cash generating unit ('CGU'); to which goodwill of £7,990,000 (2021: £7,124,000) is allocated, the directors consider that the current year impairment of £334,000 (2021: £nil) and the associated recoverable amount of goodwill allocated to the Photonics CGU of £7,656,000 (2021: £7,124,000) to be sensitive to the achievement of the Group's five-year internal forecasts which have been adjusted to exclude the impact of expansionary capital expenditure and certain linked earnings and cash flows. The five-year forecasts comprise forecasts of revenue, material costs and site manufacturing, labour and overhead costs based on current and anticipated market conditions that have been considered and approved by the Board. Whilst the Group is able to manage most of its Photonics CGU costs, significant elements of the Photonics revenue forecasts are inherently linked to global demand for smartphones, the proliferation of VCSEL technology to advanced sensing applications beyond existing 3D sensing, the adoption of high definition infrared imaging and sensing in health monitoring and environmental applications and the adoption of 5G technology for telecommunication and data communication, where uncertainty about both the timing and level of growth remains such that the revenue growth rates used within the forecasts are a key sensitivity given current global macro-economic conditions and consumer, market and regulatory dynamics.

The sensitivity analysis in respect of the recoverable amount of 'Photonics' goodwill is presented in note 13.

3.2 Useful economic lives of development cost intangible assets

The periods of amortisation used for product and process development cost assets require estimates to be made on the estimated useful economic lives of the intangible assets to determine an appropriate rate of amortisation. Capitalised development costs are amortised in line with the expected production volume profile of the products to which they relate over the period during which economic benefits are expected to be received, which is typically between 3-8 years.

The carrying value of development cost intangible assets is £22,968,000 (2021: £27,944,000). The amortisation charge for development cost intangible assets in the current year is £6,767,000 (2021: £6,490,000). If useful economic lives of development cost intangible assets were reduced by 1 year across the whole portfolio of assets, the impact on current year amortisation would be to increase the charge by £1,227,000 (2021: £1,189,000) to £7,994,000 (2021: £7,679,000).

3.3 Valuation of lease liabilities and right of use assets

The application of IFRS 16 requires the Group to make judgments and estimates that affect the valuation of the lease liabilities and the valuation of right-of-use assets that includes determining the contracts in scope of IFRS 16, determining the contract term and determining the interest rate used for discounting of future cash flows.

The lease term determined by the Group generally comprises the non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option.

Exercise of extension options, principally existing in the Group's property leases, are assumed to be reasonably certain, except for the Group's Newport facility where it has been assumed that it is reasonably certain that the Group will exercise its buy-out option at the end of the initial lease term. The same term applied to the length of the lease contract has been applied to the useful economic life of right-of-use assets.

The present value of the lease payments applicable to the Group's portfolio of property and plant leases has been determined using a discount rate that represents the Group's incremental rate of borrowing, assessed as 2.25%-2.65% depending on the lease characteristics.

If the incremental rate of borrowing decreased by 0.10%, the impact would be to increase the lease liability by £205,000 (2021: £246,000).

3.4 Share based payments

Share based payment charges associated with long-term incentive plans are calculated taking account of an assessment of the achievability of relevant performance conditions. The share based payment charge for long-term incentive awards would be £2,030,000 (2021: £365,000) greater in 2022 if it were assumed that all performance criteria for existing awards would be met.

3. Critical accounting judgements and key sources of estimation uncertainty continued

3.5 Preference share debt – Calculation of loss allowance

The Group classifies its preference share financial assets due from its joint venture, CSC, as debt instruments.

The carrying value of the Group's preference share debt is £nil (2021: £nil) after the recognition of expected credit losses and the application of the loss absorption requirements of IAS 28.38.

Expected credit loss impairment continues to be assessed at £7,922,000 (2021: £7,922,000).

When measuring expected credit loss on the preference share debt due from CSC, the Group uses reasonable and supportable forward-looking information, which is primarily based on assumptions about the forecast future financial performance of CSC. The ECL model calculation is based on three key inputs: exposure at default, loss given default, and probability of default. Exposure at default is the carrying amount of the preference share debt.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group expect to receive, considering cash flows from any collateral.

Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of the future financial performance of CSC.

Default events and associated probability of default is assessed by reference to a range of scenarios based principally on assumptions and expectations of the future financial performance of CSC that have been derived from CSC's Board approved 2023 Budget extrapolated over the repayment period using a long-term growth rate of 2%.

Following a review of a combination of factors, including CSC's progress and achievement against its business objectives, current cash flow forecasts for CSC, and the capacity of CSC to redeem the debt, the Group has assessed that a position of default continues to exist on this instrument (see note 3(a)) and as a result, lifetime ECL continues to be calculated.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of the debt instrument and is the difference between the contractual cash flows due and those that the Group expect to receive, considering cash flows from any collateral.

The result of this assessment is that the Group considers the ECL to equal the carrying amount of the instrument and therefore the financial asset remains fully impaired.

3.6 Preference share debt – Long term interest

The Group treats its preference share financial assets due from its joint venture, CSC, as a long-term interest in an equity accounted investee on the basis that the factors that have led to the recognition of an expected credit loss impairment (note 3.5) indicate that repayment of the preference share debt is no longer expected in the foreseeable future.

As a long-term interest in an equity accounted investee, the group has applied the loss absorption requirement in IAS 28.38 to the carrying amount of the preference share financial asset, after the application of the expected credit loss described in note 3.5. Application of the loss absorption requirements, after taking account of expected credit losses, continue to result in a position where the Group recognises no further allocation of joint venture losses to the preference share financial asset as the carrying value of the preference share debt is £nil (2021: £nil) after recognition of expected credit losses.

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for the year ended 31 December 2022

4. Segmental analysis

4.1 Description of segments and principal activities

The Chief Operating Decision Maker is defined as the Executive Leadership Team. The Executive Leadership Team, consisting of the Chief Executive Officer, Chief Financial Officer, Chief Operations Officer, Chief Technology Officer, Chief People Officer, Executive VP Global Business Development, Sales, Executive VP Product Management and the Executive VP General Counsel & company secretary, consider the group's performance from a product perspective and have identified three primary reportable segments:

- Wireless – this part of the business manufactures and sells compound semiconductor material for the wireless market which includes radio frequency devices that enable wireless communications.
- Photonics – this part of the business manufactures and sells compound semiconductor material for the photonics market which includes applications that either transmit or sense light, both visible and infrared.
- CMOS++ – this part of the business manufactures and sells advanced semiconductor materials related to silicon which include the combination of the advanced properties of compound semiconductors with those of lower cost silicon technologies.

The Executive Leadership Team primarily use revenue and a measure of adjusted operating profit to assess the performance of the operating segments. Measures of total assets and liabilities for each reportable segment are not reported to the Executive Leadership Team and therefore have not been disclosed.

4.2 Adjusted Operating Loss

Adjusted operating loss excludes the effects of significant non-cash, non-operational or significant and infrequent items of income and expenditure which may have an impact on the quality of earnings, such as restructuring costs, CEO recruitment costs and impairments where the impairment is the result of an isolated, non-recurring event. Adjusted operating loss also excludes the effects of equity settled share based payments.

Finance costs are not allocated to segments because treasury and the cash position of the group is managed centrally.

	2022 £'000	2021 £'000
Revenue		
Wireless	76,016	83,217
Photonics	88,637	68,067
CMOS++	2,841	2,812
Revenue	167,494	154,096
Adjusted operating loss		
Wireless	4,705	7,305
Photonics	11,162	1,737
CMOS++	(1,513)	(586)
Central corporate costs	(17,911)	(14,910)
Adjusted operating loss	(3,557)	(6,454)
Adjusted items (see note 5)		
Wireless	(63,754)	(8,128)
Photonics	(5,438)	(3,941)
CMOS++	(10)	(14)
Central corporate costs	(217)	(1,441)
Operating loss	(72,976)	(19,978)
Finance costs	(2,427)	(2,213)
Loss before tax	(75,403)	(22,191)

4. Segmental analysis continued

4.3 Revenue – Disaggregation of segmental revenue from contracts with customers

The group derives revenue from the transfer of goods, services and intellectual property over time and at a point in time. Revenues from external customers derive from the sale of standard or bespoke compound semiconductor material, or from the sale or licensing of intellectual property.

Disaggregate Segment Revenue	Wireless 2022 £'000	Photonics 2022 £'000	CMOSS++ 2022 £'000	Total 2022 £'000
Timing of revenue recognition				
<i>At a point in time</i>				
Standard customer products	–	14,493	–	14,493
Intellectual property licenses	–	1,500	–	1,500
<i>Over time</i>				
Bespoke customer products	76,016	72,644	2,841	151,501
Total revenue	76,016	88,637	2,841	167,494

Disaggregate Segment Revenue	Wireless 2021 £'000	Photonics 2021 £'000	CMOSS++ 2021 £'000	Total 2021 £'000
Timing of revenue recognition				
<i>At a point in time</i>				
Standard customer products	–	11,760	–	11,760
Intellectual property licenses	–	–	–	–
<i>Over time</i>				
Bespoke customer products	83,217	56,307	2,812	142,336
Total revenue	83,217	68,067	2,812	154,096

Included within bespoke customer product revenue is revenue of £62,571,000 (2021: £63,725,000) that relates to supplier managed inventory arrangements where billing occurs from the earlier of a specified contractual backstop date following delivery, or when the product is drawn from inventory by the customer.

Revenues of approximately £78,698,000 (2021: £64,522,000) are derived from three customers (2021: three) who each account for greater than 10% of the Group's total revenues:

Customer	Segment	2022 £'000	2022 % revenue	2021 £'000	2021 % revenue
Customer 1	Wireless	37,721	23%	34,946	23%
Customer 2	Photonics	21,964	13%	19,978	13%
Customer 3*	Photonics & Wireless	19,013	11%	9,598	6%

There are no customers in the CMOS++ segment that account for greater than 10% of the Group's total revenue.

* 'Customer 3' in 2022 is not the same customer as 'Customer 3' in 2021.

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for the year ended 31 December 2022

4.4 Geographical information

Revenue by location of customer

	2022 £'000	2021 £'000
Americas	112,295	99,842
United States of America	112,284	99,817
Rest of Americas	11	25
Europe, Middle East & Africa (EMEA)	16,409	13,476
France	2,104	2,166
Germany	3,286	3,893
Israel	3,080	1,598
United Kingdom	4,578	3,643
Rest of EMEA	3,361	2,176
Asia Pacific	38,790	40,778
People's Republic of China	5,961	10,311
Japan	13,937	7,217
Taiwan	13,221	21,247
Rest of Asia Pacific	5,671	2,003
Total revenue	167,494	154,096

Non-current assets by location

	Property, plant and equipment		Intangible assets		Right of use assets	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
USA	46,584	40,824	20,826	66,177	10,060	10,071
Singapore	–	6,283	–	9,623	–	–
Taiwan	32,044	31,188	1,506	4,268	516	826
UK	48,427	51,435	14,682	15,798	30,856	33,370
	127,055	129,730	37,014	95,866	41,432	44,267

5. Alternative performance measures

The Group's results report certain financial measures before a number of adjusted items that are not defined or recognised under IFRS, including adjusted earnings before interest, tax, depreciation and amortisation, adjusted earnings before interest, tax, depreciation and amortisation margin, 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.

