

# Presentation of Second quarter 2008

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20 August 2008

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# Agenda

- Second Quarter Highlights
  - Key Financial Figures for the Eltek Group
- Segment Information
  - Eltek Valere
  - Nera Networks
  - Nera Telecommunications (NeraTel)
- Key Financials
- Summary and Outlook

## Second Quarter Highlights

- Solid growth in revenue and order entry despite negative currency effects
- Organic growth well above market growth for Eltek Valere and Nera Networks
- Nera Networks continues to develop positively
- Gross margin affected by a warranty provision in Eltek Valere
- Negative cash flow due to increased working capital

# Eltek Group – Key financials

NOKm	2Q 08	2Q 07	Growth	H1 08	H1 07	Growth
Order entry	1,448	1,127	28%	2,924	2,296	27%
Revenue	1,413	1,124	26%	2,679	2,112	27%
Revenue growth, currency adj.			38%			39%
Gross Profit	335	266	26%	638	491	30%
Gross Margin (%)	23.7	23.7		23.8	23.2	
EBITDA	100	74	35%	182	109	67%
EBIT	52	35	49%	91	36	153%
Profit before tax	51	24	113%	117	14	736%
Non-recurring items	-15	-		-19	-5	
EBITDA before non-recurring items	115	74	55%	201	114	76%
EBIT before non-recurring items	67	35	91%	110	41	168%

Reported figures include the activities of Valere Power from 1 June, 2007

Eltek Valere

# Eltek Valere – Key financials

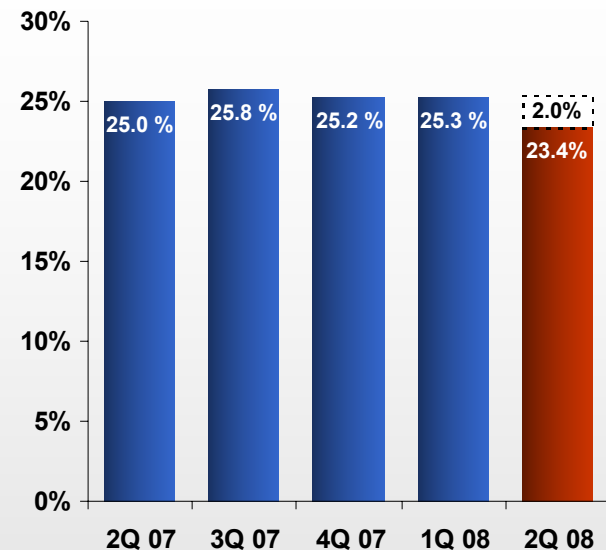
NOKm	2Q 08	2Q 07	Growth	H1 08	H1 07	Growth
Order entry	873	739	18%	1,797	1,390	29%
Revenue	894	727	23%	1,652	1,324	25%
Revenue growth, currency adj.			36%			37%
Gross Profit	209	181	15%	401	327	23%
Gross Margin (%)	23.4	25.0		24.3	24.7	-
EBITDA	79	70	13%	140	116	21%
EBIT	50	50	-	85	80	6%
Non-recurring items	-	-		-4	-5	
EBITDA before non-recurring items	79	70	13%	144	121	19%
EBIT before non-recurring items	50	50	-	89	85	5%

