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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 technologies are used for content processing at its source, help in its delivery to subscriber homes, and creating an easy and intuitive human interface with the client devices at the receiving end.

We integrate our technologies seamlessly into broadcast and telecommunication networks. Our aim is to make our customers - system operators - proud of offering their subscribers the experience and convenience which makes it easy and attractive for them to stay with their service providers. Our portfolio includes advanced broadcast and broadband software products and complete software solutions, which are delivered either with the hardware platforms or without them. As we outsource the hardware manufacturing, our core competencies are in software design, system architecture and integration, advanced methods of quality assurance & control, and overall customer relationships.

Today, we sell a broad range of products and services, including connected home multimedia solutions, head-end and client software, complete consumer premises devices, consulting and engineering services and after sales services for digital pay-TV broadcast operators and broadband network operators. Our offices are located round the world in Poland, Italy, Ukraine, Taiwan, US and Switzerland.
To our shareholders

Ladies and gentlemen,

I am pleased to present to you the results of ADB Group business for the year 2012 – the year that could be best characterized as a year of recovery. In short, we have turned the company back to profitability, mainly by growing its business, streamlining various costs, cutting unprofitable activities and bringing the organization back to healthy, realistic business philosophy and behavior. As the figures show, these efforts clearly bore the desired fruits: our EBIT reached 3% of revenue and EBITDA 9% of the same.

I am proud to say that we have achieved those results in the environment of still challenging macroeconomic situation. It has been stabilizing little by little recently, but its overall picture is still very uncertain and is expected to remain so, especially in Europe. This has been affecting our customers’ decisions – thus our business – and it will continue to do so in the foreseeable future. On top of that, we also needed to deal with fairly recent force majeure in the form of natural events: the floods in Thailand that negatively affected hard-disk drive production over a year ago. Throughout the year 2012 this was a special challenge that we had to overcome. Thanks to tremendous efforts of our staff, healthy reserves and our customers’ cooperation and help in our efforts to mitigate the adverse impact of the shortages, we managed to keep the situation under control. At this point, I want to emphasize the importance of excellent business relationships ADB has always maintained with its customers and suppliers. It is in situations like this where the true value of partnerships shows its colors.

In view of both above, we must be ready to meet new and sometimes unexpected challenges by acting prudently and ensuring ample financial reserves. Consequently, our Board of Directors decided not to recommend a dividend to be distributed during 2013.

At home, we have been acting in line with our long-time strategy: we kept growing our portfolio of software products and a variety of services – engineering and others. Even if not all such efforts may be yet clearly measurable in a direct sense, their effect usually shows sooner or later, as demonstrated by our last year 13% revenue growth and maintenance of close to 30% gross margin, in the environment of rising costs in Asia and mostly stagnant economies elsewhere. As a consequence of it, it was satisfying to see a clearly visible progress of our new system solutions, award winning software of our set-top boxes and gateways, and our increased penetration of the US market.

We also dedicated a significant effort to completion of our business reorganization and integration work, even though further improvement of internal processes must and will still continue. As a result of it, we streamlined our operating cost and created organizational platforms necessary for the further growth of our convergence business, in line with the worldwide trends of data communication and digital television fields.
Overall, the company is now in a much better shape that it was a year ago, for which I wish to thank everybody involved in this effort. We certainly paid a price for these good results, as some business development activities needed to be sacrificed in order to fix shorter-term problems. On the other hand, we also strengthened the areas we decided to keep and rewarded our staff, as a great majority of them went a proverbial extra mile (or more) when contributing to our recovery. I regard it not just necessary, but simply just. One cannot ask for extraordinary efforts and not appreciate them. As the world around us is changing rapidly, so will ADB. The quality and dedication of our associates will be therefore more important than ever before.

On the world markets, one of such changes is undeniably interesting and much debated new way of watching television, known as Over the Top services (OTT). While it is clearly technologically innovative and growing, the mainstream TV services provided by the cable, satellite and IPTV operators – our valued customers – are still the ones attracting a great majority of TV viewers. Consequently, the demand for broadcast TV and broadband data communication services stays robust, giving us a high level of confidence in the moderate growth of our business in the coming years, especially when driven by technological innovations in which ADB has always excelled.

