

Esmertec announces 2005 results

DUEBENDORF-ZURICH, Switzerland – March 2, 2006 – Esmertec™ (SWX: ESMN), a leading provider of world-class software solutions and services for the telecommunication, interactive multimedia, and consumer electronics markets, announces today its financial results for the year ended December 31, 2005. Esmertec's 2005 results are marked by a few significant events. In 2005, Esmertec acquired the mobile division of Coretek Systems, Inc. in China and grew its staff strength from 162 to 306 employees. In September 2005, the company completed its initial public offering on the main board of the SWX Swiss Exchange.

Total Esmertec Group revenues for the year were USD 39.2 million, a 46.3% increase over 2004. License revenues increased by 48.6% to USD 29.7 million in 2005 and service revenues increased by 39.5% to USD 9.5 million. The customer portfolio was balanced with only one customer representing more than 10% of revenues; that customer, a top-tier handset manufacturer, represented 19.3% of revenues.

Gross margin for the year was 62.2%, a significant improvement over the 55.5% gross margin realized in 2004.

Total Esmertec Group operating expenses were USD 38.1 million, compared to USD 20.3 million in 2004. Operating expenses excluding the net increase in provision for bad debt, and depreciation, amortization and impairment loss, totaled USD 22.6 million compared to USD 18.0 million in 2004, an increase of 25.6%. Operating expenses increased significantly compared to 2004 due to the full-year impact in 2005 of the acquisitions of eValley (Japan) and OOVM (Denmark) in mid-2004, the acquisition of Coretek's mobile division (China) in the first half of 2005, and the subsequent ramp-up of Chinese and Japanese operations to meet expected customer demand in those regions.

Amortization of intangible assets, including capitalized development costs, totaled USD 5.5 million compared to USD 1.8 million in 2004, the increase reflecting the amortization of intangibles purchased in connection with the acquisitions of OOVM and eValley during 2004 and Coretek in 2005, as well as ongoing capitalization of product development cost. As of December 31, 2005, the company performed detailed discounted cash flow

analyses for all categories of intangible assets and determined that based on these calculations there was a likely impairment of the value assigned to intellectual property acquired with eValley in 2004, resulting from a faster than expected transition of revenues in Japan from the sales products based on acquired technologies to sales of Esmertec products. Consequently, an impairment loss of USD 2.4 million has been recorded in the year ended December 31, 2005.

The net increase in the provision for bad debts was USD 7.7 million in 2005 compared to USD 497,000 in 2004. The increase in the provision for bad debts reflects management's judgment of the risk of recoverability of amounts owed by certain Asian and European customers. Esmertec is pursuing all avenues for settlements of the amounts due, including possible legal action in some cases.

Operating loss was USD 13.8 million in 2005 compared to an operating loss of USD 5.4 million in 2004. Operating loss excluding the effects of the increase in the provision for bad debts and the technology impairment loss was USD 3.8 million in 2005 compared to a comparable operating loss of USD 4.9 million in 2004.

Total net loss was USD 16.9 million for the year ended December 31, 2005 compared to a total net loss of USD 8.9 million in 2004. Net loss attributable to the equity holders of Esmertec AG was USD 15.7 million in 2005 compared to a comparable net loss of USD 9.7 million in 2004. The loss per share attributable to the equity holders of Esmertec AG was USD (1.21) in 2005 compared to USD (1.02) in 2004.

Cash, cash equivalents and short term investments at December 31, 2005 totaled USD 55.0 million compared to USD 19.8 million at the end of 2004. Accounts receivable, net of allowance for bad debts, was USD 36.4 million at December 31, 2005 compared to USD 27.9 million at the end of 2004.

All figures are reported in accordance with IFRS. The condensed consolidated financial tables are provided at the end of this release including the 2004 figures, restated according to IFRS to reflect share-based payment expenses.

Key Business Milestones in 2005

1. 77.1% annual growth in the number of device units with Esmertec products integrated reported shipped compared to 2004 shipments.

2. Over 155 device models incorporating Esmertec software have been introduced to date.
3. Effective March 31, 2005, Esmertec purchased the assets of the mobile division of Coretek Systems, Inc. in China, and in April created a majority-owned subsidiary in China, Esmertec China Co., Ltd., based in Beijing.
4. On September 28, 2005, Esmertec successfully completed its initial public offering of 5.45 million shares on the SWX Stock Exchange at an initial price of CHF 18 per share, which resulted in net proceeds to the Company of USD 61 million after transaction costs. Trading began on September 29, 2005.

Business Outlook

Consolidated revenues, including those from the new Mobile Operator Division, are targeted to grow at least 50% in 2006, with revenues in the first half expected to grow about 25% compared to the first half of 2005. Management expects to post a positive net result for the year 2006. Although Esmertec is no longer counting on future cash flows from the customer accounts covered by the provision for bad debts, management continues to target breakeven cash flows from operating activities by the end of 2006 or early 2007.

