

# REPORT 3<sup>rd</sup> QUARTER 2007

# REPORT

## 3rd QUARTER

The acquisition by Eltek Energy AS of Valere Power Inc. was finalized and consolidated with effect from 1 June, 2007. The merger between Eltek and Nera in 2006 was reflected in the Balance Sheet Statement at 30 September, 2006, and included in the consolidated Income Statement from 1 October, 2006. The figures reported below describe the third quarter 2007 and the third quarter 2006 (in brackets). Explicit notice has been made where the reference is to *pro forma* figures for the third quarter 2006, 2006 or the first or second quarter 2007. *Pro forma* figures are prepared under the assumption that the current activities of Nera and Valere Power were consolidated as of 1 January, 2006.

(NOK million)	3Q '07	3Q '06	9M '07	9M '06	2006
Order entry	1,569	693	3,865	1,957	2,941
Revenue	1,282	683	3,393	1,914	3,121
Gross Profit	310	176	800	493	773
Gross margin (%)	24.2	25.7	23.6	25.8	24.8
EBITDA before non-recurring items	94	79	208	227	310
Depreciation & amortization	-47	-15	-128	-36	-71
EBIT before non-recurring items	48	64	81	191	239
Non-recurring items	2	-	-3	-	-50
EBIT	50	64	77	191	189
Pre-tax profit	53	50	58	171	157
Net profit after tax	31	36	2	123	107
EBIT before non-recurring items and amortization of PPA	62				

Note: Reported EBIT includes amortization of PPA with NOK 15 million in 3Q 2007 and NOK 35 million for the first nine months 2007.

### Structural developments

Eltek in April announced the acquisition of Valere Power Inc. by Eltek Energy. The joint company Eltek Valere is a leading player in the global telecom power market, with strong market positions in all main regions.

The operational consolidation is ongoing, with the US operations of Eltek Energy LLC being integrated into Valere Power in Texas, and the international activities in Valere Power being integrated into the organization structure of Eltek Energy.

Costs of NOK 31 million (USD 5.5 million) related with the restructuring have been charged to the Income Statement for the third quarter 2007. This is somewhat less than previously communicated. The restructuring costs primarily cover office lease, severance pay and stay-on bonuses related to the closure of the Crystal Lake, Chicago facilities.

The integration of the two organizations into the new Eltek Valere is a key element of the cost synergy program, which is expected to generate annual cost synergies of USD 15 million. The acquisition of Valere Power is expected to be EPS accretive for Eltek ASA shareholders from 2008 (before amortization of purchase price allocation, PPA).

### Key financials – quarterly

#### Reported Group figures

The Eltek Group reported revenue of NOK 1,282 million in the third quarter 2007, compared to NOK 683 million in the third quarter 2006 and NOK 1,124 million in the second quarter 2007.

Compared with the previous quarter, revenue was negatively affected by some NOK 38 million due to the general strengthening of the Norwegian Krone, in particular towards USD.

Gross profit was NOK 310 million (176) and gross margin 24.2 percent (25.7). This was an improvement from 23.6 percent in the second quarter 2007.

Reported EBITDA before non-recurring items was thus NOK 94 million (79), compared with NOK 74 million in the previous quarter.

EBIT before non-recurring items and amortization of PPA was NOK 62 million (64), compared with NOK 43 million in the previous quarter.

Restructuring costs in Eltek Valere amounted to NOK 31 million. This was compensated by a gain of NOK 33 million which was realised through the final settlement of pension liabilities related to the divestiture of Nera Satcom in 2006. Net non-recurring items thus amounted to NOK 2 million for the quarter.

The purchase price allocation (PPA) related to the acquisition of Valere Power is still not finalized. Based on the work done so far, it seems like there will be significant changes compared with the preliminary assessments which were reflected in the interim report for the previous quarter.

Due to a reduced amount being allocated to amortizable intangible assets, and an increased average estimated economic lifetime for these assets, the quarterly amortization of excess value is estimated to be only approximately NOK 10 million, compared with the preliminary estimate of NOK 34 million in the previous quarter.

As Valere Power was consolidated with effect from 1 June, the estimated amortization of PPA amounted to NOK 11 million in the second quarter 2007. Restating of previous quarter will be considered when PPA is finalized.

Total amortization of PPA, including also NeraTel, amounted to NOK 15 million in the third quarter 2007, compared with NOK 16 million in the previous quarter.

Reported EBIT was thus NOK 50 million (64), an increase from NOK 27 million in the previous quarter.

Net financial items amounted to NOK 3 million in the third quarter (-14), compared to NOK -11 million in the previous quarter. Net financials include a positive currency effect of NOK 20 million.

Reported profit before tax was NOK 53 million in the third quarter (50), which compares with NOK 15 million in the previous quarter.

