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Annual Report
2010

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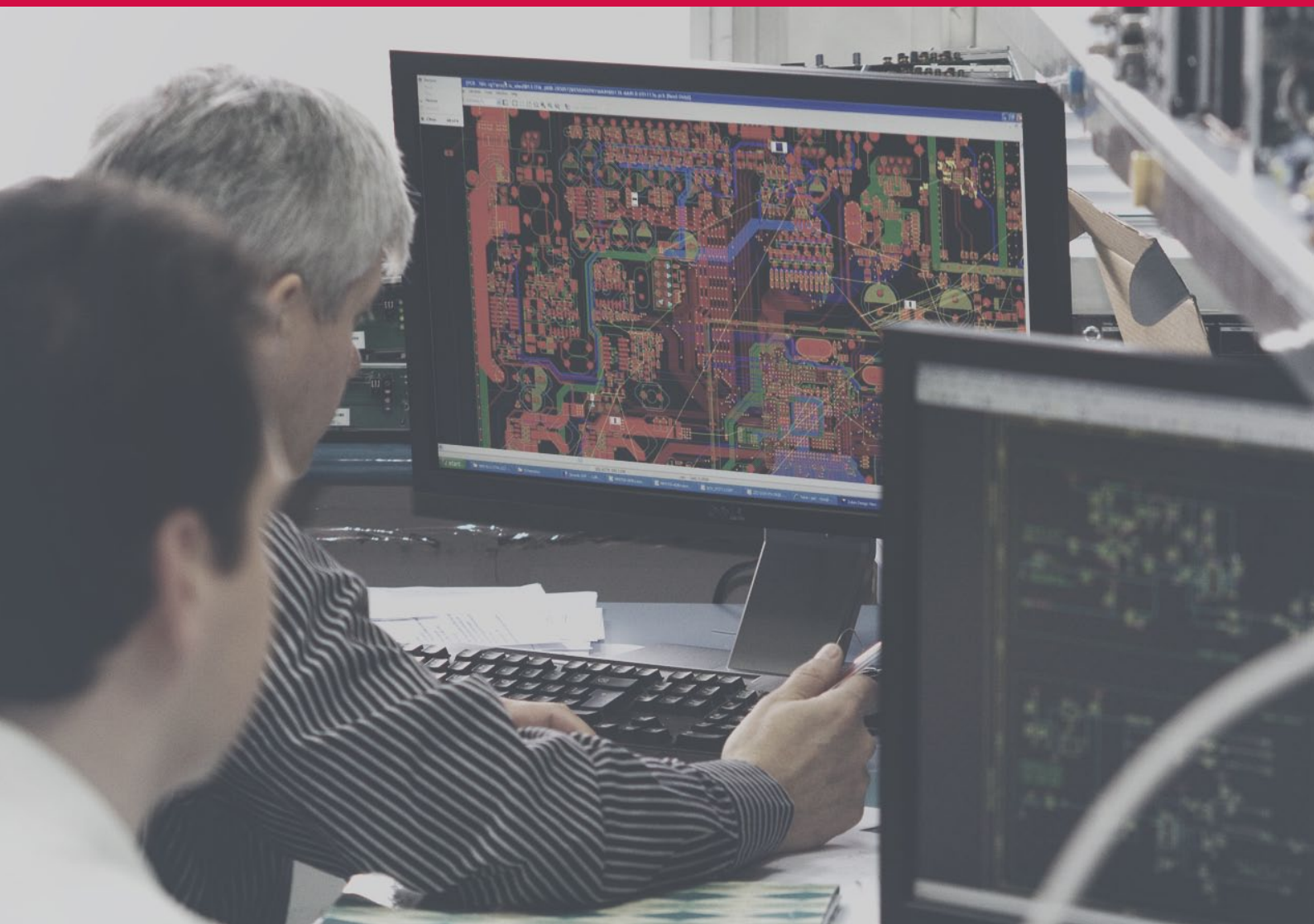
Annual Report 2010

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ADB

Who we are and what we do





ADB Group designs, develops, manufactures and integrates advanced systems for pay-TV and telecommunication markets across the world.

