



Esmertec Announces Results for the Half-Year Ended June 30, 2006

Ruedi Noser - Chairman Candidate of Esmertec's Board of Directors

DUEBENDORF-ZURICH, Switzerland – August 30, 2006 – Esmertec™ (SWX: ESMN), a focused provider of software and services to communications device manufacturers and mobile telecom operators, announced today its financial results for the six months ended June 30, 2006. Furthermore, Esmertec's Board of Directors is pleased to announce that Ruedi Noser, Chairman of the Noser Group, has accepted to stand as candidate for Chairman of Esmertec's Board of Directors. Ruedi Noser co-founded and built the Noser Group, of which Nexus Telecom is an integral part of, and has over 20 years of experience in the telecommunications industry.

"In the past three months, we have accomplished our objective of securing nearly US\$10 million in revenue and improved our operations to focus on our core market segments. We are seeing positive results from these measures and are confident that the turnaround will progress according to plan," commented Jean-Claude Martinez, Chief Executive Officer. "We also are pleased that Ruedi has agreed to be our Chairman candidate, and his election will take place at an Extraordinary Shareholders' Meeting planned for November 23, 2006."

Esmertec's historical activity has been based primarily on the sale of the Jbed™ Java™ Virtual Machine and related products and services. This is reflected in the Mobile and Multimedia Devices Segment and is comparable in scope to the historical results for the first half of 2005. The Mobile Operator Segment reflects principally the results of Cellicium™ since its acquisition by Esmertec in February 2006.

In US\$ millions, except unit shipments	Esmertec Group	<i>Mobile & Multimedia Devices Segment</i>	<i>Mobile Operator Segment</i>	Esmertec Group
	1H2005	1H2006	1H2006	1H2006
Revenues	20.1	6.3	3.3	9.6
Gross profit	13.8	0.0	2.1	2.1
Restructuring expense	-	(1.7)	-	(1.7)
Impairment loss on intangible assets	-	(15.6)	-	(15.6)
Bad debt expense	(1.9)	(0.9)	-	(0.9)
Other operating expenses, including amortization	(13.3)	(15.9)	(2.1)	(18.0)
Earnings before interest, taxes, amortization/impairment (EBITA)	1.3	(15.7)	0.8	(14.9)
Operating income/(loss)	(1.4)	(34.2)	0.0	(34.2)
Net loss attributable to Esmertec AG shareholders	(1.9)			(34.2)
Cash collections	9.7			13.4
Device shipments by customers (in millions)	9.3			18.1

All figures are unaudited and reported in accordance with International Financial Reporting Standards (IFRS). Condensed and consolidated financial tables are provided at the end of this release.

First Half 2006 Highlights:

Revenues: 1H2006 revenues for the group totaled US\$9.6 million, a decrease of 52% compared to 1H2005. First half-year revenues of the Mobile and Multimedia Devices segment, which is comparable to Esmertec Group's revenues in 2005, totaled US\$6.3 million, a 69% decrease from Esmertec Group revenues in 1H2005. This decrease in the Mobile and Multimedia Devices segment reflects: (1) a combination of market and customer-specific factors in 1H2006 which led to delays or reductions in committed volume contracts, (2) deferral of revenue recognition on contracts with smaller customers, and (3) that several large contracts included in 1H2005 revenues are not expected to be renewed before 2H2006 or 2007. 1H2006 revenues for the newly formed Mobile Operator segment reflect Cellicium's sales since the acquisition in February 2006.

Gross Margin: Gross margin for the consolidated business was 22.1% of revenues in 1H2006 compared to 68.8% in 1H2005. Gross margin for the Mobile and Multimedia Device segment was slightly above break-even in 1H2006 due to a US\$2.3 million loss on services, offsetting a US\$2.3 million (89.2%) gross profit on licenses. The services loss was due primarily to cost overruns in executing customer projects in Japan and a number of evaluation services performed as part of pre-sales efforts. Gross margin in the Mobile Operator Segment was 63.6%.