## Segment information

The Eltek Group reports on three business areas; **Eltek Valere, Nera Networks and NeraTel**, as well as on the reporting area Corporate, which comprises the administrative functions on Group level.

Eltek Valere comprises the operational activities in former Eltek Energy and Valere Power Inc., and is consolidated on a 100 percent basis. In ownership terms, Eltek ASA owns 90.9 of Eltek Valere AS, which in turn owns 90.1 percent of Eltek Valere Holding Inc.

The latter comprises the combined operations of Valere Power Inc. and Eltek Energy LLC. The remainder of Eltek Valere AS and Eltek Energy Holding Inc is owned by the former shareholders of Valere Power Inc.

Nera Networks is a pure transmission business, whereas Nera Telecommunications (NeraTel) comprises transmission activities as well as infocomm/network activities and a satellite communications operation. Both areas are consolidated on a 100 percent basis. However, NeraTel is 50.1 percent owned by Eltek ASA and separately listed on the Singapore Stock Exchange.

## Eltek Valere

	3Q 07	3Q 06	2006	2Q 07
Order entry	841	693	2,589	739
Revenue	840	683	2,585	727
Gross profit	216	176	661	181
Gross margin	25.8	25.7	25.6	25.0
Divestment gain	-	-	22	-
EBITDA before non-recurring items	86	87	326	70
Depr. and amort.	-29	-15	-52	-28
EBIT before non-recurring items	57	72	274	42
Restructuring cost	-31	-	-	-
EBIT	26	72	274	42
EBIT before non-recurring items and amortization of PPA	67			

*Note: Valere Power included with effect from 1 June, 2007. EBIT includes amortization of PPA with NOK 11 million in 2Q'07 and NOK 10 million in 3Q'07.*

## Revenue

Eltek Valere reported revenue of NOK 840 million in the third quarter 2007 (683), an increase of 16 percent from NOK 727 million in the previous quarter.

Compared with the previous quarter, revenue in Eltek Valere was negatively affected by NOK 24 million in currency effects.

EMEA accounted for 41 percent of reported revenue for Eltek Valere, whereas Asia Pacific accounted for 33 percent and the Americas for 26 percent.

Revenue in the Americas was NOK 214 million, which was an increase of 52 percent from the third quarter 2006 and 41 percent above the previous quarter. The increases are explained by the consolidation of Valere Power.

Revenue in Asia Pacific was NOK 278 million, which was an increase of 87 percent from the third quarter last year and 15 percent above the previous quarter.

The increases are partly explained by the consolidation of Valere Power, but also by an underlying market growth and strengthened market position.

Revenue in India remained at a high level of NOK 134 million in the third quarter, making India the second largest single market behind the US.

Revenue in EMEA was NOK 348 million, which was a decline of 11 percent from the third quarter last year but an increase of 5 percent from the second quarter 2007. The acquisition of Valere Power has only a very limited impact in the EMEA region.

### Gross margin

The reported third quarter gross margin of 25.8 percent was on par with the third quarter 2006 (25.7), and an improvement from 25.0 percent in the previous quarter.

### Operating costs

Operating costs were positively influenced by currency effects in the quarter, and amounted to NOK 149 million (104) before non-recurring items and amortization of PPA.

In the previous quarter, operating costs were NOK 128 million before non-recurring items and amortization of PPA.

The increase in the cost level is primarily explained by acquisitions and the establishment of new offices over the past year, and the quarter-on-quarter increase is fully explained by the consolidation of Valere Power for the full quarter.

### Non-recurring items

The Income Statement in Eltek Valere was negatively affected by restructuring costs of NOK 31 million (USD 5.5 million) related to the integration of Eltek Energy and Valere Power. This is below the estimate of USD 7 million which has been communicated earlier.

The restructuring costs cover cash expenses and provisions relating to the moving process, termination of office leases in Crystal Lake, and severance pay and stay-on bonuses.

The American activities of Eltek Valere have been co-located in new premises in Dallas, Texas, and the organizational integration has gone according to plan. Outside of America, Valere Power will be integrated into the existing international organization.

The integration of the organizations is a key element in a synergy program which is expected to yield annual cost reductions of approximately USD 15 million.

### Operating profit

Eltek Valere achieved EBITDA before non-recurring items of NOK 86 million (87) in the third quarter. This compares with NOK 70 million in the previous quarter.

EBIT before non-recurring items improved to NOK 57 million (72), compared with NOK 42 million in the previous quarter.

Allowing for restructuring costs of NOK 31 million, the reported EBIT was NOK 26 million in the third quarter (72).

Reported EBIT includes amortization of PPA with NOK 10 million in the third quarter, compared with NOK 11 million in the second quarter (June).

### Order entry and market development

Eltek Valere recorded new orders of NOK 841 million in the third quarter 2007 (693), which compares with NOK 739 million in the previous quarter.