	Adjusted Results £'000	Adjusted Items £'000	2022 Reported Results £'000	Adjusted Results £'000	Adjusted Items £'000	2021 Reported Results £'000
Revenue	167,494	–	167,494	154,096	–	154,096
Cost of sales	(140,962)	(149)	(141,111)	(135,325)	(1,127)	(136,452)
Gross profit	26,532	(149)	26,383	18,771	(1,127)	17,644
SG&A	(26,780)	(4,431)	(31,211)	(25,336)	(4,986)	(30,322)
Impairment of intangibles	–	(66,155)	(66,155)	–	(7,411)	(7,411)
Impairment of receivables	(2,300)	–	(2,300)	34	–	34
Other losses	(381)	–	(381)	–	–	–
Profit on disposal of PPE and intangibles	(628)	1,316	688	77	–	77
Operating loss	(3,557)	(69,419)	(72,976)	(6,454)	(13,524)	(19,978)
Finance costs	(2,427)	–	(2,427)	(2,213)	–	(2,213)
Loss before tax	(5,984)	(69,419)	(75,403)	(8,667)	(13,524)	(22,191)
Taxation	64	798	862	(10,614)	1,803	(8,811)
Loss for the period	(5,920)	(68,621)	(74,541)	(19,281)	(11,721)	(31,002)

	Pre-tax Adjustment £'000	Tax Impact £'000	2022 Adjusted Results £'000	Pre-tax Adjustment £'000	Tax Impact £'000	2021 Adjusted Results £'000
Share based payments	(223)	(200)	(423)	(1,691)	(13)	(1,704)
Share based payments – CEO recruitment	(109)	–	(109)	–	–	–
CEO Recruitment	(96)	–	(96)	(741)	–	(741)
Impairment – goodwill	(62,716)	–	(62,716)	–	–	–
Impairment – other intangibles	(3,439)	724	(2,715)	(7,411)	1,816	(5,595)
Restructuring	(4,152)	–	(4,152)	(3,681)	–	(3,681)
Restructuring – profit on disposal of PPE	1,316	274	1,590	–	–	–
Total	(69,419)	798	(68,621)	(13,524)	1,803	(11,721)

The nature of the adjusted items is as follows:

- Share based payments – The charge (2021: charge) relates to share based payments recorded in accordance with IFRS 2 'Share based payment' of which £149,000 (2021: £1,127,000) has been classified within cost of sales in gross profit and £74,000 (2021: £564,000) has been classified as selling, general and administrative expenses in operating profit. £nil cash has been defrayed in the year (2021: £46,000) in respect of employer social security contributions following the exercise of unapproved employee share options.
- Chief Executive Officer recruitment – Chief Executive Officer recruitment costs include the Chief Executive Officer's starting bonus of £1,000,000, of which £200,000 relates to a share based award and £800,000 relates to a cash award payable over the first three years of employment, costs associated with the transition of the former Chief Executive to a non-executive role and recruitment fees. The charge of £205,000 (2021: £741,000) includes share award and cash costs associated with the new Chief Executive Officer's starting bonus of £435,000 (2021: £nil), settlement costs and legal fees of £nil (2021: £319,000) associated with the transition of the former Chief Executive Officer to a non-executive role and a credit of £230,000 (2021: £422,000 fees) relating to external recruitment fees. Cash costs defrayed in the period total £715,000 (2021: £152,000).

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- Restructuring – The charge of £4,152,000 (2021: £3,681,000) relates to restructuring costs associated with the announced closure of the Group's manufacturing facility in Pennsylvania, USA and the closure of the Group's manufacturing facility in Singapore.
- Restructuring charges of £1,136,000 (2021: £661,000) relate to employee related costs associated with 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 year total £606,000 (2021: £342,000).
- Restructuring charges of £3,016,000 (2021: £3,020,000) consist of employee related costs of £220,000 (2021: £1,540,000), site-decommissioning costs of £1,512,000 (2021: £1,480,000), asset write downs of £863,000 (2021: £nil) and asset transfer costs of £421,000 (2021: £nil) relating to the announced closure of the Group's manufacturing facility in Singapore. The charge was classified as selling, general and administrative expenses within operating loss. Cash costs defrayed in the year total £5,088,000 (2021: £nil).
- Restructuring profits on disposal of £1,316,000 (2021: £nil) consist of the sale of assets in Singapore following the cessation of trade in the year and the sale of assets in North Carolina to facilitate the consolidation of the Group's manufacturing operations from Pennsylvania. Proceeds received in the year total £6,073,000 (2021: £nil) with a profit on disposal of £1,316,000 (2021: £nil) classified within 'Profit on disposal of intangible assets and property, plant and equipment'.
- Impairment of goodwill – The non-cash charge of £62,716,000 (2021: £nil) relates to impairment costs associated with the Wireless CGU of £62,382,000 (2021: £nil) and the Photonics CGU of £334,000 (2021: £nil) – see note 13.
- Impairment of other intangibles – The non-cash charge of £3,439,000 (2021: £7,411,000) relates to the impairment of certain technology development costs and intellectual property patent assets.
- The non-cash impairment charge of £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 prior year non-cash impairment charge of £7,411,000 related to the impairment of cREO™ filter technology development costs and patent assets and the impairment of Photonic quasi crystal technology related development cost where the Group had taken the decision to pause development related activities which have not recommenced in the current period given the lack of visibility over the timeline to commercialisation of each of the technologies.
- The cash impact of adjusted items in the consolidated cash flow statement represent costs associated with the recruitment of the group's new Chief Executive Officer (£715,000), onerous contract royalty payments related to the Group's cREO™ technology (£370,000), payment of employee related costs associated with the announced closure of the Group's site in Pennsylvania (£606,000) and payment of employee and site related decommissioning costs associated with the closure of the Group's manufacturing facility in Singapore (£5,088,000) net of the sale proceeds associated with certain items of plant and equipment sold as part of the closure of the Group's manufacturing facility in Singapore (£6,073,000).

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

	2022 £'000	2021 £'000
Loss attributable to equity shareholders	(74,541)	(31,002)
Finance costs	2,427	2,213
Tax	(862)	8,811
Depreciation of property, plant and equipment	14,529	13,309
Depreciation of right of use assets	3,981	3,854
Amortisation of intangible fixed assets	7,784	8,047
Loss/(profit) on disposal of PPE and intangibles*	628	(77)
Adjusted Items	69,419	13,524
Share based payments	223	1,691
Share based payments – Chief Executive Officer recruitment	109	–
Chief Executive Officer recruitment	96	741
Restructuring	4,152	3,681
Restructuring – profit on disposal of PPE	(1,316)	–
Impairment of intangibles	66,155	7,411
Adjusted EBITDA	23,365	18,679
Adjusted EBITDA margin	14%	12%

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

6. Operating loss

	2022 £'000	2021 £'000
The operating loss is stated after charging/(crediting):		
Depreciation of property, plant and equipment	14,529	13,309
Depreciation of right of use assets	3,981	3,854
Amortisation of intangible assets	7,784	8,047
Services provided by auditors	567	382
Expenses relating to variable lease payments not included in the measurement of the lease liability	6,822	6,234
Research and development	1,127	1,968
Exchange losses/(gains)	1,331	2,378
Cost of raw materials consumed	62,693	59,466
(Profit) on disposal of fixed assets	(688)	(77)
Other losses – fair value movements on derivative financial instruments	381	–
Adjusted items (see note 5)	69,419	13,524
Impairment of intangible assets	66,155	7,411
Restructuring	2,836	3,681
Share based payments	332	1,691
CEO recruitment	96	741

Expenses relating to variable lease payments not included in the measurement of the lease liability principally relate to the variable cash costs of production based on usage that are payable to the Group's joint venture, CSC, associated with the Group's right of use of the joint venture's assets (note 3 and 30).

	2022 £'000	2021 £'000
Services provided by auditors		
Fees payable to the company's auditor and its associates for the audit of the parent company and consolidated financial statements	547	335
Fees payable to the company's auditor and its associates for other services:		
• Audit of the company's subsidiaries	20	27
• Audit-related assurance services	–	20
Total KPMG LLP (group auditors)	567	382

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7. Employee costs

	2022 £'000	2021 £'000
Employee costs (including directors' remuneration)		
Wages and salaries	39,410	37,743
Social security costs	4,040	3,279
Other pension costs	1,969	1,801
Share based payments	332	1,691
	45,751	44,514

	2022 Number	2021 Number
Average number of employees (including directors)		
Manufacturing	531	546
Selling, general and administrative	134	134
	665	680

Directors' emoluments, share options and other long-term incentive plan details, including details of all outstanding options and long-term incentive awards, and the value of director pension contributions paid, are set out in the Remuneration Report where the relevant disclosures have been highlighted as audited. Audited tables include 'Single total figure of remuneration for Executive Directors' on page 80, 'Scheme interest awarded in 2022', 'Exit payments made in the year', 'Single total figure of remuneration for Non-Executive Directors' on page 82 and 'LTIP' on page 83.

Key management within the Group comprises members of the Executive Leadership Team and Non-Executive Directors. Compensation to key management in 2022 totalled £3,577,911 (2021: £2,404,031), consisting of emoluments and other benefits in kind of £3,409,103 (2021: £2,315,815) and pension contributions of £168,808 (2021: £88,216). The charge for share based payment awards to key management totalled £132,005 (2021: £705,681). A provision and charge for termination costs payable to key management who have left the business totalled £150,000 (2021: £nil).

8. Finance (costs)/income

	2022 £'000	2021 £'000
Bank and other loans	(1,099)	(905)
Interest expense on lease liabilities	(1,328)	(1,308)
	(2,427)	(2,213)

9. Taxation

	2022 £'000	2021 £'000
Income tax expense		
Current tax on profits for the year	89	1,124
Total current tax charge	89	1,124
Origination and reversal of temporary differences	(713)	8,199
Adjustment in respect of prior years	(238)	(512)
Total deferred tax charge/(credit)	(951)	7,687
Total tax charge/(credit)	(862)	8,811

The tax on the Group's loss before tax differs from the theoretical amount that would arise from applying the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%) as follows:

	2022 £'000	2021 £'000
Loss on ordinary activities before taxation	(75,403)	(22,191)
Tax charge at 19.00% thereon (2021: 19.00%)	14,327	4,216
Effects of:		
Expenses not deductible for tax purposes	(14,105)	(984)
Overseas tax rate differences	2,262	196
Tax losses for which no deferred tax asset was recognised	(2,159)	(4,135)
Derecognition of previously recognised deferred tax assets	–	(8,190)
Share option schemes	(263)	(426)
Adjustments in respect of prior years	800	512
Total tax (charge)/credit for the year	862	(8,811)

Recognition of deferred tax assets is based on an assessment of future cash flow forecasts and the associated profitability of the Group's operations, an assessment which has restricted the ability of the Group to recognise deferred tax assets for current year UK, US and Singapore trading losses.

Deferred tax asset recognition has been restricted in the UK to reflect future forecast profitability, an assessment that includes the impact of softness in trading forecasts as a result of the industry-wide semiconductor downturn and the Group's consolidation and investment in central and functional roles in the UK. As a result, lower utilisation of UK deferred tax assets is projected, which has restricted the ability to recognise deferred tax assets for current year losses.

Deferred tax asset recognition has been restricted in the US to reflect future forecast profitability, an assessment that includes the impact of softness in trading forecasts as a result of the industry-wide semiconductor downturn and the Group's consolidation of its US manufacturing operations. As a result, lower utilisation of US deferred tax assets is projected which has restricted the ability to recognise deferred tax assets for current year losses.

Deferred tax asset recognition has been restricted in Singapore due to the closure of the manufacturing site in 2022.

The share option schemes amount shown above represents the change in the expected tax impact on the exercise of options, principally reflecting the reduction in future corporation tax deductions associated with a reduction in the number of options where performance criteria are expected to be achieved.

The Group's results report certain financial measures after a number of adjusted items with a tax impact of £798,000 (2021: £1,803,000 credit) as detailed in note 5.

Deferred tax is measured at the tax rates that are expected to apply in the relevant territory in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been substantively enacted at the balance sheet date.

Finance Act 2021, which was substantively enacted on 24 May 2021, included legislation to increase the rate of corporation tax to 25% from 1 April 2023. In the Autumn Statement in November 2022, the UK government confirmed that the increase in corporation tax rate to 25% from 1 April 2023 will go ahead. Accordingly, any closing UK deferred tax asset or liability in the financial statements has been recognised in accordance with the rate enacted as part of the Finance Act 2021 with any timing differences expected to reverse on or after 1 April 2023 recognised at a corporation tax rate of 25%.