Our customers are cable, satellite, IP and terrestrial TV operators, broadband operators as well as specialized retailers on five continents. We are proud to be one of the few companies able to provide platforms to support all types of pay-TV, data and voice services, and we consider this to be an important asset.

We integrate our technology seamlessly into broadcast and broadband networks – our aim is to make our customers, the pay-service operators, proud of offering their subscribers the experience and conveniences which would make them “stick” to their providers forever.

Our Pay-TV portfolio includes ready to deploy pay-TV solutions, with set-top boxes, award-winning user interfaces, software for advanced interactive TV applications and scalable head-ends. Our broadband portfolio includes broadband access gateways, home networking devices and remote management systems.

As we outsource the hardware manufacturing, our core competencies are in software design, system architecture and integration, advanced methods of production and quality control, and overall customer project management.

We are known as one of the leaders in the most advanced TV technology, and especially in “hybrid” platforms that combine broadcast TV and internet video services. We build and deliver to the operators many revenue-generating and cost-saving solutions, such as various types of content on demand, electronic billing, and remote management of new services. We help our customers to keep their subscribers highly satisfied by offering them such conveniences as creating slideshows on TV screen with all the holiday photos stored on the favorite social network sites or game consoles, enjoying high-definition slow-motion replays during a football game, or pausing a TV show and continue watching it at will, even in another room, if so desired. In short, we offer pay-TV and broadband operators tools that allow their subscribers to master their multimedia activities as they like it.

Today, you may be one of the millions of people across the world using our technology. And you may not even know it – we give all the credit to our customers – the operators. That’s part of our success.

To our shareholders

Ladies and gentlemen,

The year 2010 marks the launch of the new era for ADB Group – the one of true convergence. In our original core business this meant moving towards turnkey solutions, and developing software-based systems that enable customers to seamlessly combine several services through a virtual gateway. In order to do this, we realized that it has become necessary to integrate the traditional set-top box business, head-end related software and various gateway solutions together. Therefore in late 2010, we acquired Pirelli Broadband Solutions from Pirelli Group. This marks opening a new business field for us – that of broadband solutions and services – and an expansion of our current business. The move reflects on what is happening in our industry in general, and has also been positively perceived by our shareholders and financial markets.

The acquisition of Pirelli Broadband Solution was structured as a non-dilutive deal to our shareholders, as the payment consisted of a combination of cash and treasury shares. As such, this is then immediately beneficial to our shareholders who get to enjoy the enhanced contributions per share. In addition, we of course strongly believe that this addition will give uplift to our business perspectives going forward as it broadens our horizons. For example, we see a strong possibility to integrate the gateway technology to the cable business, or incorporate it into our home network solutions. These opportunities started to be investigated, as they will no doubt help opening new markets for our products, as well as contribute significantly to our growing segment of various services.

As to the operating performance of the original base business, the year 2010 was relatively subdued due to a number of reasons. The worldwide semiconductor component shortage situation limited the growth opportunities for a number of industry players, and we experienced our fair share of this as well. The global recovery has been patchy, and will apparently still remain so for the time being. This affected in particular the retail markets in Italy, Spain and UK, and subsequently our business there. All these factors lead to a decrease of our 2010 revenue and gross profit lines. However, I'm happy to note that our business model – once again – proved its scalability. We carefully managed our costs, and thus achieved 5% EBIT margin which under circumstances I consider to be an achievement. It confirmed once again my confidence in our staff and their abilities, for which I wish to thank them sincerely.

Despite some headwinds, we closed the year with a healthy net cash position of US 31.6 million. The acquisition and other business-related activities certainly consumed some cash during the year, but it needs to be noted that during 2010 we also concluded the previous share buyback

program, and distributed the first dividend to our shareholders. This is a policy which we intend to continue, and thus the Board of Directors will be presenting again a proposal for the dividend distribution in the upcoming Annual General Meeting.