*Pro forma* order entry – including Valere Power for the full quarter - was NOK 875 million in the second quarter 2007. The decline in the third quarter is primarily explained by adverse currency development, which negatively affected order entry by approximately NOK 23 million compared with the second quarter.

The remainder is explained by lower order entry in Mexico and Brazil, and also a decline from historically high order entry levels in India.

Quarterly order entry in developing markets is typically tied to major network roll-outs, and less stable than the more mature markets.

Order entry in the EMEA region was relatively stable, with turn key projects in the Middle East being the main driver.

The order backlog stood at NOK 563 million at the end of the third quarter (455), down from NOK 597 million at the end of the second quarter. NOK 480 million of the order backlog was for delivery within 90 days (400), up from NOK 463 million at the end of the previous quarter.

## Nera Networks

	3Q 07	3Q 06	2006	2Q 07
Order entry	408	296	1,529	319
Revenue	310	291	1,378	310
Gross profit	57	40	233	45
<i>Gross margin</i>	<i>18.3</i>	<i>13.6</i>	<i>16.9</i>	<i>14.3</i>
EBITDA	3	-27	-43	-4
Depr. and amort.	-12	-12	-48	-12
EBIT	-9	-39	-91	-16

Note: Figures for 2006 are pro forma, excluding non-recurring costs.

### Revenue

Nera Networks reported revenue of NOK 310 million in the third quarter of 2007 (291), on par with the previous quarter.

Compared with the previous quarter, revenue in Nera Network was negatively affected by NOK 6 million in currency effects.

EMEA accounted for NOK 168 million, or 54 percent of revenue, whereas revenue in Americas was NOK 105 million, or 34 percent. Asia Pacific accounted for the remaining NOK 37 million, or 12 percent.

Compared to the previous quarter, these figures reflect growth of 27 percent in EMEA. Revenue was flat in Americas, and declined by 49 percent in Asia Pacific. The latter primarily reflects lower internal deliveries to NeraTel in Singapore.

The overall number of radios produced increased significantly, as the technical difficulties which hampered production throughout the first half of the year, had less impact in the third quarter.

Production of Evolution radios increased by almost 170 percent from the previous quarter, whereas the number of Interlink radios declined.

As the price is lower for the smaller Evolution radios, the unit growth figures are not directly transferable to revenue or order entry values.

### Gross margin

Gross margin in Nera Networks was 18.3 percent in the third quarter 2007 (13.6), compared to 14.3 percent in the previous quarter.

The main reason for the improvement is higher production volumes, which lowered manufacturing overhead costs in relative terms. In the previous quarter, costs of goods sold were charged with NOK 7 million relating to the transfer of production from Bergen to Slovakia.

### Operating costs

Nera Networks had operating costs of NOK 66 million in the third quarter 2007, compared to NOK 78 million on a *pro forma* basis in the third quarter 2006, and NOK 60 million in the second quarter 2007.

The lower operating cost level in 2007 is in line with the expected effect of the restructuring program for Nera Network.

The increase from the second to the third quarter 2007 is explained by an increase in R&D expenses from a low level in the previous quarter, and increased selling and marketing costs.

### Operating profit

Nera Networks reported a positive EBITDA of NOK 3 million (-27), and an EBIT-loss of NOK 9 million (-39) in the third quarter 2007. Historical figures are *pro forma*.

This also reflects an improvement from the previous quarter, when Nera Networks reported an EBITDA-loss of NOK 4 million and an EBIT-loss of NOK 16 million.

### Order entry - market development

Nera Networks recorded new orders of NOK 408 million in the third quarter 2007 (296), which was an increase of 28 percent from NOK 319 million in the previous quarter.

Compared with the previous quarter, order entry was negatively affected by currency effects of NOK 8 million.

The order backlog stood at NOK 579 million at the end of the third quarter, up from NOK 508 million at the end of the second quarter. NOK 291 million was for delivery within 90 days, compared with NOK 221 million at the end of the second quarter 2007.

## NeraTel

	3Q 07	3Q 06	2006	2Q 07
Order entry	359	196	667	114
Revenue	175	119	629	163
Gross profit	37	34	135	40
<i>Gross margin</i>	<i>21.0</i>	<i>28.8</i>	<i>21.5</i>	<i>24.4</i>
EBITDA	15	15	52	17
Depr. and amort.	-6	-7	-27	-6
EBIT	9	8	25	11

Note: Figures for 2006 are pro forma. EBIT includes quarterly amortization of PPA with NOK 5 million.

NeraTel reported revenue of NOK 175 million (119) in the third quarter 2007, which was an increase of 7 percent from NOK 163 million in the previous quarter.

Compared with the previous quarter, revenue in NeraTel was negatively affected by NOK 8 million in currency effects.

The reported gross margin of 21.0 percent (28.8) compared with 24.4 percent in the second quarter 2007. The changes in gross margin are primarily explained by larger Transmission-projects with low margin.

