

## Esmertec Announces Results for 2006, a Transition Year

- **Continued growth in Mobile & Multimedia Device shipments, with market share more than doubling in one year**
- **Results of Mobile Operator segment prove strong**

**DUEBENDORF-ZURICH, Switzerland – February 21, 2007 – Esmertec™** (SWX: ESMN), a focused provider of software and services to communications device manufacturers and mobile telecom operators, announced today its results for the financial year ended December 31, 2006. The company's results are the outcome of two entirely different half years. After a sharp decrease in revenues in the first six months to USD 9.3 million, business returned back on track in the second half of the year: revenues reached USD 15.5 million resulting in total revenues of USD 24.8 million for 2006, compared to USD 39.2 million in 2005, in line with management's guidance. Esmertec expects total revenues to be over USD 34 million for the full year 2007.

In USD millions, except as otherwise indicated	<b>FY 2005</b>	<b>H1 2006*</b>	<b>H2 2006</b>	<b>FY 2006</b>
Revenues	39.2	9.3	15.5	24.8
Gross profit	24.3	1.8	8.2	10.0
EBITA (LBITA)	(5.9)	(15.3)	(6.3)	(21.6)
Operating income (loss)	(13.8)	(34.5)	(10.8)	(45.3)
Net loss attributable to equity holders of Esmertec AG	(15.7)	(34.5)	(13.9)	(48.4)
Basic loss per share, USD	(1.22)	(2.12)	(0.85)	(2.97)
Diluted loss per share, USD	(1.22)	(2.12)	(0.85)	(2.97)
Cash collections	17.4	13.4	14.5	27.9
Cash flow used in operating activities	(15.7)	(12.7)	(7.5)	(20.2)
Cash, cash equivalents, short term investments, marketable securities	55.0	29.1	13.2	13.2
Shipments in the period, millions of units	23.1	18.1	41.0	59.1
Subscribers added in the period, millions of subscribers	N/A	6.5	29.7	36.2

\*H1 2006 results have been restated to reflect an adjustment in the calculation of work in process which reduces H1 2006 revenue and gross profit by USD 373,000 and increases H1 2006 net loss by USD 340,000 compared to previously published figures.

During 2006, Esmertec's operational performance developed robustly with growth of customers' device shipments with Esmertec software to over 59 million in the year and the creation of a new Mobile Operator segment with the acquisition of Cellicium in February 2006. Thanks to new contracts and follow-on orders from existing customers, the cumulated mobile subscriber base with access to Cellicium's USSD browsing continued to grow over 70 million from 34 million at the beginning of the year.

"2006 was a challenging year with two totally different faces. While our financial performance mainly in the first half year was disappointing, we have delivered sustainable improvements in our operations," comments Jean-Claude Martinez, CEO of Esmertec. "We have increased our efficiency by making Esmertec a more market driven organization and by adjusting costs to better reflect our current market expectations. Device shipments with Esmertec software consistently grew throughout the year. Our new Mobile Operator segment developed favourably. I am confident that measures initiated in 2006 with the market acceptance of our products and services will have strong impact on financial results going forward."

### **Summary of 2006 results:**

**Revenues:** For the reporting period ended December 31, 2006, total revenues decreased by 36.8% compared to the previous year to USD 24.8 million. With total revenues of USD 15.5 million in the second half of 2006 performance was significantly better than in the first half with total revenues of USD 9.3 million. The sharp decline in revenues in the first half year of 2006 compared to 2005 resulted from a combination of market and customer-specific factors in the Mobile & Multimedia Device segment, which led to delays or reductions in committed volume contracts. In addition, the Company was more cautious in its credit evaluations and decided to defer revenues from customers not able to demonstrate strong financial viability.

**Gross Margin:** Gross margin for the year 2006 was 40.6% of revenues (H1: 18.9%; H2 53.5%) compared to 61.9% in the previous year. Shortfalls in high-margin license revenues as well as first-half losses on services in the Mobile & Multimedia Device segment affected the gross margin negatively. In the service business, the gross margin in both segments was positive in the second half of the year, with a consolidated gross profit of USD 2.3 million compared to a loss of USD 2.0 million in the first half.

