



2011
**Annual
Report**

Content



any
time



any
where



any
device

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Annual Report 2011

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ADB

Who we are and what we do



ADB Group was founded in 1995 and is a leading developer of solutions required to view and interact with digital TV broadcast through cable, satellite, terrestrial and IP networks, as well as products and systems for the broadband data communication business. Our technology provides the route into the subscriber homes, from whichever source the content signal stems. We integrate our technology seamlessly into broadcast and telecommunication networks – our aim is to make our customers proud of offering their subscribers the experience and convenience which makes it easy for them to stay with their service providers. Our portfolio includes advanced broadcast and broadband software products and complete software solutions, which are delivered both with the relevant hardware platform, or without it. 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 relationships. Today we sell a broad range of products and services, including connected home multimedia solutions, software, consumer premises devices, consulting and engineering services and after sales services for digital pay-TV broadcast operators and broadband network operators. Our sales are conducted through the brand of ADB and the trademarks of i-Can, Epicentro and Carbo.

To our shareholders



Ladies and gentlemen,

The year 2011 was a transformation year for the ADB Group. Many things contributed to this, both internally and externally. As you will remember, we acquired the broadband business at the end of the previous year, so 2011 was truly the first year when we had the new product portfolio in the Group. It has been a memorable experience. We gained a new depth and capability area to our company; we learned a lot; we learned to work together with a new set of people – this has been the first significant acquisition to the company, so it was important to make sure we start incorporating the benefits immediately. In technology companies, time is of essence and the market certainly moves fast. I am happy to note that we have indeed been able to put much of the joint experience in use, and see the respective labours bearing fruit already. Further work certainly remains to be done, but I am very pleased to see all of our people taking this task seriously and putting a lot of energy into it. This is not self-evident, nor should it be treated lightly. I am deeply grateful to all of senior management members for taking the integration efforts so well onboard. These processes are never easy, and we had to make some tough decisions such as scaling down certain less attractive business areas such as terrestrial activity. But strategy is about choice, so we made those decisions. I believe the company is now better for it.

We also took the opportunity to streamline our operations and organization at the same time. We have entered into a new era in our business, where lean, agile organization catering seamlessly to customer need is key. What this means concretely is that we formed five divisions based on their respective customer focus. I would like to draw your attention particularly to the formation of the Service Division – we have of course always had this element as a part of our business, but now the demand for such all-composing services has grown so significantly that it already forms some 10% of our overall Group revenue. Further, the formation of the new System Division reflects the demand for complete systems and solutions, particularly from the smaller cable operators. We aim to satisfy that demand.

Last year was no doubt a challenge to us. The market underwent several difficult situations. The earthquake in Japan in the beginning of the year and the floods in Thailand at the latter part of the year reminded us that we live in an increasingly global and interlinked world. We were lucky enough to avoid the worst impacts of these events, but vigilance to processes and reliability remains one of our core focuses. The work carried out here was not in vain, and we will continue these efforts.

One significant change on the marketplace – from customers and also their subscribers – is the increasing demand for connected services. We live in a world that connects all kinds of devices, and the inter-connectivity is here to stay. What this means is that all solutions that bring content to consumer homes through paid services must be easy and intuitive to use. Those players who can implement this kind of experience have far more possibilities to keep and increase the amount of its paying customers. Content coming through internet and other sources must be integrated into the service. Luckily, this development plays into our core competence areas. We are fundamentally a software company, and have always enjoyed designing such solutions. This year we have already started implementing such solutions, and there is more to come.

However, as a growing company, we should not forget about our entrepreneurial roots. Achieving the next steps requires innovation, implementation and excellence in execution. This we strive for. We have the skills, the motivation and the right people. We have a passion of technology and innovation. I believe we have a company that is designed to win.

Yours sincerely,



Andrew Rybicki
Chairman and CEO

Year 2011 at a glance

Revenue growth 12%

GLANCE 2011 Revenue in 2011 reached US\$ 399.0 million, representing a growth of 12% compared to 2010. The growth was largely attributable to integration of the new broadband business. Sales of the digital TV equipment contributed strongly during the second half of the year, following the usual seasonality cycle of this business. Due to the consolidation of only one month of the acquired entity business in 2010, year-on-year results are not directly comparable.

Gross margin 31% of revenue

GLANCE 2011 Gross profit amounted to US\$ 124.0 million or 31.1% of revenue. This is an increase from the 29.2% reported in the first half of 2011, and represents the Group profiting from redirecting its business away from the retail activities, in accordance with its strategy. The service business represents a relatively small portion of the Group revenue, but has grown significantly compared to previous year.