EBITDA was NOK 15 million (15) in the third quarter 2007, and EBIT NOK 9 million (8). Historical figures are *pro forma*. This compares with EBITDA of NOK 17 million and EBIT of NOK 11 million in the previous quarter.

Order entry was NOK 359 million (196), compared with NOK 114 million in the previous quarter.

Order backlog increased to NOK 503 million from NOK 345 million at the end of the previous quarter. NOK 191 million is for delivery within 90 days.

NeraTel is a separately listed company on the Singapore Stock Exchange. The company presented its interim results for the second quarter 2007 on Thursday 18 October. For further information, please see [www.neratel.com.sg](http://www.neratel.com.sg).

## Corporate

Corporate costs, excluding non-recurring items, amounted to NOK 9 million in the third quarter 2007, compared to NOK 8 million in the third quarter 2006 (*pro forma*) and NOK 10 million in the previous quarter.

## Balance sheet

The changes in the consolidated Balance Sheet from 30 September 2006 (in brackets) primarily relate to the acquisition of Valere Power. The merger of former Nera into Eltek was fully reflected in the Balance Sheet per 30 September 2006.

Total assets were NOK 5,547 million (5,773) at 30 September 2007, compared with NOK 4,786 million at the end of 2006.

Equity was NOK 2,459 million (2,527) at 30 September, corresponding to an equity ratio of 44.3 percent (43.8).

Eltek had a gross cash position of NOK 345 million (1,063) at the end of the third quarter, and a net debt position of NOK 696 million. At the end of the previous quarter the company had a gross cash position of NOK 397 million, and a net debt position of NOK 613 million.

## Cash Flow Statement

Cash flow from operation was NOK -27 million in the third quarter 2007 (-60). Net cash flow from investment activities was NOK -104 million (685), which include capitalized R&D of NOK 40 million and other investments of NOK 64 million. Net cash flow from financing was NOK 78 million (110).

Total net cash flow was NOK -52 million (736) in the third quarter 2007.

## Outlook

The integration of Eltek Energy and Valere Power into Eltek Valere has increased the scale and breadth of the company's operations in the telecom power supply market and will continue to add new growth opportunities.

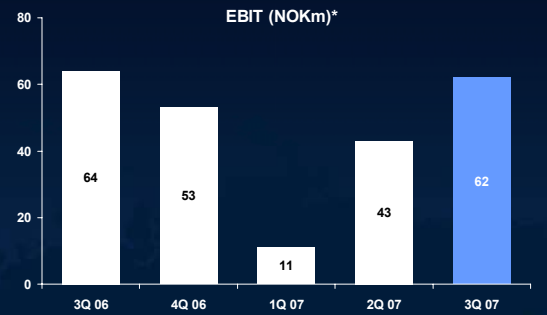
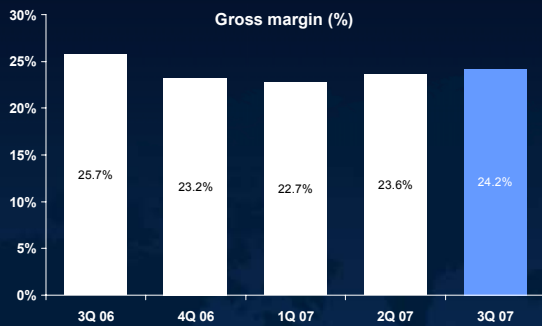
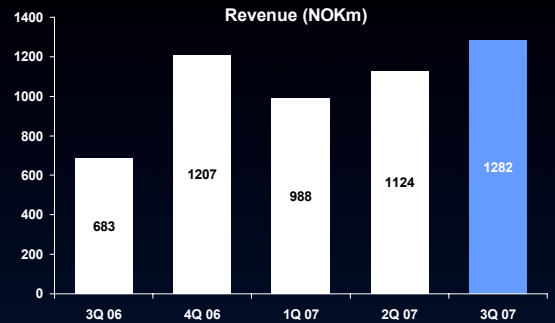
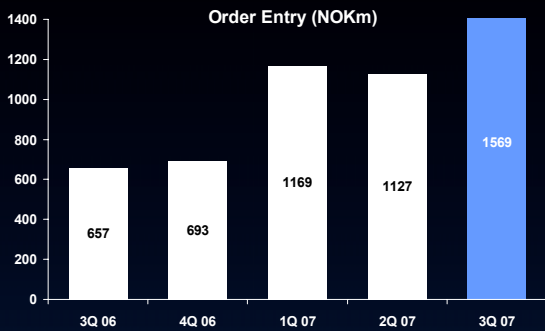
Restructuring costs related to the integration were charged to the Income Statement for the third quarter of 2007, and going forward the company expects to see gradually increasing positive effects of the integration.