On the business development side, the year 2010 marked a few important milestones. We were one of the first in the industry to present a 3D user interface – an achievement which raised a lot of interest in the trade press, and strengthened our reputation as a technology leader. We were also happy to receive some industry awards, for the first time, solutions operating in the three-way hybrid environment. This is important, as those solutions hallmark the new converging technologies and also use our highly acclaimed high definition user interface, the Carbo, which continues gaining new customers. We already had nine customers using Carbo at the end of 2010, comparing to just two at the end of 2009.

The year 2011 will see the emphasis of the ADB Group focus on integrating the newly acquired broadband business into the Group, getting the teams working seamlessly together and restructuring some of the current ways to carry-out our day-to-day tasks. We welcome this opportunity to shake few trees, have a fresh look at the markets and customers, have a look at ourselves, and come up with new practices which will enable us to serve our customers even better. This will take some time, so certainly the year 2011 will be challenging. But it will also provide exciting opportunities to those who dare – to learn, to grow and to make things better and more efficiently. With these new opportunities, new knowledge and new colleagues on board, we look forward to changing our course and set new targets for the coming years.

Yours sincerely,



Andrew Rybicki
Chairman and CEO

The year at a glance

**Revenue reached
US\$ 356.6 million**

**GLANCE
2010**

In 2010, our Group revenue reached US\$ 356.6 million, where the newly acquired broadband business contributed US\$ 20 million.

**Full-year EBIT
5.0% of revenue**

**GLANCE
2010**

Earnings Before Interest and Tax (before acquisition expenses) amounted to US\$ 17.7 million, or 5.0% of the revenue, in line with management expectations.

**Newly acquired
broadband business
profitable**

**GLANCE
2010**

In October, we purchased the Pirelli Broadband Solutions division from Pirelli Group. Pirelli Broadband Solutions ("PBS") supplies broadband gateways, IPTV set-top boxes, fixed/mobile convergence devices and broadband systems management solutions. PBS has been the main supplier to most of telecom operators in Italy, and over the last few years has expanded its business into other European and Latin America countries. Positioned among the top four vendors of broadband access devices in EMEA, PBS has extensive knowledge of broadband technology, including both the customer premises equipment as well as networks and their management.

**New customers
acquired**

**GLANCE
2010**

We closed the year with the net cash position of US\$ 31.6 million. The main uses of the cash during the year have been the acquisition of PBS, the distribution of a first dividend to the shareholders, the share buyback, the continued investments into new product platforms and the deliberate accumulation of inventory to mitigate component shortages. The total amount of cash returned to the shareholders during 2010 was US\$ 21.3 million (dividend and share buyback).

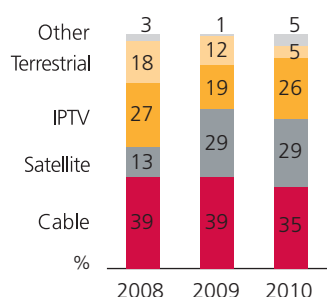
**US\$ 21.3 million
cash returned to
the shareholders**

**GLANCE
2010**

During 2010, the cable business continued to be our largest business segment, contributing 35% of its revenue (39% in 2009). The cable TV industry, which has also evolved significantly, both in technical and commercial sense, still represents the largest business opportunity amongst the four segments we serve. We noted a strong growth of our IPTV segment in 2010, which increased its share of the total Group's business from 19% in 2009, to 26% in 2010. Satellite business continued at the same level as last year, accounting for 29% of the revenue. Terrestrial demand remained subdued due to the general economic conditions, and contributed only 5% to the Group revenue. Other businesses, consisting of specialized software, gateway products and accessories, contributed 5% to the Group revenue, compared to 1% in 2009.

