DDD GROUP PLC

2013 Annual Report

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MISSION STATEMENT

DDD delivers advanced visual solutions that bring innovative entertainment to people everywhere on every screen.

CHAIRMAN'S STATEMENT

Dear Shareholder,

2013 has been a challenging year for DDD Group plc (DDD). Revenues from license fees and royalties in 2013 amounted to $3.4 million with 99% gross margins. Despite the declining software shipments in the PC market, in June the Group agreed terms for an extension to the license agreement with Samsung for their 3D TV products through to December 2015. By the end of the year a total of 38 million products had been shipped with DDD's TriDef technology installed. Cash and receivables at the end of the year were $3.2 million and the Group has no debt.

As the research and development work in emerging 2D technology areas that commenced in mid-2011 began to deliver results, DDD entered into a strategic investment and collaboration agreement with InterDigital, Inc in September. The investment provided over $0.9 million of cash for the Company and, importantly, enabled new jointly developed 2D video encoding technologies to be demonstrated at the International CES show in Las Vegas held in January of this year and the following month at Mobile World Congress.

The challenge in 2013 has been the extent of the fall in demand for the Group's 2D to 3D conversion PC software as the global market for PCs continued to decline combined with the relatively slow introduction of tablets and mobile phones with glasses-free 3D capability. These factors created a difficult environment in which the Group operates.

The Group continues to grow the Yabazam! 3D movie streaming service and the content library has doubled during the year to 123 titles. In recognition of the number of users in emerging markets such as Russia, Brazil and Poland, a multi-language version of the app was recently introduced on LG and Samsung Smart TVs. The Group has also expanded the footprint of the app to include the latest Android™ glasses-free 3D tablets and Panasonic's range of 3D Smart TVs.

The Group has appointed IP Navigation Group to assist in securing licenses for the use of the Group's international patent library in the 3D consumer market and the 3D professional services market.

Research and Development initiatives continue to bear fruit, both in 3D and non-3D applications. In the 3D market, the Group has developed Smart TV solutions that deliver automatic 2D to 3D conversion for video and games as a downloadable software app. These new apps offer a cost effective, higher quality alternative to the custom 3D conversion chips and can be deployed to existing Smart TVs from app stores, yielding a more flexible, lower risk approach for 3D TV manufacturers to deploy the Group's TriDef solutions.

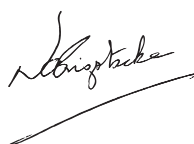
The Group has also reached beyond the niche of 3D to deliver innovative solutions for larger 2D markets, including streaming movies and video conferencing. Drawing on the extensive expertise in depth processing, these new solutions improve picture quality and reduce bandwidth for a variety of devices ranging from Smart TVs to tablets and smartphones.

These new products have resulted in several new patent applications, expanding the scope of the Group's intellectual property portfolio which is the core of the Group's licensing business.

Although 2013 was a difficult year for DDD, it has not resulted in any lack of resolve and hard work from all those employed in the business, many of whom have worked at DDD for a decade or more. My thanks and appreciation go to all of the DDD team and to my fellow directors for the huge effort that has been contributed by everybody over this last year. I would like to take this opportunity to extend special thanks to Warren Littlefield who has recently announced that he will be retiring from the DDD board this month. Warren's contributions and support over the last 13 years have been invaluable and we wish him success in all of his future endeavours.

In closing, I remain confident that due to the dedication of everyone at DDD, the Group will soon see a return to the growth path that we have seen in recent years.

Yours sincerely



Nicholas Brigstocke,
Chairman
DDD Group plc
14 April 2014

STRATEGIC REPORT

DDD Overview

DDD Group is a leading developer and licensor of intellectual property in the advanced imaging market for consumer entertainment products. The Group initially focused on delivering patent-protected solutions for the 3D consumer market where its TriDef® 3D content technologies have been shipped in 38 million televisions, Blu-ray players, personal computers, smartphones and tablets. Licensees include leading consumer electronic brands such as Samsung Electronics, LG Electronics, Sony Corporation and Lenovo.

Following the emergence of the 3D consumer market in early 2010, the Group established a successful technology licensing business that yields strong gross profit margins. The majority of the licensees ship the Group's automatic 2D to 3D conversion solutions with their 3D consumer products that ensure that a wide selection of games, video and photo content can be viewed in 3D, even though they were not specially made in 3D. The 2D to 3D conversion products are available in a range of implementations that suit the customer's specific requirements, ranging from firmware for manufacturers of special 2D to 3D conversion chips, to Windows PC software and most recently, Android software for the latest Smart TVs and glasses-free 3D tablets.

Having established its TriDef brand and reputation in the niche 3D market, the Group has begun to broaden its development and licensing activities to address much larger non-niche opportunities, in particular streaming media for conventional 2D applications including video conferencing and video streaming services. These new technologies deliver enhanced features, bandwidth savings and improved picture quality for organizations that stream video content to or between consumers. Following the development of the first of these technologies in early 2013, the Group secured the backing of InterDigital Communications Corporation (NASDAQ:IDCC), a $1Bn+ mobile IP licensing specialist, which acquired 4.9% of DDD in a private placing. Allied to the private placing is a joint development agreement that involves combining the Group's video pre-processing technologies with InterDigital's adaptive streaming technology for commercialisation in various markets from 2014 onwards, targeted at potential customers in the streaming movie and video conferencing markets.

Value proposition

DDD's approach is to develop solutions that are primarily based on one or more patents developed by the Group and protected in key territories in North America, Asia and Europe. As a result of the early patents developed by the Group, the Group has world leading expertise in the techniques involved in understanding the dimensional depth structure of otherwise flat 2D images. This expertise has been packaged into solutions for two key markets: automatic 2D to 3D conversion and efficient encoding of 2D streaming video. Each of these markets, business models, risks and business updates are presented in the Business Review of Operations section of this Strategic Report.

Key Performance Indicators

The key performance indicators used in the business are summarised below. The performance of the business in the terms of these indicators is considered throughout this Strategic Report section of the Annual Report and Accounts.

	2013	2012
New/renewal 3D license agreements signed in the year	**4**	7
Active 3D licensees during the period	**15**	16
3D units shipped with technology	**11,242,178**	15,002,584
Gross margin on continuing operations	**99%**	97%
OEM royalty revenue ($'000's)	**3,132**	8,339
Adjusted EBITDA*	**(511)**	3,213
Adjusted (Loss)/profit before taxation from continuing operations* ($'000's)	**(1,562)**	2,047
Working capital balance ($'000's)	**2,246**	3,981
Average monthly operating expenditure rate ** - ($'000's)	**496**	570

* Adjusted before share based remuneration expenses of $426,000 (2012: $733,000).

** Operating expenses before capitalisation of development costs as an average over the financial year. Does not include realised foreign exchange (FX) gains/losses.

Financial Review

Revenues for the year ended 31 December 2013 were $3,400,000 (2012: $8,620,000), a decrease of 61%. The decrease was primarily due to a decline in shipments from the 3D PC market.

TriDef technology royalty revenues (including direct to consumer software sales) decreased to $3,335,000 (2012: $8,549,000) as shipments across TV, PC and mobile declined from 15 million to 11.2 million units. The mix of unit shipments by volume was: 97.1% TV, 2.7% PC and 0.2% mobile devices (2012: 82% TV, 16% PC, 2% mobile). Royalties from OEM agreements decreased to $3,132,000 (2011: $8,339,000) while software licensing sales were $203,000 (2012: $210,000) for the year.

Other licensing royalty revenues were $51,000 (2012: $64,000). This includes royalties received from IP patent licensing as well as royalties from other license agreements which are non-royalty based. Other revenues were $14,000 (2012: $7,000).

Gross profit decreased by 60% to $3,361,000 (2012: $8,376,000) and gross margin increased to 99% (2012: 97%) as a result of the continued shift in revenue mix towards higher margin royalties.

Administration expenses decreased 18% to $4,287,000 (2012: $5,242,000) due to a reduction in headcount related to PC market activities and the weakening of the Australian Dollar which represents approximately 50% of the expense base by virtue of the Australian operation.

Other income increased to $415,000 (2012: $79,000). The majority of other income is related to the Australian R&D incentive program which was unavailable to the Group in 2012 due to the timing of incentive program rule changes.

The non-cash share-based incentive cost decreased to $426,000 (2012: $733,000).

Adjusted Group loss before tax and share-based incentive costs was $1,562,000 (2012: profit $2,047,000). The reported pre-tax loss was $1,988,000 (2012: profit $1,314,000).

The total taxation charge was $581,000 (2012: $550,000). Taxation includes foreign withholding taxes withheld at source as well as local sales taxes, adjusted by the movement in the Deferred Tax Asset and Liability accounts. Note 7 to the Consolidated Group Financials describe this in more detail.

The Group recorded a loss per share during the year of 1.86 cents (2012: profit 0.57 cents).

Net cash used by operating activities was $179,000 (2012: generation of $2,217,000). Capitalised expenditure was $1,897,000 (2012: $1,873,000). This cash flow was supplemented by $1,281,000 of net proceeds raised from the issue of new shares through employee stock option exercises during the year and a new 4.9% equity owner (2012: $72,000), resulting in cash of $2,661,000 at the end of 2013 (2012: $3,595,000).

Key risk analysis:

The Directors' financial risk management objective is to maximise financial assets and minimise financial liabilities whilst not engaging in speculation. The Directors have ensured that the Group has effective systems for managing and mitigating significant risks, which incorporate performance management systems and appropriate remuneration incentives where relevant. In identifying and assessing these risks, the Directors consider the Group's short and long-term value, as well as the opportunities to enhance value that may arise from an appropriate response to such a risk.

The Group conducts banking activities in multiple jurisdictions, including Australia, the US and the UK, relevant to the business requirements. Risks surrounding banking include bank solvency, liquidity of investments, interest rates earned, and currency fluctuation risk. To mitigate these risks, the Group routinely reviews the banking relationships to ensure that all deposits are held with AA+ rated banking institutions and are insured where available. Cash balances are held in the currency of anticipated expenditure wherever possible to reduce the foreign exchange risk. Finally, interest rates and withdrawal limits are reviewed regularly to protect the Group and secure the best returns and availability of cash deposits. Given that the Group does not currently have any debt, interest rates on debt and related financial covenants are not presently applicable.

Additionally, the financial reporting currency for presentational purposes is the US dollar. A change was made to this currency in 2011 given that the majority of customer agreements are negotiated in US dollars. This mitigates the currency risk on revenue for the Group. Another main financial risk in this area is related to the extension of credit to customers. The Group actively reviews and approves the terms of, and parties to, significant commercial contracts where payment is not anticipated in advance.

Access to sufficient capital is a risk of the Group. The Group continues to make losses in various entities which could require it to secure further financing/ funding for its operations through loans or equity-based instruments should commercial agreements not provide sufficient cash flow. The Directors periodically review business and cash flow models as well as the most suitable instruments for funding should the need arise.

STRATEGIC REPORT continued

Remaining financial risk areas and a sensitivity analysis are discussed more fully in Note 14 of the Consolidated Group Financials.

Operationally, the key risk for the Group lies in the timing of new license agreements, non-renewal of license agreements, timing and the volume of licensee product shipments incorporating the Group's technology, performance of the markets in which the Group's licensees operate and potential changes in customer relationships that could adversely impact the operating revenue. The Group seeks to reduce this risk by increasing the number of licensees who utilise the Group's technology, developing new technologies that can be licensed to different groups of licensees operating in diverse markets as well as widening the number of discrete market segments where potential licensees do business.

A second risk is the possibility that the proprietary rights underlying the Group's technologies will be challenged, invalidated, circumvented or used without the Group's authorisation. The Group files patents and trademarks as appropriate to protect its intellectual property. The Group also monitors competitive technologies promoted by third parties and develops strategies for potential enforcement actions. As discussed in this report, the Group has been considering multiple options to utilise third parties to assist in negotiations to resolve unlicensed patent use and reached an agreement with a specialist advisory partner in early 2014.

As new technologies are developed that allow the Group to widen the licensee base into new or emerging markets, the third risk is that the Group will not be successful in securing licensees for these new technologies. The Group conducts regular forward planning meetings to ensure that where possible, these new technologies are developed to meet requirements that are present in the target markets.

Various risks specifically related to the business areas, including competitive risks, are further detailed in the following section.

On the left: Hampoo's 10.1" 3D tablet displaying a scene from *Rally Maroc* by concon3D
On the right: Gadmei's 8" 3D tablet displaying a scene from *Wallflower Tango* by Filmakademie Baden-Württemberg, available on Yabazam

Business Review of Operations

3D TECHNOLOGY LICENSING BUSINESS

AUTOMATIC 2D TO 3D CONVERSION

This ability to create depth information from a 2D image was initially packaged as technology solutions for licensing into the market for consumer 3D displays, including televisions, personal computers, smartphones and tablets. The value proposition is simple as there is insufficient 3D content from film studios and from television production companies to support a 24 hour/day, seven day/week 3D TV channel, therefore having the capability to automatically convert existing 2D TV shows, movies and games in the home is an important feature for consumer electronics manufacturers and consumers alike. For the consumer, it ensures that a diverse range of 3D content is instantly accessible as soon as they purchase their 3D product and for the consumer electronics manufacturer, the inclusion of this capability overcomes the consumers concern over lack of available 3D content when purchasing their 3D product.

Addressable market:
Of the markets that the Group is currently active in, the market for 3D consumer devices is the most mature. DisplaySearch, a leading market research firm for the consumer electronics space, reports that 3D TV shipments rose 8.3% to 45 million units in 2013, representing 20.6% of all TVs produced during 2013. DisplaySearch's market research suggests that 3D TV production will continue to grow, as Chinese TV manufacturers aggressively expand their 3D model ranges. In addition to licensing the core 2D to 3D conversion technology to TV chip makers, the Group has recently released its game and video 3D conversion solutions as downloadable software apps, targeted at the growing market for Smart TVs, particularly in China.

The market for 3D smartphones and tablets is the next emerging consumer market, where the viewer is able to see the 3D image without the need for any special viewing glasses. Presently the growth is constrained by the availability of the new 'glasses-free' 3D displays however DisplaySearch forecasts that this market will grow to approximately 15 million units per year by 2017. The majority of the Group's new licensees are active in the emerging 3D tablet market. The 3D PC market is presently declining as a result of the general slow down in sales of PCs as consumers switch to tablet devices. While the Group has enjoyed a strong market share in the PC segment during 2009-2013 with over 3.6 million copies of its software shipped by OEMs, absent a turnaround in the fortunes of the PC market in general, the Group does not expect that the 3D PC market will contribute materially to future 3D technology licensing revenues.

Business Model
DDD's TriDef 2D to 3D conversion software business model currently includes:

- the licensing of the TriDef 3D software to Original Equipment Manufacturers (OEMs) for TV, PC, monitor, mobile and tablet markets yielding **license fees (licensing revenue)** and **per unit royalties (royalty revenue)**;
- the sale of TriDef 3D software directly to end users from the Group's website yielding **per unit license fees (software revenue)**; and
- **one time development fees (consulting revenue)** based on DDD's assistance in integrating the TriDef 3D firmware or software with the licensee's new 3D products.

Specific Risks
Competitive risk exists in the market as follows:

- unlicensed use of the Group's intellectual property;
- alternative 2D to 3D conversion methods which have been used by some manufacturers that yield lower quality visual results;
- license agreement renewal terms and non-renewals; and
- changes in licensee production due to economic conditions or market demand for 3D products.

The Group has partnered with a suitable intellectual property licensing specialist in order to address unlicensed claim use. The recently introduced Smart TV software apps were developed in response to the lower cost chip solutions developed by Asia-based chip vendors. The Smart TV apps offer a lower risk, higher quality visual result that can be marketed as a cost effective alternative to the lower cost conversion chips. Where possible the Group seeks to renew license agreements on terms that are as close to the original license agreement terms as is possible. In certain cases, since the royalties adjust based on cumulative shipment of the Group's technologies by the licensee, the per unit royalties reduce as production increases. The Group monitors feedback from its licensees as well as from independent market research firms and adjusts its product development strategies and support resources in line with developing market trends.

