

Esmertec 2007 results: Significant revenue growth, operating cash flow positive – exceeding guidance

DUEBENDORF-ZURICH, Switzerland – April 10, 2008 – Esmertec™ (SWX: ESMN) today announced its results for the financial year ended December 31, 2007. During 2007, Esmertec achieved a solid operational performance. Revenues grew to USD 37.2m, an increase of 50.4%, exceeding the guidance given by management. Cash flow from operations was USD 1.1m (compared to USD -20.2m in 2006). The positive financial results in the second half of 2007 were distorted by two special effects: write-downs of bad debts from the past and IFRS accounting treatment of the early conversion of bonds.

- **Revenue growth of 50.4%**
- **Positive EBITA in H2 2007 (before bad debt write-off)**
- **Operating cash flow of USD 1.1m**
- **More than 100m licenses of Esmertec's Java product shipped in 2007 (+78.3% versus 2006)**
- **More than 125m users with access to Esmertec's USSD browsing services (+79% versus 2006)**
- **Strong balance sheet: equity ratio grew from 30% to 53%**
- **Founding member of Google driven Open Handset Alliance**

In USD millions	2006	2007	Deviation	
	Total	Total	%	
Total revenue	24.8	37.2	12.5	50.4%
Gross profit	10.0	22.2	12.2	121.3%
Operating expenses	(31.0)	(27.2)	(3.8)	12.3%
EBITA before bad debts write-offs	(16.4)	(1.1)	15.3	93.3%
EBITA as reported (IFRS)	(21.6)	(5.0)	16.7	77.0%
Net profit (loss) as reported (IFRS)	(49.4)	(24.2)	25.2	51.0%
Cash flow provided by / (used) in operating activities	(20.2)	1.1	21.3	105.4%

Esmertec shipped a record number of 106 million Java-based products in 2007 and doubled its market share in the mobile phone market during the last 18 months. The number of subscribers with access to Esmertec's USSD browsing solutions increased to 125 million worldwide from 70 million at the beginning of 2007. Top tier operators like Movistar/Telefonica Mexico were added to the customer base. Further highlights were Esmertec being selected as founding member of the Google driven Open Handset Alliance, together with other leading mobile companies. This illustrates the progress made in transforming Esmertec from a technology vendor to a preferred solution partner.

"After a transition year in 2006, we showed that Esmertec is back on its growth path in 2007 with total sales substantially increased and shipments and subscriber base reaching record marks," comments Thomas Hornung, CEO of Esmertec. "The measures initiated in 2006 showed their benefit in 2007. Operating costs were significantly reduced in percentage of sales and also in absolute terms."

Konrad Hurni, CFO of Esmertec, added: "In 2007 we strengthened our balance sheet significantly. As cash was expected to become tight towards the end of 2007, we carefully managed our liquidity, taken the appropriate measures and secured liquidity for ongoing operations."

Details to the 2007 corporate results

Revenues and gross margin: For the reporting period ended December 31, 2007, total revenues increased by 50.4%, up to USD 37.2m (2006: USD 24.8m). The sustainable growth path was achieved continuously during 2007: USD 17.0m in the first half of 2007 and USD 20.2m in the second half. Both license and service revenues significantly contributed to growth with rates of 69.5% (licenses) and 31.0% (services), respectively. Gross margin for the year 2007 was 59.7 % compared to 40.6 % in the previous year.

Operating and other expenses: Operating expenses, excluding amortization and impairment expense, were reduced by 12.3% to USD 27.2m (2006: USD 31.0m), showing the effects of the cost and efficiency measures introduced in the course of 2006 and 2007.

A write-down on bad debts of USD 3.9m was taken in order to remove legacy problems from previous years (2004, 2005 and 2006).

Financial expenses increased to USD 15.3m, compared to USD 9.3m in 2006. This increase is mainly due to the IFRS adjustment in the amount of USD 5.9m resulting from the early conversion of 81% of the convertible bond.

Result: EBITA was USD -5.0m in 2007 compared to USD -21.6m in 2006. Net loss attributable to equity holders of Esmertec Group amounted to USD 24.2m compared to a net loss of USD 48.4m in the previous year (reduction of 50.0%). Diluted loss per share was USD 1.42 compared to a loss per share of USD 2.97 in 2006.