Operating Expenses: Total operating expenses in 1H2006 were US\$36.3 million compared to US\$15.2 million in 1H2005, reflecting (1) the acquisition of Cellicium in February 2006, (2) the full impact of the ramp-up of operations in China which were only partially felt in 1H2005, and (3) the effects of bad debt expense, restructuring costs and non-cash impairment losses on intangible assets.

Bad debt expense of US\$0.9 million in 1H2006 (1H2005: US\$1.9 million) reflects a newly-identified customer risk in the Americas as well as additional general provision for risk in Asia. Issues related to certain Chinese customer transferred from CoreTek led Esmertec to negotiate a reduction of the final payment due to CoreTek during 1H2006. The US\$0.5 million payment reduction was recorded against goodwill on the balance sheet and had no impact on the statement of operations.

As a result of the significant decrease in 1H2006 revenues, Esmertec implemented a number of measures to adjust the Company cost structure to reflect revised expectations. The OSVM™ research center in Denmark was closed, the Japanese sales and support operations were substantially reduced and a number of middle management positions were eliminated. The cost of these measures was US\$1.7 million. Beginning in the fourth quarter of 2006, the full impact of savings of approximately US\$2 million per quarter will be felt, a portion of which will be reflected as a reduction in cost of services.

The changes in expectations for revenues from existing products in the Mobile and Multimedia Devices segment, and the changes in group structure, also led to a reassessment of the continuing value of intangible assets. Consequently, impairment losses have been recorded in 1H2006 related to OSVM (US\$3.2 million) and Japan (US\$9.3 million), as well as acquired and internally developed technology costs (US\$3.1 million).

Loss: Net loss attributable to the equity holders of Esmertec AG of US\$34.2 million (US\$2.10 per share) for 1H2006 includes US\$2.5 million of net financial expenses and a net tax benefit of US\$1.4 million reflecting the effect of reversals of net deferred tax liabilities related to the impairment losses. Net loss attributable to the equity holders of Esmertec AG in 1H2005 was US\$1.9 million (US\$0.18 per share).

Balance sheet:

Esmertec's cash and short-term investments position was US\$25.3 million at June 30, 2006, decreasing from US\$55 million on December 31, 2005. This reduction reflects the US\$11.8 million net cash outflow related to the acquisition of Cellicium, the final US\$2.5 million payment for the acquisition of Coretek (China), US\$1 million in investments in and loans to Javaground and ESLabs, and cash used in operations. Cash collections from customers in 1H2006 totaled US\$13.4 million, in excess of revenues due to collections on contracts executed and recognized in prior periods.

Intangibles assets increased from US\$31.3 million at December 31, 2005 to US\$40.0 million at June 30, 2006, reflecting intangible assets arising primarily from the acquisition of Cellicium (US\$24.1 million) and ESLabs (US\$0.3 million), offset by the US\$15.6 million impairment.

Mobile and Multimedia Devices Segment

This segment has two product lines – (1) mobile devices such as phones and personal digital assistants, and (2) home multimedia devices such as set-top boxes, interactive televisions and Blu-ray players.

The mobile devices product line continues to be Esmertec's major revenue contributor, with Esmertec securing a major contract renewal from a leading handset manufacturer in 1H2006. For the same period, the number of devices shipped by customers grew, with over 18 million units shipped in 1H2006, an increase of 94% compared to 1H2005. As of June 30, 2006, a cumulative total of more than 58 million devices in over 190 models with Esmertec software had been shipped by customers.

In the home multimedia product line, Esmertec sees increasing industry support of Java technology as the standard to enable flexibility and increase the interactive options for consumers. After the Blu-ray Disc™ Association's selection of Java software as its interactivity-enabling standard, Esmertec signed an agreement with Pioneer Corporation in 1H2006 to integrate Esmertec's Jbed software in Pioneer's Blu-ray Disc players.