STRATEGIC REPORT continued

PATENT LICENSING

To date, the majority of the Group's licensing revenue has been derived from the 2D to 3D conversion technology licensing program, whereby the Group provides a software application or reference design to the licensee for inclusion with the licensee's 3D products. During 2013, the Group expanded the scope of its patent license agreement with Samsung that allows Samsung to undertake offline 2D to 3D conversion of cinematic content using the patent claims owned by DDD. Unlike a technology license, the patent license does not require any software or reference design to be provided by DDD to the licensee since the licensee has the skills to develop its own implementation.

With over 38 million 3D consumer products that include the Group's TriDef 3D technologies shipped by leading manufacturers since early 2010, there is now an established value for the internationally registered patent claims on which DDD's solutions have been built. As new revenue streams continue to be developed, the Group expects that patent licensing revenue will grow as the Group establishes its patent rights with prospective licensees. The patent licensing program also has the potential to create license and royalty revenue from applications in 3D markets that are outside the scope of the current technology licensing program. The Group appointed IP Navigation Group as its exclusive patent licensing advisor in March 2014. IP Navigation Group will work closely with the Group to secure patent licensees in the consumer and professional 3D markets.

Business Model

DDD's patent licensing business model currently includes:

- the licensing of the patent rights to appropriate vendors to utilise the claims of the patents in various business processes yielding **license fees (licensing revenue)** or **per minute royalties (non-unit based royalty revenue)**.

Specific Risks

Competitive risk exists in the market as follows:

- the Group's intellectual property advisory partner may be unsuccessful in assisting in the expansion of the licensing program; and
- The financial cost of asserting the patent rights by litigation may be too significant for the Group to bear when compared to the value of the resulting license fee.

The Group has thoroughly investigated the available options for licensing its patent rights and plans to implement an approach that maximizes the success of the program while minimizing the financial risks to the Group. Through partnering with an established intellectual property licensing specialist, the Group is able to take advantage of industry best practices when seeking licenses. The pre-existing technology licensing royalties provide an established value by which license fees can be calculated, mitigating the risk that prospective licensees will propose unrealistically low licensing terms.

Looking forward – 3D Technology Market Update

During 2013, the Group continued to realise the majority of its revenues from technology licenses in the 3D market. During the year, another TV chip licensee completed the development of a 3D TV chip incorporating the Group's technologies and began marketing the chip to customers in early 2014. It is uncertain whether the chipmaker will secure customers for these new chipsets however it could present additional royalty contribution for the recently introduced HD chip.

The design of video processing chips for TVs continues to evolve with the latest chips including dual and quad core ARM-based processors. This evolution has allowed the Group to develop software implementations of the TriDef 3D game and video conversion features for these next generation Smart TVs. During 2013, the Group completed development of Android versions of these Smart TV apps that are targeted at certain upcoming Smart TV platforms from vendors in China. The software approach is expected to reduce delivery times (compared to conventional chip development projects) and reduce technical risk and cost for OEM licensees while delivering a higher quality 3D image than competitive solutions.

In the PC market, the Group will continue to maintain software and game support for the OEM and consumer market and will continue to secure new licensees provided that the market remains sustainable.

In the mobile device and tablet market, the Group completed development of the TriDef 3D gaming and TriDef 3D gallery applications for Android devices. The new applications will include a promotional version which will be made available for free in the Google Play app store to introduce the software at no risk for new users. A paid upgrade option is available that enables a fully featured upgrade version of the software for users who wish to use the software.

OTHER BUSINESS AREAS

3D CONTENT PUBLISHING – "YABAZAM"

The technology licensing business represents an opportunity to generate royalty income for each device produced that incorporates the Group's TriDef 3D technologies. In response to requests from OEM customers seeking original 3D content to include with their 3D devices, the Group launched Yabazam!®, an online 3D portal offering a variety of high definition originally made 3D movie titles that can be streamed directly over-the-top to 3D capable Smart TVs and mobile devices.

Additionally, promotional Yabazam content has been incorporated into the TriDef PC software, and, in some instances, Yabazam icons have been preloaded on 3D PC products, which allow users quick access to visit the site and view the range of content available.

The content library of originally made 3D movies doubled in size during 2013 to a total of 123 titles from 43 producers around the world. The Yabazam Smart TV app has been expanded to reach 17 countries and language packs for six of the most popular countries were released in early 2014. US Smart TV users have access to the service as a subscription service for $9.99 per month while international customers can download individual titles on a video-on-demand basis. The service was expanded to include Panasonic's range of 3D TVs in March 2014. Yabazam is also available in the Google Play store for customers with Android-based 3D tablets.

Addressable Market

As the installed base of 3D televisions and mobile devices continues to grow, the Group is broadening the reach of the Yabazam 3D movie streaming service. Data from DisplaySearch indicates that Samsung and LG represented just over 50% of all 3D TVs shipped during 2013, therefore the Group's Yabazam Smart TV app is already available to half of the 3D Smart TVs shipped annually. Industry research suggests that around 430 million 3D capable TVs, PCs, Monitors and Tablets will be in living rooms worldwide by the end of 2016, most of which will have Wi-fi connectivity or Smart TV internet capabilities. The US market represents approximately 18% of the worldwide market.

Business Model

DDD's content publishing business model currently includes:

- per **paid download, single use rental or monthly subscription revenue (other revenue)** based on end users of Smart TVs, PCs and other TriDef 3D equipped devices visiting the Yabazam content portal and completing paid access of the available content;
- the licensing of the Yabazam promotional content to TriDef 3D technology licensees by offering **technology licensing incentives (marketing expense - other)** to the licensees to include the Yabazam content **(advertising royalty revenue – licensing)**; and
- the acquisition of originally made 3D content for delivery to end users of 3D products in the TV, PC and mobile markets yielding **per disc/embedded content revenue shares (other revenue)**.

Specific Risks

Competitive risk exists in the market as follows:

- content producers who distribute their content via Yabazam may not renew their distribution agreements or may not renew on similar commercial terms;
- the cost of acquiring premium 3D content from movie studios may outweigh the subsequent return from users of the Yabazam service, constraining the range of available titles;
- competitive streaming services may seek to offer more favorable terms to the content licensees, reducing the attractiveness of the Yabazam proposition to content owners; and
- viewers and subscribers may lose interest in the service if the Group is unable to secure a regular supply of new content to keep the library up to date.

The Group seeks to enter into multi-year license agreements with content owners and seeks to renew the licenses on similar terms to those in the original license. The Group continually evaluates the content available on alternative 3D services to ensure that the Yabazam offering remains competitively priced and contains unique content that viewers cannot readily find elsewhere. The Group regularly reviews the terms from premium 3D content sources to determine when it will become viable for the Group to pay minimum guarantees that can be recovered from paid downloads during the applicable distribution windows. The Group actively participates in international 3D film events to ensure that a continual supply of new 3D content becomes available which are appealing to end users in different countries where the service is available.

STRATEGIC REPORT continued

Looking to the Future

EMERGING 2D TECHNOLOGY LICENSING BUSINESS

Since inception, the Group's technical team has developed world-class expertise in the efficient extraction and processing of depth from a two dimensional image. The primary focus of the Group has been to develop a series of patents and technologies based on this expertise that delivered practical solutions for the stereoscopic 3D industry. During 2011, the Group began to examine how its depth extraction expertise could be re-packaged to provide innovative solutions for markets beyond the niche stereoscopic 3D market.

EFFICIENT ENCODING OF 2D STREAMING VIDEO

The first of the new patents created by the team were filed in early 2013 and relate to how the depth information of the 2D scene can be used to more efficiently encode streaming 2D movies. The value proposition is simple. Since the viewer is often focused on actors and objects towards the front of the scene, the depth information can be used to guide the movie encoding process to direct more of the available picture quality to areas of interest to the viewer. The result of this approach is that the same quality picture can be delivered for approximately 20% less bandwidth. This has a number of benefits; for the streaming movie company, they can deliver the same picture quality for less bandwidth, saving on their distribution costs; or alternatively they can keep the bandwidth at present levels and use the process to improve the perceived picture quality in the streaming movie. Research from Conviva suggests that the revenue uplift for improving picture quality is upwards of 11.4%. Bandwidth costs for streaming media are likely to become an increasing concern for streaming providers as the resolution of video evolves from high definition (HD) to ultra high definition (UHD) which requires four times the information of an HD image.

For the viewer, they can save bandwidth costs if their internet access is provided on a Usage Based Billing (UBB) model, or they benefit from improved picture quality and fewer buffering delays. This technology underpinned the recent investment in the company by US-based mobile licensing specialist, InterDigital Communications Corporation (Nasdaq: IDCC). Since the video is pre-processed before it is encoded, the solution is compatible with all the current digital media distribution formats and standards and does not require any additional decoder technology in the existing display devices, making it backward compatible with the sizeable existing installed base of TVs, PCs, tablets and smartphones.

Addressable Market

The Group is presently demonstrating the new solution to various streaming video companies and at trade shows such as the International CES and Mobile World Congress in conjunction with InterDigital. The objective is to introduce a solution during 2014 that saves bandwidth for streaming video operators. Tests have indicated that the new video pre-processing solution will save around 20% of the bandwidth that is used to stream a movie to the viewer's home. The US market is the most mature streaming media market, where households presently consume around 38Gb/month of downstream internet bandwidth, of which 67% or 25Gb is used for streaming movies from services such as Netflix, Amazon Prime and Hulu (source: Sandvine H2 2013 Global Internet Phenomena Report). Consequently, the Group is focused on developing opportunities in the US market where the new technologies can be used by customers to either reduce bandwidth costs, or improve the quality of experience for the viewer using the same bandwidth. Following the successful deployment of the solutions to US customers, the Group plans to introduce the solution internationally in emerging markets in Europe, South America and Asia.

Based on a current cost of a Petabyte (1024 Gb) of streaming media, it is estimated that the top seven US streaming media providers spent approximately $78m on bandwidth costs during 2013 and this is set to grow to an estimated $114m in 2014. On the basis that the pre-processing solution is able to save 20% of the bandwidth of a typical video stream, this would equate to savings of approximately $15m in 2013, growing to $23m in 2014 for a streaming media provider who pre-processes their content with this solution. The solution will either be an ROI model based on the bandwidth cost savings achieved or a Quality of Experience (QOE) model and the Group plans to determine the optimal business model during 2014.

As mobile networks continue to evolve towards 4G LTE infrastructure, it is also expected that consumers will make more use of their mobile network providers to deliver streaming movie content. Therefore this licensing opportunity is expected to evolve from an in-home 'fixed access' model to a fixed access and mobile access model over the 2014-2017 period, further increasing the addressable market size. The data rates on fixed access networks will further increase from 2014 onwards as service providers begin the delivery of ultra high definition (UHD) or 4K content which requires four times as much data when compared to a normal HD image.

Specific Risks
Competitive risk exists in the market as follows:

- streaming content providers may determine that the pre-processing approach is not suited to their business needs resulting in low uptake of the solution by prospective licensees;
- competitive streaming bandwidth or picture quality improvement solutions may offer a better result and/or more favorable terms, reducing the attractiveness of the proposition to prospective licensees; and
- Viewers and subscribers may not adopt 4K/UHD display technologies, reducing the size of the potential market in future years.

The Group has undertaken its product development in conjunction with streaming content creators at select studios to ensure that the process does not detract from the quality of the viewing experience. During this process the Group has not encountered any similar solutions from competitors. By partnering with other industry-leading technology providers with complimentary solutions, the Group believes it can improve the performance of the overall solution and therefore increase the likelihood of success. While 4K/Ultra High Definition content will place additional pressure to find solutions that improve bandwidth usage, the current market for streaming media to televisions and mobile devices is built around the delivery of high definition (HD) content and therefore the commercial opportunity remains viable irrespective of the consumer adoption of 4K/UHD devices and services.

VIDEO CONFERENCING

The real time capture of depth information together with a 2D image is becoming an increasingly viable application as products such as Intel's RealSense and Google's "Project Tango" depth sensors become available to application developers for use in PC's, tablets and smartphones.

These new depth sensors and their related applications are expected to enable a range of new opportunities for the Group to exploit its class leading expertise in depth processing that include real time video conferencing.

The Group is pursuing two opportunities in this emerging market; real time background removal and improved video conferencing picture quality. These new solutions leverage the Group's existing intellectual property and expertise in depth processing and depth-based video signal encoding.

For real time background removal, the Group's depth processing algorithms allow the participant in a video conference to be easily identified and tracked using either a depth sensor or a normal 2D webcam in a PC, tablet or smartphone. This depth tracking information can be used to remove the background behind the participant in real time and replace it with an alternative image. This feature can be used for professional applications such as inserting the participant into a PowerPoint presentation they are delivering during the video conference or removing the background for security reasons. For consumer applications, the participant can use the feature to place themselves into a still image, video or game sequence to share on social media.

Importantly, since the Group's technology is able to use the existing 2D webcam to automatically identify and track the participant, the solution provides OEM customers with a lower risk, entry level solution that does not incur the additional expense of the separate depth sensor.

When coupled with the Group's new depth-based video pre-processing solution, the video conferencing picture quality can be further improved by using the depth information to direct the video conference encoder to assign more of the bandwidth towards the participant, effectively improving the picture quality of the participant's face and body to other's on the video conference.

Addressable market
This new technology has already been demonstrated to several potential licensees in the PC and smartphone markets to evaluate the interest of the OEM community and likely use of these features by consumers. The initial results have been very positive.

DisplaySearch estimates that the depth sensor market in 2015 will exceed 300m units annually as they are incorporated into televisions, personal computers, mobile devices or as accessories to these devices (e.g. Microsoft's X-Box Kinect). The adoption of these devices is anticipated to be rapid as they enable gesture sensing to expand the interaction of device users with the device for a variety of use cases.

Beyond the hardware-dependent market, the Group's software solution can provide the real time video conferencing capability to any device with a suitable webcam including existing PCs, tablets, and smart phones. The addressable market for these devices is in excess of 1.5 billion units per year.

A per unit royalty in conjunction with a direct-to-consumer software model will be used to monetise this opportunity by the Group with the expectation that the solution will become available in late 2014. As the Group assists prospective licensees in developing and refining their depth sensor solutions, development fees may be earned for customer specific development activities.

STRATEGIC REPORT continued

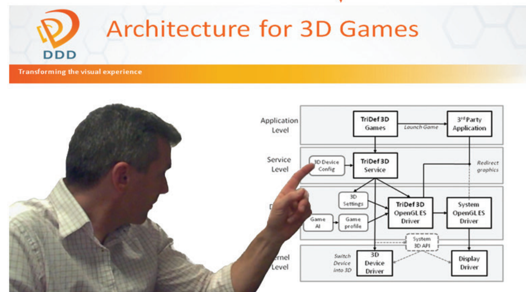
Dynamic Background Substitution

Using real-time depth map creation for social and business applications

CTO Dr. Julien Flack in his office through a standard 2D web camera

DDD's real-time depth recovery software

Real-time background replacement for social media application



Real-time background replacement for business application

Current Trading and Outlook

During 2014, the Group expects to augment the current technology licensing income from the 3D market with licensing revenue from new opportunities in the emerging 2D markets as the new depth sensor and video pre-processing solutions are deployed to video conferencing and streaming video licensees. This transition should reduce the Group's reliance on the performance of the 3D market and create diversified licensing income.

In the 3D market, the Group will seek to secure licensees for new game and video 3D conversion apps, with a particular focus on Chinese Smart TV and 3D tablet manufacturers. Additional content acquisitions are planned for the Yabazam 3D movie streaming service to ensure that the growing number of users remain engaged with the service on Smart TVs and 3D tablets.