Streamlining operating costs

GLANCE 2011 Operating expenses accounted for US\$ 117.4 million, with research and development amounting to US\$68.5 million, and selling, general and administrative expenses to US\$ 48.8 million. The decrease in operating expenses as percentage of revenue during the second half of 2011 is the result of the Group's ongoing streamlining process. Key contributors have been integration of the operations, finance and central R&D, and overall headcount reduction. The Group has also recorded significantly lower royalty payments to third parties, as a result of its proactive reviews and adjustments of the respective licensing agreements. This effort will continue into 2012 and beyond.

Adjusted EBIT US\$ 7.6 million

GLANCE 2011 Adjusted Earnings Before Interest and Taxes (before reorganization and acquisition expenses) amounted to US\$ 7.6 million, or 1.9% of revenue, representing the increased profitability in the second half of 2011.

Reorganization and acquisition expenses US\$ 16.3 million

GLANCE 2011 The reorganization expenses amounted to US\$ 15.4 million, while the expenses related to the acquisition were US\$ 0.9 million. Consequently, the Group's pro-forma profit before tax was US\$ 2.8 million. Taking the reorganization and acquisition charges into account, the reported loss for the year amounted to US\$ 12.2 million or US\$ 2.27 per share.

Solid cash generation during the second half

GLANCE 2011 The net cash position of the Group strengthened significantly during the second half of 2011, allowing the Group to close the year with a net cash position of US\$ 28.9 million, while the gross cash and treasuries amounted to US\$ 56.7 million.

GLANCE **2011**

The connectivity between any and every consumer device, mobile and stationary, will remain the main theme in the coming years. The Group is today particularly well equipped to take a prominent position in these developments. Consequently, it will channel this expertise into creation of complete solutions. The Group is confident that this strategy, supported by over 15-year long success as a supplier of top performance and competitive end-user products, will make its effort fruitful in a relatively short time.

GLANCE **2011**

The new product and service structure of the Group is reflected already today by its revenue constitution. Digital TV equipment brought in a total 58%, broadband products yielded 32%, while the customer care and other services grew to 10% of the Group 2011 revenue.

GLANCE **2011**

Geographically, Western Europe remains the Group's largest and dominating market, bringing in 66% of the overall revenue. Eastern Europe sales contributed 22%, Americas 6%, Middle-East and Africa 5% and Asia Pacific 1%. The comparison to previous years should take into consideration the impact of the acquisition, as the majority of the broadband products are sold to Western European customers and therefore that region is now represented more prominently.

GLANCE **2011**

The year 2011 saw important business development activities making progress. Opening of the US cable market with Charter Communications and Time Warner Cable in the commercial market segment was brought into fruition. The business in the Nordic countries has grown considerably as well, and the Group was pleased to announce its new cable pay-TV customer in Belgium, Tecteo/VOO TV-NET-TEL.

GLANCE **2011**

The customer diversification after the acquisition remains largely unchanged. The top ten customers contributed to 70% of the Group revenue, with no single customer bringing more than 15.3%. The Group considers this to be healthy and balanced approach fostering enough cost-efficiencies but diversifying risks sufficiently.

GLANCE **2011**

The Group has also been nominated for "Best Quality Improvement Solution" at the IP&TV Industry Award with its Epicentro®-PMP remote management solution. This product signifies the Group's entry into the business of complete systems and associated services, very much in line with the Group's new strategy.

Focus on complete solutions

Diversifying revenue base

Western Europe largest market

New customers in the US and Europe

Top ten customers bring 70% of revenue

Industry recognitions



Our vision and values

CONNECTIVITY

The world of the future and already today comprises of multiple screens and devices connected to each other, where consumers have their own personal selection of content and services. Our job is to make these seamlessly available on any device, anywhere, so that our customers can maximize their offer to their subscribers. A service that feels personal is not easily substituted; a service that's easy and enjoyable will not be.

SERVICES, SOFTWARE AND COMPLETE SOLUTIONS

This world will not work anymore through individual products alone, no matter how good the interface. This is why we provide our customers a one-stop shop consisting of services, software and integrated solutions with the deep understanding of our customer systems. It is an important cornerstone of our strategy.