This confidence, combined with our traditional technology prowess and supported by growing effect of synergies with our acquired broadband data communication unit, will provide us with a path to our long-term growth and stability.

We believe that the synergy between digital TV and broadband data communication will grow, and the boundaries between those two will blur. We already have certain solutions for that environment, with several others under development. We believe that the ability to manage content, automation and networks is going to be key both to the operators and to consumer homes; hence we have been preparing the company for it. Innovation and excellence of system integration and software design are key to our success, thus we have been putting a lot of effort to stay ahead of the game.

All in all, we have a lot of interesting and challenging work ahead of us. It is also heartening to see the company, the industry and hopefully soon enough also the economies recovering from tough times. We need to go forward, we have done it in the past year and we will continue do so. This is the way we have always been looking at – a road less traveled by. And that has made all the difference.

Andrew Rybicki
Chairman and CEO
Our full-year revenue in 2012 reached US$ 451.6 million, representing a growth of 13% compared to 2011. This was mostly attributable to the reasonable performance of the core business in the area of broadcast and broadband, but also a demonstration of the increased demand for services and further progress in the US market penetration. We were satisfied to note that temporary shortage of hard-disk drives did not hinder the business development during 2012, even though the company had to undertake special efforts to mitigate this.

Gross profit amounted to US$ 133.8 million or 29.6% of the revenue, an increase of 8% compared to 2011 in terms of absolute amount. Here is where the hard-disk drive shortage in 2012 had an impact. Excluding this, the pro-forma gross margin was 30.9% of revenue and thus in line with management expectations.

The research and development expenses amounted to US$ 66.4 million, compared to US$ 74.0 million in 2011. It needs to be noted that in 2011, this figure contained US$ 5.5 million of reorganization costs which were mostly amortizations of intangible assets, whereas the corresponding number in 2012 was only US$ 0.6 million. The R&D expenses represented ca 15% of revenue which we consider being a normal level. The total overhead expenses, comprising R&D, SG&A and operations overheads calculated on a cash basis, decreased approximately by 10% compared to 2011, underlining the effectiveness of the streamlining efforts carried out. The total SG&A amounted to US$ 52.9 million in 2012, including costs of one customer service work. All in all, we were satisfied with the alignment of the overhead costs in 2012.
EBITDA at US$ 40.9 million or 9% of revenue

EBIT at US$ 13.6 million or 3% of revenue

The total impact of reorganization and acquisition expenses on the overheads for 2012 was US$ 3.0 million, in line with management expectations, compared to US$ 16.3 million the year before.

Earnings Before Interest and Taxes, Depreciation and Amortization (EBITDA) amounted to US$40.9 million, or 9.0% of the revenue. Earnings Before Interest and Taxes (EBIT) recovered to positive territory, and amounted to US$ 13.6 million or 3.0% of revenue for the full year. This compares favorably to the year before when we recorded a negative US$ 8.8 million EBIT. The profit after tax for the year 2012 reached US$ 8.5 million, or 1.9% of revenue, yielding earnings per share of US$1.64.

Our cash position strengthened during the second half of 2012, allowing us to close the year with a net cash position of US$ 23.5 million, while the gross cash and treasuries amounted to US$ 44.3 million. We consider this to be a good result, as during the year 2012 we purchased back US$ 7.3 million worth of our own shares and further reduced our bank exposure by US$ 7.0 million.

Our product and service mix is reflected in the revenue constitution. Digital TV equipment brought in a total 63%, broadband products yielded 26%, while the system solutions, customer care and other services grew to 11% of the 2012 revenue.

Geographically, Western Europe remains the Group’s largest and dominating market, bringing in 78% of the overall revenue\(^1\). Eastern Europe sales contributed 12%, Americas grew to 9%, and Asia Pacific remained stable at 1%.

The customer diversification remains largely unchanged. The top ten customers contributed to 76% of the revenue, with largest customer bringing 21.5% during the year 2012. We consider this still to be healthy and balanced distribution, fostering enough cost-efficiencies but diversifying risks sufficiently.