	2022 £'000	2021 £'000
Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Deferred tax: Share options	91	(93)
Total tax (charge)/credit to equity for the year	91	(93)

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10. Deferred Taxation

Deferred tax	2022 £'000	2021 £'000
At 1 January	(2,060)	5,767
Income statement (charge)/credit recognised in the year	951	(7,687)
Tax charge recognised directly in equity	91	(93)
Exchange differences	(47)	(47)
At 31 December	(1,065)	(2,060)

The amount of deferred tax asset expected to unwind within the next twelve months is £nil (2021: £nil) in relation to utilisation of tax losses. The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Group

Deferred tax liabilities	Accelerated Capital Allowances £'000	Intangibles £'000	Total £'000
At 1 January 2021	(9,795)	(4,696)	(14,491)
Credit to income statement	(1,493)	561	(932)
Exchange differences	(82)	(20)	(102)
At 31 December 2021	(11,370)	(4,155)	(15,525)
(Charge)/credit to income statement	(596)	990	394
Exchange differences	(488)	(18)	(506)
At 31 December 2022 before set-off	(12,454)	(3,183)	(15,637)
Set-off of tax*			14,572
At 31 December 2022 after set-off			(1,065)

Deferred tax assets	Tax Losses £'000	Other £'000	Total £'000
At 1 January 2021	19,160	1,098	20,258
Charged to income statement	(6,216)	(539)	(6,755)
Charged to equity	–	(93)	(93)
Exchange differences	52	3	55
At 31 December 2021	12,996	469	13,465
Charged to income statement	695	(138)	557
Charged to equity	–	91	91
Exchange differences	458	1	459
At 31 December 2022 before set-off	14,149	423	14,572
Set-off of tax*			(14,572)
At 31 December 2022 after set-off			–

* Deferred tax assets and deferred tax liabilities can only be offset in the statement of financial position if the entity has the legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same taxing authority on the same entity or different entities that intend to realise the asset and settle the liability at the same time.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits from the same trade is probable. The Group assesses future forecast taxable profit as probable by reference to its five-year plan, using underlying cash flow forecasts based on those used in the Group's goodwill impairment review. Any potential deferred tax asset assessed by reference to the level of future forecast taxable profit over this five-year period has, in the current year, been restricted to the extent of taxable temporary differences due to the Group's current financial performance and recent history of taxable losses in its UK, US and Singapore operations.

The Group did not recognise deferred income tax assets of £33,238,000 (2021: £31,260,000) in respect of tax losses amounting to £146,304,000 (2021: £134,808,000) that can be carried forward against future taxable income. The deferred tax asset can be recognised if sufficient profits from the same trade arise in future periods.

The Group did not recognise deferred tax assets of £1,627,000 (2021: £1,368,000) in respect of carried forward notional tax credits on the R&D Expenditure Credit Scheme in the UK.

10. Deferred Taxation continued

Tax losses in the UK totalling £75,610,000 (2021: £71,530,000) have no date of expiry. Tax losses in Singapore totalling £31,880,000 (2021: £20,714,000) have no date of expiry. Tax losses in the US can be carried forward against future taxable income for 20 years before expiring. Of the Group's total US tax losses of £96,100,000 (2021: £95,175,000) losses amounting to £8,462,000 and £9,071,000 expire in 2023 and 2024.

Deferred tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries, as such amounts are permanently reinvested.

A credit of £657,000 (2021: £376,000) has been recognised within operating profit in relation to claims made under the R&D Expenditure Credit Scheme (RDEC) in the UK.

Company

Deferred tax assets	Tax Losses £'000	Share Options £'000	Other Timing Differences £'000	Total £'000
At 1 January 2021	3,703	283	(11)	3,975
Credited/(charged) to income statement	(3,703)	(124)	25	(3,802)
Charged to equity	–	(46)	–	(46)
At 31 December 2021	–	113	14	127
(Charged)/credited to income statement	744	(40)	(830)	(126)
Charged to equity	–	(1)	–	(1)
At 31 December 2022	744	72	(816)	–

11. Dividends

No dividend has been paid or proposed in 2022 (2021: £nil).

12. Loss per share

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

Diluted loss per share is calculated by dividing the loss 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 adjusted items. The Directors believe that the adjusted earnings per share measure provides a useful comparison of performance and allows 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 adjustments are detailed in note 5.

	2022 £'000	2021 £'000
Loss attributable to ordinary shareholders	(74,541)	(31,002)
Adjustments to loss after tax (note 5)	68,621	11,721
Adjusted loss attributable to ordinary shareholders	(5,920)	(19,281)
	2022 Number	2021 Number
Weighted average number of ordinary shares	804,466,357	801,653,662
Dilutive share options	8,797,413	4,097,303
Adjusted weighted average number of ordinary shares	813,263,770	805,750,965
Adjusted basic loss per share	(0.74p)	(2.41p)
Basic loss per share	(9.27p)	(3.87p)
Adjusted diluted loss per share	(0.74p)	(2.41p)
Diluted loss per share	(9.27p)	(3.87p)

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for the year ended 31 December 2022

13. Intangible assets

Group	Goodwill £'000	Patents £'000	Development costs £'000	Software £'000	Customer contracts £'000	Total £'000
Cost						
At 1 January 2022	64,293	8,926	83,206	10,332	7,427	174,184
Additions	–	261	3,795	3,422	–	7,478
Disposals	–	(354)	–	–	–	(354)
Foreign exchange	7,835	27	5,270	128	903	14,163
At 31 December 2022	72,128	8,860	92,271	13,882	8,330	195,471
Accumulated amortisation and impairment						
At 1 January 2022	–	7,983	55,262	7,646	7,427	78,318
Charge for the year	–	200	6,767	817	–	7,784
Disposals	–	(354)	–	–	–	(354)
Impairment	62,716	–	3,439	–	–	66,155
Foreign exchange	1,756	23	3,835	37	903	6,554
At 31 December 2022	64,472	7,852	69,303	8,500	8,330	158,457
Net book value						
At 31 December 2022	7,656	1,008	22,968	5,382	–	37,014
At 31 December 2021	64,293	943	27,944	2,686	–	95,866
Group						
	Goodwill £'000	Patents £'000	Development costs £'000	Software £'000	Customer contracts £'000	Total £'000
Cost						
At 1 January 2021	63,732	8,613	79,467	8,894	7,327	168,033
Additions	–	311	2,994	1,423	–	4,728
Foreign exchange	561	2	745	15	100	1,423
At 31 December 2021	64,293	8,926	83,206	10,332	7,427	174,184
Accumulated amortisation and impairment						
At 1 January 2021	–	4,972	43,664	6,298	7,327	62,261
Charge for the year	–	213	6,490	1,344	–	8,047
Impairment	–	2,796	4,615	–	–	7,411
Foreign exchange	–	2	493	4	100	599
At 31 December 2021	–	7,983	55,262	7,646	7,427	78,318
Net book value						
At 31 December 2021	64,293	943	27,944	2,686	–	95,866
At 31 December 2020	63,732	3,641	35,803	2,596	–	105,772

Customer contract intangible assets relate to customer contracts acquired as part of a business combination.

The amortisation charge of £7,784,000 (2021: £8,047,000) has been classified within 'selling, general and administrative expenses' in the Consolidated Income Statement. The impairment charge of £66,155,000 (2021: £7,411,000) has been classified within 'impairment loss on intangible assets' in the Consolidated Income Statement. Development costs include £4,278,000 (2021: £2,753,000) and Software costs include £4,105,000 (2021: £684,000) of assets not subject to amortisation.

Photonics operating segment development cost impairment charges of £3,439,000 relate 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 given the current lack of visibility over the timeline to commercialisation of each of the associated technologies. The net book value of the assets has been impaired to £nil with the charge recognised in 'selling, general and administrative expenses' in the Consolidated Income Statement.

13. Intangible assets continued

Wireless operating segment development and patent cost impairment charges of £4,692,000 in 2021 related to the impairment of the Group's filter related cREO™ patent and development costs. Photonics operating segment development and patent cost impairment charges of £2,716,000 in 2021 relate to the impairment of the Group's photonic quasi crystal patent and development costs. The net book value of the filter related cREO™ and photonic quasi crystal development cost and patent assets were impaired to £nil with the charge recognised in 'selling, general and administrative expenses' in the Consolidated Income Statement in 2021.

Impairment tests for goodwill

Goodwill is tested for impairment annually and whenever there is an indication of impairment at the level of the CGU to which it is allocated. 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, goodwill is tested for impairment by grouping operational sites and production assets into CGUs based on type of production.

	2022 Cost £'000	2022 Impairment £'000	2022 Foreign exchange £'000	2022 NBV £'000	2021 Cost £'000	2021 Impairment £'000	2021 Foreign exchange £'000	2021 NBV £'000
Allocation of goodwill by CGU								
Wireless	64,138	(62,382)	(1,756)	–	57,169	–	–	57,169
Photonics	7,990	(334)	–	7,656	7,124	–	–	7,124
Total Goodwill	72,128	(62,716)	(1,756)	7,656	64,293	–	–	64,293

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% (2021: 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 forecast and five-year plan which has been adjusted to exclude the impact of expansionary capital expenditure and certain linked earnings and cash flows. The Group is currently experiencing weaker customer demand and a reduction in customers orders and forecasts as a result of the industry downturn. Revenue assumptions in year 1 reflects 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 2022 cash flow forecast:

2022	Year 1 %	Year 2 %	Year 3 %	Year 4 %	Year 5 %	5 Year CAGR %
Risk adjusted discount rate	18.7%	18.7%	18.7%	18.7%	18.7%	N/A
Photonics revenue growth rate	Adjusted Board approved forecast*	Adjusted Board approved forecast*	39.9%	12.9%	17.9%	13.8%
Wireless revenue growth rate	Adjusted Board approved forecast*	Adjusted Board approved forecast*	12.7%	16.7%	13.4%	10.8%

* Adjusted Board approved forecast relates to the Group's latest Board approved 2023 forecast and five year plan adjusted to exclude earnings and cash flows associated with expansionary capital expenditure

2021	Year 1 %	Year 2 %	Year 3 %	Year 4 %	Year 5 %
Risk adjusted discount rate	16.5%	16.5%	16.5%	16.5%	16.5%
Photonics growth rate	2022 Budget	5 Year Plan	5 Year Plan	5.5%	5.5%
Wireless growth rate	2022 Budget	5 Year Plan	5 Year Plan	9.4%	9.4%

The assumptions and growth rates contained in the Group's value in use calculations have been updated in 2022 to reflect the latest Board approved 2023 forecast and five-year plan which have been adjusted to exclude the impact of expansionary capital expenditure and certain linked earnings and cash flows. The assumptions and cash flows contained in the value in use calculations have been updated in the current year to reflect the industry-wide semiconductor downturn and latest industry trends and external market research. The value in use calculations comprise revenue, material costs and site manufacturing labour and overhead cost forecasts that have been assessed and updated by reference to a combination of customer and supplier specific information and market growth assumptions. The risk adjusted discount rate has been increased to reflect a combination of an increase

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13. Intangible assets continued

in the Group's cost of capital and greater risk associated with the Group's growth forecasts given the current financial performance of the business.

Wireless CGU

The recoverable amount of the Wireless CGU of £91,691,000, determined based on value in use calculations is less than the carrying amount of the associated goodwill, other intangible assets and property, plant and equipment allocated to the CGU and has resulted in an impairment in goodwill of £62,382,000 (2021: £nil). This impairment has arisen due to reductions in current and forecast levels of demand for wireless products as a result of the industry-wide semiconductor downturn. This downturn has resulted from geopolitical shifts, the effects of the COVID-19 pandemic in which inventory levels built up throughout the supply chain and the effects of increasing inflationary pressure. In conjunction with this, reductions in sales volumes, principally linked to lower levels of smartphone demand and continuing weakness in 5G infrastructure, are forecast to result in lower levels of capacity utilisation and operating profitability within this CGU.