A WORLD WITH MULTIPLE CHOICES

Number of ways to access video is multiplying every day. Linear broadcasting is now just one of many ways to watch your favorite show, sports and movies. We believe, and are supported by several research institutions and industry experts, that someone or something is needed to aggregate this content and bring it in a trusted manner to all your devices. Our experience tells us that in the ever changing digital world this is best done by service providers, not by devices directly. Pay-TV and broadband will continue to be one of the most effective ways to provide content for years to come. Other business models and delivery forms will and can co-exist and even contribute to them. We have an important role to play in supporting the service providers.

VISION

VALUES

TECHNOLOGY

We are fundamentally a technology company; technology is our passion and the focus of our attention.

INNOVATION

We bring new, interesting solutions to service providers through our capabilities to turn ideas into products. We select, develop, specify solutions and delight the customer.

PRODUCT PERFORMANCE

We focus on turning out products and services that perform as the best in the market, and in a way that is easy for our customers and their subscribers. We aim for no less than excellent performance.

QUALITY AND EFFICIENCY

Quality is not a single check-point; it's a way of life. We aim for excellence in everything we do; for this we need to make sure we meet the most strenuous quality standards. In a well-designed organization, you only have to do things once. We believe in streamlining our operations and being cost efficient.

TEAMWORK

We believe in cross-organizational teamwork to ensure the response to the customer is always the best we can offer, and is supported by the whole organization. This also fosters agility and quick reactions, which our customers appreciate. We believe that getting everybody onboard at an early stage breeds trust, which is one of our foundations.



Our strategy

We believe, and are supported by many industry stakeholders, that in the next three to five years there will be an array of parallel worlds to deliver content to the consumer. They will all, however, exist in parallel but our main focus is, and will remain, on the delivery of content via the operator.

Today the main problem that our customers are facing, and which will augment, is the increasing sources of content that is available – be it via internet, broadcast or mobile. This can be a potential threat to our customers. It is our aim to turn this threat into an opportunity for them. There are still a multitude of problems on the delivery of content and the many choices that are available to consumers.

The answer for the operator is to obtain a viable solution for how to find the right content and most importantly how to find what is relevant to their subscribers. They must also ensure that the content they offer is of the right quality. Over and above price, the consumer is looking for a trusted, simple and personalized source of content delivery – this can be a main competitive advantage for the operator.

In our view, what the operator could and should provide is a secured window into all of this proliferation of content choices. They should be able to provide a walled garden approach, federate all this content, make sure that there are personalized recommendation engines which will ultimately allow their subscribers to find the content they want. The operator should also take into consideration that the content they deliver is easy to use and of optimum performance – to be able to change bit-rates, formats and the like which are performed at the operators' head-end. These are the tools that ADB must deliver via an all inclusive solution.



What this will lead to is two-fold:

1. A personal and simple user experience that is targeted to each individual consumer. For the operator, there are subsequently other potential opportunities to increase ARPU and reduce subscriber churn such as targeted advertising. By these means the operator can find new ways of monetizing the delivered content more effectively and provide an end-to-end solution to its customers.
2. A one-stop shop solution is what we can provide to the operator, which includes multi-room through to a truly managed multi-screen, an easy, personalized TV experience and quad-play. We have everything it takes with our end-to-end solution, to provide that complete personalized TV experience to the consumer via the operator. The elements that prove this are:
 - Personalization & simplicity – via our award winning Carbo™ user interface and future editions
 - Content anywhere – via our multi-screen solutions
 - Content management inside and outside – via our new business models.

Consequently, our task is to make sure all our actions adhere to the above principles. And this is exactly what we are doing today.





Our business areas

With the convergence of internet and broadcast TV content, telecom and 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.

During the course of 2011, our organization changed its shape quite considerably, following the above presented customer and market demands. We now have five divisions catering for different markets. The Broadcast Division concentrates on our pay-TV customers and the sales of digital TV equipment. The Broadband Division serves mainly our telecom customers through their solutions in the areas of gateways and related software. US Cable Division replaces the earlier Emerging Business Division, and focuses on the American markets, selling complete solutions comprising of the offer range from the entire Group. The Services Division focuses on the management of software upgrades, maintenance, reverse logistics and management of customer networks. The new Systems Division has been created to develop further our efforts to have a truly complete, end-to-end, digital cable TV solution for the small and mid-size cable systems.

The Strategy and Technology unit defines our universal technology strategy, and the Operations and Procurement streamline the supply chain throughout the organization. The shared resources (such as human resources, finance, marketing and communications to name a few) continue to support our colleagues in their efforts to serve the customers through their respective divisions.