The Group appointed IP Navigation Group as its patent advisor in March 2014 to assist in licensing the Group's extensive patent library. The objective is to secure license fees for the use of the Group's international patent library claims in various 3D consumer products and professional services.

Where practical, the Group will also pursue new patent filings for the underlying ideas involved in these new solutions in order to continue to strengthen its international patent library.

Despite the challenges that were faced during 2013, the Board is confident that the Group can return to the growth performance that was demonstrated in recent years as the new technologies are delivered and the licensees are secured during 2014.

This report was approved by the Board of Directors of DDD Group plc and signed on its behalf by:

Nicholas Brigstocke
Chairman

14 April 2014

Christopher Yewdall
Chief Executive Officer

14 April 2014

DDD GROUP PLC DIRECTORS

Nicholas Brigstocke (71), non-executive Chairman
(independent[1])
Nick was appointed a non-executive director of DDD in November 2001 and appointed Chairman in June 2013. He retired in 2001 as Chairman of UK Equity Capital Markets at Credit Suisse First Boston ("CSFB"). He joined CSFB when it purchased Barclays de Zoete Wedd in January 1998, at which time he was Chairman and Managing Director of BZW's UK corporate broking business. Prior to that, he was head of equity sales and a member of the equity management committee at BZW.

Christopher Yewdall (48), Chief Executive Officer
Chris was appointed Chief Executive Officer of DDD in November 2001. He joined DDD as Vice President of Sales and Marketing in September 1998, was appointed President of DDD USA in July 1999, became its Chief Executive Officer in July 2000 and was appointed to its Board of Directors of DDD Inc. in April 2001. Prior to joining DDD, Chris was Vice President, Business Development of C-Dilla Limited, an anti-piracy software provider servicing entertainment and business software developers. Between February 1991 and March 1997, he was General Manager and Vice President of Sales of Virtuality Inc., a virtual reality 3D technologies company with offices in Europe and North America.

Victoria Stull (43), Chief Financial Officer
Victoria was appointed to the Board of Directors of DDD on 18 July 2012. Victoria joined the Group's finance team in October 2009 and was appointed as Chief Financial Officer in June 2010. Prior to joining DDD, Victoria was a founding member and Vice President of Sales & Business Development of GOQO, an online entertainment portal available in over 20,000 internet cafes throughout China. Victoria has also held financial positions at Gemstar-TV Guide International, a leading provider of interactive programming technologies in the digital television market, and Sony Pictures International Television. She spent five years in various audit roles with Sony Corporation of America and Deloitte & Touche LLP.

Dr. Sanji Arisawa (71), non-executive director
(non-independent[2])
Sanji was appointed a non-executive director of DDD in March 2005. He has been the President & CEO of Tokyo Stock Exchange listed Arisawa Manufacturing Co., Ltd. since 1995. Dr. Arisawa obtained his Ph.D. in operations research from North Carolina State University in 1973.

Paul Kristensen (70), non-executive director
(independent[1])
Paul was appointed to the DDD Board in November 2001 and is the President of Capital Technologies Pty Ltd, a venture capital firm in Australia. He has been a founding director and shareholder of numerous technology companies originating in Western Australia, including ERG Limited, Arbortech Pty Ltd, Kinetic Limited, TrueVision 3D Pty Ltd (the precursor to DDD), and Structural Monitoring Systems Ltd. He is currently an associate of AADI Defence Pty Ltd and a non-executive director of Stochastic Simulation Ltd, Lumitex Ltd, Accumulus Pte Ltd (Singapore), HIVAP Global Cooling Pte Ltd (Singapore) and Asia Pacific Technology Ltd (Hong Kong). Paul is a co-founder of Western Australian Angel Investors, Inc, and was a member of the Australian IT Industry Innovation Council for its full term from 2009-13. He was appointed a non-executive director of DDD Inc. (the predecessor parent company) in May 1996 and served as Chairman of DDD Group plc from May 2002 to June 2013.

Warren Littlefield (61), non-executive director
(independent[1])
Warren was appointed a non-executive director of DDD in November 2001 and is retiring his seat effective April 15, 2014. He was appointed to the board of DDD Inc. in August 2001 and is the founder of The Littlefield Company, which develops and produces television programming. He is currently Executive Producing with Joel & Ethan Coen and Noah Hawley an adaptation of the Coen's Academy Award winning film *Fargo* for FX cable. Warren spent 20 years with NBC including nine years as President of NBC Entertainment which is chronicled in his New York Times bestselling book "*TOP OF THE ROCK: Inside The Rise & Fall of Must See TV*".

Hans Roger Snook (65), non-executive director
(independent[3])
Hans was appointed a non-executive director of DDD in January 2006. Hans is the Chairman of Truemove, a mobile telephone operator based in Thailand. He also currently serves on the Board of Directors of Health Limited and The Integrated Health Consultancy Ltd. Hans was the founder and Chief Executive of Orange and served on the board of the main holding company and two of its subsidiaries. He articulated the vision of a 'wire free future' which has driven the branding, strategy and operation of Orange. Under Hans' leadership, Orange launched on 28 April 1994 and had a profound impact on the mobile market in both the UK and globally. In March 1996, Orange listed on the London and NASDAQ exchanges and, in June of that year, became the youngest company to enter the FTSE 100. After a series of acquisitions, Hans continued as Chief Executive of the enlarged Orange group, leading it to a subsequent flotation in February 2001, at which point he became Special Adviser to the group, a role from which he stepped down at the end of 2001. From 2002 until July 2005, Hans was non-executive Chairman of Carphone Warehouse Group plc. From May 2005 to February 2007, Hans was non-executive Chairman of MonsterMob Group plc.

1. The Board is satisfied that this non-executive director remains independent in character and judgement despite serving as a director in excess of 9 years and that there are no relationships or circumstances which are likely to affect or could appear to affect, his judgement. Each director with this designation will stand for election annually to ensure shareholder approval.
2. The Board is satisfied that this non-executive director brings significant knowledge, experience and value to the Board despite being non-independent. When matters specific to the related party interests disclosed in Note 22 of the Group financial statements are before the Board, this director abstains from voting in accordance with the Board's rules regarding Conflicts of Interest (page 15).
3. As defined in The UK Corporate Governance Code.

DIRECTORS' REPORT

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2013.

CORPORATE GOVERNANCE

The Directors acknowledge that adhering to rules of good corporate governance is in the best interests of the Group and its shareholders for the long-term success of the organisation. As an AIM listed Company, the Group follows the principles of the Quoted Companies Alliance ("QCA") Corporate Governance Guidelines for Smaller Quoted Companies and NAPF AIM Guidelines.

As the Company's shares are traded on AIM, the Company has not complied with the UK Corporate Governance Code ('the Code') nor is it required to. However, the Company is committed to high standards of corporate governance and draws upon best practice available, including those aspects of the Code considered appropriate.

ARTICLES

The Company's Articles of Association are available on the Company's website and may be amended by special resolution of shareholders.

BRANCH OFFICES

The Company has subsidiaries located in Los Angeles, California, USA and Perth, Western Australia as detailed on the back cover of this document.

DIRECTORS

The Company is led and controlled by the Board of Directors, chaired by Nicholas Brigstocke with five non-executive directors and two executive directors. The chairman is responsible for leadership of the board and ensuring its effectiveness in all aspects of its role. The non-executive directors constructively challenge and help develop proposals on strategy.

Subject to the Company's Articles of Association, the prevailing legislation and any directions given by special resolution, the business and affairs of the Company will be managed by the Directors who may exercise all such powers of the Company.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act 2006, and related legislation. Directors may be appointed by the Company by ordinary resolution or by the Board on recommendation of the Remuneration and Nomination Committee. A Director appointed by the Board holds office only until the following annual general meeting and is then eligible for election by the shareholders but is not taken into account in determining the Directors or the number of Directors who are to retire by rotation at that meeting. The Company may, by ordinary resolution of which special notice has been given, remove any Director before the expiration of his/her term of office.

Biographical details for each of the Directors are set out on pages 12 and 13. Details of the dates of appointment of Directors within the year are shown in the Directors' Report. All Directors are subject to re-election within a three-year period. Directors have a standard three month notice period in their service agreements specific to the director role. The roles of the Chairman and Chief Executive are separate and have been so throughout the year.

The non-executive directors meet, without the presence of the executive directors, whenever it is appropriate for them to do so. All the Directors have access to the advice of the Company Secretary and may, in furtherance of their duties, take independent legal and financial advice at the Company's expense. They also have access to the minutes of the Board, in which any views expressed by them regarding matters pertaining to the Group are recorded.

Documented succession planning and structured performance evaluations have been discussed by the Board but have not yet been fully implemented. Informal evaluations are conducted by the Chairman with non-executive and executive directors regularly to ensure commitment and identify any deficiencies in skills for further training.

DIRECTORS DURING THE FINANCIAL PERIOD

The names and biographical details of the current Board of Directors are shown on pages 12 and 13. The following Directors held office during the year ended 31 December 2013:

Director	Date of original appointment	Expiration of current term
Nicholas Brigstocke (Non-executive Chairman)	23 November 2001	June 2014
Christopher Yewdall (Chief Executive Officer)	5 September 2001	June 2015
Victoria Stull (Chief Financial Officer)	11 July 2012	June 2016
Dr. Sanji Arisawa (Non-executive director)	10 March 2005	June 2014
Paul Kristensen (Non-executive director)	23 November 2001	June 2014
Warren Littlefield (Non-executive director)	23 November 2001	*
Hans Roger Snook (Non-executive director)	12 January 2006	June 2014

* Warren Littlefield resigned his seat with the Board of Directors effective 15 April 2014 but will remain a consultant available to the Company until early 2016. The non-executive position will not be refilled.

In accordance with the Company's Articles of Association ("Articles"), Hans Snook, Nicholas Brigstocke, Paul Kristensen, and Dr. Sanji Arisawa will retire by rotation at the Annual General Meeting (AGM) of the Company to be held on 10 June 2014 and will seek re-election at the meeting.

The remuneration and any disclosable interests of the directors at 31 December 2013 and at 9 April 2014 including holdings, if any, of spouses and children aged under 18 is presented in the Remuneration Report which forms part of this Directors' Report on pages 22-24.

Related party transactions are included in Note 22 to the consolidated Group financial statements.

DIRECTORS' INDEMNITIES

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of each of the Directors in respect of liabilities incurred as a result of their office to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial year with a cover limit of £2,000,000 effective as of April 2012.

BOARD MEETINGS

The Board generally meets quarterly and at such other times as required, and receives regular reports on a wide range of key issues including operational performance, risk management and corporate strategy.

The Board's accountability is demonstrated by the adoption of a formal schedule of matters specifically reserved to the Board for its decision concerning key areas across the Group's activities, thereby ensuring that all major decisions affecting the Group are taken at Board level. These matters are documented on the Company's website. All the Directors are free to bring any matter to the attention of the Board, at any time. Additionally, the Nominated Advisor is invited annually to provide a Director Obligations presentation to the Directors and the legal advisors provide written governance updates and guidance as needed.

The Board invites the other executive officers of the Group to attend and participate in meetings to remove any risk of over-reliance on the executive directors.

COMMITTEES

The combined Audit and Corporate Governance Committee and the combined Remuneration and Nomination Committee meet at least twice a year and the membership is reviewed annually. During 2013, no additional changes were proposed to the operation of the Board or its committees; however, in 2014, changes are anticipated given the retirement of a director and the appointment of Nick Brigstocke to Chairman.

Audit and Corporate Governance Committee

The Audit and Corporate Governance Committee is chaired by Nicholas Brigstocke and comprises two other non-executive directors, Paul Kristensen and Warren Littlefield. The external auditor, together with the Chief Executive Officer, Chief Financial Officer and other financial staff are invited to attend these meetings as and when required.

DIRECTORS' REPORT continued

In accordance with its terms of reference, the principal function of this committee is to determine the appropriateness of accounting policies (see Note 2 to the Group financial statements) to be used in the Group's annual results. In addition the Committee is responsible for monitoring the independence of the Group's auditor, assessing the Group's audit arrangements and the Group's system of internal controls, regular review and confirmation of the business risks and mitigating controls, and reviewing the half-yearly and annual results before publication to ensure sufficient useful information is supplied in a useable format with no significant omissions. The committee also reviews anti-bribery policies and compliance with best practices for corporate governance and is the point of contact for monitoring of ethics and receipt of any whistleblowing assertions in accordance with the Group employee policies and procedures.

The Committee relies on routine financial and business updates from the management team as well as detailed memos in reference to going concern, risks and controls, and any other matters that are required in conjunction with the financial reporting. The Committee also receives an annual report from the Company's external auditor and meets with them without the presence of executive management to discuss the business directly and ensure no limitations were imposed by management.

A report of the audit committee is provided in a separate section below.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is chaired by Paul Kristensen and includes two other non-executive directors, Nicholas Brigstocke and Warren Littlefield. In accordance with its terms of reference the Committee determines the level and make-up of both fixed and variable remuneration (including bonuses and options) of the executive directors and certain senior management. This also includes formulation of remuneration policy throughout the Group, embracing both share options and bonuses.

The Committee also evaluates the balance of skills, knowledge and experience on the Board and considers all new Board appointments and re-appointments against this evaluation. The Committee sets the Company's Equal Opportunity for Employment policy and recognises the importance of diversity, including gender, at all levels within the organisation. With the appointment of Miss Stull to the Board in July 2012, female board members now represent approximately 14% of the Board's composition. The Committee also oversees the induction of new appointments and works with executive team to coordinate introductions to strategic shareholders as deemed necessary.

The Report of the Board regarding Directors' Remuneration and the Group's remuneration policy giving details of Company policy and individual Directors' remuneration is set out on pages 22 to 24. The remuneration arrangements of the non-executive directors are recommended by the executive directors in consultation with the Company's Independent Advisors and then approved by the Board as a whole.

Executive Management Committee

The Executive Management Committee (the 'EMC'), under the chairmanship of the Chief Executive Officer, or in his absence the Chief Financial Officer, meets every two weeks and is responsible for the day-to-day running of the Group. The members of the EMC include the Chief Executive Officer of the Company (Director), together with the Chief Financial Officer (Director), Chief Technology Officer and four additional business heads who are not officers or Directors.

Attendance by the Directors at formal board and/or committee meetings in 2013 is summarised as follows:

Director	# of Board Meetings Attended	# of Audit and Corporate Governance Committee Meetings Attended	# of Remuneration and Nomination Committee Meetings Attended	Total # of board and committee Meetings Attended
Total Held	6	2	1	9
Nicholas Brigstocke	6	2	1	9
Christopher Yewdall	6	2	N/A	8
Victoria Stull	6	2	N/A	8
Dr. Sanji Arisawa	5	N/A	N/A	5
Paul Kristensen	6	2	1	9
Warren Littlefield	5	2	1	8
Hans Roger Snook	5	N/A	N/A	5

The Board has scheduled seven board meetings to be held during 2014.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties including the financial risks of the business are discussed in detail throughout the Strategic Report.

The Directors have ensured that the Group has effective systems for managing and mitigating significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives. In identifying and assessing these risks, the Directors consider the Group's short and long-term value, as well as the opportunities to enhance value that may arise from an appropriate response to such a risk.

GOING CONCERN BASIS

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 11.

The Directors have prepared cash flow forecasts up to 31 December 2016 which indicate the Company will have access to sufficient cash. Forecast revenue includes assumptions regarding existing contracts and new revenue streams arising from contracts which are in the negotiation phase; however, there is uncertainty that contract negotiations will be finalised.

If there are material adverse variances against these forecasts, the Company is able to institute measures to take mitigating actions to manage cash resources and access additional funding from strategic sources if required.