**Operating expenses:** Operating expenses, excluding restructuring, amortization and impairment expense, stayed relatively stable at USD 31.0 million in 2006 compared to USD 30.2 million in 2005. If the effects of bad debt expense are excluded, operating expenses increased 14.8% to USD 25.8 million mainly reflecting the acquisition of Cellicium in February 2006 and the full impact of the ramp-up of the Chinese operations in the second half of 2005. In the course of the year, Esmertec introduced several cost and efficiency improvement measures, resulting in restructuring charges of USD 2.7 million. These measures took effect beginning in the third quarter of 2006. As a result, operating expenses (excluding bad debt, amortization and impairment expense) were USD 3.0 million lower in the second half of 2006 compared to the first half of 2006.

The changes in expectations for revenues from existing products in the Mobile & Multimedia Device segment and the changes in the Group structure also led to a reassessment of the continuing value of intangible assets. Consequently, impairment losses have been recorded to the total amount of USD 17.7 million. Bad debt expense declined to USD 5.2 million in 2006 compared to USD 7.7 million in 2005, but still was significantly affected by the negative financial situation of several customers, including one long-term customer which alone represent 50% of the total 2006 bad debt expense. All bad debt expense incurred in 2006 resulted from contracts signed in the years 2005 and before, and nearly half of the expense related to accounts receivable from long-term commitments not yet due for payment. At year end 2006, accounts receivable representing amounts from long-term commitment contracts not currently due has decreased to USD 21.8 million from USD 31.4 million at December 31, 2005.

**Results:** The LBITA was USD 21.6 million compared to a LBITA of USD 5.9 million in the previous year. Net loss attributable to equity holders of Esmertec AG amounted to USD 48.4 million compared to a net loss of USD 15.7 million in 2005. Diluted loss per share was USD 2.97 compared to a loss per share of USD 1.22 in 2005.

**Cash flow:** Cash collections from customers totalled USD 27.9 million in 2006 (USD 17.4 million in 2005), higher than revenues due to collections on contracts executed and recognized in prior period. As at December 31, 2006, cash, cash equivalents and short term investments totalled USD 13.2 million, decreasing from USD 55.0 million on December 31, 2005. This reduction reflects primarily the USD 14.4 million net cash outflow related to the acquisition of Cellicium, the final USD 2.5 million payment for the acquisition of Coretek (China), USD 1.6 million in investment in and loans to Javaground, and net cash used in operations of USD 20.2 million.

**Balance sheet:** Accounts receivable decreased from USD 36.4 million at the end of 2005 to USD 29.6 million at the end of 2006. Intangible assets increased from USD 31.3 million at December 31, 2005 to USD 38.6 million at December 31, 2006, reflecting intangible assets arising primarily from the acquisition of Cellicium (USD 23.6 million) and capitalization of

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development costs (USD 4.5 million) offset by the USD 17.7 million in impairments. Esmertec sold a majority stake in Esmertec KK (Japan) to an investor group led by local management, resulting in a gain on sale of USD 1.9 million; the remaining investment is now recorded as a long-term investment. Shareholders' equity decreased from USD 72.9 million at the end of 2005 to USD 27.9 million as at December 31, 2006.

### Segment information

In USD millions	Esmertec Group	Mobile & Multimedia Devices Segment	Mobile Operator Segment	Esmertec Group
	2005	2006	2006	2006
License revenue	29.7	8.1	4.4	12.5
Service revenue	9.5	7.3	5.0	12.3
EBITA/(LBITA)	(5.9)	(24.0)	2.4	(21.6)
Operating income (loss)	(13.8)	(46.2)	0.9	(45.3)

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 2005. The Mobile Operator Segment reflects principally the results of Cellicium since its acquisition by Esmertec at the beginning of February 2006.

#### Mobile & Multimedia Devices segment: increase in market share

In the Mobile & Multimedia Devices segment, revenue reached USD 15.4 million, a reduction of 60.9% compared to the previous year. LBITA decreased to USD (24.0) from USD (5.9) in 2005. While the first half-year was marked by a sharp drop of revenues, business activity picked up again in the second half of the year, delivering sales growth of 58.3% compared to the first half year. In 2006, 44% of revenues were achieved in Asia, 40% in the Americas and 16% in Europe.

Esmertec's customers' product shipments increased by 152% to 59.1 million with a steady growth over the year. At the same time, Esmertec's market share of total mobile phones shipped globally increased continuously from an estimated 3.1% at the end of 2005 to 7.6% in the fourth quarter of 2006. As of December 31, 2006, the company's software has been shipped in 99.8 million devices.

#### Mobile Operators segment: strong operating margins

The Mobile Operator segment maintained its fast growth pace. Revenues reached USD 9.4 million with associated EBITA of USD 2.4 million.