Cash flow: Esmertec achieved a positive cash flow from operations of USD 1.1m (2006; USD -20.2m).

Balance sheet: As a consequence of the successful early conversion of 81% of Esmertec's outstanding convertible bonds, the balance sheet was considerably strengthened: Shareholders' equity increased in total from USD 27.9m as at December 31, 2006, to USD 44.4m as at December 31, 2007. Cash, cash equivalents and short term investments were at USD 5.3m at year end.

Organization aligned with strategy

The first steps to foster Esmertec's customer orientation with market driven products have been implemented by the creation of two business units. Since 2007, CTO Patrick Remy has led the integration of the R&D organization into the two respective core business units. After having completed this important task, Patrick Remy has decided to resign. The Board of Directors and the Executive Management Team would like to thank Patrick Remy for his valuable contribution.

Details to the 2007 segment results

In USD millions	Esmertec Group	Mobile & Multimedia Devices segment	Mobile Operator segment	Esmertec Group
	2006	2007	2007	2007
License revenue	12.5	14.7	6.5	21.2
Service revenue	12.3	8.5	7.6	16.0
EBITA	(21.6)	(8.7)	3.7	(5.0)
Operating income (loss)	(45.3)	(13.0)	1.9	(11.1)

Mobile & Multimedia Devices segment

In the Mobile & Multimedia Devices segment, revenue reached USD 23.2m, increasing strongly by 51.2% compared to the previous year. EBITA loss decreased to USD -8.7m from USD -24.0m in 2006. In 2007, 40% of revenues were achieved in Asia, 29% in the Americas and 31% in Europe.

Esmertec's Jbed software license shipments significantly increased by 78.3% to 106m units. As a result, Esmertec's market share of total mobile phones shipped globally increased from an estimated 7.6% at the end of 2006 to almost 10% in the fourth quarter of 2007 and from 5.8% to 9.3% for the full years 2006 and 2007 respectively. As of December 31, 2007, the company's Jbed software has been shipped in over 206 million devices. The strong growth was the result of Esmertec's increased efforts in developing existing customer relationships by providing superior products and services, and a continued growth of the global handset market.

Mobile Operators segment

Revenues reached USD 14.1m with an EBITA of USD 3.7m. As of December 31, 2007, 24 mobile operators have deployed Esmertec's USSD browsing solutions. The number of subscribers with access to Esmertec's USSD platform has strongly increased reaching 125m subscribers as of December 31, 2007 up from 70.4m by December 31, 2006. In 2007, 61% of revenues were achieved in the Middle East and Africa, 23% in Europe, 14% in the Americas and 2% in Asia.

Designing the future

Esmertec's vision is that the digital world will be mainly driven by the content and services market, thus forming a new ecosystem of suppliers of consumer goods. This ecosystem will aim to reach consumers with their content and services via mobile phone or other connected devices.

Esmertec's further growth for the current year includes increasing overall product shipments, penetrating top-tier accounts in Mobile & Multimedia Devices segment further and finally increasing the customer base in the Mobile Operator segment. Esmertec's cost base continues to be improved based on best practice cost control and operational excellence.

At the Annual General Meeting to be held on May 15, 2008, the Board of Directors will propose to create 2 million shares of authorized capital, valid for a period of 2 years, and earmarked for strategic purposes. This will create the flexibility to enter into strategic alliances or invite strategic investors to further strengthen Esmertec's competitive position.

Thomas Hornung CEO of Esmertec: "We will continue to focus on delivering superior solutions to our clients. We have been able to create a successful platform for future growth in both our business segments: our unique software technologies, our loyal clients, our qualified and motivated employees will allow us to continue to gain market share in the attractive and dynamic mobile phone and multimedia market. We therefore expect the business to be profitable and revenues to grow at a double-digit rate in 2008."

This communication contains forward-looking statements based on current expectations and assumptions of the company's management only, and involves 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 leading provider of Java™ in-device engines and mobile services platforms. The company's high-performance solutions enable consumers to easily discover and access content and services on any mobile phone. Esmertec's customer database has grown to more than 90 customers, including mobile operators and manufacturers of mobile handsets, set-top boxes and interactive televisions. Its in-device engines power 1 out of 10 new phones (shipped in more than 206 million devices) and its USSD mobile services platforms serves more than 125 million mobile subscribers world-wide.