The Directors have concluded that the combination of these circumstances represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Nevertheless after making enquiries, the Directors have a reasonable expectation that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

INTERNAL CONTROL

The Board of Directors has overall responsibility both for the Group's system of internal controls, which includes internal financial controls, and for reviewing their effectiveness. The Directors recognise that no system of internal control can provide absolute assurance. The Group's systems are designed to manage the risk of failure to achieve business objectives and therefore can only provide the Directors with reasonable assurance against material misstatement or loss.

The key elements of the Group's internal control system, which have been operational for the whole of the financial year, are as follows:

Management structure
The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. The Chief Executive Officer has been given responsibility for specific aspects of the Group's affairs. Reporting to the Chief Executive is the Executive Management Committee which is responsible for the day to day running of the Group's affairs.

Monitoring systems used by the Board
The Board receives regular reports on the financial and business performance of the Group. The Board is regularly advised through these reports on the working capital position and financial performance relative to the Group's approved budget.

Internal audit
The Board reviews from time to time the need for an internal audit function and remains of the opinion that the systems of internal financial control are appropriate to the Group's present activities and that such a function is unnecessary.

REPORT OF THE AUDIT COMMITTEE

The audit committee has met and reviewed the Group's accounting policies including detailed memorandums regarding key accounting policies and judgements including the Group's going concern documentation, deferred tax asset position, investment in subsidiary valuation, and internal control testing and risk review. Additionally, the committee met in advance of the half-yearly financial reporting prior to the Board approval to review the reporting, assumptions, judgements, and risks at that time.

DIRECTORS' REPORT continued

The committee reviewed the audit planning documents provided by Grant Thornton in advance of the audit and were satisfied with the scope, efficiency and effectiveness of the plan. Following the completion of audit field work, the committee reviewed the documented audit findings report and separately met with the auditors to discuss the interactions with management. The committee also reviewed the business risks and mitigating processes noted in the Strategic Report and are satisfied with the disclosures in light of the strategy of the Board and its risk appetite. Additionally, no material weaknesses were found in the internal control environment during the year.

In accordance with auditing standards, Grant Thornton has advised the Company that the firm is independent within the meaning of regulatory and professional requirements and that the objectivity of the engagement partner and audit staff is not impaired. Having considered this opinion, the Committee believes that the continuing provision to the Group of audit service has not compromised the independence of the auditors in relation to their audit of the affairs of the Company and the Group. Additionally, the Committee has preapproved any non-audit services performed during 2013 (see Note 5 to the consolidated Group financial statements for more detail) and ascertained that they do not create an audit independence risk as they are performed by separate engagement teams and have been predominantly tax advisory services for the Group's subsidiary entities.

CONFLICTS OF INTEREST

Under the Companies Act 2006, directors are subject to a statutory duty to avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts of interest of directors where the Articles of Association contain a provision to that effect. The Company's Articles of Association afford the Directors such powers. Directors who have an interest in matters under discussion at Board meetings are required to declare this interest and, subject to certain exceptions, to abstain from voting on the relevant matters. In addition, the Directors will be able to impose limits or conditions when giving any authorisation, if they think this is appropriate.

During the year, these procedures were followed and operated effectively.

AUDITOR

The auditor, Grant Thornton UK LLP, offer themselves for re-appointment in accordance with Section 489 of the Companies Act 2006. Following a review of their continued independence by the Audit Committee, a resolution for their re-appointment will be proposed at the AGM.

POST BALANCE SHEET EVENTS

Post balance sheet events are discussed in Note 23 to the consolidated Group financial statements.

DIVIDEND

The Directors do not propose the payment of a dividend (2012: nil). In due course, the Directors will consider the payment of dividends, as and when the Group is in a position to do so.

PURCHASE OF OWN SHARES

During the Annual General Meeting in 2013, the Directors neither sought nor obtained permission from shareholders for any type of share buyback program.

RESEARCH AND DEVELOPMENT

The development of new and innovative technology is a key strategy in the Group's business and investment in research and development continues to be a key element of that policy. Further discussion on the R&D initiatives is provided in the Strategic Report. The expenditure on research and development in the current year was $1,597,000 (2012: $1,639,000).

EMPLOYEE INVOLVEMENT

The Group recognises the importance and contribution of its employees. There is considerable value placed on the involvement of employees in the development of the business and their participation in the decision making process. This is encouraged by the open environment in the Group and through the delegation of responsibility throughout the business.

Presentations are made to all staff on a regular basis to encourage a full understanding of the Group's strategy, vision and operational developments. All employees are eligible for share awards and a number of employees have become shareholders thereby encouraging employee share ownership.

The Group is committed to the principle of equal opportunity in employment and to ensuring that no applicant or employee receives less favourable treatment on the grounds of age, gender, disability, ethnic origin, political or other opinion, religion or sexual orientation.

Disability is not seen as an inhibitor to employment or career development. Employees who become disabled are, wherever possible, given assistance to continue in their existing employment or to be trained for other positions.

CORPORATE SOCIAL RESPONSIBILITY

The Group recognises that it has responsibilities to all stakeholders which include employees, partners, customers, suppliers, the local community and the surrounding environment where it operates. Employees are highly regarded and valued, and their employment and other rights are respected. The Group is committed to the important principle of equal opportunity which is reflected in the Group's recruitment, disciplinary and grievance policies. The Group is dedicated to supplying products of top quality to meet its customers' requirements in a manner that is consistent with high environmental and ethical standards.

The Board understands and recognises the increasing importance of environmental issues, although it has limited direct impact on the environment since it is not involved in heavy industry or any direct manufacturing activity. Group premises are offices, with the main activity in the Group being the development of hardware and software designs by employees working on computers, involving neither the use of hazardous substances or complex waste emissions.

POLITICAL DONATIONS

During the year, no political donations were made or political expenditure incurred by the company or its subsidiaries.

SHARE CAPITAL

The Company's share capital includes two classes of securities: ordinary shares (par value of 1p) traded on AIM (more fully described in Note 19), and deferred shares (par value of 9p) with restricted rights created as a result of the 2008 share capital restructure more fully described in Note 8 to the consolidated Group financial statements.

There are no persons holding securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreement between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

There were 143,663,572 ordinary shares and 74,416,547 deferred shares in issue at 31 December 2013. The share price has ranged from a high of 28.25p to a low of 5.62p during the year with a closing price of 6.5p at 31 December 2013.

Past performance cannot be relied on as a guide to future performance.

RELATIONS WITH SHAREHOLDERS

The Board welcomes the views of shareholders. The AGM is used as an opportunity to communicate with shareholders. All shareholders are encouraged to attend the Company's AGM in order to take advantage of the opportunity to ask questions of the Directors.

Shareholders may also contact the Company in writing or via its website. Additional information is supplied through the circulation of the Interim Report and the Annual Report and Accounts. During the year the Company issued a series of announcements to the London Stock Exchange.

The Chief Executive Officer, Chief Financial Officer and, from time to time, the Chairman or other Directors, meet individual and institutional shareholders and provide such information as is permissible in order to facilitate a better understanding of the Group's business and operations. Additionally, the Board usually receives shareholder feedback reports prepared by the Nominated Advisor following pre-arranged meetings with institutional fund managers and analysts.

DIRECTORS' REPORT continued

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013 and as at 9 April 2014, the Company has been notified of the following shareholdings amounting to 3% or more of the issued share capital:

	31 December 2013		9 April 2014	
Shareholder	Number of ordinary 1p shares	Percentage of issued ordinary 1p share capital	Number of ordinary 1p shares	Percentage of issued ordinary 1p share capital
Arisawa Manufacturing Co., Ltd.	29,856,123	20.8%	29,856,123	20.8%
Wistron Corporation	10,169,831	7.1%	10,169,831	7.1%
Directors	11,830,909	8.2%	11,830,909	8.2%
Nigel Wray	10,120,648	7.0%	10,120,648	7.0%
Michael Stubbs	8,948,740	6.2%	8,948,740	6.2%
InterDigital Finance Corporation	7,039,760	4.9%	7,039,760	4.9%
Robert Morton	6,250,000	4.4%	6,250,000	4.4%
Hargreave Hale Limited	5,029,907	3.5%	5,029,907	3.5%
Octopus Investments Ltd	4,300,960	3.0%	4,015,960	2.8%

ANNUAL GENERAL MEETING (AGM)

The AGM will be held at 10:30 a.m. on Tuesday 10 June 2014 at 3 More London Riverside, London SE1 2AQ, United Kingdom. The business to be transacted at the meeting will be set out in full in the Notice convening the AGM. The results of the AGM will be announced following the AGM.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) and the consolidated accounts in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). 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 and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of both the Group and the parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance with and subject to these provisions.

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

This report was approved by the Board of Directors of DDD Group plc and signed on its behalf by:

Nicholas Brigstocke
Chairman

14 April 2014

Christopher Yewdall
Chief Executive Officer

14 April 2014

REMUNERATION REPORT

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee advises and makes recommendations to the Board on an appropriate remuneration policy for the Group. They are responsible for determining and agreeing with the Board the remuneration package of the executive directors of the Board. This includes basic salary, annual bonus, level of awards under the Employee Share Plan and the terms of any performance conditions that may apply to the exercise of such rights, determining the terms and conditions of service and any compensation payments, and to ensure that such remuneration levels are appropriate and acceptable.

During the financial year the members of this committee were Paul Kristensen as Chairman, Nicholas Brigstocke, and Warren Littlefield. Norton Rose Fulbright LLP has provided independent general legal services as needed.

REMUNERATION POLICY

The main objectives of the policy are to ensure that pay and benefits packages are sufficiently competitive to attract, develop and retain high calibre executives. The Remuneration and Nomination Committee develops and implements measures aimed at maintaining remuneration packages that satisfy these objectives. It also seeks to align individual reward and incentives with the performance of the Group and, hence, with the interests of the shareholders.

Group performance evaluation criteria is reviewed annually and includes financial goals (such as, revenue maximisation, budgetary controls and cash generation as measured through KPIs such as active licensees, shipment volumes, and material new licensees) as well as discretionary non-financial criteria (e.g. risk management, maintaining internal control systems, filing of new patents, creation of new products, and exploration of new markets).

Share incentives
The Company is currently operating an Employee Share Scheme (ESS) which was approved by shareholders at the July 2003 AGM and amended with shareholder approval in February 2011. The share options granted under the ESS are granted at market value and have no voting rights until issued on exercise after full payment of the option price and relevant taxation. Details of the outstanding historical grants under the plan as of the year end can be found in Note 18 of the Consolidated Group Financials.

Bonuses
During 2013, the Directors re-approved a discretionary bonus pool (approx. 1% of targeted revenues) to be used to incentivise non-executive and non-commission eligible employees for major commercial contributions and/or the achievement of Group financial objectives. The pool is accrued through the year and any payouts are made with the consent of the Remuneration Committee once objectives have been confirmed. Annually, the Committee also reviews the Group performance and achievement of financial goals in order to provide executive bonuses which are currently discretionary but remain closely linked to Group performance criteria noted above. No bonus payments were made for the 2013 financial year.

DIRECTORS' REMUNERATION

The remuneration of the non-executive directors is established by the executive directors of the Board in consultation with the Company's Nominated Advisor. The Remuneration and Nomination Committee also has discussions with the Board in relation to the Board's annual report to shareholders on the Group's policy on the remuneration of the executive directors and in particular the Directors' Remuneration Report. No Board member is involved in deciding their own remuneration package.

Directors' emoluments

	Executive salary $'000	Bonus $'000	Director fees $'000	Benefits in kind[1] $'000	Pension $'000	Dec 2013 Total $'000	Dec 2012 Total $'000
Non-executive directors							
Nicholas Brigstocke[2]	—	—	72	14	—	86	52
Dr. Sanji Arisawa	—	—	47	—	—	47	48
Paul Kristensen[2]	—	—	68	—	—	68	87
Warren Littlefield	—	—	50	—	—	50	48
Hans Roger Snook	—	—	47	10	—	57	52
Executive directors							
Christopher Yewdall	350	—	5	12	—	367	424
Victoria Stull[3]	230	—	—	12	—	242	143
Total	**580**	**—**	**289**	**48**	**—**	**917**	**854**

1 Benefits in kind are made up of health care costs paid by the Group for executive benefit only. Additionally, mandatory contributions to UK National Insurance and US Social Security are also included for applicable Directors.

2 In June 2013, Paul Kristensen resigned as Chairman of the Board and Nicholas Brigstocke was appointed as his replacement.

3 Victoria Stull was appointed to the Board of Directors in July 2012 therefore the 2012 figure represents a partial-year of emoluments.

Directors' share incentives

Options to subscribe for ordinary shares in the Company for the year ended 31 December 2013:

Director	1 January 2013	Granted	Lapsed/ Cancelled	Exercised	31 December 2013	Exercise prices (pence)	Exercisable up to
Non-executive directors							
Nicholas Brigstocke	200,000	—	—	(200,000)[1]	—	10p	23 Apr 2013
	200,000	—	—	—	200,000	16.9p	4 Jan 2016
	400,000	—	—	(200,000)	200,000		
Dr. Sanji Arisawa	—	—	—	—	—	10p	23 Apr 2013
	240,000	—	—	—	240,000	16.9p	4 Jan 2016
	240,000	—	—	—	240,000		
Paul Kristensen	100,000	—	—	(100,000)[2]	—	10p	23 Apr 2013
	160,000	—	—	—	160,000	16.9p	4 Jan 2016
	260,000	—	—	(100,000)	160,000		
Warren Littlefield	200,000	—	—	(200,000)[3]	—	10p	23 Apr 2013
	130,000	—	—	—	130,000	16.9p	4 Jan 2016
	330,000	—	—	(200,000)	130,000		
Hans Roger Snook	200,000	—	—	(200,000)[4]	—	10p	23 Apr 2013
	200,000	—	—	—	200,000	16.9p	4 Jan 2016
	400,000	—	—	(200,000)	200,000		
Sub-Total (NED)	1,630,000	—	—	(700,000)	930,000		

1 Mr. Brigstocke exercised 200,000 ordinary 1p shares at 23.5p prior to their expiration which resulted in a compensation gain for UK tax purposes of £27,000.

2 Mr. Kristensen exercised 100,000 ordinary 1p shares at 14p prior to their expiration which resulted in a compensation gain for UK tax purposes of £4,000.

3 Mr. Littlefield exercised 200,000 ordinary 1p shares at 23p prior to their expiration which resulted in a compensation gain for UK tax purposes of £26,000.

4 Mr. Snook exercised 200,000 ordinary 1p shares at 21.75p prior to their expiration which resulted in a compensation gain for UK tax purposes of £23,500.

REMUNERATION REPORT continued

Director	1 January 2013	Granted	Lapsed/ Cancelled	Exercised	31 December 2013	Exercise prices (pence)	Exercisable up to
Executive directors							
Christopher Yewdall	800,000	—	(400,000)	(400,000)	—	10p	23 Apr 2013
	1,000,000	—	—	—	1,000,000	17.5p	4 Jan 2016
	1,000,000	—	—	—	1,000,000	27.25p	13 Feb 2017
	300,000	—	—	—	300,000	25p	8 July 2017
	3,100,000	—	(400,000)	(400,000)	2,300,000		
Victoria Stull	200,000	—	—	(75,000)	125,000	13.9p	4 Dec 2014
	400,000				400,000	17.5p	4 Jan 2016
	500,000	—	—	—	500,000	27.25p	13 Feb 2017
	150,000	—	—	—	150,000	25p	8 July 2017
	1,250,000	—	—	(75,000)	1,175,000		
Sub-total (ED)	4,350,000	—	(400,000)	(475,000)	3,475,000		
Grand Total	**5,980,000**	**—**	**(400,000)**	**(1,175,000)**	**4,405,000**		

Directors' interests

The disclosable interests of the Directors at 31 December 2013 including shareholdings, if any, of wives and children aged under 18 is presented as follows:

	31 December 2012	31 December 2013	9 April 2014
Nicholas Brigstocke	1,407,045	2,007,045	2,007,045
Christopher Yewdall	2,281,808	2,681,808	2,681,808
Victoria Stull	50,000	126,000	126,000
Dr. Sanji Arisawa	1,889,200	1,989,200	1,989,200
Paul Kristensen	405,204	455,204	455,204
Warren Littlefield	465,000	515,000	515,000
Hans Roger Snook	3,856,652	4,056,652	4,056,652

Contractual interests

No Director had, during or at the end of the year, a material interest in any contract that was significant in relation to the Group's business.