The result reflects a healthy development with both existing customers extending their capacities and new customers contributing to the positive performance. As of December 31, 2006, 18 mobile operators have deployed Cellicium's USSD browsing solution. The number of subscribers with access to Cellicium's USSD platform has significantly increased over the past 3 years, reaching 70.4 million subscribers as of December 31, 2006. In total the Company won eight new USSD customers in 2006.

Although the historical revenue base comes from a major European operator, growth in the Mobile Operator segment to date has originated mainly from the fast developing markets in the Middle East and Africa, and Asia. The Company also has signed its first contracts in Latin America. In 2006, 55% of revenues were achieved in the Middle East and Africa, 28% in Europe, 14% in the Americas and 3% in Asia.

#### Outlook

Esmertec's markets are experiencing a growing use of interactive and mobile communication devices. Java technology is increasingly being selected as the interactivity-enabling requirement for handset manufacturers and home multimedia products. Esmertec is well positioned to benefit from this fundamental growth driver. Esmertec's USSD offering is experiencing increased interest in emerging markets as well as in Europe.

Esmertec now concentrates on three fundamental strategic priorities

- **Reinforce market presence and penetration:** Esmertec plans to further increase its market share by providing customers with innovative and reliable products in both segments, with a short time to market and excellent service.
- **Move up the value chain:** Through the Cellicium acquisition Esmertec moves closer to telecom operators by offering mobile browsing solutions and applications. With this profile, Esmertec is targeting to expand its product portfolio, offering customers cost-saving and revenue-generating products.
- **Develop service offering:** Esmertec aims to develop and extend its support and maintenance services to mobile industry players. The company uses local competence centers to provide customers with global expertise. Esmertec focuses on making the service competence a profitable business unit.

For 2007, revenues are expected to increase at least 35% to be over USD 34 million and cash flow from operations is expected to be positive. Building on the turnaround measures implemented in the second half of 2006, the Company intends to make improving profitability its top priority.

### **Future Board Composition: evolution toward an industrial profile**

In November 2006, three industry experts joined Esmertec's Board of Directors. Following this first step toward a Board which is more independent from the founding VC investors and with a more industrial profile, Roland Manger and Bernd Pfister have decided that they will support this transformation and not stand for re-election at the Annual General Meeting of Shareholders, which will take place on April 19, 2007. Tony Reis, a board member since 2005, has also indicated that he will not stand for re-election. Chase Bailey, a board member since 2004, has indicated that he will resign from the Board of Directors at the upcoming annual shareholders' meeting on April 19. Thereafter, Esmertec's Board of Directors is expected to consist of seven members.

*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, South Korea, and the USA, and offices in Taiwan and the UK. Since 2005, Esmertec has been listed on the SWX Swiss Exchange (ESMN). [www.esmertec.com](http://www.esmertec.com)

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# UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS<sup>1</sup>

<b>(in USD 000s, except for per share information)</b>	<b>For the year ended December 31, 2005<sup>2</sup></b>	<b>For the year ended December 31, 2006</b>
License revenue	29 721	12 508
Service revenue	9 471	12 252
<b>Total revenue</b>	<b>39 192</b>	<b>24 760</b>
Cost of license revenue	-5 211	-2 773
Cost of service revenue	-9 725	-11 946
<b>Total cost of revenue</b>	<b>-14 936</b>	<b>-14 719</b>
<b>Gross profit</b>	<b>24 256</b>	<b>10 041</b>
Research and development, net of capitalized costs	-5 473	-6 964
Amortization of capitalized development costs	-1 095	-1 794
Sales and marketing	-7 607	-8 787
Bad debt expense	-7 652	-5 206
General and administrative	-9 440	-10 061
Amortization of intangible assets	-4 408	-4 203
Impairment of intangible assets	-2 369	-17 675
Restructuring expense	0	-2 689
Gain on sale of majority interest in Esmertec K.K.	0	1 866
Other income and expenses, net	2	165
<b>Income (loss) from operations</b>	<b>-13 786</b>	<b>-45 307</b>
Financial income	4 760	4 257
Financial expenses	-7 624	-9 288
<b>Income (loss) before income taxes</b>	<b>-16 650</b>	<b>-50 338</b>
Income taxes	-268	969
<b>Net income (loss)</b>	<b>-16 918</b>	<b>-49 369</b>
Attributable to:		
Equity holders of the parent company	-15 690	-48 433
Minority interest	-1 228	-936
	<b>-16 918</b>	<b>-49 369</b>
Average number of shares (thousands)	12 911	16 319
Basic and diluted earnings (loss) per share in USD	-1,22	-2,97

<sup>1</sup> This unaudited financial information is prepared in accordance with International Financial Reporting Standards.