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 increase or decrease by 1.0%, the magnitude of the Wireless CGU impairment would decrease or increase by £18,000,000. There are many revenue assumptions which are included in the forecast. We have disclosed the impact a 1% change in revenue growth rate would have and even small changes in other aspects of the revenue assumptions would have material impact on the value in use for which we have not disclosed. A 1% change in the revenue growth rate demonstrates the significant impact on a wide range of these revenue assumptions.

If direct wafer product margins for all products used in the value in use calculations to determine the recoverable amount were reduced by 1.0%, the magnitude of the Wireless CGU impairment would increase by £18,000,000.

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 Wireless CGU impairment would increase by £3,300,000.

Photonics CGU

The recoverable amount of the Photonics CGU of £153,295,000, determined based on value in use calculations is less than the carrying amount of the associated goodwill, other intangible assets and property, plant and equipment allocated to the CGU and has resulted in an impairment in goodwill of £334,000 (2021: £nil). This impairment has arisen due to reductions in current and forecast levels of demand for photonic products as a result of the industry-wide semiconductor downturn. This downturn has resulted from geopolitical shifts, the effects of the COVID-19 pandemic in which inventory levels built up throughout the supply chain and the effects of increasing inflationary pressure. In conjunction with this, reductions in sales volumes, principally linked to lower levels of smartphone demand are forecast to result in lower levels of capacity utilisation and operating profitability within this CGU.

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 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 increase or decrease by 1.0%, the magnitude of the Photonics CGU impairment would decrease or increase by £21,500,000. There are many revenue assumptions which are included in the forecast. We have disclosed the impact a 1% change in revenue growth rate would have and even small changes in other aspects of the revenue assumptions would have material impact on the value in use for which we have not disclosed. A 1% change in the revenue growth rate demonstrates the significant impact on a wide range of these revenue assumptions.

If direct wafer product margins for all products used in the value in use calculations to determine the recoverable amount were reduced by 1.0%, the magnitude of the Photonics CGU impairment would increase by £21,800,000.

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 Photonics CGU impairment would increase by £5,800,000.

13. Intangible assets continued

Company	Patents £'000	Software £'000	Total £'000
Cost			
At 1 January 2022	7,454	1,578	9,032
Additions	261	3,422	3,683
At 31 December 2022	7,715	5,000	12,715
Accumulated amortisation			
At 1 January 2022	6,614	475	7,089
Charge for the year	168	143	311
At 31 December 2022	6,782	618	7,400
Net book value			
At 31 December 2022	933	4,382	5,315
At 31 December 2021	840	1,103	1,943
Company			
	Patents £'000	Software £'000	Total £'000
Cost			
At 1 January 2021	7,169	870	8,039
Additions	285	708	993
At 31 December 2021	7,454	1,578	9,032
Accumulated amortisation			
At 1 January 2021	3,991	335	4,326
Charge for the year	181	140	321
Impairment	2,442	–	2,442
At 31 December 2021	6,614	475	7,089
Net book value			
At 31 December 2021	840	1,103	1,943
At 31 December 2020	3,178	535	3,713

Patent cost impairment charges of £2,442,000 in 2021 relate to the impairment of filter related cREO™ patent costs and photonic quasi crystal patent costs. The impairments arose following the decision to pause technology development activities related to the patents, given the lack of visibility over the timeline to commercialisation of the technologies linked to the patents. The net book value of the patent assets was impaired to £nil.

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for the year ended 31 December 2022

14. Property, plant and equipment

Group	Land and buildings £'000	Short leasehold improvements £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 January 2022	18,507	38,347	13,272	202,842	272,968
Additions	26	100	2,159	10,155	12,440
Disposals	–	(6,671)	(56)	(15,997)	(22,724)
Foreign exchange	383	3,774	330	13,513	18,000
At 31 December 2022	18,916	35,550	15,705	210,513	280,684
Accumulated depreciation					
At 1 January 2022	6,621	23,457	6,538	106,622	143,238
Charge for the year	952	2,623	1,005	9,949	14,529
Disposals	–	(6,671)	(57)	(9,481)	(16,209)
Foreign exchange	147	1,999	226	9,699	12,071
At 31 December 2022	7,720	21,408	7,712	116,789	153,629
Net book value					
At 31 December 2022	11,196	14,142	7,993	93,724	127,055
At 31 December 2021	11,886	14,890	6,734	96,220	129,730

Property, plant and equipment includes assets in the course of construction with a net carrying value of £21,091,000 (2021: £12,262,000).

Group	Land and buildings £'000	Short leasehold improvements £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost					
At 1 January 2021	18,329	37,787	11,500	190,022	257,638
Additions	–	176	1,487	13,868	15,531
Disposals	–	–	–	(2,817)	(2,817)
Foreign exchange	178	384	285	1,769	2,616
At 31 December 2021	18,507	38,347	13,272	202,842	272,968
Accumulated depreciation					
At 1 January 2021	5,669	21,176	5,242	99,322	131,409
Charge for the year	921	2,097	1,201	9,090	13,309
Impairment	–	–	–	74	74
Disposals	–	–	–	(2,809)	(2,809)
Foreign exchange	31	184	95	945	1,255
At 31 December 2021	6,621	23,457	6,538	106,622	143,238
Net book value					
At 31 December 2021	11,886	14,890	6,734	96,220	129,730
At 31 December 2020	12,660	16,611	6,258	90,700	126,229

14. Property, plant and equipment continued

Company	Fixtures and fittings £'000
Cost	
At 1 January 2022	241
Additions	395
Disposals	(98)
At 31 December 2022	538
Accumulated depreciation	
At 1 January 2022	134
Charge for the year	15
Disposals	–
At 31 December 2022	149
Net book value	
At 31 December 2022	389
At 31 December 2021	107
<hr/>	
Company	Fixtures and fittings £'000
Cost	
At 1 January 2021	135
Additions	106
At 31 December 2021	241
Accumulated depreciation	
At 1 January 2021	120
Charge for the year	14
At 31 December 2021	134
Net book value	
At 31 December 2021	107
At 31 December 2020	15

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for the year ended 31 December 2022

15. Right of use assets

Group	Land and buildings £'000	Fixtures and Fittings £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2022	60,849	23	729	61,601
Disposals	(8,230)	–	(21)	(8,251)
Foreign exchange	2,445	3	74	2,522
At 31 December 2022	55,064	26	782	55,872
Accumulated depreciation				
At 1 January 2022	16,970	5	359	17,334
Charge for the year	3,782	6	193	3,981
Disposals	(8,166)	–	(21)	(8,187)
Foreign exchange	1,270	1	41	1,312
At 31 December 2022	13,856	12	572	14,440
Net book value				
At 31 December 2022	41,208	14	210	41,432
At 31 December 2021	43,879	18	370	44,267

Group	Land and buildings £'000	Fixtures and Fittings £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2021	51,050	17	681	51,748
Additions	10,531	6	123	10,660
Disposals	(558)	–	(88)	(646)
Foreign exchange	(174)	–	13	(161)
At 31 December 2021	60,849	23	729	61,601
Accumulated depreciation				
At 1 January 2021	14,154	–	255	14,409
Charge for the year	3,663	5	186	3,854
Disposals	(519)	–	(88)	(607)
Foreign exchange	(328)	–	6	(322)
At 31 December 2021	16,970	5	359	17,334
Net book value				
At 31 December 2021	43,879	18	370	44,267
At 31 December 2020	36,896	17	426	37,339

16. Investments

Company	Investments in subsidiaries £'000	Total £'000
Cost		
At 1 January 2022	124,279	124,279
Subsidiaries share based payments charge	179	179
At 31 December 2022	124,458	124,458
Provisions for impairment		
At 1 January 2022	48,210	48,210
At 31 December 2022	48,210	48,210
Net book value		
At 31 December 2022	76,248	76,248
At 31 December 2021	76,069	76,069

Company	Investments in subsidiaries £'000	Total £'000
Cost		
At 1 January 2021	123,452	123,452
Subsidiaries share based payments charge	827	827
At 31 December 2021	124,279	124,279
Provisions for impairment		
At 1 January 2021	32,032	32,032
Impairment	16,178	16,178
At 31 December 2021	48,210	48,210
Net book value		
At 31 December 2021	76,069	76,069
At 31 December 2020	91,420	91,420

Details of the company's subsidiaries are set out in note 29.

Investments are reviewed for impairment trigger events annually. This review includes a qualitative assessment of the business performance of each investment and a quantitative assessment of any potential impact on the carrying value of each investment arising from the results of the Group's value in use calculations prepared as part of the Group's goodwill impairment review.

The announced closure of the Group's manufacturing facility in Singapore was identified as an impairment trigger event in 2021, with the planned cessation of operations and closure of the manufacturing site resulting in the impairment of the Company's investment in its Singapore subsidiaries in 2021 from a carrying value of £5,353,000 to £nil.

The Group's value in use calculations prepared as part of the Group's goodwill impairment review in 2021 identified an impairment trigger event for the Company's investment in its sub-group, headed by Wafer Technology International Limited, where future financial performance was forecast to decline. The decline in forecast future profitability was assessed in 2021 by reference to the Group's value in use cash flow forecasts and resulted in a £10,825,000 impairment in the Company's investment in its Wafer Technology sub-group.

Indicators that impairment losses might have reversed are assessed annually. No events indicating a reversal of impairment losses have been identified as part of the review in the current year (2021: none).

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17. Inventories

Group	2022 £'000	2021 £'000
Raw materials and consumables	24,800	25,028
Work-in-progress and finished goods	9,361	6,682
	34,161	31,710

The directors are of the opinion that the replacement values of inventories are not materially different to the carrying values stated above. The carrying values are stated net of impairment provisions of £14,233,000 (2021: £12,388,000). £2,811,000 (2021: £866,000) of inventories were written down during 2022 and an expense recognised in the income statement.

18. Trade and other receivables

Current	2022 Group £'000	2022 Company £'000	2021 Group £'000	2021 Company £'000
Trade receivables	21,638	–	20,659	–
Other receivables	3,143	173	4,170	704
Contract assets	17,898	–	8,915	–
Prepayments	2,149	432	5,116	1,421
	44,828	605	38,860	2,125

Non-current	2022 Group £'000	2022 Company £'000	2021 Group £'000	2021 Company £'000
Amounts owed by group undertakings	–	135,464	–	132,677
Other financial assets	–	–	–	–
	–	135,464	–	132,677

Contract assets relate to bespoke manufactured customer products where the Group has a guaranteed contractual right of payment. Contract assets are transferred to receivables at the point that manufactured products are delivered to customers, except for supplier managed inventory arrangements where contract assets are transferred to receivables from the earlier of a specified contractual date following delivery or when the product is drawn from inventory by the customer. All 2021 contract assets have been transferred to receivables during 2022.

Amounts owed by Group undertakings are unsecured and repayable on demand. Interest is charged at a rate of 5% per annum (2021: 5% per annum).

The Group classifies other financial assets at amortised cost. Other financial assets are classified at amortised cost as the asset is held within a business model whose objective is to collect contractual cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest. Other financial assets relate to £8,800,000 of impaired Preferred 'A' shares (2021: £8,800,000) issued by the Compound Semiconductor Centre Limited ('CSC'), a joint venture between the Group and Cardiff University (see note 30 for further details). The preference shares carry the following rights:

- No voting rights;
- Dividend equivalent to the HSBC Bank PLC base rate for the applicable period on the amount paid up, subject to CSC having available profits;
- Repayable in proportion to the outstanding principle from surplus cash generated.