This report was approved by the Board and was signed on its behalf by:

Paul Kristensen
Remuneration and Nomination Committee Chairman
14 April 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DDD GROUP PLC

We have audited the Group financial statements of DDD Group plc for the year ended 31 December 2013 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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. 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 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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 20-21, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter, going concern

In forming our opinion on the Group financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 1 to the Group financial statements concerning the Group's ability to continue as a going concern.

The Group incurred a net loss of $2,569,000 during the year ended 31 December 2013.

As explained in Note 1, should material adverse changes against cash flow forecasts occur the Group is able to take mitigating actions to manage cash resources and access additional funding from strategic sources if required.

These conditions, along with the other matters explained in Note 1 to the Group financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The Group financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the consolidated Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- 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.

Other matter

We have reported separately on the parent Company financial statements of DDD Group plc for the year ended 31 December 2013. That report includes an emphasis of matter.

Marc Summers, BSc, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
14 April 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2013

	Notes	31 Dec 2013 $'000	31 Dec 2012 $'000
Revenue	3	**3,400**	8,620
Cost of sales	3	**(39)**	(244)
Gross profit	3	**3,361**	8,376
Depreciation/amortisation expense	9,10	**(1,062)**	(1,190)
Share based payments	18	**(426)**	(733)
Other administration expenses		**(4,287)**	(5,242)
Total administrative expenses		**(5,775)**	(7,165)
Other income		**415**	79
Operating (loss)/profit		**(1,999)**	1,290
Analysed as:			
(Loss)/earnings before interest, taxes, depreciation, amortisation and share based payments (Adjusted EBITDA)		**(511)**	3,213
Depreciation/amortisation expense		**(1,062)**	(1,190)
Share based payments		**(426)**	(733)
		(1,999)	1,290
Finance income		**11**	24
(Loss)/profit from continuing operations before tax		**(1,988)**	1,314
Income tax expense	7	**(581)**	(550)
(Loss)/profit for the year		**(2,569)**	764
Other comprehensive (loss)/income for the year:			
Exchange differences on translation of foreign operations which will be subsequently reclassified to profit and loss		**(165)**	37
Other comprehensive (loss)/income for the year, net of tax		**(165)**	37
Total comprehensive (loss)/income for the year		**(2,734)**	801
(Loss)/profit per share from both total and continuing operations			
Basic (cents per share)	8	**(1.86)**	0.57
Diluted (cents per share)	8	**(1.86)**	0.55

The accompanying principal accounting policies and notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2013

	Notes	31 Dec 2013 $'000	31 Dec 2012 $'000
Assets			
Non-current assets			
Intangible assets	9	**3,428**	2,592
Property, plant and equipment	10	**87**	139
Deferred tax asset	11	**1,096**	1,096
Total non-current assets		**4,611**	3,827
Current assets			
Inventory	12	**6**	7
Trade and other receivables	13	**506**	1,678
Cash and cash equivalents	14	**2,661**	3,595
Total current assets		**3,173**	5,280
Total assets		**7,784**	9,107
Equity and liabilities			
Capital and reserves			
Issued capital	19	**13,414**	13,005
Share premium	19	**18,543**	17,069
Merger reserve		**21,898**	21,469
Share based payment reserve		**1,861**	1,515
Translation reserve		**(3,072)**	(1,825)
Retained earnings		**(46,406)**	(43,968)
Total equity		**6,238**	7,265
Non-current liabilities			
Deferred tax liabilities	15	**619**	543
Total non-current liabilities		**619**	543
Current liabilities			
Trade and other payables	16	**927**	1,299
Total current liabilities		**927**	1,299
Total liabilities		**1,546**	1,842
Total equity and liabilities		**7,784**	9,107

The consolidated financial statements were approved by the board of Directors on 14 April 2014 and signed on its behalf by:

Christopher Yewdall
Chief Executive Officer
Company number: 4271085

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2013

	Notes	**12 months to 31 Dec 2013 $'000**	12 months to 31 Dec 2012 $'000
Cash flows from operating activities			
(Loss)/profit for the year		**(2,569)**	764
Finance income in the consolidated statement of comprehensive income		**(11)**	(24)
Tax in the consolidated statement of comprehensive income		**581**	550
Amortisation	9	**976**	1,101
Depreciation	10	**86**	89
Loss on disposal of assets		**23**	—
Share based payments		**426**	733
Decrease/(increase) in inventory		**1**	(7)
Decrease/(increase) in trade and other receivables		**1,172**	(453)
(Decrease)/increase in trade and other payables		**(372)**	484
Net cash generated by operations		**313**	3,237
Income tax paid	7	**(503)**	(1,044)
Interest received		**11**	24
Net cash (used in)/generated by operating activities		**(179)**	2,217
Cash flows from investing activities			
Payments for intangible assets	9	**(1,852)**	(1,808)
Payments for property, plant and equipment	10	**(45)**	(65)
Net cash used in investing activities		**(1,897)**	(1,873)
Cash flows from financing activities			
Proceeds from issue of equity shares	19	**1,292**	72
Issuance costs		**(11)**	—
Net cash generated by financing activities		**1,281**	72
Net (decrease)/increase in cash and cash equivalents		**(795)**	416
Exchange (losses)/gains		**(139)**	36
Total (decrease)/increase in cash and cash equivalents		**(934)**	452
Cash and cash equivalents at the start of the year		**3,595**	3,143
Cash and cash equivalents at the end of the year	14	**2,661**	3,595

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2013

	Share capital $'000	Share premium $'000	Merger reserve $'000	Share based payment reserve $'000	Translation reserve $'000	Retained earnings $'000	Total equity $'000
At 1 January 2012	**12,427**	**16,254**	**20,524**	**727**	**486**	**(44,759)**	**5,659**
Transactions with owners							
Issue of shares	6	66	—	—	—	—	72
Share based payment reserve transfer[1]	—	—	—	(27)	—	27	—
Equity settled share options	—	—	—	733	—	—	733
Foreign exchange differences	572	749	945	82	(2,348)	—	—
Total transactions with owners	578	815	945	788	(2,348)	27	805
Comprehensive income							
Total profit for the year	—	—	—	—	—	764	764
Other comprehensive income – Foreign exchange	—	—	—	—	37	—	37
Total comprehensive income	—	—	—	—	37	764	801
At 31 December 2012	**13,005**	**17,069**	**21,469**	**1,515**	**(1,825)**	**(43,968)**	**7,265**
Transactions with owners							
Issue of shares	148	1,133	—	—	—	—	1,281
Share based payment reserve transfer[1]	—	—	—	(131)	—	131	—
Equity settled share options	—	—	—	426	—	—	426
Foreign exchange differences	261	341	429	51	(1,082)	—	—
Total transactions with owners	409	1,474	429	346	(1,082)	131	1,707
Comprehensive loss							
Total loss for the year	—	—	—	—	—	(2,569)	(2,569)
Other comprehensive loss – Foreign exchange	—	—	—	—	(165)	—	(165)
Total comprehensive loss	—	—	—	—	(165)	(2,569)	(2,734)
At 31 December 2013	**13,414**	**18,543**	**21,898**	**1,861**	**(3,072)**	**(46,406)**	**6,238**

[1] Reserve transfer for exercised, forfeited and expired options.

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION

The consolidated Group financial statements are for the year ended 31 December 2013. They have been prepared in compliance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union and company law applicable to companies reporting under IFRS as at 31 December 2013.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 11.

The Directors have prepared cash flow forecasts up to 31 December 2016 which indicate the Company will have access to sufficient cash. Forecast revenue includes existing contracts and new revenue streams arising from contracts which are in the negotiation phase; however, there is uncertainty that contract negotiations will be finalised.

If there are material adverse variances against these forecasts, the Company is able to institute measures to take mitigating actions to manage cash resources and access additional funding from strategic sources if required.

The Directors have concluded that the combination of these circumstances represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Nevertheless after making enquiries, the Directors have a reasonable expectation that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Standards and amendments to existing standards effective 1 January 2013

The following standards, amendments and interpretations became effective in 2013:

Standard/ interpretation	Content	Applicable for financial years beginning on/after
IAS19 (Revised June 2011)*	Employee Benefits	1 January 2013
IFRS 13*	Fair Value Measurement	1 January 2013
Amendments to IAS 12*	Deferred Tax: Recovery of Underlying Assets	1 January 2013
Amendments to IFRS 7*	Disclosures – Offsetting Financial Assets and Liabilities	1 January 2013
Amendments to IFRS 1*	Government Loans	1 January 2013
	Annual Improvements 2009 – 2011 Cycle	1 January 2013

*The adoption of these Standards and Interpretations has had no material impact on the financial statements of the Group.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group in the 31 December 2013 financial statements

At the date of authorisation of these financial statements certain new standards, amendments and interpretations to existing standards have been published but are not yet effective. The Group has not early adopted any of these pronouncements. The new Standards, amendments and interpretations that are expected to be relevant to the Group's financial statements are as follows:

Standard/interpretation	Content	Applicable for financial years beginning on/after
Amendments to IAS 36*	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11*	Joint Arrangements	1 January 2014
IFRS 12*	Disclosure of Interests in Other Entities	1 January 2014
IAS 27* (Revised)	Separate Financial Statements	1 January 2014
IAS 28* (Revised)	Investments in Associates and Joint Ventures	1 January 2014
Amendment to IFRS 10, IFRS 11 and IFRS 12	Transition Guidance	1 January 2014
Amendment to IFRS 10*	Investment Entities	1 January 2014
Amendments to IAS 32*	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 9	Financial instruments	No Mandatory Effective Date
Amendments to IFRS 7 and IFRS 9	Mandatory Effective Date and Transition Disclosures	1 January 2015

*Not expected to be relevant to the Group.

IFRS 9 'Financial instruments: Classification and measurement'

In November 2009, the Board issued the first part of IFRS 9 relating to the classification and measurement of financial assets. IFRS 9 will ultimately replace IAS 39. The standard requires an entity to classify its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, and subsequently measures the financial assets as either at amortised cost or fair value. The new standard does not include a mandatory effective date. The Group's management have yet to assess the impact of this new standard on the Group's consolidated financial statements. However, Management does not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 'Consolidated and Separate Financial Statements' that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 'Consolidation — Special Purpose Entities'. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2014. Given the current conditions (all subsidiaries are 100% owned and operated) Management does not expect any impact from adopting this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of over one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and the Group's accounting policies are applied for the purposes of consolidation of the subsidiaries' results. They are deconsolidated on the date control ceases.

In the event of an acquisition, the Group would use the acquisition method of accounting to recognise a subsidiary. The cost of an acquisition is measured by the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated except where losses may provide evidence of impairment.

Foreign currency translation

(a) Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currencies of Group entities are US Dollars, Australian Dollars and Sterling. The parent Company's functional currency is Sterling and the Group's presentational currency is US Dollar.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses are recognised in profit or loss, including those resulting from the settlement of such transactions and from the translation at reporting period end exchange rates of monetary assets and liabilities denominated in foreign currencies.

(c) Group companies

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentational currency as follows:

i. Assets, liabilities and equity balances for each balance sheet presented are translated at the closing rate at the date of the balance sheet.

ii. Income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates during the reporting period where this approximates actual exchange movements, otherwise actual rates are used, and;

iii. All resulting exchange differences arising from the translation of the net investment in foreign entities are taken to equity. Differences initially brought to equity are recycled to the consolidated statement of comprehensive income on disposal of the foreign operations.

The Group has taken advantage of the exemption in IFRS 1 which allows all foreign exchange differences on consolidation to be set at zero at transition and the foreign exchange reserve therefore only shows post transition foreign exchange differences.

Segmental reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ("CODM"). The CODM is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined that its CODM is the Board of Directors of the Group.

The segmental information provided to the Board can be found in Note 3 – Segmental reporting.

Revenue recognition
Revenue is the fair value of the total amount receivable by the Group for supplies of products when risks and rewards of ownership have been transferred and for services, the timing of revenue recognition depends on the assessed stage of completion of contract activity at the balance sheet date. VAT or similar local taxes and trade discounts are excluded.

Revenue comprises income from the supply of products, license payments, consultancy income and royalty income (excluding VAT) incurred in the normal course of business.

Licensing
License income is recognised on a straight-line basis over the period to which the license payment relates. The amount of any prepayment associated with the license agreement is deferred and recognised as revenue over the period as above. This deferred income is included in 'other liabilities'.

Royalties
Royalties are earned on manufacture by the Group's licensees of mobile telephones, tablet PCs, personal computers and monitors and video processing chips incorporating the Company's intellectual property. Royalty revenues are recognised when the Company receives notification from licensees of product manufacture, or where there has been sufficient information given by the licensee for the revenue to be measured reliably and have a sufficient degree of certainty. In the case where royalty advance payments are received, the Group recognises the advance royalty as a customer prepayment and it is recorded as a liability, even if there is no contractual obligation for the Company to reimburse the unused advance royalty to the licensee. Once the licensee reports product manufacture, the corresponding amount of the royalty advance is recognised as revenue in the period for which notification is received from the licensee. VAT or similar local taxes and trade discounts are excluded.

Discounts from advertising transactions (Yabazam content bundled with Yabazam desktop icons which are provided for in exchange for a discount on TriDef technology royalty payments) are recognised as advertising royalty revenue upon the notification of product manufacture and included in royalties. The Group records a related marketing expense of the difference between the fair value of the goods delivered and the discounted sales price.

Software sales
Software sales revenues are earned on consumer and reseller purchases of the TriDef 3D PC software products currently sold on the TriDef.com website. The revenues are recognised when the Group receives transaction confirmation from the payment processors which causes the automatic electronic delivery of the license code to the consumer to unlock the software for use.

Product sales
Product revenue is the fair value of the total amount receivable by the Group for the supply of 3D content via Blu-ray disc sales of certain Yabazam.com titles. A fulfilment vendor (Amazon) holds inventory to fulfil orders and processes payment transactions directly with consumers in the majority of sales instances. Revenue is recognised once the order has been paid and fulfilled based on reports to the Group.

Consulting
Consultancy income is recognised on a stage of completion basis. The majority of the Group's consulting contracts involve detailed specifications of the work to be performed or the items to be delivered as part of the agreement. Additionally, the agreements are generally negotiated with applicable "milestone payments" relevant to the agreed value for completing the items identified.

Other Revenue – Yabazam fees
Yabazam Subscription fees, consisting primarily of monthly charges for access to the Yabazam movie service and per title download fees, are recognised as revenue as the service is provided or when the download occurs.

Interest income and expense recognition
Interest income and expenditure are reported on an accruals basis. Dividends received would be recognised at the time of their distribution.

Operating expenses
Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

Intangibles
The Group has registered a number of patents that are initially recognised at cost and carried at cost less accumulated amortisation and impairment losses. Amortisation is over a five-year period on a straight-line basis and is recognised in the 'Depreciation/amortisation expenses' line of the consolidated statement of comprehensive income.

The Group also recognises external website and application development costs as intangibles. Amortisation of these intangibles is over a three to five year period on a straight-line basis and is recognised in the 'Depreciation/amortisation expenses' line of the consolidated statement of comprehensive income.

Internally generated intangible assets
An internally generated intangible asset arising from development (or the development phase) of an internal project is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Expenses capitalised consist of employee costs incurred on developing software and a portion of appropriate overhead. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. The expected life of internally generated intangible assets varies based on the anticipated useful life, currently ranging from two to five years.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over three to five year lives and is reported in the 'Depreciation/Amortisation expenses' line of the consolidated statement of comprehensive income.