Overall annual costs savings are estimated at USD 15 million, to be gradually extracted through the remainder of 2007 and 2008.

Nera Networks saw improved production and capacity utilization in the third quarter, after the transfer of production from Bergen to Slovakia during the first half of the year. Nera Networks expects to see continued improved performance going forward.

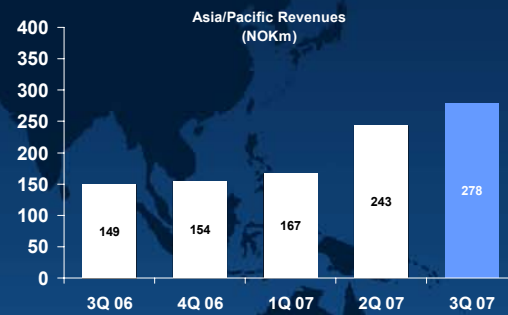
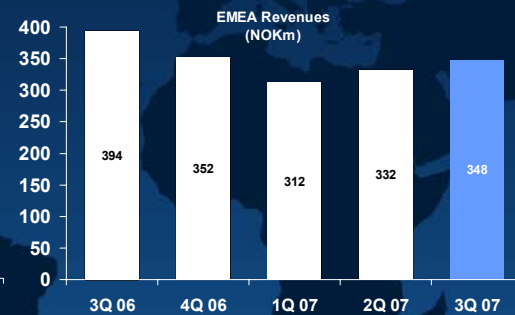
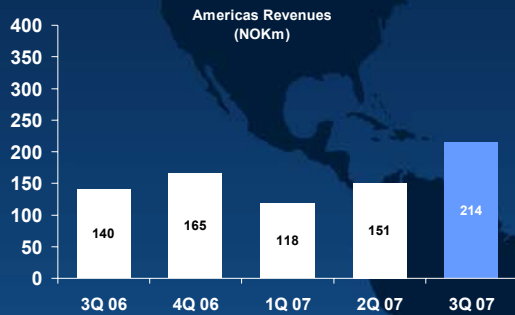
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The Board of Directors, Eltek ASA

## QUARTERLY DEVELOPMENT ELTEK GROUP

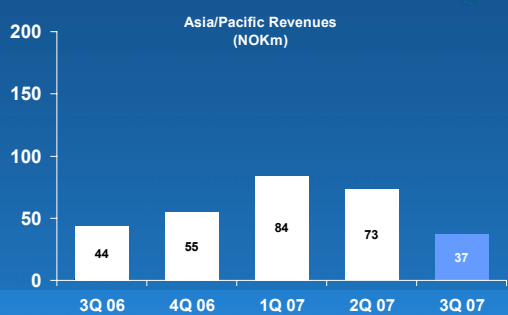
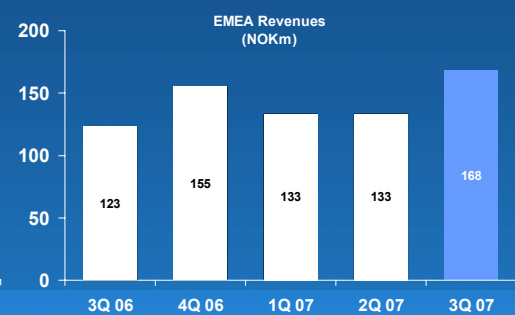
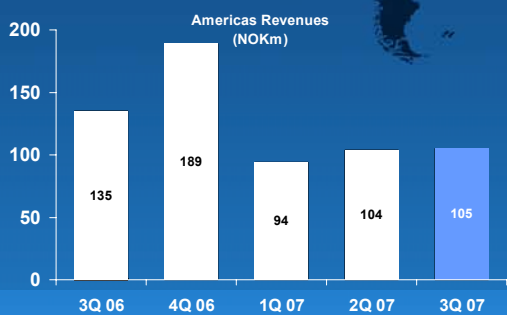