Mobile Operators Segment

Esmertec won five new customers in 1H2006, bringing the total number of mobile operator customers to 15. Increasing competition between mobile operators is leading them to look for services that enable them to save cost, increase revenue and retain end users. Our mobile operator products including our USSD Browsing solution are designed to provide such benefits. The number of subscribers with access to our USSD browsing solution grows steadily and as of today, our customers have a cumulated subscriber base of over 40 million.

Strategic Focus and Outlook

In the second half of 2006, management will continue to optimize operational efficiency while implementing its strategy to increase license volumes and services in the Mobile and Multimedia Devices segment and to provide Mobile operators with server-based solutions that enables them to differentiate their services from competition.

The focus in the mobile devices product line is strengthening Esmertec's market position by continuing to enable our customers to deliver mobile devices quickly and on time to the market. In the home multimedia product line, the strategy is to deliver a comprehensive solution required by device manufacturers through partnerships with other vendors. In the Mobile Operator Segment, the objective is growing the global customer base through sales of the existing USSD browser product and expanding the product portfolio to support longer-term growth.

Another strategic focus of the Company is expanding its service offering to existing customers in both segments as well as other mobile industry players, leveraging its global service

expertise and competence centers, especially in China. The services business in both segments is expected to have positive gross margins in the second half of 2006.

Esmertec also expects total revenue in the second half of 2006 to be significantly higher than in the first half of 2006.

Management is working to have the turnaround completed by the end of 2006, enabling Esmertec to focus on positioning the company more aggressively in its targeted markets and growing the business in both segments in 2007.

Media Conference and Conference Call

The Company will host today a media and analyst conference in English at 1000hrs CET at SWX Swiss Exchange ConventionPoint in Zurich and a conference call in English at 1500hrs CET. Details of the conference call can be found on the "Investors/IR Agenda" section of www.esmertec.com.

Esmertec plans to report its full-year 2006 results on February 21, 2007.

This communication contains forward-looking statements based on current expectations and assumptions of the company's management only, and involve certain risks and uncertainties. The forward-looking statements contained herein could be substantially impacted by risks and influences that are not foreseeable at present, so that actual results may vary materially from those anticipated, expected, or projected. 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.

About Esmertec

Esmertec is a focused provider of software and services to communications device manufacturers and mobile telecom operators. The company provides software platforms that enable the deployment of content and applications in devices and over servers. Customers include mobile telecom operators and manufacturers of mobile handsets, set-top boxes and interactive televisions. Esmertec's software and service capabilities excel with its reliability as well as fast and local execution. Founded in 1999, Esmertec is headquartered in Zurich-Switzerland with subsidiaries in China, France, Japan, South Korea, and the USA, and offices in Taiwan and the UK. Since 2005, Esmertec is listed on the SWX Swiss Exchange (ESMN). www.esmertec.com

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**INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS AS OF
DECEMBER 31, 2005 AND JUNE 30, 2006**

(in USD 000s)

	At December 31, 2005	At June 30, 2006 (unaudited)
ASSETS		
Current assets		
Cash and cash equivalents	35,771	25,012
Short-term investments	19,195	251
Marketable securities	0	3,808
Trade accounts receivable	36,434	35,717
Other current assets	5,831	7,244
<i>Total current assets</i>	<u>97,231</u>	<u>72,032</u>
Non-current assets		
Furniture and equipment	971	1,291
Intangible assets	31,295	40,000
Financial assets	607	1,536
Deferred tax assets	3,207	0
<i>Total non-current assets</i>	<u>36,080</u>	<u>42,827</u>
Total assets	<u>133,311</u>	<u>114,859</u>
LIABILITIES AND EQUITY		
Current liabilities		
Bank overdrafts and short term borrowings	3,297	2,153
Accounts payable	4,370	5,015
Other payables	7,190	12,699
Accrued expenses	10,723	11,615
Deferred revenue	1,824	4,142
<i>Total current liabilities</i>	<u>27,404</u>	<u>35,624</u>
Non-current liabilities		
Interest-bearing loans	27,935	30,398
Pension liabilities	925	1,032
Other long-term liabilities	0	4,352
Deferred revenue	366	175
Deferred tax liabilities	3,746	3,056
<i>Total non-current liabilities</i>	<u>32,972</u>	<u>39,013</u>
Total liabilities	<u>60,376</u>	<u>74,637</u>
Shareholders' equity		
Share capital	1,231	1,313
Share premium	114,737	120,213
Treasury shares	-1	0
Cumulative translation adjustment	888	-2,213
Accumulated losses	-44,987	-79,156
<i>Total equity attributable to equity holders of the parent company</i>	<u>71,868</u>	<u>40,157</u>
Minority interest	1,067	65
Total equity	<u>72,935</u>	<u>40,222</u>
Total liabilities and equity	<u>133,311</u>	<u>114,859</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR
THE SIX MONTHS ENDED JUNE 30, 2005 AND 2006**