<sup>2</sup> Certain amounts in 2005 have been reclassified to conform to current year presentation.

# UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS<sup>1</sup>

(in USD 000s)	At December 31,	
	2005 <sup>2</sup>	2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	35 771	3 142
Short-term investments	19 195	10 055
Trade accounts receivable	36 434	29 606
Income tax refund receivable	-	513
Other receivables	639	1 350
Inventory	3 935	2 053
Prepaid expenses and accrued income	1 257	1 330
<i>Total current assets</i>	97 231	48 049
<b>Non-current assets</b>		
Furniture and equipment	971	1 253
Intangible assets	31 295	38 611
Long-term investments and other financial assets	607	4 719
Deferred tax assets	3 207	0
<i>Total non-current assets</i>	36 080	44 583
<b>Total assets</b>	133 311	92 632
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Bank overdrafts	3 176	-
Interest-bearing loans and borrowings	121	27
Trade accounts payable	1 587	812
Income (withholding) tax payable	2 783	1 867
Other payables	7 190	10 621
Accrued expenses	10 723	10 083
Deferred revenue	1 824	1 126
<i>Total current liabilities</i>	27 404	24 536
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	27 935	31 932
Other long-term liabilities	-	5 032
Pension liabilities	925	1 055
Deferred revenue	366	105
Deferred tax liabilities	3 746	2 121
<i>Total non-current liabilities</i>	32 972	40 245
<b>Total liabilities</b>	60 376	64 781
<b>Shareholders' equity</b>		
Share capital	1 231	1 348
Share premium	114 737	123 338
Treasury shares	-1	-1
Cumulative translation adjustment	888	-3 414
Accumulated losses	-44 987	-93 420
<i>Total equity attributable to equity holders of the parent company</i>	71 868	27 851
Minority interest	1 067	0
<b>Total equity</b>	72 935	27 851
<b>Total liabilities and equity</b>	133 311	92 632

<sup>1</sup> This unaudited financial information is prepared in accordance with International Financial Reporting Standards.

<sup>2</sup> Certain amounts in 2005 have been reclassified to conform to current year presentation.

# UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS<sup>1</sup>

(in USD 000s)	For the year ended December 31,	
	2005	2006
<b>Net income / (loss)</b>	-16 918	-49 369
Adjustments for:		
Depreciation, amortization and impairment loss	8 144	24 182
(Gain) loss on sale of businesses	-	-1 692
(Gain) on disposal of intangible assets	-	-200
Stock option expense	1 105	483
Increase in provision for bad debts	7 652	5 206
Other adjustments	2 814	2 317
	<u>2 797</u>	<u>-19 073</u>
Net changes in working capital items	-18 501	-1 149
<b>Net cash used in operating activities</b>	<u>-15 704</u>	<u>-20 222</u>
Capital expenditure for fixed assets	-687	-696
Capital expenditure for intangible assets	-443	-303
Capitalized development cost	-5 364	-4 532
(Purchase) sale of short-term investments	-19 125	13 638
Investment in and advances to Javaground	-	-1 641
Acquisition of businesses (Coretek, Cellicium)	-3 462	-14 423
Other	-60	110
<b>Net cash used in investing activities</b>	<u>-29 141</u>	<u>-7 847</u>
Proceeds from borrowings	5 882	-
Repayment of borrowings	-5 999	-3 252
Repayment of payables relating to acquisitions	-	-2 500
Proceeds from minorities	85	-
Proceeds from issue of share capital	63 978	548
Interest paid	-1 299	-1 171
<b>Net cash provided by (used in) financing activities</b>	<u>62 647</u>	<u>-6 375</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	17 802	-34 444
Cash and cash equivalents at beginning of period	19 817	35 771
Effect of exchange rate fluctuations on cash and cas equivalents	-1 848	1 815
Cash and cash equivalents at end of period*	<u>35 771</u>	<u>3 142</u>
*excluding short-term investment in amount of:	<u>19 195</u>	<u>10 055</u>

<sup>1</sup> This unaudited financial information is prepared in accordance with International Financial Reporting Standards.