The estimated fair values of trade receivables, other receivables, contract assets, other financial assets and amounts owed by group undertakings are set out in note 22.

19. Trade and other payables

	2022 Group £'000	2022 Company £'000	2021 Group £'000	2021 Company £'000
Current				
Trade payables	17,007	1,704	20,878	2,628
Amounts owed by group undertakings	–	23,272	–	24,972
Other taxation and social security	206	282	71	277
Other payables	5,747	3,195	1,346	–
Accruals and deferred income	14,585	1,300	14,788	2,510
	37,545	29,753	37,083	30,387

Accruals and deferred income include contract liabilities of £1,454,000 (2021: £758,000).

Amounts owed to group undertakings are unsecured and repayable on demand. Interest is charged at a rate of 5% per annum (2021: 5% per annum).

20. Borrowings

	2022 Group £'000	2022 Company £'000	2021 Group £'000	2021 Company £'000
Non-current borrowings				
Bank borrowings	20,643	16,529	10,365	–
Lease liabilities	46,026	–	49,693	–
	66,669	16,529	60,058	–
Current borrowings				
Bank borrowings	6,225	–	6,230	–
Lease liabilities	4,843	–	4,694	–
	11,068	–	10,924	–
Total borrowings	77,737	16,529	70,982	–

	2022 Group £'000	2022 Company £'000	2021 Group £'000	2021 Company £'000
Bank Borrowings				
Bank borrowings fall due for repayment as follows				
Within one year	6,225	–	6,230	–
Between one and five years	20,643	16,529	10,365	–
	26,868	16,529	16,595	–

On 30 December 2021, the Company refinanced its £28,688,000 (\$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 30 April 2023 and an option to extend the facility for a further 12 months. On 8 December 2022, the Company exercised its option and with the consent of HSBC Bank plc extended the committed term of the facility to 30 April 2024. Interest on the facility is payable at a margin of between 2.00 and 2.80 percent per annum over SONIA on any drawn balances. The facility was £16,529,000 (\$20,000,000) utilised at 31 December 2022 (2021: Undrawn).

On 29 August 2019 a subsidiary of the Group agreed a new £30,000,000 asset finance facility, provided by HSBC Bank plc, which 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.

The Group's bank facilities provided by HSBC Bank plc are subject to certain leverage and interest cover financial covenants. The Group has complied with all the financial covenants of its borrowing facilities during 2022 and 2021.

Notes to the financial statements continued

for the year ended 31 December 2022

20. Borrowings continued

Lease liabilities	2022 £'000	2021 £'000
Lease liabilities fall due for repayment as follows		
Within one year	4,843	4,694
Between one and five years	15,056	14,666
After five years	30,970	35,027
	50,869	54,387

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default. Lease liabilities principally relate to property.

21. Provisions for other liabilities and charges

Group	Restructuring £'000	Onerous Contract £'000	Warranty Provision £'000	Other £'000	2022 Total £'000	Restructuring £'000	Onerous Contract £'000	2021 Total £'000
As at 1 January	3,434	1,702	–	–	5,136	162	1,840	2,002
Charged to the income statement	2,868	–	31	150	3,049	3,617	–	3,617
Transfers	265	–	854	–	1,119	–	–	–
Utilised during the year	(5,694)	(370)	(9)	–	(6,073)	(342)	(138)	(480)
Foreign exchange	379	–	22	–	401	(3)	–	(3)
As at 31 December	1,252	1,332	898	150	3,632	3,434	1,702	5,136

Transfers relate to £265,000 of restructuring provisions reclassified from accruals and £854,000 of warranty provisions reclassified from trade receivables within the year.

Group	Restructuring £'000	Onerous Contract £'000	Warranty Provision £'000	Other £'000	2022 Total £'000	Restructuring £'000	Onerous Contract £'000	2021 Total £'000
Current	162	415	898	150	1,625	2,946	740	3,686
Non-current	1,090	917	–	–	2,007	488	962	1,450
Total	1,252	1,332	898	150	3,632	3,434	1,702	5,136

The restructuring provision relates to costs relating to the announced closure of the Group's manufacturing facility in Pennsylvania, USA and the Group's manufacturing facility in Singapore.

- The restructuring provision of £1,090,000 (2021: £488,000) associated with the announced closure of the Group's manufacturing facility in the USA relates to employee related costs that are expected to be utilised over a period up to 30 June 2024.
- The restructuring provision of £162,000 (2021: £2,946,000) associated with the announced closure of the Group's manufacturing facility in Singapore relates to employee related costs of £54,000 (2021: £1,540,000) and site decommissioning costs of £108,000 (2021: £1,406,000) that are expected to be utilised over a period up to 30 June 2023.

The onerous contract provision represents the cost of minimum guaranteed future royalty payments associated with the cREO™ technology acquired from Translucent Inc. The onerous contract provision is expected to be utilised over a period up to 31 December 2024.

The warranty provision relates to the costs of expected returns under warranty that are expected to be utilised over a period up to 30 June 2023.

The other provision relates to a charge for termination costs payable to key management who have left the business. The provision is expected to be utilised over a period up to 28 February 2023.

21. Provisions for other liabilities and charges continued

Company	Onerous Contract £'000	Other £'000	2022 £'000	Onerous Contract £'000	2021 £'000
As at 1 January	1,702	–	1,702	1,840	1,840
Charged to the income statement	–	150	150	–	–
Utilised during the year	(370)	–	(370)	(138)	(138)
Foreign exchange	–	–	–	–	–
As at 31 December	1,332	150	1,482	1,702	1,702

Company	2022 £'000	2021 £'000
Current	573	740
Non-current	909	962
As at 31 December	1,482	1,702

The onerous contract provision represents the cost of minimum guaranteed future royalty payments associated with the cREO™ technology acquired from Translucent Inc. The onerous contract provision is expected to be utilised over a period up to 31 December 2024.

The other provision relates to a charge for termination costs payable to key management who have left the business. The provision is expected to be utilised over a period up to 28 February 2023.

22. Financial Instruments

Financial instruments by category

Trade and other receivables (excluding prepayments) and cash and cash equivalents are classified as financial assets at amortised cost. Borrowings and trade and other payables are classified as financial liabilities at amortised cost. Both categories are initially measured at fair value and subsequently held at amortised cost. Financial instruments are classified as level 2 per the fair value hierarchy with the exception of preference share instruments which are classified as level 3.

Derivatives (forward exchange contracts) are classified as derivatives used for hedging and accounted for at fair value through profit and loss in the consolidated statement of comprehensive income.

Financial risk and treasury policies

The Group's finance team maintains liquidity, manages relations with the Group's bankers, identifies and manages foreign exchange risk and provides a treasury service to the Group's businesses. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions. The Group has clearly defined policies for the management of foreign exchange rate risk. The Group finance team does not undertake speculative foreign exchange dealings for which there is no underlying exposure. Exposures resulting from sales and purchases in foreign currency are matched where possible and the net exposure may be hedged by the use of forward exchange contracts.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables and contract assets due from customers, and monies on deposit with financial institutions.

Customer credit risk is managed at the Group and site level with credit risk assessments completed for all customers. If no independent credit rating is available, the credit quality of the customer is assessed by reference to the customers' financial position, past experience and other relevant factors. Individual credit limits are set based on internal or external ratings in accordance with the Group's credit risk policies. Where the Group assesses a potential credit risk, this is dealt with either by up-front payment prior to the shipment of goods or by other credit risk mitigation measures.

Counterparty risk associated with monies on deposit with financial institutions is managed at the Group level in accordance with the Group's treasury policies. The credit quality of banks has been assessed by reference to external credit ratings, based on reputable credit agencies' long-term issuer ratings.

Trade receivables and contract assets

The credit quality of trade receivables and contract assets that are not impaired have been assessed based on historical information about the counterparty default rate. The Group does not hold any receivable balances with customers with a history of past default.

Notes to the financial statements continued

for the year ended 31 December 2022

22. Financial Instruments continued

Cash at bank

The credit quality of cash has been assessed by reference to external credit ratings based on reputable credit agencies' long-term issuer ratings. The Group has cash at bank balances totalling £10,486,000 (2021: £9,069,000) with banks with A1 credit ratings and cash at bank balances totalling £1,134,000 (2021: £1,722,000) with A2 credit ratings.

Preference share receivables

The Group has assessed, based on its joint venture's latest forecast, that recovery of the preference share debt within a reasonable period remains unlikely such that the credit risk remains at a level where the definition of default has been met. In making this assessment, qualitative and quantitative reasonable and supportable forward-looking information associated with the forecast future financial performance and cash generation of CSC has been used (see note 3.5 for details of the calculation of the loss allowance and the associated impairment of the financial asset).

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset as set out below. In terms of trade receivables, the terms of sale provide that the Group has recourse to the products sold in the event of non-payment by a customer.

Assets as per balance sheet	2022 Group £'000	2022 Company £'000	2021 Group £'000	2021 Company £'000
Carrying amount				
Cash and cash equivalents	11,620	2,436	10,791	262
Trade receivables	21,638	–	20,659	–
Amounts owed by group undertakings	–	135,464	–	132,677
Other receivables excluding prepayments	21,041	173	13,085	704
Financial Assets (Preference share receivables)	–	–	–	–
	54,299	138,073	44,535	133,643

Included in other receivables are contract assets of £17,898,000 (2021: £8,915,000).

The Group is exposed to credit concentration risk with its three largest customers which represent 46% (2021: 47%) of outstanding trade receivables and contract asset balances. Customer credit risk is managed according to strict credit control policies. The majority of the Group's revenues are derived from large multinational organisations that are established customers of the Group with no prior history of default. The Group monitors customer credit ratings and has had no material defaults in the past.

Group	Gross 2022 £'000	Provision 2022 £'000	Net 2022 £'000	Gross 2021 £'000	Provision 2021 £'000	Net 2021 £'000
Not past due	15,933	–	15,933	16,029	–	16,029
Past due 0-30	4,621	–	4,621	3,439	–	3,439
Past due more than 30	3,797	(2,713)	1,084	1,606	(415)	1,191
	24,351	(2,713)	21,638	21,074	(415)	20,659

Allowance for bad and doubtful debt	2022 £'000	2021 £'000
At 1 January	415	452
Charged to the income statement	2,300	(34)
Utilised during the year	–	(5)
Foreign exchange	(2)	2
	2,713	415

As at 31 December 2022, 65% (2021: 76%) of trade receivables were within terms. Of the other trade receivables, 55% (2021: 68%) were less than 30 days past due. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £2,713,000 (2021: £415,000). This allowance has been determined on an expected credit loss basis by reference to past default experience. The individually impaired receivables mainly relate to a number of independent customers. A portion of these receivables is expected to be recovered.

The carrying values of trade and other receivables also represent their estimated fair values. Trade receivables and contract assets are primarily denominated in US dollars, as are trade payables limiting the exposure of the Group to movements in foreign exchange rates. Based on the balances held at 31 December 2022 a one cent movement in the US dollar to Sterling rate would impact the net value of these instruments by £142,000 (2021: £72,000).

22. Financial Instruments continued

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages its funding to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses weekly cash flow forecasts to monitor cash requirements and to optimise its borrowing position. The Group ensures that it has sufficient borrowing facilities to meet foreseeable operational expenses. At the year-end the Group had available undrawn facilities of £17,295,000 (2021: £30,900,000).

The following table illustrates the contractual maturities of financial liabilities, including interest payments where applicable, and excluding the impact of netting agreements on an undiscounted basis.

Contractual cash flow maturities – Other financial liabilities at amortised cost 31 December 2022	Group Carrying amount £'000	Group Contractual Cash flows £'000	Group Less than 12 months £'000	Group 1–2 Years £'000	Group 2–5 Years £'000	Group 5+ Years £'000
Trade and other payables	22,754	22,754	22,754	–	–	–
Accruals	14,585	14,585	14,585	–	–	–
Bank borrowings	26,868	26,950	6,250	20,700	–	–
Lease liabilities	50,869	56,437	6,069	6,065	18,038	26,265
	115,076	120,726	49,658	26,765	18,038	26,265

Included in accruals are contract liabilities of £1,454,000 (2021: £758,000).