(in USD 000s)	Six months ended	
	June 30, 2005 (unaudited)	June 30, 2006 (unaudited)
License revenue	15,009	4,037
Service revenue	5,067	5,260
Other revenue	0	328
Total revenue	20,076	9,625
Cost of license revenue	(2,061)	(283)
Cost of service revenue	(4,213)	(6,923)
Cost of other revenue	0	(296)
Total cost of revenue	(6'274)	(7'502)
Gross profit	13,802	2,123
Research and development	(2,649)	(3,867)
Sales and marketing	(3,545)	(4,724)
Bad debt expense	(1,885)	(903)
General and administrative	(4,375)	(5,820)
Restructuring costs	0	(1,707)
Amortization of intangible assets	(2,738)	(3,637)
Impairment of intangible assets	0	(15,635)
Loss from operations before interest and taxes	(1,390)	(34,170)
Financial income	3,018	1,827
Financial expenses	(3,364)	(4,283)
Loss before income taxes	(1,736)	(36,626)
Income tax (expense)/benefit	(236)	1,445
Net loss for the period	(1,972)	(35,181)
Attributable to:		
Equity holders of the parent company	(1,905)	(34,169)
Minority interest	(67)	(1,012)
	<u>(1,972)</u>	<u>(35,181)</u>
Basic and diluted loss per share	(0.18)	(2.10)

**INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENTS FOR THE
SIX MONTHS ENDED JUNE 30, 2005 AND 2006**

(in USD 000s)	Six months ended	
	June 30, 2005	June 30, 2006
	(unaudited)	(unaudited)
Net income / (loss) for the period	(1,972)	(35,181)
Adjustments for:		
Depreciation and amortization	2,829	3,820
Impairment of intangible assets	0	15,635
Cost of stock options	723	311
Increase of bad debt reserve, net	1,885	903
Interest expense	1,547	1,786
Interest income	(282)	(439)
Income taxes	237	(1,445)
Other adjustments	(144)	(126)
	4,823	(14,736)
Net Change in working capital items	(12,279)	(433)
Net cash used in operating activities	(7,456)	(15,169)
Capital expenditure for fixed assets	(400)	(397)
Capital expenditure for intangible assets	(3,207)	(2,673)
Acquisition of businesses, net of cash acquired	(1,965)	(11,839)
Investment/financing of business	0	(844)
Sale of short-term investments	0	19,634
Other investing activities	96	153
Net cash (used in)/provided by investing activities	(5,476)	4,034
Proceeds from borrowings	2,965	0
Repayment of borrowings	(5,908)	(1,273)
Other financing activities	2	201
Net cash used in financing activities	(2,941)	(1,072)
Net decrease in cash and cash equivalents	(15,873)	(12,207)
Cash and cash equivalents at beginning of period	19,817	35,771
Effect of exchange rate fluctuations on cash and cash equivalents	(1,234)	1,448
Cash and cash equivalents at end of period	<u>2,720</u>	<u>25,012</u>