

## Esmertec reports solid operational performance for the first half-year, 2007

**Jean-Claude Martinez to be nominated Board Member candidate – Thomas Hornung to succeed as new CEO of Esmertec as of January 1, 2008 – Management team completed with the appointment of Patrick Remy as CTO as of October 1, 2007**

**DUEBENDORF-ZURICH, Switzerland – September 25, 2007 – 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 first six months ended June 30, 2007. Esmertec reported growth of revenues to USD 17.0 million representing an increase of 76.6 % compared to the first half-year 2006 and an increase of 12.3% compared to the second half-year 2006. In the first half-year 2007, cash flow from operations was positive with an amount of USD 1.6 million. For the full year 2007 Esmertec now increases its revenue expectations from USD 34.0 million to USD 35.5 million.

Jean-Claude Martinez, CEO of Esmertec, said: "Esmertec continued to grow during the first six months of 2007. The overall development is very satisfying thanks to a solid performance from both segments. We are particularly proud that in the second quarter 2007 for the first time Esmertec was the largest independent JVM provider to the mobile device industry."

The market share in the Mobile and Multimedia Devices segment continued to increase to an estimated 8.7% in the first half-year 2007 from 3.9% in the first half-year 2006. In the Mobile Operator segment two new customers have committed to Esmertec's USSD browsing solution. As of June 30, 2007, 20 mobile operators had deployed the Mobile Operator segment's solution to serve a cumulative consumer base of over 100 million mobile phone subscribers.

### Esmertec Key Figures

In USD millions	FY 2005	H1 2006	H2 2006	FY 2006	H1 2007
Revenues	39.2	9.6	15.2	24.8	17.0
Gross profit	24.3	2.1	7.9	10.0	10.6
OPEX*	27.9	16.8	13.5	30.3	13.6
LBITA	-5.9	-14.9	-6.7	-21.6	-1.7
Operating income/EBIT (loss)	-13.8	-34.2	-11.1	-45.3	-4.3
Net loss attributable to equity holders of Esmertec AG	-15.7	-34.2	-14.3	-48.4	-4.7
Cash flow from operating activities	-15.7	-15.2	-5.0	-20.2	1.6

\*excluding bad debt expense, amortization of intangible assets, impairment of intangible assets, restructuring expenses, other income and expenses and capitalized development costs.

The Board of Directors announced that Jean-Claude Martinez has chosen to step-down as Chief Executive Officer as of December 31, 2007. After 6 years with the company during which he successfully turned around Esmertec's organization and operations, he believes it is time to pass on the oversight of the daily operations to a new CEO. The Board is very pleased that Jean-Claude Martinez has accepted its offer to play an important new role, that of a Board Member. Jean-Claude Martinez will be put forth as a candidate for the Board at the next Annual General Meeting to be held in May 2008.

Thomas Hornung succeeds Jean-Claude Martinez as Chief Executive Officer in the course of the company's succession plan effective January 1, 2008. He will initially join the Executive Management Team on October 1 as Deputy CEO, and will work jointly with Jean-Claude Martinez for an optimal transition.

Thomas Hornung has more than 20 years experience in IT and telecommunications industries including executive management positions in leading companies such as Nixdorf Computer, Siemens/Cisco and debitel AG. Prior to joining Esmertec he worked as executive business consultant for international customers and investors in the area of telecommunications, convergence technology and consumer electronic solutions, focusing on business development, innovation and partner management and „go to market" strategies. He holds a Masters degree in physics and environmental techniques and earned a PhD in semiconductor physics.

Ruedi Noser, Chairman of Esmertec, commented: "We have been fortunate to have Jean-Claude Martinez steering our company through a challenging period. Over the past six years, the last 18 months of which he served as CEO, we have counted on his profound expertise and inspiring energy. We want to thank him for his unwavering commitment to Esmertec's success and for achieving major milestones as well as stabilizing our organization and achieving the operational turnaround. Esmertec will continue to benefit from his strategic vision when he moves to his new role as a Board Member. In Thomas Hornung Esmertec has gained a CEO with impeccable industry know-how and profound experience. We are delighted that Thomas has decided to join Esmertec and are confident that he will play a vital role in positioning Esmertec for long-term growth."

The Board also announced the appointment of Patrick Remy as Chief Technical Officer of Esmertec effective October 1, 2007. Patrick Remy is CTO and co-founder of Cellicium SA and he led the company's technological research, strategy and solutions delivery initiatives. Prior to founding Cellicium, Patrick Remy held a key engineering position with France Telecom Mobiles. He is a graduate of Ecole Nationale Supérieure des Télécommunications in Paris, France, and Ecole Polytechnique in Palaiseau, France.

Furthermore, after having accepted a new CEO position in Asia, Ulrich Schumacher felt that his new position required his full attention and has hence decided to retire from the Board of Directors as of today. Esmertec would like to thank Ulrich Schumacher for his contribution to the company during the past 27 months and wishes him a lot of success in his new position.

## **Highlights of the first half-year 2007**

### **Revenues**

1H2007 revenues totalled USD 17.0 million, which is an increase of 76.6% compared to 1H2006 and an increase of 12.3% compared to 2H2006. In both segments the company obtains revenue from two primary sources: software licences and services. The licence revenue continues to be Esmertec's financial backbone although the income generated by services is gaining importance.