Reported figures include the activities of Valere Power from 1 June, 2007

# Eltek Valere – Gross margin

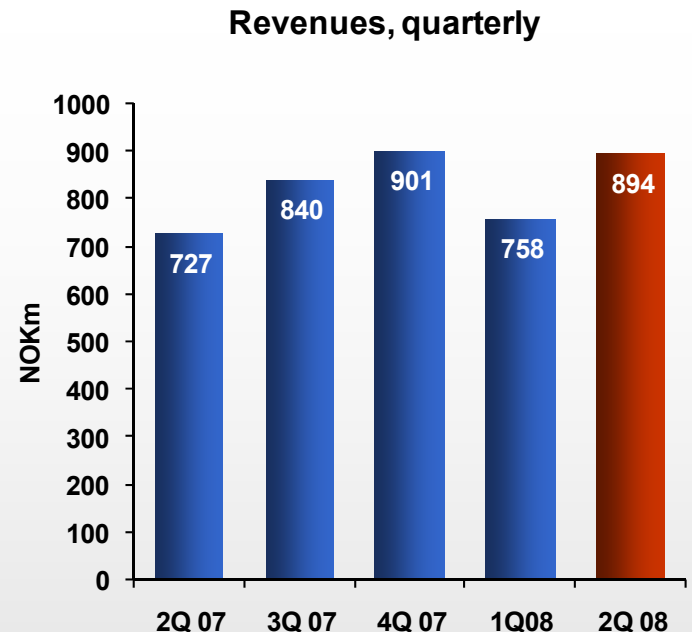
- Decline explained by provision of NOK 18 million
  - Refers to repair of a product due to high failure rate in deliveries to a European mobile operator
  - The product is currently not sold as part of the general product portfolio
- Underlying margin slightly up both Y/Y and Q/Q

Gross margin, quarterly



# Eltek Valere – Revenue

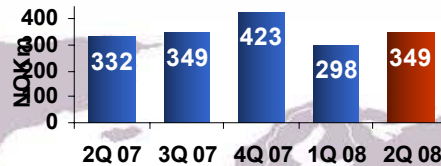
- +23% Y/Y and +18% Q/Q
- +36% Y/Y currency adjusted
- Geographic highlights:
  - Increase in all regions
  - Positive seasonal effect
  - Stronger in South America
  - Continued strong performance in India
  - Growth in several other countries in APAC, particularly in Vietnam