**Board of Directors
recommends a
dividend**

Business revenue distribution



GLANCE 2010

In the field of technology recognitions during 2010, we received an award for “The Best Interactive TV Service/ Application”, at IPTV World Forum in London. This was particularly important achievement, as it was the first three-way hybrid platform, combining access to satellite, IP and terrestrial TV. Furthermore, we took first prize in both “Best Customer Premise Technology” and “Best Interactive TV Technology or Application” categories at 2010 IBC, in Amsterdam. The winning solution included our highly acclaimed Carbo™ high definition user interface.

GLANCE 2010

We won five new customers during 2010 in our ADB core business: CableTel (Bulgaria), Canal Digital (Norway), Telecom Italia (Italy), First Media (Indonesia), and TSTT (Trinidad & Tobago). Further customers were added as well to the portfolio as a result of the acquisition.

GLANCE 2010

In early 2011, we announced a deal with one of the largest cable operators in the United States, to deliver a turnkey pay-TV solution for applications in the commercial segment. This solution includes our next generation set-back box, together with system software and applications, as well as integration services. We also announced having received a purchase order from another major US cable operator for the same type of solution.

GLANCE 2010

The Board of Directors decided to establish a dividend policy for our Group. This policy calls for distributing to the shareholders 30% or more of the net profit after taxes of each business year. In agreement with this policy, the Board of Directors recommends a dividend to be paid out with respect to the year 2010 profits, and intends to propose the distribution of such a dividend at the next Annual General Meeting of the Shareholders.



The industry we compete in

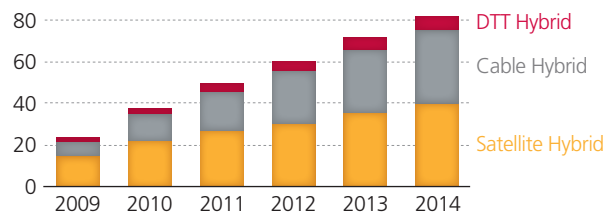
With the convergence of Internet and Broadcast TV content, pay-TV operators compete for the consumer's attention against other home entertainment options, such as gaming consoles, PCs, and media players which increasingly give access to live or on-demand TV offers. Furthermore, consumers now expect to have all their multimedia services, be it video, internet or phone accessible on the device of their choice, throughout their homes and beyond. Hence the quality of the consumer experience and the variety of media choices that the operators deliver across all the connected devices, are fundamental for keeping consumer's eyeballs and wallet "stick" to their pay-services. These new media services that help build consumer loyalty can't always be immediately monetized, and require sophisticated broadband and home networking capabilities, which puts further pressure on operators to upgrade their infrastructure and minimize operating costs.

The evolution of the pay-TV and telecom industry plays to our software strengths. Blending broadcast and internet content and making it available on various consumer devices requires complex “hybrid” set-top and home networking technologies. The actual performance of the overall solution, and hence the quality that the consumer will experience, depends heavily on how well its software is tuned to an operator’s specific infrastructure.

The industry demand is increasingly in the area of the advanced platforms, along with integration services. This stands for a reason. The advanced platforms allow operators to market more complete offers which have the capability of increasing operator’s ARPU. Integration services let operators concentrate on their main business, instead of using their time and resources for managing complex technology projects. This is a particular area where ADB brings tangible advantages to its customers.

Hybrid set-top box shipments

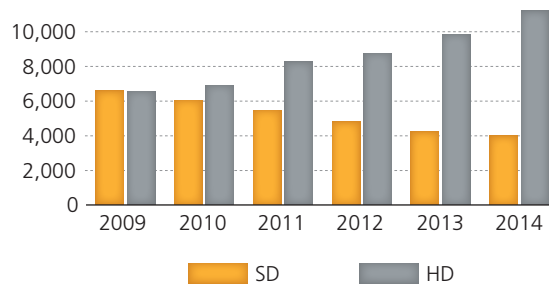
Million of units, worldwide



Adapted from IMS Research 2009

High Definition set-top box growth

Sales, US\$ million, worldwide



Adapted from IMS Research 2009

Overview of ADB's new broadband business



Our broadband business specialises in devices and advanced software enabling operators to deliver “triple” and “quadruple” play services to the connected homes and offices. We design our products as powerful platforms for operators to create new services, through their open architecture that blends fixed and mobile capabilities, managed and un-managed multimedia applications.