Research expenditure is recognised as an expense in the period in which it is incurred.

Property, plant and equipment
Property, plant and equipment are recorded at cost net of accumulated depreciation and any provision for impairment. Depreciation is provided using the straight-line method to write off the cost of the asset less any residual value over its useful economic life as follows:

Short leasehold improvements	The shorter of the useful life of the asset or the term of the lease
Fixtures, fittings and equipment	3 to 7 years

The residual value, useful economic life and the depreciation method are reviewed at each financial year-end.

Impairment testing of intangible assets and property, plant and equipment
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

NOTES TO THE ACCOUNTS continued

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

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.

Deferred tax is provided in full on temporary differences between the carrying amounts of assets and liabilities in the Group 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.

Tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax assets and liabilities comprise those obligations to fiscal authorities in the countries in which the Group carries out its operations or does business. They are calculated according to the tax rates and tax laws applicable to the fiscal year and the country to which they relate. All changes to current tax liabilities are recognised as a component of tax expense in the consolidated statement of comprehensive income.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the consolidated statement of comprehensive income, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

The Group has taken advantage of the initial recognition exemptions in IAS 12 prohibiting the recognition of deferred tax on temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable profit.

Financial assets

Financial assets consist of cash and cash equivalents and trade and other receivables. Trade and other receivables are initially recognised at fair value less transaction costs and subsequently at amortised cost less any impairment. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

De-recognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a Group of financial assets is impaired.

Financial liabilities
The Group's financial liabilities include trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in profit or loss.

Trade payables are recognised initially at their fair value and subsequently measured at amortised costs less settlement payments.

Dividend distributions to shareholders are included when the dividends are approved by the shareholders meeting.

Cash and cash equivalents
Cash and cash equivalents include cash at bank and in hand as well as short term bank deposits.

Provisions, contingent liabilities and contingent assets
Other provisions are recognised when the present obligations arising from legal or constructive commitment resulting from past events, will probably lead to an outflow of economic resources from the Group which can be estimated reliably.

Provisions are measured at the present value of the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

Share based employee compensation
The Group operates equity settled share based compensation plans for remuneration of its employees. All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share option awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (e.g. profitability or sales growth targets).

The Group's share option schemes provide for an exercise price equal to either a) the average middle market price of the Group's shares over the five dealing days prior to the date of grant or par value, whichever is higher or b) the average middle market price of the Group's shares on the date of the grant or par value, whichever is higher, depending on the applicable plan rules for the employee's jurisdiction. The vesting period ranges from the date of grant up to five years. If options remain unexercised after a period of five years from the date of grant, the options expire and are returned to the unused share option pool. Furthermore, if an option holder leaves the Group on good terms before their options vest, the unexercised and unvested options are forfeited up to six months after the date of their departure.

The Group has a current share option scheme under which options have been granted on various dates between 4 December 2009 and 9 July 2012.

All share-based compensation is ultimately recognised as an expense in profit or loss with a corresponding credit to a share based payment reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of shares options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately vest than originally estimated.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs up to the nominal value of the shares issued, are reallocated to share capital with any excess being recorded as additional share premium.

Employment benefit plans
Defined contribution plans
The Group pays fixed contributions into independent entities in relation to several state plans and insurances for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that relevant employee services are received.

NOTES TO THE ACCOUNTS continued

Significant management judgement in applying accounting policies
The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

Capitalisation of development costs
Management monitors progress of internal research and development projects. Significant judgement is required in distinguishing research from the development phase. Development costs are recognised as an asset when all the criteria are met, whereas research costs are expensed as incurred.

The Group's management also monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

For further details refer to Note 9.

Estimation uncertainty
When preparing the financial statements management makes a number of estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results. Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below.

Impairment
An impairment loss is recognised for the amount by which the asset's or cash generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Group's assets within the next financial year. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

For further details refer to Note 9.

Revenue recognition
For consulting projects, management uses judgement to assess the value of the stage of completion at each balance sheet date. This assessment requires the expected total contract revenues and costs to be estimated based on the current progress of the contract.

Recoverability of deferred tax assets
The Group assesses recoverability of deferred tax assets with reference to Board approved forecasts of future taxable profits and past history of tax loss utilisation by the Group's subsidiaries. The Group has recognised a deferred tax asset in its financial statements to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Equity
Equity comprises the following:

- "Issued capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Merger reserve" results from the acquisition of Dynamic Digital Depth Inc. in 2002 being the premium on shares issued as consideration qualifying for merger relief under the Companies Act.
- "Share based payment reserve" represents equity-settled share-based employee remuneration until such share options are exercised, and accounted for under IFRS 2.
- "Translation reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Retained earnings" represents retained profits and losses.

3. SEGMENTAL REPORTING

In accordance with IFRS 8, operating segments are reporting in a manner that is consistent with the internal reporting provided to the Board of Directors, the chief operating decision maker. Management information that is regularly reported to the Board for the purposes of allocating resources and monitoring performance is the monthly board pack. The Board pack contains an analysis of revenue for the Group's activities. At present, given the size of the Group, costs of goods sold and operating expenses cannot be allocated on a reasonable basis to the segments below and, as a result, the segmental analysis is limited to the Group gross profit.

The 3D content publishing and emerging 2D technology segments described in the Strategic Report do not yet contribute over 10% of Group revenues and therefore separate disclosure is not yet provided.

	2013 $'000	2012 $'000
Revenues:		
3D technology license fees	**—**	—
Royalties from OEM units shipments	**3,132**	8,339
Other licensing royalties	**51**	64
Consumer software product sales	**203**	210
Revenue from the Group's 3D technologies:	**3,386**	8,613
Consulting revenues	**—**	—
Other revenue streams	**14**	7
Total revenue	**3,400**	8,620
Cost of goods sold	**(39)**	(244)
Gross profit	**3,361**	8,376
Margin	**99%**	97%

	2013 $'000	2012 $'000
Identifiable assets:		
Trade receivables:		
Licensing	**59**	15
Other	**—**	—
Total	**59**	15
Intangible Assets – licensing	**3,047**	2,390
Intangible Assets – publishing	**328**	202
Other unallocated assets	**4,350**	6,500
Total net assets	**7,784**	9,107
Identifiable liabilities:		
Deferred revenues – customer deposits:		
Licensing	**260**	188
Other unallocated liabilities	**1,286**	1,654
Total liabilities	**1,546**	1,842

All other assets and liabilities of the Group in addition to the operating expenses are not provided or reviewed at a segmental level.

NOTES TO THE ACCOUNTS continued

Major customers

The customers contributing over 10% to the gross revenues of the Group are as noted in the following table:

	2013 $000	%	2012 $000	%
Customer A (2013/12: 100% Royalties)	2,391	70.3%	3,921	45.5%
Customer B (2013/12: 100% Royalties)	377	11.1%	445	5.2%
Customer C (2013/12: 100% Royalties)	139	4.1%	3,034	35.2%
Major customer total	2,907	85.5%	7,400	85.9%
All other sources	493	14.5%	1,220	14.1%
Total gross revenues	3,400	100.0%	8,620	100.0%

Regional breakdown

The majority of the Group's revenues (2013: 95%; 2012: 97%) are from customers based in the Asia Pacific region.

4. REMUNERATION OF KEY MANAGEMENT PERSONNEL

	2013 $'000	2012 $'000
Emoluments	**747**	853
Emoluments – highest paid director	**355**	412
Pension costs – defined contribution plans	**21**	22
Social security contributions	**39**	24
Share based payment – share options	**253**	361
	1,415	1,672

Directors and officers are considered key management personnel. The amount set out above includes remuneration in connection with the full-time employment of the Chief Executive Officer (Director), Chief Technology Officer and Chief Financial Officer (appointed Director July 2012). The pension plan is only available to employees of the Australian subsidiaries, of which 1 is included in the above line item (2012: 1).

5. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax has been arrived at after charging/(crediting):	2013 $'000	2012 $'000
Foreign exchange (gain)/loss	**(68)**	45
Depreciation and amortisation:		
Depreciation of property, plant and equipment (Note 10)	**86**	89
Amortisation of intangible assets (Note 9)	**976**	1,101
Employee benefits expense:		
Employee costs (Note 6)	**4,604**	5,639
Other operating leases	**403**	362
Audit and non-audit services:		
Fees payable to the Company's auditor for the audit of the Group accounts	**87**	91
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**—**	—
Tax services	**56**	82
Other services pursuant to legislation	**—**	—

During the year the Group's Australian subsidiary received a tax refund of research and development expenditures from the Australian Government, whereas in 2012, a tax credit was earned which is carried with the net operating losses (NOLs). The other income category includes the refund of $369,000 (2012: $nil).

The research and development refund along with subtenant rental income comprises the majority of the income reported as 'Other income' in the consolidated statement of comprehensive income.

Tax services provided by Grant Thornton included tax return preparation for US and Canada subsidiaries as well as tax advice in conjunction with the dissolution of the Canadian holding company and updates to the tax loss review work in the US discussed in Note 7.

6. EMPLOYEES

	2013 $'000	2012 $'000
Employee costs:		
Wages and salaries	**3,919**	4,656
Pension costs	**157**	165
Social security costs	**102**	85
Share based payments – share options	**426**	733
	4,604	5,639
The average number of employees during the year was made up as follows:		
Dedicated research and development	**7**	8
Hardware engineering	**2**	2
Software engineering	**6**	7
Sales	**6**	6
Finance and administration	**6**	8
Content	**3**	3
Total staff	**30**	34
Non-executive directors (NEDs)	**5**	5
Grand total	**35**	39

Total number of employees (excluding NEDs) at year end was 27 (2012: 35).

NOTES TO THE ACCOUNTS continued

7. INCOME TAX

	2013 $'000	2012 $'000
Current tax:		
Current year tax charge	**503**	1,044
Total current tax	**503**	1,044
Deferred tax asset movement	**—**	(620)
Deferred tax liability movement	**78**	126
	581	550

The tax assessed for the year differs from the standard rate of corporation tax as applied in the respective trading domains where the Group operates. The tax charge on ordinary activities is explained below:

	2013 $'000	2012 $'000
(Loss)/profit on ordinary activities before tax	**(1,988)**	1,314
(Loss)/profit at 23.5% (2012: 24.5%)	**(467)**	322
Effects of:		
Higher foreign tax rates	**(56)**	74
Income / Expenses not deductible for tax purposes	**(88)**	88
Estimated usage of subsidiary historical losses to cover income tax	**(104)**	(830)
Tax losses carried forward	**664**	211
Movement of deferred tax asset (Note 11)	**—**	(620)
Other temporary differences	**129**	261
Foreign withholding tax	**503**	1,044
Tax charge on ordinary activities	**581**	550

Given that a large majority of the Group's revenues are derived from licensees in Asia, foreign withholding taxes deducted at source on royalties and licenses from these countries create the majority of the income tax expense recorded in the Group accounts. These taxes will be available as future foreign tax credits for the US subsidiary and therefore are reflected as increased future potential deferred tax assets ("DTA").

There are substantial unrelieved tax losses and tax credits of $42,658,000 (2012: $41,179,000) across the Group companies as set out below:

	USA $'000	UK $'000	Australia $'000	Total $'000
At 31 December 2013				
Unrelieved tax losses & credits	**15,445[1]**	**6,132**	**21,081**	**42,658**
Local rate of tax	**40%[2]**	**20%**	**30%**	
Potential deferred tax asset	**6,178**	**1,226**	**6,324**	**13,728**
DTA recognised	**—**	**—**	**(1,096)**	**(1,096)**
Unprovided potential deferred tax asset	**6,178**	**1,226**	**5,228**	**12,632**
At 31 December 2012				
Unrelieved tax losses & credits	14,616[1]	5,413	21,150	41,179
Local rate of tax	40%[2]	23%	30%	
Potential deferred tax asset	5,846	1,245	6,345	13,436
DTA recognised	—	—	(1,096)	(1,096)
Unprovided potential deferred tax asset	5,846	1,245	5,249	12,340

[1] During 2011, the Company reviewed its tax losses consistent with the requirements of US tax authorities (Internal Revenue Code Section 382). This review resulted in an anticipated $3.5 million reduction to unrelieved tax losses (included above).

[2] US effective tax rate including federal and state income taxes is anticipated to be 40% based on current tax law.

At 31 December 2013, the availability to offset unrelieved tax losses against future taxable trading profits may be subject to restrictions in the respective tax jurisdictions. The entire deferred tax asset has not been recognised due to the uncertainty of the timing and recoverability of the asset. The remaining asset will be recovered in line with future profits.

NOTES TO THE ACCOUNTS continued

8. (LOSS)/PROFIT PER SHARE

	2013 $'000	2012 $'000
(Loss)/profit for the year attributable to equity shareholders	**(2,569)**	764
(Loss)/profit per share		
Basic (cents per share)	**(1.86) cents**	0.57 cents
Diluted (cents per share)	**(1.86) cents**	0.55 cents

	Shares	Shares
Issued ordinary shares par 1p at start of the year	**134,628,812**	134,192,146
Ordinary shares issued in the year	**9,034,760**	436,666
Total outstanding ordinary shares at end of the year	**143,663,572**	134,628,812
Weighted average number of ordinary shares for the year	**138,221,427**	134,293,685
Deferred shares:		
Issued deferred shares[1] at the start and end of the year	**74,416,547**	74,416,547
Total share capital (Issued & Outstanding)	**218,080,119**	209,045,359

[1] Deferred Shares:

On 5 July 2008 the share capital of the Company was split so that a total of 74,416,547 ordinary shares of par value 10 pence became 74,416,547 deferred shares of par value 9 pence plus 74,416,547 new ordinary shares of par value 1 penny.

The holders of the deferred shares shall not be entitled to receive any dividend out of the profits of the Company available for distribution. On a distribution of assets on a winding-up or other return of capital (otherwise than on conversion or redemption or purchase by the Company of any of its shares) the holders of the deferred shares shall be entitled to receive the amount paid up on their shares after distribution (in cash or in specie) to the holders of the new ordinary shares the amount of £100,000,000 in respect of each new ordinary share held by them. The deferred shares shall not entitle their holders to any further or other right of participation in the assets of the Company. The holders of deferred shares shall not be entitled to receive notice of or to attend (either personally or by proxy) any general meeting of the Company or to vote (either personally or by proxy) on any resolution to be proposed. No certificates will be issued in respect of the deferred shares. The diluted loss per share does not differ from the basic loss per share as these shares are anti-dilutive.

For 2013, the diluted loss per share does not differ from the basic loss per share as the exercise of share options would have the effect of reducing the loss per share and is therefore not dilutive under the terms of IAS 33. For 2012, the diluted profit per share includes the effect of outstanding, vested, in-the-money share options at the end of the period (4,270,833).

9. INTANGIBLE ASSETS

	Capitalised development costs $'000	Patents $'000	Other intangibles $'000	Total $'000
Cost				
At 1 January 2012	4,915	308	171	5,394
Additions	1,639	—	169	1,808
Exchange rate differences	2	—	—	2
At 31 December 2012	6,556	308	340	7,204
Additions	1,597	24	231	1,852
Disposals	(361)	—	—	(361)
Exchange rate differences	(94)	—	(2)	(96)
At 31 December 2013	7,698	332	569	8,599
Amortisation				
At 1 January 2012	3,169	308	32	3,509
Charge for the year	1,017	—	84	1,101
Exchange rate differences	2	—	—	2
At 31 December 2012	4,188	308	116	4,612
Charge for the year	908	—	68	976
Disposals	(338)	—	—	(338)
Exchange rate differences	(78)	—	(1)	(79)
At 31 December 2013	4,680	308	183	5,171
Net book value				
At 31 December 2011	1,746	—	139	1,885
At 31 December 2012	2,368	—	224	2,592
At 31 December 2013	**3,018**	**24**	**386**	**3,428**

Other intangibles include externally developed websites and Smart TV application development for the Group. There is no impairment to the intangibles in any of the reported periods.