\*EBIT before non-recurring items and PPA amortization

## QUARTERLY DEVELOPMENT BY REGION - ELTEK VALERE



## QUARTERLY DEVELOPMENT BY REGION - NERA NETWORKS\*



\*Pro forma figures 3Q 2006

### Consolidated income statement (unaudited)

Amounts in NOK 1 000	3Q 2007	3Q 2006	YTD 2007	YTD 2006	2006
Revenue	1 281 893	682 804	3 393 464	1 913 728	3 121 116
Cost of sales	-972 233	-507 289	-2 593 439	-1 420 623	-2 347 655
<b>Gross profit</b>	<b>309 660</b>	<b>175 515</b>	<b>800 026</b>	<b>493 105</b>	<b>773 461</b>
Selling and marketing costs	-113 313	-45 121	-326 830	-131 031	-242 973
Administrative expenses	-77 053	-39 334	-215 053	-117 566	-179 230
R&D and engineering costs	-61 054	-27 604	-156 686	-77 154	-136 602
Other operating items	-8 628	559	-24 074	23 540	-25 341
<b>Operating profit</b>	<b>49 612</b>	<b>64 015</b>	<b>77 384</b>	<b>190 895</b>	<b>189 316</b>
Share of result in associated companies					907
Net financial items	3 498	-13 685	-19 104	-19 470	-33 030
<b>Profit before income tax</b>	<b>53 110</b>	<b>50 330</b>	<b>58 279</b>	<b>171 425</b>	<b>157 193</b>
Income tax expense	-22 091	-14 179	-55 989	-48 595	-50 583
<b>Net profit</b>	<b>31 018</b>	<b>36 151</b>	<b>2 290</b>	<b>122 830</b>	<b>106 610</b>
<b>Attributable to:</b>					
Equity holders	20 685	30 729	-31 931	109 039	86 524
Minority interests	10 333	5 422	34 221	13 790	20 086
Basic EPS (NOK)	0.42	0.94	-0.65	3.36	2.36
Diluted EPS (NOK)	0.43	0.95	-0.66	3.34	2.35

### Consolidated balance sheet (unaudited)

Amounts in NOK 1 000	30.09.2007	30.09.2006	31.12.2006
Property, plant & equipment	316 471	214 360	223 052
Fair value in excess of book value, unallocated	663 969	571 138	
Intangible assets	811 449	458 144	757 277
Deferred income tax asset	470 065	54 995	478 470
Other non-current assets	14 236	18 344	16 469
<b>Total non-current assets</b>	<b>2 276 190</b>	<b>1 316 981</b>	<b>1 475 268</b>
Inventories	813 596	727 605	766 299
Trade and other receivables	2 112 335	1 772 089	1 794 268
Cash and cash equivalents	344 606	1 063 182	750 075
<b>Total current assets</b>	<b>3 270 536</b>	<b>3 562 876</b>	<b>3 310 642</b>
<b>Assets held for sale</b>		<b>892 851</b>	
<b>Total assets</b>	<b>5 546 726</b>	<b>5 772 708</b>	<b>4 785 909</b>
Share capital	49 206	32 532	49 206
Shares to be issued		16 674	
Other reserves	1 997 738	2 181 267	2 141 400
Capital and reserves attributable to equity holders of the Company	2 046 944	2 230 473	2 190 606
Minority interest	411 788	296 827	213 967
<b>Total equity</b>	<b>2 458 732</b>	<b>2 527 300</b>	<b>2 404 572</b>
Borrowings	897 347	512 432	464 594
Deferred income tax liabilities			10 543
Retirement benefit obligations	309 707	14 670	310 927
Provisions for other liabilities and charges	37 962	274 322	42 964
<b>Total non-current liabilities</b>	<b>1 245 016</b>	<b>801 424</b>	<b>829 028</b>
Borrowings	143 290	518 858	104 261
Trade creditors and other payables	1 517 753	1 522 176	1 265 171
Current income tax payable	35 682	39 130	39 301
Provisions for other liabilities and charges	146 253	128 301	143 575
<b>Total current liabilities</b>	<b>1 842 979</b>	<b>2 208 465</b>	<b>1 552 308</b>
<b>Liabilities related to assets held for sale</b>		<b>235 519</b>	
<b>Total liabilities</b>	<b>3 087 995</b>	<b>3 245 408</b>	<b>2 381 336</b>
<b>Total equity and liabilities</b>	<b>5 546 726</b>	<b>5 772 708</b>	<b>4 785 909</b>
<b>Equity ratio</b>	<b>44.3 %</b>	<b>43.8 %</b>	<b>50.2 %</b>

## Cash flow analysis (unaudited)

Amounts in NOK 1 000	<u>3Q 2007</u>	<u>3Q 2006</u>	<u>YTD 2007</u>	<u>YTD 2006</u>	<u>2006</u>
Net cash flow from operations	-26 968	-60 068	-83 589	-197 291	-250 114
Net cash flow from investments	-104 283	685 453	-780 323	356 654	779 062
Net cash flow from financing	78 810	110 427	458 443	437 246	-245 445
<b>Net change in cash and cash equivalents</b>	<b>-52 441</b>	<b>735 812</b>	<b>-405 469</b>	<b>596 609</b>	<b>283 503</b>
Cash and cash equivalents, beginning of period	397 047	327 371	750 075	466 573	466 573
Cash and cash equivalents, end of period	344 605	1 063 183	344 606	1 063 182	750 076

## Consolidated statement of recognized income and expense (unaudited)

Amounts in NOK 1 000	<u>3Q 2007</u>	<u>3Q 2006</u>	<u>30.09.2007</u>	<u>30.09.2006</u>	<u>31.12.2006</u>
Actuarial gains/losses					-3 908
Currency translation effects	-124 557	26 608	-176 810	-6 092	-20 508
Taxes on items taken directly to equity					
<b>Net income recognized directly in equity</b>	<b>-124 557</b>	<b>26 608</b>	<b>-176 810</b>	<b>-6 092</b>	<b>-24 416</b>
Profit for the period	31 018	36 151	2 290	122 830	106 610
<b>Total recognized income for the year</b>	<b>-93 539</b>	<b>62 759</b>	<b>-174 520</b>	<b>116 738</b>	<b>82 194</b>

## Notes to the financial statements

### 1. Accounting principles

Eltek's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and these unaudited interim consolidated financial statements are prepared in accordance with IAS 34, Interim Financial Reporting.