Our broadband portfolio offers:

- Residential and small business access gateways for multiple play applications - such as voice, data, video, and value-added services - based on fixed (xDSL, FTTx) or mobile (3G, 4G) broadband access technologies
- Fixed-mobile convergence products such as dual-mode phones and femtocells
- Home networking adapters for the distribution of multimedia content in the home with no-new-wires
- Embedded middleware with software development kits, enabling third party developer to easily create new applications
- Remote management systems and application servers for the remote activation, update and customer support of the user devices and of the services delivered through them.

Built on standardised protocols to ensure multi-vendor interoperability, ADB's broadband solutions can be easily customised or enriched with third party applications, that allow service providers to rapidly launch price-competitive, segmented offers.



Our strategy

We strive for sustainable growth and value creation by providing independence, differentiation and superior service to our customers worldwide, as a trusted pay-TV and broadband solutions expert.

We believe in a future where multi-media content will come from multiple sources and at the user's preference, seamlessly move between multiple screens and devices. We aim at being a preferred partner of pay-service providers, working together to make this future a profitable reality.

Our product strategy involves three important elements:

1. Developing technologies to enable the convergence of TV, internet and broadband services taking place in the industry
2. Focusing our software innovations on delivering a superior consumer experience and
3. Building our solution portfolio to ensure long-term sustainability: cost-effectiveness and minimal impact on the environment.

Convergence

Any pay-service to the Connected Home

- Video, broadband and voice
- Virtual gateway
- Epicentro® TR-069 Management platform
- Hybrid set-top boxes



Consumer experience

Make TV 2.0 simple and enjoyable for consumers

- Fast zapping, boot, response
- SmoothView™ DVR
- Set-back box design
- Award-winning Carbo™ HD user interface
- Remote management



Sustainability

Economic and environmental

- Pre-integrated platforms to minimize integration costs
- Add-on functions via download and USB stick
- Low power mode, ahead of regulations



The technical implementation of our product strategy combines open standards and vertical integration, to guarantee the greatest flexibility together with optimal performance.

Driving convergence

The TV industry's #1 topic in 2010 was convergence of the Broadcast TV and internet content, along with the extensive entertainment choices and associated business models it implies. Delivering convergence means providing solutions for local-area networks, such as accessing the family computer to display holiday photos on the TV, and for wide-area networks, such as accessing internet portals from the TV. Our new Virtual Gateway software platform, that transparently distributes multimedia capabilities throughout the home, is an important milestone in this development.

One of the hot topics during the year was the so-called OTT (Over-the-Top) services, that bring live, on-demand and catch-up video features via the internet. Anticipating industry's demand, we were happy to demonstrate to our customers our products, the OTT capabilities, ready for deployment any time desired.

The addition of the broadband business also brings new dimensions to the ADB Group – as our product and service portfolio now includes all the technologies at play in the Connected Home, from high-speed internet access, home connectivity, wired and wireless multimedia sharing, remote management of the home network and secured access to all the pay-TV entertainment services.



Consumer experience – Driver of differentiation

Consumers have today more choices of what, where, how and when to watch than ever before – mostly thanks to multi-room digital video recorders, video-on-demand, personal multimedia content, mobile TV and Internet TV.



As a consumer usually obtains a set-top box as part of a pay-TV service, such a “box” becomes an important component responsible for shaping the subscribers’ perception of their operator’s service quality.

With digital TV devices sometimes criticized for being too slow and complicated, our latest developments bring to the digital world what made analog TV a success over the past 60 years: a simple, fast, enjoyable entertainment experience. Combined with our innovative features, this makes our offer particularly attractive.