Alain Blancquart, Chairman of the Board and CEO, comments, "We are pleased with our continued growth in revenue and gross margin. In 2006, Esmertec will strategically work towards maintaining our leadership in delivering world-class software solutions to the mobile phone industry, and expanding our testing and porting services with current expertise. We will also focus on extending our market reach in the interactive multimedia segment and in developing our business for the Mobile Operator division with Cellicium."

Conference Call Information

The Company will host a press conference in English today at 1000hrs CET in Zunfthaus zur Safran in Zurich and a conference call in English at 1500hrs CET. Details can be found on the "Investors/IR Agenda" section of www.esmertec.com.

This communication contains forward looking statements that relate, without limitation, to the company's financial condition, results of operations and business, and certain strategic plans and objectives. Such forward looking statements are based on current expectations and assumptions of the company's management only and involve certain risks and uncertainties. Potential risks and uncertainties include, without limitation, future market conditions, currency fluctuations, the behavior of other market participants, the actions of governmental regulators, the unanticipated cancellation, decrease or postponement of orders or projects and risks involved in managing growth. These risks and others are more fully disclosed in the Offering Memorandum dated September 28, 2005 filed with the SWX Stock Exchange and available on the Esmertec website.

Unfavorable developments in connection with risks could cause the company not to achieve the anticipated or targeted performance or results. Readers are cautioned not to put undue reliance on forward-looking statements, which are effective only as of the date of this communication. Esmertec disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Esmertec is a trademark of Esmertec AG. Java is a trademark of Sun Microsystems, Inc.

About Esmertec

Esmertec is a leading provider of world-class software solutions and services for telecommunication, interactive multimedia, and consumer electronics markets. Engineered for smallness and mass adoption, Esmertec's wireless Java™ ME solutions, mobile applications and object-oriented software platform (OSVM™) are developed to extract maximum performance from hardware environments. Esmertec Cellicium's mobile browsing solutions, applications and services are designed as premier turnkey solutions for mobile operators. Founded in 1999, Esmertec is a global company headquartered in Zurich, with engineering, sales and customer support operations in Switzerland, China, Denmark, France, Japan, Singapore, South Korea, Taiwan, the UK and the USA.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in US\$ 000s, except per share information)	For the year ended December 31,	
	2004	2005
License revenue	19,995	29,721
Service revenue	6,791	9,471
Total revenue	26,786	39,192
Cost of license revenue	-4,572	-5,211
Cost of service revenue	-7,340	-9,621
Total cost of revenue	-11,912	-14,832
Gross profit	14,874	24,360
Research and development, net of capitalized costs	-6,239	-5,192
Sales and marketing	-7,797	-10,395
General and administrative	-4,431	-7,037
Bad debt expense	-497	-7,652
Amortization of intangible assets	-1,792	-5,503
Impairment of intangible assets	-	-2,369
Other income and expenses, net	449	2
Income (loss) from operations	-5,433	-13,786
Financial income	2,238	4,760
Financial expenses	-5,501	-7,624
Income (loss) before income taxes	-8,696	-16,650
Income taxes	-207	-268
Net income (loss)	-8,903	-16,918
Attributable to:		
Equity holders of the parent company	-9,666	-15,690
Minority interest	763	-1,228
	-8,903	-16,918
Basic earnings (loss) per share in USD	-1.02	-1.21
Diluted earnings (loss) per share in USD	-1.02	-1.21

2004 figures have been restated to include share-based payment expense, as required by IFRS 2.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in US\$ 000s)	At December 31,	
	2004	2005
ASSETS		
Current assets		
Cash and cash equivalents	19,817	35,771
Short-term investments	0	19,195
Trade accounts receivable	27,856	36,434
Prepaid expenses and other current assets	3,961	5,831
<i>Total current assets</i>	51,634	97,231
Non-current assets		
Intangible assets	26,060	31,020
Other non-current assets	2,718	7,995
<i>Total non-current assets</i>	28,778	39,015
Total assets	80,412	136,246
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank overdrafts, interest-bearing loans and borrowings	6,340	3,296
Trade accounts payable and other payables	5,640	11,560
Accrued expenses	7,591	10,723
Deferred revenue	1,723	1,824
<i>Total current liabilities</i>	21,294	27,403
Non-current liabilities		
Interest-bearing loans and borrowings	28,257	27,935
Other non-current liabilities	7,470	8,247
<i>Total non-current liabilities</i>	35,727	36,182
Total liabilities	57,021	63,585
Shareholders' equity		
Total equity attributable to equity holders of the parent company	19,779	71,596
Minority interest	3,612	1,066
Total equity	23,391	72,662
Total liabilities and equity	80,412	136,247

2004 figures have been restated to include share-based payment expense, as required by IFRS 2.