NOTES TO THE ACCOUNTS continued

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements $'000	Furniture, fittings and equipment $'000	Total $'000
Cost			
At 1 January 2012	79	805	884
Additions	14	51	65
Disposals	—	(5)	(5)
Exchange rate differences	1	12	13
At 31 December 2012	94	863	957
Additions	—	45	45
Disposals	(2)	(39)	(41)
Exchange rate differences	(12)	(92)	(104)
At 31 December 2013	80	777	857
Depreciation			
At 1 January 2012	33	689	722
Charged in the year	15	74	89
Disposals	—	(5)	(5)
Exchange rate differences	1	11	12
At 31 December 2012	49	769	818
Charged in the year	24	62	86
Disposals	(2)	(37)	(39)
Exchange rate differences	(9)	(86)	(95)
At 31 December 2013	62	708	770
Net book value			
At 31 December 2011	46	116	162
At 31 December 2012	45	94	139
At 31 December 2013	**18**	**69**	**87**

All assets listed above are free of any mortgage or charge.

11. DEFERRED TAX ASSET

	2013 $'000	2012 $'000
Deferred tax asset:		
Opening balance January 1	**1,096**	476
Movement in deferred tax asset	**—**	620
Deferred tax asset – Losses	**1,096**	1,096

Based on management's review of the subsidiaries and the fact that the Australian subsidiary has utilised accrued net operating losses in recent periods for tax purposes, a DTA of $1,096,000 has been maintained in 2013 (2012: $1,096,000) related to recently revised business model forecasts of profitability and anticipated tax loss usage.

12. INVENTORY

	2013 $'000	2012 $'000
Finished goods	**6**	7

The cost of inventory recognised as an expense and included in 'cost of sales' amounted to $337 (2012: $2,000). There were no write-offs during the year.

There has been no impairment charge recognised in relation to inventory.

13. TRADE AND OTHER RECEIVABLES

	2013 $'000	2012 $'000
Trade receivables	**59**	15
Unbilled receivables	**328**	1,492
Prepayments	**88**	142
Other receivables	**31**	29
	506	1,678

The whole of the trade receivables amount was invoiced in US dollars.

100% of the trade receivables relate to the US subsidiary. The unbilled receivables represent revenue accrued based on royalty reports for the fourth quarter. The fourth quarter royalty reports are received and invoiced in January of the following year.

The following financial assets are overdue for receipt. The fair value of receivables is not materially different from the carrying value shown. The Group's receivables are unsecured.

	2013 $'000	2012 $'000
Overdue trade receivables		
Not more than 3 months	**59**	–
More than 3 months but not more than 6 months	**—**	–
More than 6 months but not more than 1 year	**—**	–
	59	–

Receivables which are past due are not deemed to be impaired as they are with customers with positive creditworthiness.

NOTES TO THE ACCOUNTS continued

14. FINANCIAL INSTRUMENTS

Risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern whilst maximising the return to stakeholders through the effective management of capital raised through share issues. The Board's financial risk management objective is to maximise financial assets and to minimise financial liabilities whilst not engaging in speculation. The Board regularly reviews the policies for managing financial risk and assesses if any additional changes should be made. The most significant risk arising from the Group's financial instruments is foreign currency risk.

Categories of financial instrument

	2013 $'000	$'000
Financial assets:		
Loans and receivables	**59**	15
Prepayments and other receivables	**447**	1,663
	506	1,678
Cash and cash equivalents	**2,661**	3,595
Financial liabilities:		
Current		
Trade payables at amortised cost	**148**	124
Other accrued liabilities	**779**	1,175
	927	1,299

Foreign currency risk

The cash balances carried within the Group comprise the following currency holdings:

	2013 $'000	2012 $'000
Sterling	**1,332**	1,425
US dollars	**1,037**	1,238
Australian dollars	**292**	932
	2,661	3,595

The presentational currency of the Group is US dollars, while the functional currency of the parent Company is sterling. As a result of its activities in North America and Asia Pacific, the Group is mainly exposed to fluctuations in both the Australian dollar and sterling against the US dollar. The Group's philosophy with respect to foreign currency risk is to hold its cash and any short-term deposits that may be made from time to time, in the currencies of anticipated expenditure. The exposure is thus minimised and considered to be insignificant. The exposure therefore occurs when the functional currency operations of the Group's international entities are consolidated into the Group's presentational currency for reporting purposes.

The sensitivity analysis below has been based on the exposure to exchange rates for non-derivative instruments at the balance sheet date. A 10% increase or decrease is used when reporting exchange rate risk internally to key management personnel and represents management's assessment of the reasonable possible change in exchange rates when considered against the background of exchange rate movement for the US dollar in 2012/13.

With a 10% movement of the US dollar against the Australian dollar and with all other variables constant, the Group's loss for the year ended 31 December 2013 would move by $3,000 (2012: $166,000), and the movement in shareholder's equity would have been $ nil for both 2013 and 2012. With a 10% movement of the US dollar against sterling and with all other variables constant, the Group's loss for the year ended 31 December 2013 would move by $95,000 (2012: $30,000), and the movement in shareholders' equity given that the functional currency is sterling would have been $4,512,000 (2012: $4,483,000).

With both currencies, there would be a corresponding decrease in equity, which is mainly attributable to the Group's exposure to exchange rates on its trade receivables and cash balances.

Interest rate risk
The Group has historically financed its operations through equity fundraising. The cash balances are held at floating interest rates based on LIBOR and determined by its banking institutions as follows:

	Interest rate %	**2013 $'000**	Interest rate %	2012 $'000
Cash at bank and in hand	**0% to 3.00%**	**2,661**	0% to 5.25%	3,595

The Group and operating entities had no committed borrowing facilities at 31 December 2013 (2012: nil).

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimise this risk, the Group endeavours only to deal with companies that are demonstrably creditworthy and this, together with the aggregate financial exposure, is continuously monitored. The maximum exposure to credit risk is the value of the outstanding balance under the contract, whether billed or not as of the date of these statements, amounting to $387,000 (2012: $1,507,000). The institutions where bank deposits are held are all considered to be low risk having ratings by Moody's of Aa2 or better.

Where the Group provides consultancy services, it normally receives staged payments for development work resulting in trade receivables that management consider to be of low risk. Management does not consider that there is any concentration of risk within either trade, unbilled or other receivables.

Liquidity risk
The Group currently holds substantial cash balances in sterling, US dollars and Australian dollars to provide funding for operations and continued development work. The Group is dependent on income from commercial contracts and, to a decreasing extent, equity fundraising and Management expects to continue this method successfully in the future.

The liquidity risk is monitored by Management under the supervision of the Board. The Group and operating entities maintain adequate reserves by regularly monitoring actual cash flows within the framework of liquidity risk management for short, medium and long-term funding and liquidity requirements.

There is no material difference between the fair values and the book values of these financial instruments.

Capital risk management
The Group's 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 members. The Group will also seek to minimise the cost of capital and attempt to optimise the capital structure. Currently no dividends are paid to shareholders and share issues yield capital for further development of the Group's products.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to the parent, comprising share capital, reserves and retained earnings as disclosed in Note 19. The Chief Financial Officer regularly monitors the capital risk on behalf of the board.

15. DEFERRED TAX LIABILITY

	2013 $'000	2012 $'000
1 January	**543**	417
Temporary differences arising from capitalised development costs	**296**	163
Change in enacted income tax rate on previously recognised deferred tax liability arising from capitalised development costs	**(220)**	(37)
31 December	**619**	543

NOTES TO THE ACCOUNTS continued

16. TRADE AND OTHER PAYABLES

	2013 $'000	2012 $'000
Non-current liabilities		
Deferred tax liabilities	**619**	543
Current liabilities		
Trade payables	**148**	124
Accrued expenses	**779**	1,175
	927	1,299

The accrued expenses include $260,000 (2012: $188,000) in prepaid license fees and advance royalty payments from licensees.

The Group's payables are unsecured, none are past due and the Directors consider that the carrying value approximates their fair value.

17. OPERATING LEASE COMMITMENTS

	2013 $'000	2012 $'000
The following payments are due to be made on operating lease commitments for land and buildings:		
Within one year	**365**	403
Two to five years	**201**	579
	566	982

The two operating entities in the US and Australia are obligated to short-term lease agreements for office space. The Australian office lease was renewed in 2009 and expires in October 2014 while the US office lease began in January 2011 and expires in January 2016.

The operating lease commitments represent the payments that these entities are obligated to make for the remaining terms of the current lease agreements.

18. SHARE BASED PAYMENTS

Unapproved current scheme

The Group has an unapproved share option plan for the benefit of Directors, officers and employees that allows for the granting of up to 10% of the ordinary shares in issue. The following table identifies the grants, by grant date, that remain outstanding as of 31 December 2013:

Issue Date	Options in issue	Exercise Price (pence)	Expiry Date:
4 December 2009	125,000	13.90	4 December 2014
8 October 2010	275,000	17.90	7 October 2015
5 January 2011	930,000	16.90	4 January 2016
5 January 2011[1]	2,760,000	17.50	4 January 2016
15 June 2011	250,000	34.75	14 June 2016
14 February 2012[1]	2,353,333	27.25	13 February 2017
12 June 2012	50,000	26.00	11 June 2017
9 July 2012[1]	600,000	25.00	8 July 2017

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	2013 WAEP		2012 WAEP	
	Number	**p**	Number	p
Outstanding at the beginning of the year	**9,980,000**	**19.0**	7,346,666	14.7
Granted during the year	**—**	**—**	3,070,000	26.8
Exercised during the year	**(1,995,000)**	**10.5**	(436,666)	10.5
Forfeited during the year	**(641,667)**	**13.9**	—	—
Outstanding at the year end	**7,343,333**	**21.8**	9,980,000	19.0
Exercisable at the year end	**4,050,000**	**19.3**	4,270,833	14.1

The fair value of options granted by the Company has been arrived at using the Black-Scholes model. The assumptions inherent in the use of this model are as follows:

- The option life is assumed to be at the end of the allowed period;
- Historical staff turnover is taken into account when determining the proportion of granted options that are likely to vest by the end of the period;
- Following the application of the vesting probability assumptions, there are no further vesting conditions other than remaining in employment with the Company during the vesting period;
- No variables change during the life of the option (e.g. dividend yield); and
- Volatility has been calculated over the 5 years prior to the balance sheet date.

Date of grant	Vesting period (yrs)	Date fully vested	Exercise price (pence)	Risk-free rate	Share price at grant (pence)	Volatility of share price	Fair value (pence)	Number outstanding
9 July 12[1]	3	9 July 15	25.0	1.75%	25.00	112%	19.96	600,000
12 Jun 12	3	12 Jun 15	26.0	1.75%	27.25	111%	20.67	50,000
14 Feb 12[1]	3	14 Feb 15	27.25	1.75%	27.25	111%	21.65	2,353,333
15 Jun 11	2	15 Jun 13	34.75	1.87%	34.75	110%	27.50	250,000
5 Jan 11[1]	3	5 Jan 14	17.5	2.75%	17.50	111%	14.06	2,760,000
5 Jan 11	3	5 Jan 14	16.9	2.75%	17.50	111%	13.52	930,000
8 Oct 10	4	8 Oct 14	17.9	2.75%	17.32	112%	13.86	137,500
8 Oct 10	3	8 Oct 13	17.9	2.75%	17.32	112%	13.86	137,500
4 Dec 09	2	4 Dec 11	13.9	2.64%	13.75	109%	11.00	125,000

The Group recognised total expenses of $426,000 (2012: $733,000) related to equity-settled share based payment transactions during the year.

[1] The final grant and exercise dates may vary due to the applicable local tax regulations under which the shares are granted. Australian share plan rules require an offer and acceptance of the grant. As a result, the official grant date may be up to 60 days after this date under local law for Australian recipients.

NOTES TO THE ACCOUNTS continued

19. ISSUED SHARE CAPITAL

The issued share capital of the Group is issued by the parent Company in Sterling. The attached parent Company accounts provide the currency of issue reconciliation of the share capital. For the Group accounts, the shares outstanding at the end of the period are converted to USD using the closing spot rate while the transactions during the period are converted using the average rate for the period. The resulting difference is a foreign exchange adjustment on the balance translation.

	Shares	Nominal value $'000	Premium net of costs $'000	Total $'000
Deferred shares (par 9p)				
In issue 1 January 2012	74,416,547	10,352	—	10,352
Foreign exchange adjustment	—	477	—	477
31 December 2012	74,416,547	10,829	—	10,829
Foreign exchange adjustment	—	217	—	217
31 December 2013	74,416,547	11,046	—	11,046
Ordinary shares (par 1p)				
In issue 1 January 2012	134,192,146	2,075	16,254	18,329
Issued option exercises[1]	436,666	6	66	72
Foreign exchange adjustment	—	95	749	844
In issue 31 December 2012	134,628,812	2,176	17,069	19,245
Issued option exercises[1]	1,995,000	33	311	344
Share placing[2]	7,039,760	116	821	937
Foreign exchange adjustment	—	43	342	385
In issue 31 December 2013	143,663,572	2,368	18,543	20,911
All shares				
In issue 31 December 2013	218,080,119	13,414	18,543	31,957
In issue 31 December 2012	209,045,359	13,005	17,069	30,074

Key Movements in the Share Capital and Share Premium accounts are as follows:

[1] In each period, ordinary shares were issued under the Company's Share Option Plan.

[2] On 17 September 2013, the Company raised £575,500 before expenses through a placing of 7,039,760 ordinary shares of 1 penny each in the capital of the Company at a placing price of 8.175 pence per share. InterDigital made this strategic investment at the same time as entering into a joint technology development agreement with DDD.

Deferred Shares (par 9p)
A description of and relevant rights attached to the deferred shares as of the date of this report are as set out in Note 8 of the consolidated Group financial statements.

Ordinary shares (par 1p)
The rights attaching to the ordinary shares are governed by the Company's Articles of Association and prevailing legislation. There are no specific restrictions on the size of a holding. Subject to any rights or restrictions attached to any ordinary shares, on a show of hands, every shareholder present in person or by proxy (or being a corporation present by a duly authorised representative) has one vote, and on a poll every shareholder who is present in person or by proxy has one vote for every ordinary share held by the shareholder. No shareholder shall be entitled to vote at any general meeting or class meeting in respect of any ordinary shares held by him if any call or other sum then payable by him in respect of that share remain unpaid. Currently, all issued ordinary shares are fully paid. In addition, no member shall be entitled to vote if he failed to provide the Company with information concerning interests in those ordinary shares required to be provided under the Companies Act 2006. Votes are exercisable at general meetings of the Company. The notice of a general meeting will specify the deadline for appointing a proxy or proxies to vote in relation to resolutions to be passed at that meeting.

The transfer of ordinary shares is governed by the general provisions of the Company's Articles of Association and prevailing legislation. Save as described herein, there are no restrictions on the transfer of the ordinary shares other than (i) as set out in the Articles of Association; (ii) certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws); and (iii) the Company's share dealing rules which require certain Directors, officers and employees of the Company to obtain approval prior to dealing in ordinary shares. The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a share (or renunciation of a renounceable letter of allotment) save for in certain circumstances specified in the Articles of Association. Registration of a transfer of an uncertificated share may be refused in circumstances permitted or required by the Uncertificated Securities Regulations (as defined in the Company's Articles of Association).

Merger reserve
The Merger Reserve arose in the Group reconstruction in January 2002 prior to its flotation.

Share based payment reserve
The Share Base Payment Reserve comprises the carrying value of the recognised expense under IFRS2 for share options granted that are still exercisable. When options are exercised, forfeited or expire, a reserve transfer is performed in order to move the expense into Retained Earnings.

Translation reserve
The Translation Reserve reflects the exchange differences from retranslation of the opening net investments in overseas subsidiaries to the closing rate and translation of the results for the year from average rates to the closing rate.