The same accounting policies and methods of computation are followed as compared with the financial statements for the year ending 31 December 2006, ref Annual report 2006 for further description.

### 2. Property, plant & equipment and Intangible assets

#### *Tree months ended 30 September 2007*

	<u>Intangible assets</u>				<u>Tangible assets</u>
	<u>Goodwill</u>	<u>R&amp;D</u>	<u>Other *</u>	<u>Total</u>	
Net book amount at 01.07.2007	418 049	289 005	825 319	1 532 373	285 618
Additions	7 930	40 475	2 143	50 548	61 047
Disposals			-531	-531	-3 586
Depreciation		-16 027	-16 262	-32 289	-14 227
Foreign currency translation effects	-6 751	-2 124	-65 808	-74 683	-12 382
Net book amount at 30.09.2007	<b>419 228</b>	<b>311 329</b>	<b>744 861</b>	<b>1 475 418</b>	<b>316 471</b>

#### *Three months ended 30 September 2006*

	<u>Intangible assets</u>				<u>Tangible assets</u>
	<u>Goodwill</u>	<u>R&amp;D</u>	<u>Other</u>	<u>Total</u>	
Net book amount at 01.07.2006	122 501	112 655	12 235	247 391	128 815
Additions, Nera Merger	11 727	176 457	9 730	197 914	70 659
Additions	-119	17 037	-409	16 509	6 820
Disposals			-18	-18	-24
Depreciation		-9 442	-908	-10 350	-5 101
Foreign currency translation effects	4 334	582	1 782	6 698	13 191
Net book amount at 30.09.2006	<b>138 443</b>	<b>297 289</b>	<b>22 412</b>	<b>458 144</b>	<b>214 360</b>

## 2. Property, plant & equipment and Intangible assets (cont.)

### Nine months ended 30 September 2007

	Intangible assets				Tangible assets
	Goodwill	R&D	Other *	Total	
Net book amount at 01.01.2007	406 835	249 119	101 323	757 277	223 052
Additions, Valere acquisition			760 736	760 736	14 562
Additions	24 330	113 285	9 015	146 630	138 609
Disposals			-1 039	-1 039	-4 347
Depreciation		-47 798	-41 975	-89 773	-37 915
Foreign currency translation effects	-11 937	-3 277	-83 199	-98 413	-17 491
Net book amount at 30.09.2007	<b>419 228</b>	<b>311 329</b>	<b>744 861</b>	<b>1 475 418</b>	<b>316 471</b>

### Nine months ended 30 September 2006

	Intangible assets				Tangible assets
	Goodwill	R&D	Other	Total	
Net book amount at 01.01.2006	77 509	98 125	11 190	186 824	82 100
Additions, Nera Merger	11 727	176 457	9 730	197 914	70 659
Additions	50 923	43 562	3 493	97 978	74 210
Disposals			-18	-18	-277
Depreciation		-21 121	-2 624	-23 745	-12 641
Foreign currency translation effects	-1 716	266	641	-809	309
Net book amount at 30.09.2006	<b>138 443</b>	<b>297 289</b>	<b>22 412</b>	<b>458 144</b>	<b>214 360</b>

\* Includes excess value on the Valere acquisition of NOK 761 mill and amortization of NOK 11 mill in 2Q and NOK 10 mill in 3Q 2007.

## 3. Reconciliation of movements in capital and reserves

	3Q 2007	3Q 2006	30.09.2007	30.09.2006	31.12.2006
Equity end of previous period	2 553 712	975 973	2 404 572	915 957	915 957
Equity beginning of this period	2 553 712	975 973	2 404 572	915 957	915 957
Total recognized income for the period	-93 539	62 759	-174 520	116 738	82 194
Issue of shares, Nera merger		1 238 026		1 238 026	
New minority interest, Nera merger		249 273		249 273	
Stock options exercised by employees		666		12 338	12 338
Own shares			-901		-4 672
Sales & acquisitions	-3 487		244 803	-10 203	1 504 589
Cost of stock options	2 046	1 962	6 216	8 120	10 217
Dividends		-1 359	-21 439	-2 949	-116 050
<b>Equity end of period</b>	<b>2 458 732</b>	<b>2 527 300</b>	<b>2 458 732</b>	<b>2 527 300</b>	<b>2 404 572</b>

#### **4. Business combinations**

##### Acquisition of Valere Power Inc

In second quarter 2007, Eltek (through Eltek Energy) acquired Valere Power Inc, a US-based company operating in the Telecom Power market. The transaction was finalized 1 June 2007 and Valere Power Inc was consolidated into Eltek Group as from this date.