Esmertec is a founding member of the Open Handset Alliance, delivering customized solutions for Android, the mobile platform initiated by Google.

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 is listed on the SWX Swiss Exchange (ESMN).

www.esmertec.com

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Java is a trademark of Sun Microsystems Inc. Other company, product and service names may be trademarks of their respective owners

Financial calendar

AGM

May 15, 2008

Half year 2008 results

September 25, 2008

Investor relations contact

Dr. Konrad Hurni, CFO
Phone +41 44 823 8900
khurni@esmertec.com

Media contact

Jan Gregor IR Firm
Phone +41 43 244 8154
esmertec@irfirm.biz

Consolidated Balance Sheets

(in USD 000s)	At December 31,	
	2006	2007
ASSETS		
Current assets		
Cash and cash equivalents	3'142	4'847
Short-term investments and marketable securities	10'055	423
Trade accounts receivable	29'606	28'402
Income tax receivable	513	7
Other receivables	1'350	763
Inventory	2'053	1'720
Prepaid expenses and accrued income	1'330	1'439
<i>Total current assets</i>	<u>48'049</u>	<u>37'601</u>
Non-current assets		
Furniture and equipment	1'253	1'004
Intangible assets	38'611	39'192
Long-term investments and other financial assets	4'719	4'868
<i>Total non-current assets</i>	<u>44'583</u>	<u>45'064</u>
Total assets	<u><u>92'632</u></u>	<u><u>82'665</u></u>
LIABILITIES AND EQUITY		
Current liabilities		
Interest-bearing loans and borrowings	27	4'516
Trade accounts payable	812	3'121
Income tax payable	1'867	2'563
Other payables	10'621	8'949
Accrued expenses	10'083	11'507
Deferred revenue	1'126	2'301
<i>Total current liabilities</i>	<u>24'536</u>	<u>32'957</u>
Non-current liabilities		
Interest-bearing loans and borrowings	31'932	2'466
Other long-term liabilities	5'032	0
Pension liabilities	1'055	1'051
Deferred revenue	105	0
Deferred tax liabilities	2'121	1'747
<i>Total non-current liabilities</i>	<u>40'245</u>	<u>5'264</u>
Total liabilities	<u>64'781</u>	<u>38'221</u>
Shareholders' equity		
Share capital	1'348	1'777
Share premium	123'338	170'983
Treasury shares	-1	0
Change in fair value of financial assets	0	306
Cumulative translation adjustment	-3'414	-11'047
Accumulated losses	-93'420	-117'575
<i>Total equity attributable to equity holders of the parent company</i>	<u>27'851</u>	<u>44'444</u>
Minority interest	0	0
Total equity	<u>27'851</u>	<u>44'444</u>
Total liabilities and equity	<u><u>92'632</u></u>	<u><u>82'665</u></u>

CONSOLIDATED STATEMENTS OF OPERATIONS

(in USD 000s, except for per share information)	Year ended December 31,	
	2006	2007
License revenue	12'508	21'196
Service revenue	12'252	16'038
Total revenue	24'760	37'234
Cost of license revenue	-2'773	-4'545
Cost of service revenue	-11'946	-10'475
Total cost of revenue	-14'719	-15'020
Gross profit	10'041	22'214
Research and development, net of capitalized costs	-6'964	-5'040
Amortization of capitalized development costs	-1'794	-2'258
Sales and marketing	-8'787	-9'015
Bad debt expense	-5'206	-3'882
General and administrative	-10'061	-9'256
Amortization of other intangible assets	-4'203	-3'174
Impairment of other intangible assets	-17'675	-639
Restructuring expense	-2'689	0
Other income and expenses, net	2'031	0
Loss from operations	-45'307	-11'050
Financial income	4'257	4'237
Financial expenses	-9'288	-15'339
Loss before income taxes	-50'338	-22'152
Income tax benefit (expense)	969	-2'003
Net loss	-49'369	-24'155
Attributable to:		
Equity holders of the parent company	-48'433	-24'155
Minority interest	-936	0
	-49'369	-24'155
Average number of shares	16'319	16'982
Basic and diluted loss per share in USD attributable to Esmertec shareholders	-2.97	-1.42