2010 achievements:

1. We introduced SmoothView™, an unique feature letting consumers play their recorded high definition content – forward or back – at greater or shorter speed, with smooth motion and true audio pitch perfectly preserved. The same holds true when creating own slow-motion replays
2. We expanded the base for Carbo™, an intuitive, fast, smooth, user interface in High Definition. Tens of thousands consumers already enjoy it
3. The superior responsiveness of our set-top boxes was recognized by operators and journalists at the IBC tradeshow
4. Our 3D user interface – one of the first in the industry – was widely recognized in the trade shows to be the best in class by far, and widely praised in the trade press.



Our products and services

With our portfolio of pay-TV and broadband devices together with innovative software platforms, we can offer operators an end-to-end set of solutions for multi-service delivery, based on open-standards and interoperability.

Broadband

Broadband access gateways for homes and small businesses

- High-speed wired and wireless data routers
- Integrated (data/voice) access devices



Home gateway



IPTV hybrid



Small business gateway

Home networking adapters

- Wireless video extenders
- Connectivity devices including homeplugs



Fixed-mobile convergence technologies, including femtocells

Remote management systems and operator-side software platforms



Broadcast

Advanced set-top boxes for Cable, DTT, IPTV, Satellite and hybrid pay-TV services



Complete software platforms including

- Native high-definition user interfaces
- Multi-room pay-TV and virtual gateways
- Open-standard (MHP™, tru2way™, other) based middleware
- Interactive TV portals for Over-the-Top applications

Operator-side hardware and software

- Video-on-Demand and program guides platforms
- Recommendation, messaging and invoicing engines
- Mini head-ends



Our life-cycle services take care of upgrading devices remotely with the latest functionalities, refurbishing and repairing the devices returned by consumers to put them back in use as soon as possible, training to the operator's support team for faster issue resolutions. Our integration services support operators in rapidly deploying complex multi-vendor solutions - from hybrid pay-TV to the latest quadruple-play platform.

2010 Hall of fame

The technology advances of our software and hybrid devices were recognized during 2010 by some prestigious industry awards. Juries of industry experts and operators selected our three-way hybrid platform and our Carbo high definition user interface for the Best Customer Premise Technology and the Best Interactive TV Technology.



IPTV World Forum Award

WINNER 'Best Interactive TV Service / Application'



CSI Award

WINNER 'Best Customer Premise Technology'

WINNER 'Best Interactive TV Technology or Application'