Contractual cash flow maturities – Other financial liabilities at amortised cost 31 December 2021	Group Carrying amount £'000	Group Contractual Cash flows £'000	Group Less than 12 months £'000	Group 1–2 Years £'000	Group 2–5 Years £'000	Group 5+ Years £'000
Trade and other payables	22,224	22,224	22,224	–	–	–
Accruals	14,788	14,788	14,788	–	–	–
Bank borrowings	16,595	16,670	6,250	6,250	4,170	–
Lease liabilities	54,387	61,007	5,955	5,823	17,670	31,559
	107,994	114,689	49,217	12,073	21,840	31,559

Contractual cash flow maturities – Other financial liabilities at amortised cost 31 December 2022	Company Carrying amount £'000	Company Contractual Cash flows £'000	Company Less than 12 months £'000	Company 1–2 Years £'000	Company 2–5 Years £'000	Company 5+ Years £'000
Trade and other payables	4,899	4,899	4,899	–	–	–
Amounts owed to group undertakings	23,272	23,272	23,272	–	–	–
Accruals	1,300	1,300	1,300	–	–	–
	29,471	29,471	29,471	–	–	–

Contractual cash flow maturities – Other financial liabilities at amortised cost 31 December 2021	Company Carrying amount £'000	Company Contractual Cash flows £'000	Company Less than 12 months £'000	Company 1–2 Years £'000	Company 2–5 Years £'000	Company 5+ Years £'000
Trade and other payables	2,628	2,628	2,628	–	–	–
Amounts owed to group undertakings	24,972	24,972	24,972	–	–	–
Accruals	2,510	2,510	2,510	–	–	–
	30,110	30,110	30,110	–	–	–

Notes to the financial statements continued

for the year ended 31 December 2022

22. Financial Instruments continued

Financial risk management

Market risk – Foreign Exchange Risk

The Group operates internationally with operations in the United Kingdom, United States of America and Taiwan, and is exposed to foreign exchange risk arising from various currency exposures, primarily relating to fluctuations in exchange rates between UK sterling, US dollars and Taiwanese dollars. The Group's presentational currency is sterling and foreign exchange risk arises from a combination of future commercial transactions, recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity and net investments in the Group's foreign operations.

The majority of the Group's sales are denominated in US dollars and therefore the Group's cash flows are affected by fluctuations in the rate of exchange between US dollar and UK Sterling and Taiwanese dollar exchange rates given that the Group is required to fund certain costs at its operations in the United Kingdom and Taiwan in local currencies. Foreign exchange risk of this nature is managed using a combination of the natural currency hedge within the Group's operating model given that a significant proportion of the Group's costs, including the purchase of certain key raw materials, are denominated in US dollars, and via the use of derivative foreign currency forward exchange contracts.

Derivative foreign currency forward exchange contracts are only used for economic hedging purposes and not as speculative investments. Derivative foreign currency forward exchange contracts that do not meet the hedge accounting criteria are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. These derivative instruments are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period. As at 31 December 2022, the fair value of foreign currency forward exchange contracts held for trading was a liability of £381,000 (2021: £10,000). The foreign currency forward exchange contracts are classified as Level 2 financial instruments. The fair value of Level 2 financial instruments has been determined using observable market data based on quoted market prices or market quotes for similar instruments. If all significant inputs required to fair value the instrument are observable, the instrument is included in level 2. The group's accounting policy for its cash flow hedges is set out in note 2.18.

The Group has certain investments in foreign operations in North America, Taiwan and Singapore, whose net assets are exposed to foreign currency translation risk. Translation exposures that arise on converting the results of overseas subsidiaries are not hedged. As a guide to the sensitivity of the Group's results to movements in foreign currency exchange rates, a one cent movement in the US dollar to Sterling rate would impact annual earnings by approximately £665,000 (2021: £239,000).

Cash flow and fair value interest rate risk

The Board is aware of the risks associated with changes in interest rates and does not speculate on future changes in interest rates. Historically, the Group has not undertaken any hedging activity in this area, although the Board keeps this under regular review.

The Group's interest rate risk arises from its cash and cash equivalents, its preference share financial assets and from its bank borrowings. Cash and cash equivalents, including foreign currency cash deposits, earn interest at prevailing variable market rates of interest whilst the preference share debt earns interest at HSBC Bank Plc base rate.

The Group's bank borrowings consist of a variable rate asset finance loan secured against the assets to which it relates, and a variable rate multi-currency revolving credit facility secured against the assets of the Group.

The variable rate UK sterling £30,000,000 asset finance facility, which has a principal outstanding of £10,416,000 (2021: £16,670,000) has a five-year term and an interest rate margin of 1.65% per annum over base rate on any drawn balances. The loan is repayable by monthly instalment commencing on the first anniversary of the facility.

The variable rate US dollar \$35,000,000 (£28,688,000) multi-currency revolving credit facility, which is \$20,000,000 (£16,393,000) utilised at 31 December 2022, has a committed term to 30 April 2024. Interest on the facility is payable at a margin of between 2.00 and 2.80 percent per annum over SONIA.

The Group's policy is to regularly review its exposure to interest rate risk, and in particular the mix between fixed and floating rate financial assets and financial liabilities. The percentage of financial assets and financial liabilities bearing variable rate interest was 0% (2021: 0%) and 54% (2021: 43%) respectively.

22. Financial Instruments continued

As a guide to the sensitivity of the Group's results to movements in interest rates, a 50-basis point (0.5%) movement in interest rates on the interest-bearing financial assets held at 31 December 2022, would impact annual interest income by approximately £nil (2021: £nil). A 50-basis point (0.5%) movement in interest rates on the interest-bearing liabilities held at 31 December 2022 would impact annual interest costs by approximately £134,000 (2021: £83,000).

Capital risk management

The Group's main objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and adjusts it in the light of changes in economic conditions and the characteristic of the underlying assets. The Group monitors capital by reviewing net debt against shareholders' funds. The position of these indicators and the movement during the year is shown in the Five-Year Financial Summary.

The Group defines total capital as equity in the consolidated balance sheet plus net debt or less net funds. Total capital at 31 December 2022 was £241,558,000 (2021: £294,812,000). The Group monitors capital on the basis of a gearing ratio. The gearing ratio is calculated as net debt divided by total capital and at 31 December 2022 was 27.5% (2021: 20.4%).

All covenants in relation to the Group's borrowing facilities have been complied with during the year.

Fair values

Fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

Group	2022 Carrying amount £'000	2022 Fair value £'000	2021 Carrying amount £'000	2021 Fair value £'000
Cash and cash equivalents	11,620	11,620	10,791	10,791
Trade receivables	21,638	21,638	20,659	20,659
Other receivables	3,143	3,143	4,170	4,170
Contract assets	17,898	17,898	8,915	8,915
Financial Assets (Preference share receivables)	–	163	–	163
Trade and other payables	(22,754)	(22,754)	(22,224)	(22,224)
Bank borrowings	(26,868)	(26,868)	(16,595)	(16,595)
Derivative financial instruments	(381)	(381)	–	–
	4,296	4,459	5,716	5,879

Company	2022 Carrying amount £'000	2022 Fair value £'000	2021 Carrying amount £'000	2021 Fair value £'000
Cash and cash equivalents	2,436	2,436	262	262
Amounts owed by group undertakings	135,464	135,464	132,677	132,677
Other receivables	173	173	704	704
Trade and other payables	(4,899)	(4,899)	(27,600)	(27,600)
Derivative financial instruments	(381)	(381)	–	–
	132,793	132,793	106,043	106,043

Notes to the financial statements continued

for the year ended 31 December 2022

22. Financial Instruments continued

Basis for determining fair value

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above:

Cash and cash equivalents

Cash and cash equivalents earn interest at prevailing variable market rates of interest such that the carrying value of cash and cash equivalents is deemed to reflect fair value.

Trade receivables, other receivables and contract assets

Trade receivables, other receivables and contract assets are short-term assets with a remaining life of less than one year such that the amortised cost carrying value of the assets is deemed to reflect fair value.

Financial Assets (Preference share receivables)

The fair value of preference share receivables was calculated by reference to assumptions about forecast future financial performance of CSC and the associated level of expected credit losses.

Amounts owed by group undertakings

Amounts owed by group undertakings are long-term assets with a remaining life of greater than one year with outstanding balances accruing interest at a rate of 5% per annum such that the amortised cost carrying value of the assets is deemed to reflect fair value.

Trade and other payables

Trade and other payables are short-term liabilities with a remaining life of less than one year such that the amortised cost carrying value of the liabilities is deemed to reflect fair value.

Bank borrowings

The carrying value of bank borrowings is deemed to reflect fair value as interest payable on bank borrowings is charged at a variable rate assessed as close to current market rates.

Derivative financial instruments

The fair value of derivative foreign currency forward exchange contracts was determined using observable market data based on quoted market prices or market quotes for similar instruments.

23. Share capital

Group and Company	2022 Number of shares	2022 £'000	2021 Number of shares	2021 £'000
Allotted, called up and fully paid				
Ordinary shares of 1p each	804,841,965	8,048	803,555,756	8,036

The movement in the number of ordinary shares during the year was:

	2022 Number	2021 Number
At 1 January	803,555,756	800,364,569
Employee share schemes	702,500	3,191,187
Chief Executive Officer's starting bonus – share award	583,709	–
At 31 December	804,841,965	803,555,756

1,286,209 ordinary shares (2021: 3,191,187 ordinary shares) were issued during the year as follows:

	2022 Number of shares	2022 Consideration	2021 Number of shares	2021 Consideration
Employee share schemes	702,500	1.0p–23.0p	3,191,187	1.0p to 23.0p
Chief Executive Officer's starting bonus – share award	583,709	1.0p	–	–
	1,286,209		3,191,187	

The share premium arising from consideration received from employee share scheme exercises and the Chief Executive Officer's starting bonus share award of £100,000 (2021: £472,000) was £88,000 (2021: £447,000).

24. Share based payments

The total amount charged to the income statement in 2022 in respect of share based payments was £332,000 (2021: £1,691,000).

Long-term incentive plan

The IQE Plc Share Option Scheme was adopted on 26 May 2000 and amended by shareholders at the Annual General Meeting on 17 May 2002. Under the scheme, the Remuneration Committee can grant long-term incentive awards over shares in the company to directors and employees of the Group.

Long-term incentive share awards are granted with contractual lives of between three and ten years with a fixed exercise price of one penny, equal to the nominal value of the ordinary share.

Directors

Long-term incentive awards become exercisable between three and ten years from the date of grant subject to continued employment and achievement of performance conditions relating to growth in earnings per share and total shareholder return targets over a three-year vesting period that cannot be extended. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Details of the Directors' long-term incentive plan are set out in the Remuneration Report.

Notes to the financial statements continued

for the year ended 31 December 2022

24. Share based payments continued

Employees

Long-term incentive awards become exercisable between three and ten years from the date of grant, subject to continued employment and the achievement of performance conditions relating to a combination of:

- growth in earnings per share targets over a three-year vesting period that cannot be extended;
- growth in earnings per share and total shareholder return targets over a three-year vesting period that cannot be extended; and
- achievement of strategic group wide and personal objectives.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Long term incentive awards are valued using either the Black-Scholes option-pricing model or the Monte Carlo simulation model with the total fair value of the award that is to be expensed charged to the income statement over the vesting period of the long-term incentive award.

Share option scheme

The IQE Plc Share Option Scheme was adopted on 26 May 2000 and amended by shareholders at the Annual General Meeting on 17 May 2002. Under the scheme, the Remuneration Committee can grant options over shares in the company to employees of the Group.