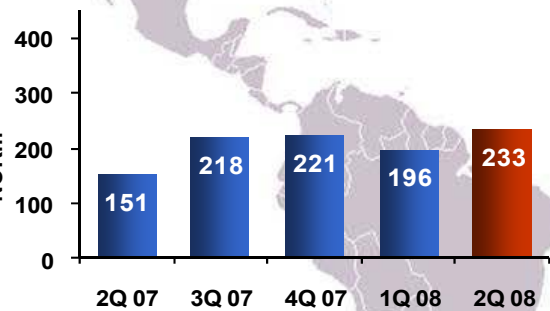
# Eltek Valere - Regional development

## Reported figures

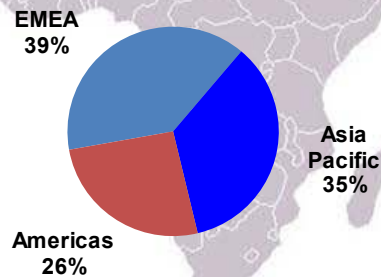
EMEA revenue



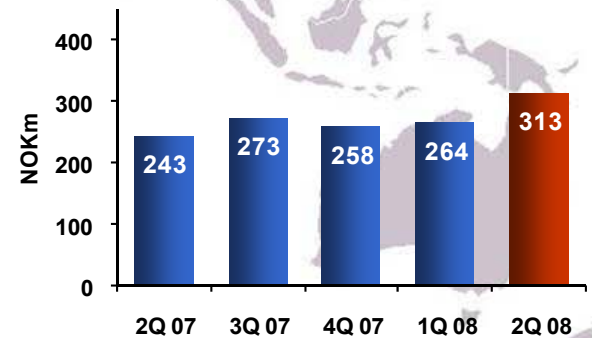
Americas revenue



2Q2008 Revenue by region



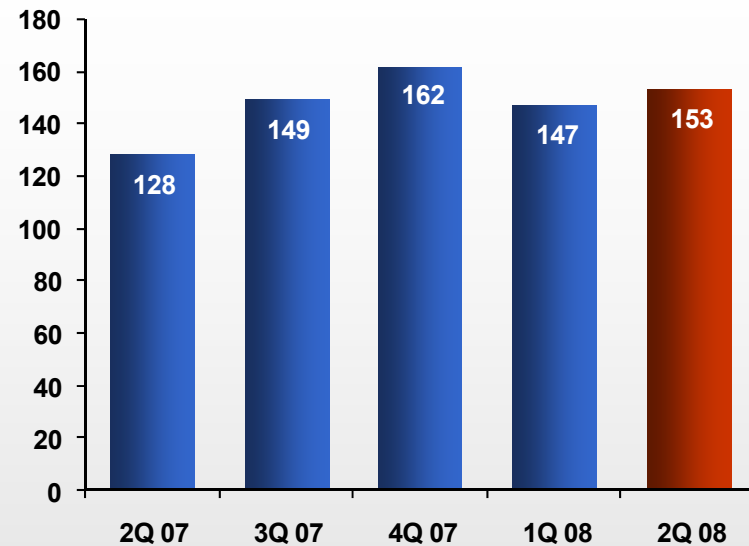
Asia Pacific revenue



# Eltek Valere – Operating costs

- Increase from previous quarter is explained by higher volumes

Operating costs, quarterly



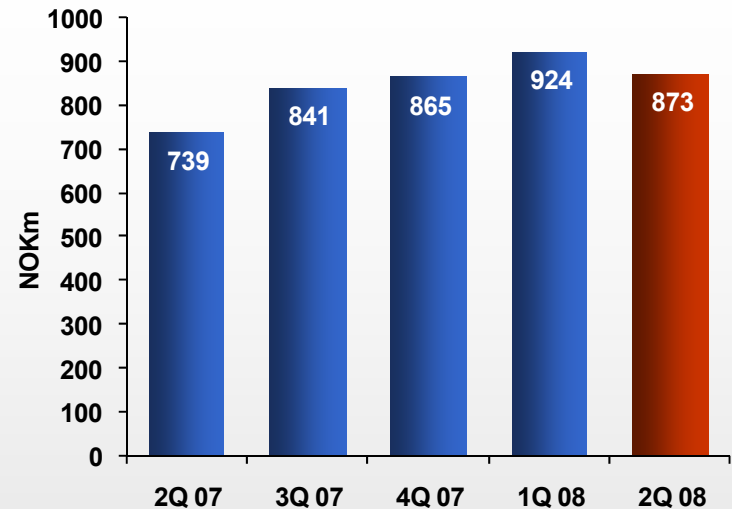
Notes: Excluding non-recurring items; NOK -31m in 3Q'07, NOK -4m in 4Q '07 and NOK -4 million in 1Q'08

Excluding preliminary amortization of PPA; NOK 3m in 2Q'07, NOK 10m in 3Q'07, and NOK 6m in 4Q'07, 1Q'08 and 2Q '08

# Eltek Valere – Order entry

- +18% Y/Y and -6% Q/Q
- Continued healthy market environment and order inflow
  - Decline from previous quarter explained by major USD 17 million order in Q1

Order entry, quarterly



# Flatpack2 High Efficiency Update

- Well received at trade shows during 2008
  - Good fit with “green profile”
- Volume production started
- First customer deliveries
- Some customers have made decision to convert from current products to Flatpack2 HE
- Good progress with test deployments
  - Western Europe and South East Asia in particular