\(^1\) This figure contains also Middle-East and Africa.
Our vision

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 - system operators - can maximize the value of 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

Today, the world does not work anymore through individual products alone, no matter how good is such a product’s human interface. This is why we offer to our customers a one-stop shop consisting of services, software and integrated solutions with the deep, based on several years of experience, understanding of our customer systems. It is an important cornerstone of our strategy.

A world with multiple choices

Number of ways to access audio or video content 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 the content and bring it in a trusted and reliable 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 alone. 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 content delivery, processing and selection methods co-exist and contribute to them. We have an important role to play in supporting the service providers and helping them to be successful.
We are fundamentally a technology company; technology is our passion and the focus of our attention.

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.

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 is not a single check-point; it’s a way of life. We aim for excellence in everything we do. In a well-designed organization, you only have to do things once. We believe in streamlining our operations and being cost efficient.

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.
Our strategy

We believe that in the next three to five years there will be an array of worlds delivering content to the consumer. They will all exist in parallel and often interact with each other. Our main focus however is and will remain on the delivery of content via the operator.

Today, one of the challenges that our customers are facing is the increasing number of content sources and their delivery methods – be it via broadcast or fixed and mobile broadband internet. This could be a potential threat to our customers – or a new and exciting opportunity. It is our aim to turn this potential threat into an opportunity, through utilization of the combined know-how and experience we have today in both fields: broadband and digital TV. This is a first pillar of our Group strategy.

Our portfolio of intellectual property includes also several years of experience in designing and building complete products, both for digital TV and broadband applications. The development and manufacture of the hardware part of those products have been already largely outsourced, in line with our OEM-to-ODM migration program. This allows us to focus on our core strength: software and system design and development, system integration and technical services. This is a second pillar of our strategy.

With a rapid growth of the multi-location and multi-device environment, a new and serious technical challenge has arrived: to ensure easy, user-friendly and cost effective flow of any content, anywhere and to/from any device – of our own or third party design and/or make. Consequently, a large, classical pay-TV operator’s system comprising a classical centralized “head-end” catering to hundreds of thousands subscribers, started to evolve into large number of small, yet highly sophisticated “home systems”. Such “home systems” handle much more than just TV entertainment – they already provide voice and data connectivity today and will act as “intelligent home” managers tomorrow. ADB Group has all necessary tools to be a serious player in this new, challenging and exciting field – hence this is a third pillar of our strategy.
Regardless of our current customers – system operators – the ultimate customer for both of us is the consumer. Today’s consumer has been bombarded with the amount of information that is quickly becoming too difficult and/or time consuming to handle efficiently and effortlessly. Consequently, a pleasure and benefit of entertainment and/or “staying connected” quickly turns into a nightmare. Fortunately, there is a remedy to that problem, and that is an intelligent machine, helping a human to find, select, connect, request and obtain a service of his/her choice quickly and intuitively. ADB has a long history and remarkable success in developing “intelligent mechanisms” for digital TV entertainment and broadband, such as our award-winning Carbo™ Graphical User Interface, recommendation engine and Epicentro™ remote management system. We will therefore deploy this intellectual capital to continue creating superior human-to-machine interface and monitoring & management software products – simple outside and very smart inside. This is a fourth pillar of our strategy.

Lastly, we recognize that the value of a high quality, professional services is growing quickly and everywhere. Our Services Division started years ago from relatively simple, yet essential to any pay-TV operator after-sale warranty repair services. Today, this division provides a variety of services, in products, logistics and software, all of them growing in scope and scale. Further development of its business is therefore obvious and as such has become the fifth pillar of our strategy.
Our business areas

We are an innovative technology company, bringing superior software solutions and services to all of our customers worldwide.

The digitalization of the worldwide households moves ahead. Year 2012 saw the digital TV penetration worldwide exceeding the 50% threshold. This figure is expected to reach 78% by 2016. While the competition from various forms of internet-carried television poses a serious challenge, the “traditional” pay-TV continues to gain ground as it still remains a popular form of accessing TV entertainment. Broadband providers worldwide saw a significant deployment of feature-rich residential gateways in 2012, and this is expected to continue as the demand for user-convenient, well monitored and easy to deploy connectivity remains. While over-the-top (OTT) services keep causing several public debates, current market development of the conventional pay-TV services supports the view that these are moving more towards add-on services to operators, rather than breaking existing business models.