The Mobile and Multimedia Devices segment has shown a solid growth with an increase of 66.6% compared to 1H2006 and an increase of 16.5% to 2H2006 and the revenues totalling USD 10.5 million. This performance reflects the strong ongoing shipments by existing customers. Esmertec expects shipments and market share to increase in the course of the year.

In the Mobile Operator segment the revenues totalled USD 6.5 million. The revenue growth was 95.5% compared to 1H2006 and 6.1% compared to 2H2006. The result in this segment reflects both existing customers extending their capacities and new customers contributing to the positive performance.

Revenues from the Global Services offering across the segments totalled USD 7.2 million. Service revenue is generated through consulting services, customized software development projects, engineering and system integration services as well as training and technical support services. Our customers value the best-in-class expertise we are able to offer through our global competence centres with professional local client-facing teams.

### **Gross Margin**

In 1H2007 the gross margin for the consolidated business was 62.3% of the revenues, compared to 22.1% in 1H2006 and 52.3% in 2H2006 respectively. Gross margin in the Mobile and Multimedia Devices segment was 51.0%. In the Mobile Operator segment the gross margin was 80.6%.

### **Operating Expenses**

Total operating expenses excl. bad debt expense, amortization of intangible assets, impairment of intangible assets, restructuring expense, other income and expenses and capitalized development costs in 1H2007 were USD 13.6 million, representing a decrease of 19.3% compared to 1H2006 and an increase of 0.5% to 2H2006.

In 2006 Esmertec launched cost and efficiency improvement measures including tight control of service costs, research and development, sales and marketing and general and administrative expenses. The operational streamlining has resulted in cost savings of USD 3.2 million in 1H2007 compared to 1H2006.

Measures taken to reduce the risk of incurring bad debts have shown their effect. Minor bad debts to the amount of USD 41,000 have been recorded in 1H2007.

### **Net Loss**

Net loss attributable to the equity holders of Esmertec AG for 1H2007 was USD 4.7 million (USD 0.28 per share). In 1H2006 net loss attributable to the equity holders of Esmertec AG was USD 34.2 million (USD 2.10 per share) and in 2H2006 USD 14.3 million (USD 0.87 per share).

### **Cash flow from operations and cash**

Cash flow from operating activities improved considerably in 1H2007 and reached USD 1.6 million. The improvement is due to continuously increasing cash collections as a consequence of the improvements in the operational performance and tight cost control. Based on 2006 performance, Esmertec paid USD 6.3 million in cash plus USD 1.2 million in Esmertec shares as a portion of the purchase price relating to the acquisition of Cellicium. The last portion of the purchase price will be due in 1Q2008.

As at June 30, 2007, cash and cash equivalents (including short-term investments) amounted to USD 7.0 million compared to USD 13.2 million as at December 31, 2006.

### **Mobile & Multimedia Devices Segment**

Esmertec's technology is currently used in mobile handsets from three of the four leading handset manufacturers. In the first half of 2007 shipments by customers reached 46.3 million units (19.9 million in the first quarter and 26.4 million in the second quarter), an increase of 155.9% compared to the first half of 2006 (with a total of 18.1 million units shipped) and an increase of 11.3% to the second half of 2006 (with a total of 41.6 million units shipped). The market share improved to an estimated 8.7% in the first half 2007 from 3.9% in the first half 2006.

The major achievements in the Mobile and Multimedia Devices segment in the first half of 2007 included entering the UIQ Alliance Partner Program to offer the Jbed™ Advanced Java™ Multi-tasking Virtual Machine (MVM) to UIQ customers globally. Esmertec also announced its collaboration with HI Corporation to integrate HI's 3D rendering engine on Esmertec's Jbed Virtual Machine providing game developers a high quality platform for creating 3D games on a broad range of mobile handsets.

### **Mobile Operator Segment**

The Mobile Operator segment, focusing on delivering turn-key mobile browsing solutions and applications to telecom operators, also maintained its growth pace and two new customers were acquired. As at June 30, 2007, 20 mobile operators had deployed Esmertec's USSD browsing solution to serve a cumulative consumer base of over 100 million mobile phone subscribers.

## Strategic Focus and Outlook

The telecommunication industry is driven by new customer requirements for services and the pace of technological changes. Esmertec is convinced that its strategic and operational initiatives lay a solid foundation for future success. Being back on track, the company now concentrates its efforts on building its marketing and sales network and developing innovative technology and closely managing its operational expenses.

In the Mobile & Multimedia Devices segment Esmertec expects shipments and market share to continue to grow in the course of the year due to strong order backlog and sustained renewals of contracts with top tier customers.

In the Mobile Operator segment Esmertec's customers face price pressures and seek to differentiate and personalize their products in order to increase customer loyalty. Esmertec is with its product and service offering in an ideal position to help its customer to achieve their goals. The company aims at further strengthening the presence in Americas and emerging countries.

For the full year 2007, revenues are expected to increase at least 43% to be over USD 35.5 million, cash flow from operations is expected to be positive and global professional services are expected to continue to be gross margin positive. Building on the efficiency improvement measures implemented, Esmertec's top priority is to improve profitability.

## Media Conference

Esmertec will host on 25 September 2007 a media and analyst conference in English and German at 09:30hrs CET at SWX Swiss Exchange ConventionPoint in Zurich.

## IR calendar

December 6, 2007: Esmertec Technology Day  
April 10, 2008: Full year 2008 results  
May 15, 2008: Annual General Meeting

## 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 their 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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