Sustainability – Environment

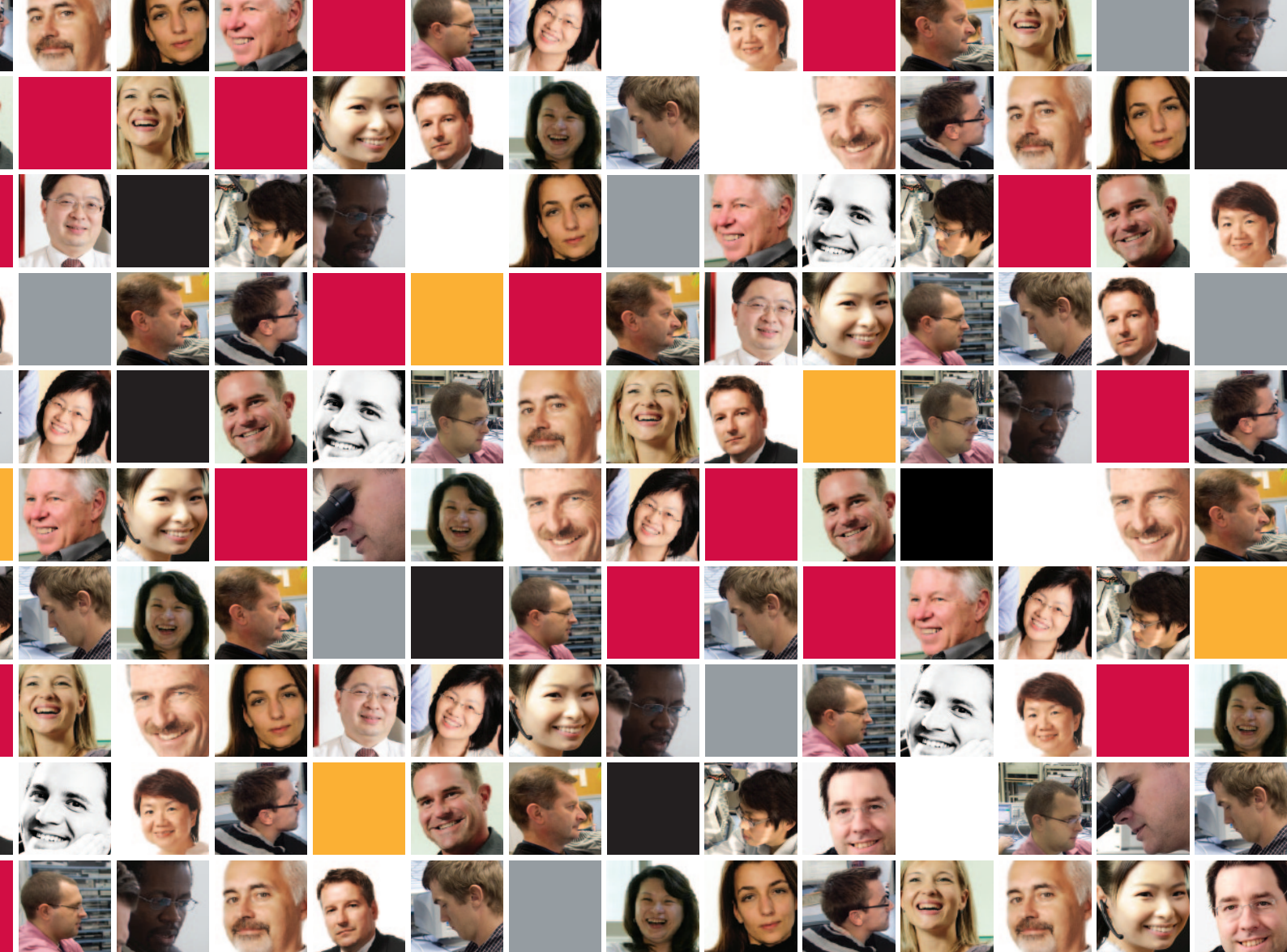
Analysts predict that by the end of 2011 there will be over two billion TVs, and one billion personal computers in use around the world. As electronic devices gain popularity, they account for a growing portion of household energy consumption. As a provider of such devices, minimizing our impact on the environment is fundamental and becomes one of our key responsibilities.

Our environmental approach is three-fold:

- Meeting or exceeding environmental directives and practices, such as the European Union Code of Conduct, and ISO 14001 certified manufacturing
- Saving natural resources through innovations in smart design and use of right technologies, from production materials to lower energy consumption
- Contributing to environmental programs to compensate our carbon footprint and promote sustainable development.

Our super fast boot-up technology is a tangible result of our focus on environmentally friendly innovations. Because most set-top boxes available on the market take minutes to start-up, consumers leave them always on, thereby wasting electricity and shortening the device life. On the opposite, our technology boots-up Pay TV STBs in less than 8 seconds. Consumers are therefore encouraged to save energy by turning-off their set-top box when not in use, with the confidence that they will be able to enjoy their TV programs seconds after turning it back on.





Our people

We strive to hire the best talents worldwide and keep them at the top of their field. Our team members come from over 25 countries, and most of them have Master's and PhD degrees. The majority of them work in research and development. We also continuously build a pool of future talent. Each year, we run software engineering contests, which attract over 3000 participants from Poland, Ukraine, Taiwan and the United States. This allows us to pick the best.

Our company takes pride in maintaining its entrepreneurial spirit. We believe it's important to take care of our people, to develop and make them grow. We have a result-oriented company culture, where we challenge people but also reward them for achievements. Our local offices routinely run a series of social events, where people can meet outside of the office and get to know each other better.

Our headquarters are located in Geneva, Switzerland. The majority of research and product development functions are located in Poland, Ukraine, Italy and the US, while the industrial engineering group resides in Taiwan.







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