20. CONTINGENT LIABILITIES

The Group had no contingent liabilities at 31 December 2013 or 31 December 2012.

21. CAPITAL COMMITMENTS

The Group had no capital commitments at 31 December 2013 or 31 December 2012.

22. RELATED PARTY TRANSACTIONS

(1) Commercial transactions
Arisawa Manufacturing Co. is a related party as it is a significant shareholder and its CEO, Dr. Sanji Arisawa, is a member of the Company's Board of Directors. During the year, the Group licensed 3D technology valued at $14,000 (2012: $32,000) to Arisawa Co. The abovementioned transactions took place on an arm's-length basis.

NOTES TO THE ACCOUNTS continued

(2) Financial

The following stock transactions occurred during the period. Details of all transactions can be found in the relevant RNS at www.ddd.com.

Date	Name	Director/executive position	Stock Option Grant	Exercise Price	# of Shares	Shares sold	Avg price (if sold)
Stock Option Exercises:							
17 Jan 2013	Warren Littlefield	Non-exec director	Apr 08	10p	200,000	150,000	23p
22 Jan 2013	Julien Flack	CTO	Apr 08	10p	150,000	67,660	22.26p
28 Jan 2013	Victoria Stull	CFO/Exec director	Dec 09	13.9p	25,000	—	N/A
8 Apr 2013	Chris Yewdall	CEO/Exec director	Apr 08	10p	250,000	—	N/A
8 Apr 2013	Nick Brigstocke	Non-exec director	Apr 08	10p	200,000	—	N/A
12 Apr 2013	Paul Kristensen	Non-exec chairman	Apr 08	10p	100,000	50,000*	14p*
12 Apr 2013	Julien Flack	CTO	Apr 08	10p	250,000	154,009	16.3p
15 Apr 2013	Hans Snook	Non-exec director	Apr 08	10p	200,000	—	N/A
22 Apr 2013	Victoria Stull	CFO/Exec director	Dec 09	13.9p	50,000	—	N/A
23 Apr 2013	Chris Yewdall	CEO/Exec director	Apr 08	10p	150,000	—	N/A
23 Apr 2013	Chris Yewdall	CEO/Exec director	Apr 08	10p	400,000	**	

* Paul Kristensen's exercise on 12 April 2013 was contingent on the sale of 50,000 shares which was completed on 12 July 2013 and the allotment and issuance was transacted on completion of payment.

** As part of the 23 April 2013 exercise, Chris Yewdall exercised the remaining 400,000 of his April 2008 share options contingent on the sale of those shares into the market to assist with costs of the April 2008 option exercises and US taxation on these transactions. The 400,000 shares were not sold within the permissable time period (90 days) and the option shares were never issued and lapsed as of 22 July 2013.

Date	Name	Director/executive position	Purchase Price	# of Shares Purchased	# of Shares sold	Avg price (if sold)
Open Market Stock Transactions:						
17 Jan 2013	Victoria Stull	CFO/Exec director	26.5p	1,000	—	N/A
3 Oct 2013	Nicholas Brigstocke	Non-exec chairman	5.6875p	200,000	—	N/A
22 Nov 2013	Sanji Arisawa	Non-exec director	6.57p	100,000	—	N/A
19 Dec 2013	Chris Yewdall	CEO/Exec director	—	—	200,000	6.875p
19 Dec 2013	Chris Yewdall (affiliate)	Affiliate of CEO	6.875p	200,000	—	N/A

23. EVENTS AFTER THE BALANCE SHEET DATE

Operational:

The Group appointed IP Navigation Group as its patent advisor in March 2014 to assist in licensing the Group's extensive patent library. The objective is to secure license fees for the use of the Group's international patent library in various 3D consumer products and professional services.

The Group's published regulatory announcements can be found on the Group's website at http://www.ddd.com/investors/rns-announcements/.

24. CONSOLIDATION

The subsidiaries included in the consolidated accounts are listed in Note 3 of the parent Company accounts.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DDD GROUP PLC

We have audited the parent Company financial statements of DDD Group plc for the year ended 31 December 2013 which comprise the parent Company balance sheet, the statement of total recognised gains and losses, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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. 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 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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 20-21, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter, going concern

In forming our opinion on the parent Company financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 1 to the parent Company financial statements concerning the Company's ability to continue as a going concern.

The Company incurred a net loss of £2,483,000 during the year ended 31 December 2013.

As explained in Note 1 to the parent Company financial statements, should material adverse changes against cash flow forecasts occur the Company is able to take mitigating actions to manage cash resources and access additional funding from strategic sources if required.

These conditions, along with the other matters explained in Note 1 to the parent Company financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The parent Company financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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 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.

Other matter

We have reported separately on the Group financial statements of DDD Group plc for the year ended 31 December 2013. That report includes an emphasis of matter.

Marc Summers, BSc, FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
14 April 2014

PARENT COMPANY BALANCE SHEET

	Notes	**31 December 2013 £'000**	31 December 2012 £'000
Fixed Assets			
Investments	3	**12,208**	11,977
Current Assets			
Debtors (£16,791,000 falling due after one year; 2012: £18,393,000)	4	**16,816**	18,434
Cash at bank and at hand		**808**	881
		17,624	19,315
Creditors - amounts falling due within one year	5	**(105)**	(132)
Net Current Assets		**17,519**	19,183
Net Assets		**29,727**	31,160
Capital and Reserves			
Called up share capital	6	**8,134**	8,044
Share premium account	8	**11,244**	10,557
Share based payment reserves	8	**1,129**	937
Other reserves	8	**18,843**	18,843
Profit and loss account	8	**(9,623)**	(7,221)
Shareholders' Funds		**29,727**	31,160

The financial statements were approved by the board of Directors on 14 April 2014 and signed on its behalf by:

Christopher Yewdall
Chief Executive Officer
Company number: 4271085

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	31 December 2013 £'000	31 December 2012 £'000
Loss for the financial year	**(2,483)**	(4,820)
Unrealised distribution received	**—**	18,843
Total recognised gains and losses relating to the year	**(2,483)**	14,023

NOTES TO PARENT COMPANY ACCOUNTS

1. ACCOUNTING POLICIES

Accounting convention

The financial statements were prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) up to and including Financial Reporting Standard (FRS) 28. A summary of the more important accounting policies, which have been applied consistently, is set out below. The principal accounting policies represent the most appropriate in accordance with FRS 18.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 11.

The Directors have prepared cash flow forecasts up to 31 December 2016 which indicate the Company will have access to sufficient cash. Forecast revenue includes existing contracts and new revenue streams arising from contracts which are in the negotiation phase; however, there is uncertainty that contract negotiations will be finalised.

If there are material adverse variances against these forecasts, the Company is able to institute measures to take mitigating actions to manage cash resources and access additional funding from strategic sources if required.

The Directors have concluded that the combination of these circumstances represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Nevertheless after making enquiries, the Directors have a reasonable expectation that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Investments

Investments held as fixed assets are stated at the lower of cost and net realisable value, less provision for any impairment. In the opinion of the Directors, the value of such investments is not less than that shown at the balance sheet date.

Deferred tax

Deferred tax is recognised on all timing differences where the transactions or events that give the parent Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Share based payments

All share based payment arrangements currently granted are recognised in the financial statements. All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share based payments, the fair values of their services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (e.g. profitability and sales growth targets).

All equity settled share based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to 'share based payment reserves'.

Upon exercise of share options, the proceeds received, net of attributable transaction costs, are credited to share capital and, where appropriate, share premium.

Other reserves
The Company received a distribution from Dynamic Digital Depth Inc., on the liquidation of this intermediary holding company, of the intercompany receivables held by Dynamic Digital Depth Inc. The receipt was treated as an unrealised capital receipt for taxation purposes on which basis no taxation was payable or has been provided for in these financial statements.

Foreign exchange
Non-Sterling based asset and/or liability balances for the balance sheet presented are translated at the closing rate at the date of the balance sheet and the resulting foreign exchange gain/loss is presented as part of the profit and loss account.

2. COMPANY PROFIT AND LOSS ACCOUNT

The parent Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent Company's recognised loss for the year ended 31 December 2013 was £2,483,000 (2012: loss of £4,820,000).

3. FIXED ASSET INVESTMENTS

	31 December 2013 £000	31 December 2012 £000
Investment in subsidiary undertakings		
Cost		
Historical cost	**11,977**	14,936
Dissolution of DDD Inc.	**–**	(3,373)
Assignment of Subsidiary share certificates	**–**	48
Additions	**231**	366
Net book value	**12,208**	11,977

The Company tests the carrying value of its investments in subsidiary undertakings, which are carried at historical cost less impairment, and the related long term notes receivable from subsidiaries (Note 4) on an annual basis or more frequently if market conditions indicate a potential impairment.

Given that the market capitalisation of the Group is below the carrying value of the investment in subsidiary undertakings balance and long term notes receivable from subsidiaries and also Shareholders' Funds, the Company carefully assessed the carrying value utilising the discounted cash flow forecasts of the Group under two varying scenarios (expected and conservative cases). Both scenarios include analysis of the existing 3D business as well as new business areas arising from the recently announced IP program and the latest technologies described in the Strategic Report which will expand the market reach into the 2D consumer marketplace. The timing and quantum of revenues, profit and cash flows from both of the new business areas are inherently less certain than those from the existing business. Management have based their assessment of cash flows on the best available information and they will revisit the key underlying assumptions, estimates and judgements at each reporting date.

The models underlying the discounted cash flow analysis were approved by management in early March 2014. These cash flows have been discounted at a risk adjusted pre-tax weighted average cost of capital of 15.4% with a 3% terminal growth rate following the detailed three year period (2014-2016). The resulting valuations, including new business assumptions, support current carrying values and therefore no impairment is made at this time.

NOTES TO PARENT COMPANY ACCOUNTS continued

Interest in subsidiary undertakings

Name of undertaking	Class of shares	Percentage held (%)	Country of incorporation	Activities
In operation at year end:				
Dynamic Digital Depth USA, Inc. (DDD USA Inc.)	Ordinary	100	US	Corporate headquarters, primary sales and marketing office, and content services
Dynamic Digital Depth Australia Pty. Ltd (DDD Australia)	Ordinary	100	Australia	Product support and administration
Dynamic Digital Depth Research Pty. Ltd (DDD Research)	Ordinary	100	Australia	Software and hardware development and research
DDD IP Ventures Ltd.	Ordinary	100	British Virgin Islands	Intellectual property administration

The Board continues to have a reasonable expectation that the operating entities in which the parent company has made investments will achieve profitability in the foreseeable future sufficient enough to support the carrying value of the investment. As such, there is no provision for impairment of parent Company investments as at 31 December 2013.

4. DEBTORS

	2013 £000	2012 £000
Amounts falling due within one year		
Prepayments	**25**	41
	25	41
Amounts falling due after one year		
Long-term notes receivable from subsidiaries		
DDD USA Inc.	**11,276**	12,352
DDD Australia	**3,476**	3,807
DDD Research	**2,039**	2,234
	16,791	18,393
Total Debtors balance	**16,816**	**18,434**

The loans made by DDD Inc. that were receivable from subsidiaries were assigned to DDD Group plc as a result of the Group's vertical merger of its Canadian subsidiary, DDD Inc., on 7 September, 2012. These loans are denominated in Canadian dollars and retranslated to Pounds Sterling at each balance sheet date. These loans are non-interest bearing and payable upon request. There were no payments made in the period, the balance change is purely a result of foreign exchange. See Note 3 regarding the analysis of the carrying value of the subsidiary balances in conjunction with the investment in the subsidiaries.

5. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 £000	2012 £000
Trade creditors	**54**	40
Promissory note payable to DDD BVI for equity investment	**—**	16
Accruals	**51**	76
	105	132

6. SHARE CAPITAL

	Shares	Nominal value £'000	Premium net of costs £'000	Total £'000
Deferred shares (par 9p)				
In issue 1 January & 31 December 2012 and 31 December 2013	74,416,547	6,698	–	6,698
Ordinary shares (par 1p)				
In issue 1 January 2012	134,192,146	1,342	10,516	11,858
Issued option exercises[1]	436,666	4	41	45
In issue 31 December 2012	134,628,812	1,346	10,557	11,903
Issued option exercises[1]	1,995,000	20	189	209
Share placing[2]	7,039,760	70	498	568
In issue 31 December 2013	143,663,572	1,436	11,244	12,680
All shares				
In issue 31 December 2013	218,080,119	8,134	11,244	19,378
In issue 31 December 2012	209,045,359	8,044	10,557	18,601

Key Movements in the Share Capital and Share Premium accounts are as follows:

[1] In each period, ordinary shares were issued under the Company's Share Option Plan.

[2] On 17 September 2013, the Company raised £575,500 before expenses through a placing of 7,039,760 ordinary shares of 1 penny each in the capital of the Company at a placing price of 8.175 pence per share. InterDigital made this strategic investment at the same time as entering into a joint technology development agreement with DDD.

Deferred shares (par 9p)
A description of and relevant rights attached to the deferred shares as of the date of this report are as set out in Note 8 of the consolidated Group financial statements.

Ordinary shares (par 1p)
A description of and relevant rights attached to the ordinary shares as of the date of this report are as set out in Note 19 of the consolidated Group financial statements.

7. SHARE BASED PAYMENTS

Refer to Note 18 in the Group accounts. Share based payments recognised in the parent Company accounts relate to share options granted to any Director of the parent Company and any employee of the Company's subsidiaries.

The parent Company recognised total expenses of £272,000 (2012: £463,000) related to equity-settled share based payment transactions during the year.

NOTES TO PARENT COMPANY ACCOUNTS continued

8. STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share premium account £000	Share based payment reserve £000	Other Reserve £000	Profit and loss account £000	Total £000
At 1 January 2012	**10,516**	**491**		**(3,182)**	**7,825**
Loss for the year	—	—		(4,820)	(4,820)
Share based payments – share options	—	463		—	463
Share based payment reserve transfer	—	(17)		17	—
Share issues	41	—		—	41
Other Reserve (Canada Dissolution)	—	—	19,607	—	19,607
Exchange differences	—	—	(764)	764	—
At 31 December 2012	**10,557**	**937**	**18,843**	**(7,221)**	**23,116**
Loss for the year	—	—		(2,483)	(2,483)
Share based payments – share options	—	273		—	273
Share based payment reserve transfer	—	(81)		81	—
Share issues	687	—		—	687
At 31 December 2013	**11,244**	**1,129**	**18,843**	**(9,623)**	**21,593**

9. DIRECTORS' REMUNERATION

	2013 £'000	2012 £'000
Wages and salaries	**185**	178
Social Security contributions	**16**	9
Share based payments – share options	**162**	228
	363	415

Share based payments recognised in this note are solely share option expense related to any executive or non-executive directors of the parent Company and are a subset of the total share based payment expense referenced in Note 18 of the Group accounts. All Group director fees are paid by the parent Company.

10. POST BALANCE SHEET EVENTS

Please refer to Note 23 in the Group accounts.

11. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemptions available under Financial Reporting Standard 8, "Related Party Disclosures", not to disclose transactions with its parent and fellow subsidiary undertakings.

Please refer to Note 22 in the Group accounts for all external transactions.

COMPANY INFORMATION
For the year ended 31 December 2013

SHARE CAPITAL:
The total number of shares issued and outstanding as at 31 December:

Ordinary 1p	143,663,572
Deferred 9p	74,416,547
Total	218,080,119

STOCK SYMBOL:
DDD Group plc is listed on the Alternative Investment Market of the London Stock Exchange (AIM: DDD)

DDD Group plc also has a Level I ADR program of the UK AIM-listed ordinary shares listed on the OTCQX Market in the US (OTCQX: DDDGY)

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Chief Executive Officer

Dr. Julien Flack
Chief Technology Officer

Ms. Victoria L. Stull
Chief Financial Officer

DIRECTORS:
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