Options are granted with a contractual life of ten years and with a fixed exercise price equal to the market value of the shares under option at the date of grant or as otherwise disclosed in the remuneration report. Options become exercisable between one and ten years from the date of grant, subject to continued employment and the achievement of performance conditions, including growth in adjusted EBITDA and earnings per share against various targets. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Share options are valued using the Black-Scholes option-pricing model with the total fair value of the award that is to be expensed charged to the income statement over the vesting period of the share option.

The principal assumptions used in the calculation of the fair value of long-term incentive awards and share option awards are as follows:

Principal assumptions	2022	2021
Weighted average share price at grant date	41.22	49.94
Weighted average exercise price	4.41	5.99
Weighted average vesting period (years)	3	3
Option life (years)	10	10
Weighted average expected life (years)	3	3
Weighted average expected volatility factor	73%	70%
Weighted average risk-free rate	0.9%	0.6%
Dividend yield	0%	0%

The expected volatility factor is based on historical share price volatility over the three years immediately preceding the grant of the option. The expected life is the average expected period to exercise. The risk-free rate of return is the yield of zero-coupon UK government bonds of a term consistent with the assumed option life.

Non-market performance conditions are incorporated into the calculation of fair value by estimating the proportion of share options that will vest and be exercised based on a combination of historical trends and future expected trading performance. These are reassessed at the end of each period for each tranche of unvested options.

The fair value of long-term incentive awards and share options granted during the year ended 31 December 2022 was £4,803,000 (2021: £4,497,000).

The weighted average fair value of long-term incentive awards granted during the year ended 31 December 2022 was 33.8p (2021: 71.1p).

24. Share based payments continued

The movements on long-term incentive awards and share options during the year were as follows:

	2022 Number of options	2022 Average exercise price (pence)	2021 Number of options	2021 Average exercise price (pence)
At 1 January	24,408,115	5.99p	22,081,637	10.08p
Granted	14,213,210	1.00p	6,437,146	1.00p
Exercised	(699,694)	14.05p	(2,506,993)	17.64p
Cancelled/lapsed	(8,951,101)	2.59p	(1,603,675)	24.43p
At 31 December	28,970,530	4.41p	24,408,115	5.99p

The weighted average share price at the date share options were exercised was 36.0p (2021: 57.2p).

As at 31 December 2022, the total number of long-term incentive awards and share options held by employees was 28,970,530 (2021: 24,408,115) as follows:

Option price pence/share	Option period ending	2022 Number of options	2021 Number of options
1.00p – 28.17p	31 December 2022	–	430,423
1.00p – 27.75p	31 December 2023	3,511,811	4,150,061
1.00p – 23.83p	31 December 2024	2,840,474	3,321,245
18.42p – 25.17p	31 December 2025	3,871,827	211,250
1.00p – 37.92p	31 December 2026	193,500	252,000
1.00p – 169.50p	31 December 2027	362,500	407,500
1.00p – 143.30p	31 December 2028	240,000	240,000
1.00p – 125.00p	31 December 2029	7,500	3,408,779
1.00p	31 December 2030	4,655,709	5,895,388
1.00p	31 December 2031	3,301,783	6,091,469
1.00p	31 December 2032	9,985,426	–
At 31 December		28,970,530	24,408,115

25. Parent company profit and loss

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year amounted to £9,297,000 (2021: £29,272,000 loss).

Notes to the financial statements continued

for the year ended 31 December 2022

26. Cash generated from operations

Group	2022 £'000	2021 £'000
Loss before tax	(75,403)	(22,191)
Finance costs	2,427	2,213
Depreciation of property, plant and equipment	14,529	13,309
Depreciation of right of use assets	3,981	3,854
Amortisation of intangible assets	7,784	8,047
Impairment of intangible assets	66,155	7,411
Impairment of PP&E	–	74
Inventory write downs (note 17)	2,811	866
Non-cash movement on trade receivable expected credit losses (note 22)	2,300	–
Non-cash provision movements	3,049	3,617
Profit on disposal of fixed assets	(688)	(77)
Share based payments	332	1,691
Cash inflow from operations before changes in working capital	27,277	18,814
Increase in inventories	(2,904)	(1,368)
(Increase)/decrease in trade and other receivables	(5,534)	2,930
Decrease in trade and other payables	(3,893)	(1,013)
Decrease in provisions	(6,073)	(480)
Cash inflow from operations	8,873	18,883

Company	2022 £'000	2021 £'000
Profit / (Loss) before tax	(9,171)	(25,470)
Finance income	(5,748)	(5,493)
Finance costs	595	445
Foreign exchange	2,464	307
Depreciation of property, plant and equipment	15	14
Amortisation of intangible assets	311	321
Impairment of intangible assets	–	2,442
Impairment of investments	–	16,178
Non-cash movement on trade receivable expected credit losses	15,494	–
Share based payments	123	915
Cash outflow from operations before changes in working capital	4,083	(10,341)
(Increase)/decrease in trade and other receivables	(12,406)	3,926
(Decrease) / increase in trade and other payables	(2,681)	4,078
Cash outflow from operations	(11,004)	(2,337)

27. Reconciliation of net cash flow to movement in net funds/(debt)

	2022 £'000	2021 £'000
Decrease in cash in the year	(53)	(14,080)
Increase in borrowings	(15,814)	–
Repayment of borrowings	6,256	6,145
Repayment of leases	4,926	3,705
Net movement resulting from cash flows	(4,685)	(4,230)
Net debt at 1 January	(60,191)	(45,101)
Net movement resulting from cash flows	(4,685)	(4,230)
Net movement on fair value of derivative instruments	(381)	–
Other non-cash movements	(1,241)	(10,860)
Net debt at 31 December	(66,498)	(60,191)

Other non-cash movements include £64,000 of lease disposals (2021: £11,397,000 new lease liabilities) and the impact of foreign exchange of £1,305,000 (2021: £537,000).

28. Analysis of net debt

	At 1 January 2022 £'000	Cash flow £'000	Other non-cash movements £'000	At 31 December 2022 £'000
Bank borrowings due after one year	(10,365)	(15,814)	5,536	(20,643)
Bank borrowings due within one year	(6,230)	6,256	(6,251)	(6,225)
Lease liabilities due after one year	(49,693)	–	3,667	(46,026)
Lease liabilities due within one year	(4,694)	4,926	(5,075)	(4,843)
Total borrowings	(70,982)	(4,632)	(2,123)	(77,737)
Fair value of derivative instruments	–	–	(381)	(381)
Cash and cash equivalents	10,791	(53)	882	11,620
Net debt	(60,191)	(4,685)	(1,622)	(66,498)

Cash and cash equivalents at 31 December 2022 and 31 December 2021 comprised balances held in instant access bank accounts and other short-term deposits with a maturity of less than 3 months.

Other non-cash movements include £64,000 of lease disposals (2021: £11,397,000 new lease liabilities) and the impact of foreign exchange of £1,305,000 (2021: £537,000).

Notes to the financial statements continued

for the year ended 31 December 2022

29. Subsidiary undertakings

Name of company	Class of capital	Proportion of shares held	Activity	Country of incorporation	Registered Office
IQE (Europe) Limited	Ordinary shares of £1	100%*	Manufacture of advanced semiconductor materials	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
IQE Inc	Common stock of \$0.001	100%*	Manufacture of advanced semiconductor materials	USA	119 Technology Drive, Bethlehem, PA 18015, USA
IQE KC LLC	Limited liability company	100%*	Manufacture of advanced semiconductor materials	USA	200 John Hancock Road, Taunton, MA 02780, USA
IQE Taiwan ROC	Ordinary shares of NT\$10	100%	Manufacture of advanced semiconductor materials	Taiwan	No. 2-1, Li-Hsin Road Hsinchu Science Park Hsinchu 300, Taiwan
IQE RF LLC	Limited liability company	100%*	Manufacture of advanced semiconductor materials	USA	265 Davidson Avenue Somerset, NJ 08873, USA
IQE Silicon Compounds Limited	Ordinary shares of £1	100%	Manufacture of silicon epitaxy	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
MBE Technology Pte Ltd	Preferred shares of S\$1 Ordinary shares of S\$1	100% 100%	Manufacture of advanced semiconductor materials	Singapore	30 Tampines industrial Avenue 3 Singapore 528775
CSDC Private Limited	Common stock of \$1 par value	100%*	Research, development and manufacture of semiconductor materials	Singapore	30 Tampines industrial Avenue 3 Singapore 528775
Wafer Technology Limited	Ordinary shares of £1	100%*	Manufacture of semiconductor compounds and ultra-high purity materials	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
NanoGaN Limited	Ordinary shares of £0.001	100%	Development of advanced semiconductor materials	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
Galaxy Compound Semiconductors Inc	Common stock of \$0.00 par value	100%*	Manufacture of semiconductor compounds and ultra-high purity materials	USA	9922 E Montgomery Avenue, #7, Spokane, WA 99206, USA
EPI Holdings Limited	Ordinary shares of £1	100%	Dormant holding company	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK
KTC Wireless LLC	Limited liability company	100%	Dormant holding company	USA	119 Technology Drive, Bethlehem, PA 18015, USA
IQE USA Inc	Limited liability company	100%	Dormant holding company	USA	119 Technology Drive, Bethlehem, PA 18015, USA
IQE Solar LLC	Limited liability company	100%*	Dormant company	USA	119 Technology Drive, Bethlehem, PA 18015, USA
IQE Properties Inc	Limited liability company	100%*	Property holding company	USA	119 Technology Drive, Bethlehem, PA 18015, USA
Wafer Technology International Limited	Ordinary shares of £1	100%	Holding company	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK

* Indirect holdings

The proportion of voting rights of subsidiaries held by the Group is the same as the proportion of shares held.

All UK subsidiaries are exempt from the requirements to file audited financial statements by virtue of section 479A of the Companies Act 2006. In adopting the exemption, IQE plc has provided a statutory guarantee to these subsidiaries in accordance with section 479C of the Companies Act 2006.

30. Joint Venture

The Group holds investments in one joint venture as follows:

Name of company	Class of capital	Proportion of shares held	Activity	Country of incorporation	Registered Office
Compound Semiconductor Centre Limited	Common stock of £1 par value	50%*	Research, development and manufacture of semiconductor materials	UK	Pascal Close, St Mellons, Cardiff CF3 0LW, UK

* Indirect holdings

Compound Semiconductor Centre Limited ('CSC')

On 9 July 2015 the Group entered into a joint venture agreement with Cardiff University to create the CSC in the United Kingdom. The shareholder agreement establishes that the CSC is jointly controlled by the shareholders, who have an equal share of the voting rights, such that the Group's investment in the joint venture is accounted for using the equity method in accordance with the accounting policies set out in note 2 and note 3.

The commercial purpose of the CSC is the research, development and manufacture by metal organic vapour phase epitaxy ('MOVPE') of advanced compound semiconductor materials in Europe.

The business was set up by the joint venture partners to provide a bridge between early stage research and high-volume manufacturing and was established in a manner to provide the CSC with the capability to deliver specialist compound semiconductor product development, prototyping and early stage manufacturing services to academic and industrial customers from its own compound semiconductor foundry.

On the formation of the joint venture, the Group contributed fixed assets, independently valued at £12,000,000, transferred employees and licensed intellectual property to establish the CSC's manufacturing and technical capability whilst at the same time entering into an agreement with CSC that has been extended in the current year and conveys to the Group the right to use the assets of the joint venture for a minimum period up to 31 March 2024 (see note 3a). Cardiff University contributed cash.

The intellectual property license relates to technical know-how and is licensed to the CSC under the terms of a perpetual licence that can only be terminated in a limited number of circumstances, none of which currently apply as the CSC is not in breach of the license agreement. The Group has no obligation to enhance or develop the licensed intellectual property. The licence fee of £20,000,000, mutually agreed by the Group and Cardiff University, was recognised as license income in accordance with the Group's revenue recognition policy for perpetual licenses (see note 2) in 2015 and 2016 when the intellectual property was transferred to the CSC.