The purchase price allocation (PPA) is not yet finalized, but preliminary estimates of the excess value and amortization of this excess value are included in this report (excess value being the difference between the fair value of the shares issued and the cash element given to the shareholders of Valere Power Inc and the book value of the shareholders equity in Valere Power Inc). These preliminary estimates are based on the following assumptions; i) cost of Valere Power Inc is USD 135 mill, ii) 30 % of the excess value is allocated to amortizable intangible assets and iii) average economic lifetime for amortizable intangible assets is between 5 and 6 years.

The preliminary estimated excess value of NOK 664 million, net of amortization and currency translation difference, is presented as "Fair value in excess of book value, unallocated" on a separate line in the balance sheet as of 30 September 2007. The amortization charge related to this acquisition is preliminary estimated to be NOK 10 million on a quarterly basis.

Due to a reduced amount being allocated to amortizable intangible assets, and an increased average estimated economic lifetime for these assets, this quarterly amortization of excess value is significantly lower than the preliminary estimates included in the report for second quarter 2007 (NOK 34 million per quarter). As Valere Power was consolidated with effect from 1 June, the estimated amortization of PPA amounted to NOK 11 million in the Income Statement for the second quarter 2007. Restating of previous quarter will be considered when PPA is finalized.

The final PPA may lead to a different fair value assessment of Valere Power Inc and/or a different allocation of the purchase price. This could result in an increase/decrease in total assets and liabilities compared to what has been presented in the balance sheet by end of September, to the extent that more/less than 30 % of value in excess of book value is made to identifiable assets and liabilities and/or to deferred taxes. The depreciation/amortization charged to the Income statement may also change dependant on the allocation of the purchase price and the economic lifetime of identifiable assets and liabilities, and consequently this could have significant impact on net profit. The PPA may also have significant impact on calculation of minority interests.

##### Other acquisitions and establishment

In third quarter 2007, the Group acquired the remaining 49 % of the share capital of privately held AIAB DC Systems AB, Sweden, from the minority shareholder at a cost of NOK 11 million.

## 5. Pro forma consolidated income statement

The consolidated pro forma income statement presented below shows Eltek, Nera Networks, Nera Telecommunications and Valere as if they had been operating as one unit from 1 January 2006. The pro forma financial information is based on certain assumptions that not necessarily would have been applicable if they were one company since that date. Because of its nature, the pro forma financial information addresses a hypothetical situation.

### Eltek Group Consolidated pro forma income statement (unaudited)

	Pro forma YTD 07			Pro forma 2006		
	Proforma consol, incl non-recurr items	Non- recurring items	Pro forma consolidated, excluding non- recurring items	Proforma consol, incl non-recurr items	Non- recurring items	Pro forma consolidated, excluding non- recurring items
Amounts in NOK 1 000						
Revenue	3,639,169		3,639,169	5,048,155		5,048,155
Gross profit	833,285	30,579	863,864	1,097,969	76,500	1,174,469
Operating profit	-6,680	80,720	74,040	-147,597	184,145	36,548
Profit before tax	-28,372	80,720	52,348	-208,151	194,145	-14,006

### Comments to the pro forma income statements

- The pro forma income statements are presented for continuing operations, that is exclusive any results from divested assets
- The pro forma consolidated income statement for first nine month 2007 is shown both inclusive and exclusive non-recurring items of NOK 80.7 million:
  - NOK 39.1 million of the charges refer to payments to Valere Power employees, related to the acquisition. These payments were reflected in estimated net debt of Valere Power at the time the acquisition.
  - NOK 41.6 million of the charges refer to revaluation of assets and liabilities concerning inventories, account receivables, other assets and warranty provisions.

The charges are fully reflected in the opening balance statement for Eltek Valere and the Eltek Group as of 30 September, 2007.

- The pro forma consolidated income statement for full year 2006 is shown both inclusive and exclusive non-recurring items. Non-recurring items include restructuring costs of NOK 49.7 million in Nera Networks in fourth quarter and NOK 144.0 million charged to the Nera income statement in the third quarter (mainly revaluation of assets)
- Figures for Valere are translated from US GAAP to IFRS accounting principles based on an assumption of 30 % capitalization of the Valere's R&D and engineering costs.
- The pro forma income statement includes a preliminary estimated amortization of PPA of NOK 10 million on a quarterly basis, ref note 4 for further details.



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