At the same time, the demand for software-based, innovative content search, selection and storage services is expected to grow in the future.

With the convergence of internet and broadcast TV, 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 expect to have all their multimedia services, be it video, internet or phone, accessible on the device (or devices) of their choice, throughout their homes and outside of it. 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. In this respect, the evolution of the pay-TV and telecom industries 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: advanced platforms allow operators to market more complete offers, which have the capability of increasing their 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.
Broadcast Division

ADB Broadcast Division concentrates on selling digital TV equipment and related software mostly through a comprehensive offer of the end-to-end solutions. It has been formed to drive the profitable growth in fairly segmented and diversified international markets. The Broadcast Division develops hybrid solutions enabling, amongst the others, the integration of broadcast and internet content.

The Broadcast Division’s main customers are pay-TV operators largely in Europe and Middle-East & Africa. They operate mostly through cable and satellite broadcasting platforms. This division encompasses much of ADB original business, and is our largest. Its goal is to offer the customers ready-to-deploy pay-TV solutions, relieving them in their way from necessity of involvement with the complexities of diversified technology behind those solutions, hence letting them concentrate on growing their subscriber bases.

Distilling this into product offer, we deliver to 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 and custom applications
  - Interactive TV portals for Over-the-Top applications
- Operator-site systems, such as
  - Video-on-Demand and program guides platforms
  - Recommendation, messaging and invoicing engines

During the year 2012, the Broadcast Division benefited from its current customer growth – the pay-TV market experienced a return to more normal market patterns, after some years of reshuffling. The revenue was also driven by the growing demand for the advanced software-based features. It is worth noting that the European pay-TV business has been consolidating, creating new challenges for the Division’s business.
The ADB Broadband Division builds on its IP (Internet Protocol) and broadband networking expertise to develop 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 for the emerging intelligent home and small enterprise business. The division comprises 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 Western Europe where we are positioned among the top four vendors of broadband access devices. The division business is however reaching now further to 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-site software platforms (Epicentro)

The division’s 2012 business was strongly supported by the introduction of its advanced Epicentro software solution and a rebound of the IPTV operators’ demand.
US Cable Division

Stemming from the earlier Emerging Business Division, US Cable Division has been formed to target the American cable TV market.

US Cable Division’s main focus in 2012 was the growth of our unique Commercial Video System (CVS) sales. The CVS provides a comprehensive solution for the pay-TV distribution in several types of commercial enterprises, such as hotels, hospitals, university campuses, sport centers and other commercial entities.

During 2012, the US Cable Division made tangible headway in the US market which we were pleased to observe. Further work still needs to be done to accelerate its growth, which is planned for the year 2013 and beyond.
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 pay-TV operators. Simultaneously, it also offers our end-to-end software solutions – such as Video-On-Demand, electronic billing, among others – to larger pay-TV operators, complete software suites for third party set-top box manufacturers, as well as integration and technical consultancy services.

During 2012, the System Division business developed well, developing business in almost all the areas mentioned above.

Services Division

To meet the demand for complex and comprehensive services in pay-TV markets, the Services Division has added the management of software upgrades and maintenance, reverse logistics and management of customer networks to its core business of in-warranty and out-of warranty repair of the digital TV equipment. It has been also exploring new, innovative concepts and business models.

During the year 2012, the Service Division benefited from the expanding portfolio of software products for pay-TV customers, for example the multi-room solutions. At the same time, business developed favorably and now includes new after sales services, also to new customers outside of ADB’s existing customer group.
We strive to hire the best talents worldwide and keep them at the top of their field. 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. We have a result-oriented company culture, where we challenge people but also reward them for achievements.

We believe it’s important to take care of our people, to develop and make them grow. During the year 2012, we established a special training program for managerial level people starting in Poland. This covers a significant amount of people, and is aimed to give further tools to management, leadership and personal development. This program will continue in 2013 and beyond, launching in other major locations.
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.
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.