The contractual right granted by the CSC to the Group to use its assets provides the Group with access to manufacturing capacity and de-risks the initial establishment of the CSC as the Group operates as a cornerstone customer during the early stages of the development of the CSC's business when it is required to fund running costs associated with its foundry whilst developing its business and own independent revenue streams.

Costs associated with the right to use the assets of the CSC are charged to the Group at a mutually agreed price by the Group and Cardiff University. The price reflects the Group's right to use the assets and is variable based on the CSC's cash cost of production (including direct labour, materials and other foundry costs) which provides the CSC with a low cost, low risk route to build its business whilst covering its manufacturing related operating costs.

The arrangements between the joint venture parties, structured to provide the Group with its required level of manufacturing capacity and to provide the CSC with sufficient flexibility to develop its business, envisaged that reliance on the Group as the cornerstone customer would reduce. The CSC continues to achieve key business milestones, including the development of its own independent commercial customer relationships and funded collaborative research and development projects which have resulted in its reliance on the Group gradually reducing as these independent relationships and revenue streams continue to develop, with external revenue totalling £1,528,000 (2021: £1,732,000). The CSC's financial year end is 31 December which is co-terminus with the Group and has been used to prepare the consolidated Group financial statements and the summary CSC financial information set out below. No dividend has been received by the Group from the CSC (2021: £nil).

Summary information for Compound Semiconductor Centre Limited

£'000	2022 £'000	2021 £'000
Revenue	8,519	8,222
EBITDA	12	90
(Loss) / Profit from continuing operations	(1,778)	1,219
(Loss) / Profit for the period	(1,778)	1,219
Total comprehensive (expense) / income for the period	(1,778)	1,219

Notes to the financial statements continued

for the year ended 31 December 2022

30. Joint Venture continued

Summary balance sheet	2022 £'000	2021 £'000
Non-current assets	4,173	5,057
Current assets	1,751	2,037
Current Liabilities	(1,996)	(1,846)
Non-current Liabilities	(10,670)	(10,212)
Equity attributable to Joint Ventures	(6,742)	(4,964)

Carrying value of equity interest in CSC Ltd	2022 £'000	2021 £'000
Net liabilities of CSC Ltd	(6,742)	(4,964)
Proportion of the Group's ownership interest	50%	50%
Group's share of net liabilities	(3,371)	(2,482)
Elimination of unrealised gains on transactions with CSC Ltd	(12,000)	(12,000)
Cumulative absorption of JV losses against long term JV preference share debt (note 5)	163	163
Cumulative unrecognised losses	15,208	14,319
Carrying amount of the Group's interest in the JV	-	-

Summary of cumulative unrecognised losses	2022 £'000	2021 £'000
Unrecognised losses brought forward	(17,032)	(17,642)
Unrecognised unrealised gains on transactions with CSC Ltd	-	-
(Loss) / Profit in the year	(889)	610
Reversal/absorption of JV losses against long term JV preference share debt (note 5)	-	-
Cumulative unrecognised losses carried forward	(17,921)	(17,032)

Comparative financial information has been adjusted to reflect the final audited 2021 CSC financial statements. The adjustment to the disclosure has had no impact on the Group's consolidated loss for the year, total net assets or cash position.

31. Related party transactions

Group

Transactions with Joint Venture – Compound Semiconductor Centre Limited

CSC was established by the Group and its joint venture partner as a centre of excellence for the development and commercialisation of advanced compound semiconductor wafer products in Europe. On its formation, the Group contributed assets to the joint venture valued at £12,000,000 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 year, the CSC leased this space from the Group for £115,000 (2021: £115,000) and procured certain administrative support services from the Group for £235,000 (2021: £235,000). As part of the administrative support services provided to CSC the Group procured goods and services, recharged to CSC at cost, totalling £4,031,000 (2021: £3,882,000).

CSC entered into an agreement with the Group following its formation which has been extended in the current year and conveys to the Group the right to use the assets of the joint venture for a minimum period up to 31 March 2024. Costs associated with the right to use the CSC's assets are treated by the Group as operating lease costs (see note 3a). Costs are charged by the CSC at a price that 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 CSC's assets totalled £6,822,000 (2021: £6,234,000) in the year.

At 31 December 2022, an amount of £137,000 (2021: £1,030,000 owed from) was owed from the CSC at year end.

In the Group's balance sheet 'A' Preference Shares with a nominal value of £8,800,000 (2021: £8,800,000) are included in financial assets at an amortised cost of £nil (2021: £nil) and the Group has a shareholder loan of £247,000 (2021: £244,000) due from CSC.

31. Related party transactions continued

Company

Transactions with Group Companies

2022	Income £'000	Expense £'000	Trade Receivable £'000	Trade Payable £'000	Loan Receivable £'000	Loan Payable £'000
IQE (Europe) Limited	734	(106)	597	(217)	8,224	–
IQE Silicon Compounds Limited	913	–	1,012	(49)	25,329	–
Nanogan Limited	–	–	–	–	–	(1,750)
Wafer Technology International Limited	9,263	–	253	–	–	–
Wafer Technology Limited	230	(51)	–	–	–	(1,936)
IQE USA Inc	–	–	–	–	8,987	–
IQE Inc	673	(54)	564	(46)	114,364	–
IQE KC LLC	3,653	(3,237)	3,635	(5)	–	(4,588)
IQE RF LLC	–	–	–	–	38	–
KTC Wireless LLC	–	–	–	–	–	(19,268)
Galaxy Compound Semiconductors Inc	84	–	69	–	–	(7,526)
IQE Taiwan ROC	21	–	–	–	–	–
MBE Technology Pte Limited	13	–	–	–	–	–
CSDC Private Limited	–	–	–	–	–	–

IQE plc has a fully impaired loan receivable of £9,232,000 (2021: £11,614,000) due from MBE Technology Pte Limited. MBE Technology Pte Limited repaid £2,383,000 (2021: £nil) of the loan following cessation of operations and closure of the Singapore manufacturing facility in 2022.

IQE plc has a fully impaired loan receivable of £8,337,000 (2021: £7,472,000) due from CSDC Private Limited.

IQE plc has recognised an expected credit loss of £15,494,000 (2021: £nil) in respect of loan receivables from Group Companies.

2021	Income £'000	Expense £'000	Trade Receivable £'000	Trade Payable £'000	Loan Receivable £'000	Loan Payable £'000
IQE (Europe) Limited	627	(66)	767	(8)	4,403	–
IQE Silicon Compounds Limited	1,007	–	1,424	–	28,502	–
Wafer Technology Limited	271	(33)	389	(19)	–	(8,319)
IQE USA Inc	–	–	–	–	8,550	–
IQE Inc	819	(2)	970	(2)	103,386	–
IQE KC LLC	938	–	1,049	–	–	(5,582)
IQE RF LLC	–	–	–	–	520	–
KTC Wireless LLC	–	–	–	–	–	(16,623)
Galaxy Compound Semiconductors Inc	139	–	144	–	–	(6,753)
IQE Taiwan ROC	4	(11)	20	–	–	–
MBE Technology Pte Limited	22	–	54	–	11,614	–
CSDC Private Limited	–	(2,938)	–	–	–	–

32. Commitments

The Group had capital commitments at 31 December 2022 of £1,740,000 (2021: £780,000).

33. Post balance sheet events

On 17 May 2023, the Company refinanced its £28,688,000 (\$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 18 May 2023, the Company completed a successful equity fund raise through a firm placing for £30,000,000 and REX retail offer for £1,098,546.

Glossary

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
Augmented Reality (AR)	A technology that superimposes a computer-generated image on a user's view of the real world to provide a composite view
Compound semiconductor	A semiconductor formed from more than one element, typically comprising a mixture of elements from Groups III and V of the Periodic Table
Cloud computing	A network of remote servers hosted on the internet to store, manage and process data
CMOS++	Compound materials on Silicon
CMD	Capital Markets Day
CVD	Chemical Vapour Deposition. IQE's technique for making Advanced Silicon/Group IV epiwafers, characterised by using compound sources flowed across a hot wafer where they are "cracked" (reacted) to get the desired material
Device structure	The term used to describe the particular series of epitaxial layers on a substrate crystal. They are typically specified by their thickness, composition, electrical and opto-electronic properties
Dilute Nitride	A material where small amounts of Nitrogen are added to GaAs in order to enable GaAs to be used in applications typically reserved for InP
Epitaxy (epitaxial growth)	Deposition of high quality, crystalline layers on a substrate. By specifically choosing the composition and sequence of the layers in epitaxial growth, the optical and electrical properties of the epiwafer are able to be tuned and these individual layers are referred to as 'epilayers'
Epiwafer or epitaxial wafer	The term used to describe the substrate crystal with epitaxial layers deposited thereon (see also "wafer")
GaAs	Gallium Arsenide
GaN	Gallium Nitride
GaSb	Gallium Antimonide
Ge	Germanium
InP	Indium Phosphide
Internet of Things (IoT)	Network of physical objects – "things" which are able to collect and transfer data over a wireless network without human intervention
IQepiMo™	A template technology developed by IQE for RF filters and other applications requiring low resistance buried electrodes
IQGeVCSEL 150™	A technology developed by IQE for 6" VCSELs on Germanium
IQDN-VCSEL	A technology developed by IQE for the growth of long wavelength (> 1300 nm) VCSELs on GaAs substrates
IR	Infrared
LiDAR	Light detection and ranging – a method for measuring distances by illuminating the target with a laser light
MBE	Molecular Beam Epitaxy. One of IQE's primary techniques for making compound semiconductor epiwafers, characterised by deposition using elemental sources impinging on a hot wafer where a reaction occurs to get the desired material. MBE occurs at extremely low pressure (known as ultra-high vacuum) which is comparable to that of outer space

MIMO	Multiple-input, multiple-output. Two or more transmitting or receiving antennas are used on a wireless device to optimise the speed, range and reliability of that device
MOCVD	Metal Organic Chemical Vapour Deposition. One of IQE's primary techniques for making compound semiconductor epiwafers, characterised by deposition using compound sources that are flowed across a hot wafer where they are "cracked" (reacted) to get the desired material. MOCVD occurs at much higher pressures than MBE and also goes by the name MOVPE (Metal Organic Vapour Phase Epitaxy)
OEM	Original equipment manufacturer
Opto-electronic device	A device or structure in which light and electricity interact to produce, detect or manipulate light
PHEMT	Pseudomorphic High Electron Mobility Transistor. A commonly used device for high-speed switching for wireless communications
Reactor	The equipment used to produce epitaxial layers on a substrate
RF	Radio frequency
Semiconductor	A material with resistivity which lies somewhere between that of a conductor and an insulator
Si	Silicon
SiC	Silicon Carbide
Structured light scanner	A 3D scanning device which measures an object using projected light patterns and a camera system
Substrate	The term used to describe the base wafer used for the epitaxial substrate crystal growth process
Time of Flight (ToF) camera	A camera which calculates the distance between the subject by measuring the trip time of an artificial light signal emitted by a laser or LED
VCSEL	Vertical Cavity Surface Emitting Laser, an opto-electronic component used in a variety of applications
Wafer	The term used to describe the substrate crystal in the form of thinly sliced discs or the substrate disc with one or more epitaxial layers deposited upon it
WiFi 6	Sixth generation of wireless local area networking technologies characterised by improved performance characteristics
3D Sensing	Three-dimensional depth sensing technology which is enabled by IQE's VCSELs
5G	5 th generation mobile network designed to provide enhanced connectivity and higher speeds

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Share price information

Exchange: London Stock Exchange
FTSE AIM Index
Ticker: IQE:LN
ISIN: GB0009619924

Share price performance

as at 31 December 2022
Loss per share: (9.27p)