Consolidated Statements of Changes in Equity

(in USD 1,000s)	Attributable to equity holders of the parent company						Total	Minority interest	Total equity
	Share capital	Share premium	Treasury shares	Changes in fair value of financial assets	Cumulative translation adjustment	Accumulated losses			
Balance at December 31, 2005	1'231	114'737	(1)	0	888	(44'987)	71'868	1'067	72'935
Net loss						(48'433)	(48'433)	(936)	(49'369)
Other comprehensive income:									
- Translation adjustment	98	9'014	(1)		(4'714)		4'397	(2)	4'395
Total recognised income and expense for the period	98	9'014	(1)	0	(4'714)	(48'433)	(44'036)	(938)	(44'974)
Increase of share capital	19	529					548		548
Share transfer ESLab Inc., Korea	0	39	1				40		40
Effect of deconsolidation of ESLab Inc. and Esmertec KK	0	0	0		412		412	(129)	283
Stock option expense		483					483		483
Reversal of deferred taxes on IPO expenses directly recognised in equity		(1'464)					(1'464)		(1'464)
Balance at December 31, 2006	1'348	123'338	(1)	0	(3'414)	(93'420)	27'851	0	27'851
Balance at December 31, 2006	1'348	123'338	(1)	0	(3'414)	(93'420)	27'851	0	27'851
Net loss						(24'155)	(24'155)		(24'155)
Other comprehensive income:									
- Translation adjustment	116	10'457			(7'633)		2'940		2'940
- Changes in fair value of financial assets, net of tax				306			306		306
Total other comprehensive income	116	10'457	0	306	(7'633)	0	3'246	0	3'246
Total recognised income and expense for the period	116	10'457	0	306	(7'633)	(24'155)	(20'909)	0	(20'909)
Increase of share capital	34	825					859		859
Shares issued in connection with business combinations	13	1'192					1'205		1'205
Amendment of convertible bond		534					534		534
Conversion of convertible bond		7'579					7'579		7'579
Shares issued in connection with conversion of convertible bonds	266	26'109					26'375		26'375
Transfer of treasury shares		5	1				6		6
Stock option expense		944					944		944
Balance at December 31, 2007	1'777	170'983	0	306	(11'047)	(117'575)	44'444	0	44'444

CONSOLIDATED CASH FLOW STATEMENTS

(in USD 000s)	Year ended December 31,	
	2006	2007
Net loss	-49'369	-24'155
Adjustments for:		
Depreciation, amortization and impairment loss	24'180	6'574
Gain on sale of business	-1'692	0
Amendment/conversion of convertible notes	0	4'823
Loss on disposal of fixed assets	64	0
Gain on disposal of intangible assets	-200	0
Non-cash stock option expense	483	944
Foreign exchange gain (net) on intercompany transactions	-47	59
Increase / (decrease) of pension accrual	75	-117
Increase of bad debt reserve	5'206	3'882
Interest expense	3'997	4'101
Interest income	-801	-562
Income tax expense (benefit)	-969	2'003
	-19'073	-2'448
(Increase) / decrease in trade and other receivables, prepaid expenses and accrued income	7'307	446
(Increase) / decrease in inventories	2'059	453
Increase / (decrease) in trade and other payables	-3'713	2'225
Increase / (decrease) in accrued expenses	-2'867	535
Increase / (decrease) in deferred revenue	-2'096	833
Income taxes paid	-1'839	-956
Net cash used in / provided by operating activities	-20'222	1'088
Capital expenditure for fixed assets	-696	-180
Capital expenditure for intangible assets	-303	-6
Capitalized development costs	-4'532	-2'864
Decrease in short-term investments and marketable securities	13'638	9'632
Investment in/loan financing of an associate	-1'641	-400
Acquisition of businesses	-14'423	0
Disposal of businesses	-214	600
Proceeds from disposal of intangible assets	200	0
Interest received	153	18
Increase in financial assets	-29	0
Net cash used in / provided by investing activities	-7'847	6'800
Repayment of borrowings	-3'252	0
Settlement of payables relating to acquisitions	-2'500	-6'293
Proceeds from issue of share capital	548	859
Interest paid	-1'171	-1'264
Net cash used in financing activities	-6'375	-6'698
Net increase (decrease) in cash and cash equivalents	-34'444	1'190
Cash and cash equivalents at beginning of year	35'771	3'142
Effect of exchange rate fluctuations on cash and cash equivalents	1'815	515
Cash and cash equivalents at end of year	3'142	4'847