Broadcast Division

The Broadcast Division concentrates on selling digital TV equipment and related solutions. It has been formed to drive the profitable growth in fairly segmented and diversified international markets. The Broadcast Division develops hybrid solutions enabling inter alia the integration of broadcast and internet content. The Broadcast Division's main customers are pay-TV operators mostly in Europe and Middle-East & Africa. They operate mostly through cable and satellite broadcasting platforms.

This division encompasses much of our Group's original business, and is our largest. Its goal is to offer the customers ready-to-deploy pay-TV solutions so that the customers can ignore the complexity of the technology behind the solutions, and concentrate on growing and monetizing their subscriber base.



Distilling this into product offer, we deliver our customers

- Advanced set-top boxes for pay-TV services
- Complete software platforms including
 - Native high-definition user interfaces (Carbo™)
 - Multi-room pay-TV and virtual gateways
 - Open-standard 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.

Broadband Division

The ADB Broadband Division builds on its IP (Internet Protocol) and broadband networking expertise to conceive, design and sell solutions for the multimedia connected home. This division combines the IP and digital TV technologies into hybrid and convergent product architectures, supported by a suite of software platforms providing manageability and extensibility for services and applications. The division comprises of the acquired broadband business entwined with all of our IPTV business.

The customers of the Broadband Division are classically telecommunication operators everywhere, currently mostly in Europe where we are positioned among the top four vendors of broadband access devices. The division business is however reaching now further in Eastern Europe as well as to the Americas.

In terms of products to our customers, the Broadband Division offers

- Broadband access gateways for homes and small businesses
 - High-speed wired and wireless data routers
 - Integrated (data/voice) access devices
- Home networking adapters
 - Wireless video extenders
 - Connectivity devices including homeplugs
- Fixed-mobile convergence technologies, including femtocells
- Remote management systems and operator-side software platforms (Epicentro).



US Cable Division

Stemming from the earlier Emerging Business Division, US Cable Division has been formed to target the American market and to break fresh ground for sales development for all of the Group's products and services.

The main focus for US Cable Division are pay-TV cable operators offering services to the commercial segment. This means pay-TV services to hospitality entities such as hotels, sports centers and commercial buildings.



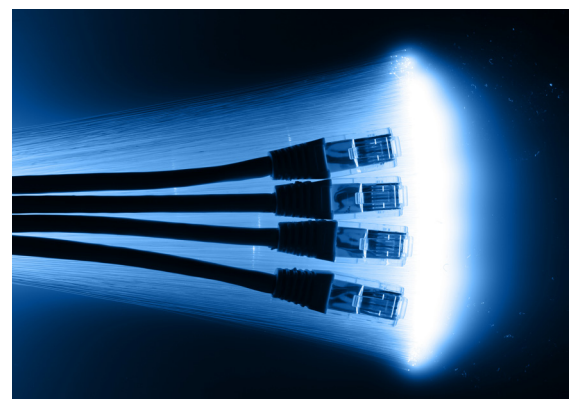
Services Division

To meet the demand for complex and comprehensive services in pay-TV markets, the Services Division focuses on covering the management of software upgrades, maintenance, reverse logistics and management of customer networks as well as on exploring new, innovative concepts and business models.

The content operators have an increasing need to concentrate on their own subscriber base. The Services Division effectively outsources its customers' service needs and thus maximizes the value of their investments.

Systems Division

The Systems Division has been created to bring to fruition ADB's long efforts to develop a truly complete, end-to-end, digital cable TV solution for the small and mid size cable systems. It also offers our system oriented software solutions, such as Video-On-Demand and electronic billing, as well as integration and consultancy services.





Sustainability – environment

Analysts say that there are now over two billion TVs, and over 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 Industry Voluntary Agreement for Complex Set-Top Boxes, 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 devices in four 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 powering it back on.

Our people

We strive to hire the best talents worldwide and keep them at the top of their field. Our 845 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.

One of the common denominators to our people is the pride they take in their work. Being in the cutting edge of digital technology and developing new solutions is exciting work, and not only to our engineers. This is demonstrated by the fact that many of the people – in all levels – who joined us years ago, are still working for us today. That is a significant achievement for a still relatively young company. We have, after all, only been here for seventeen years.

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.





One of our core values is teamwork. In our company, that is not a generic word. Teamwork across the organization is critical to our success, and to our ability to serve our customers. Our people are constantly encouraged by different means to co-operate with each other, and this is indeed expected from everyone. A multicultural and multilingual working environment sets its own challenges to everyone, but also creates a varied and interesting place to operate.

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





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