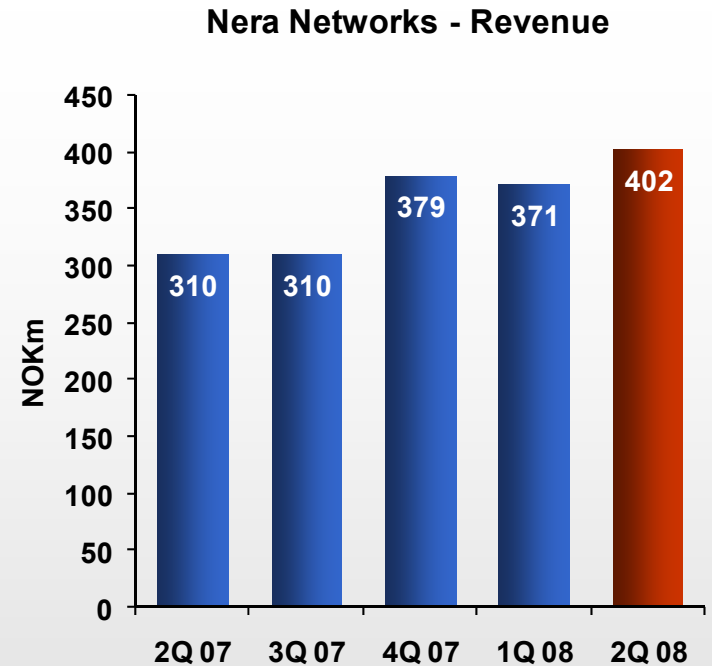
# Nera Networks

# Nera Networks – Key financials

NOKm	2Q 08	2Q 07	Growth	H1 08	H1 07	Growth
Order entry	473	319	48%	921	607	52%
Revenue	402	310	30%	773	622	24%
Revenue growth, currency adj.			38%			35%
Gross Profit	88	45	96%	162	88	84%
Gross Margin (%)	22.0	14.5		20.9	14.1	
EBITDA	29	-4		46	-21	
EBIT	15	-16		19	-44	

# Nera Networks – Revenue

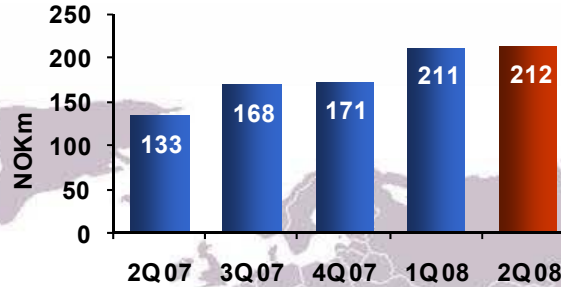
- +30% Y/Y and 8% Q/Q
- Continuing shift in product mix:
  - Units sold vs. Q1;
    - Evolution +34 %
    - Interlink -31 %
- Strong growth in South America



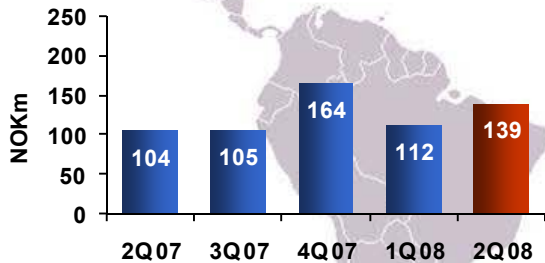
Note: Gross revenues, including deliveries to NeraTel

# Nera Networks - Regional development

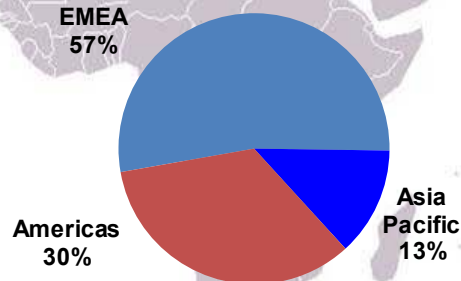
EMEA revenue, quarterly



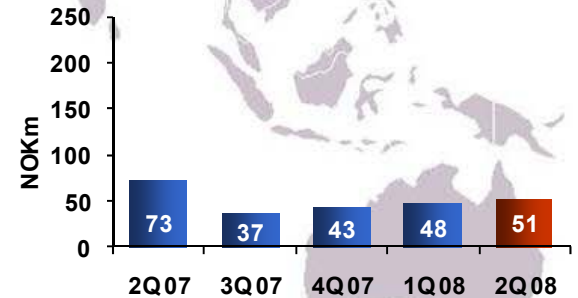
Americas revenue, quarterly



2Q 2008 Revenue by region



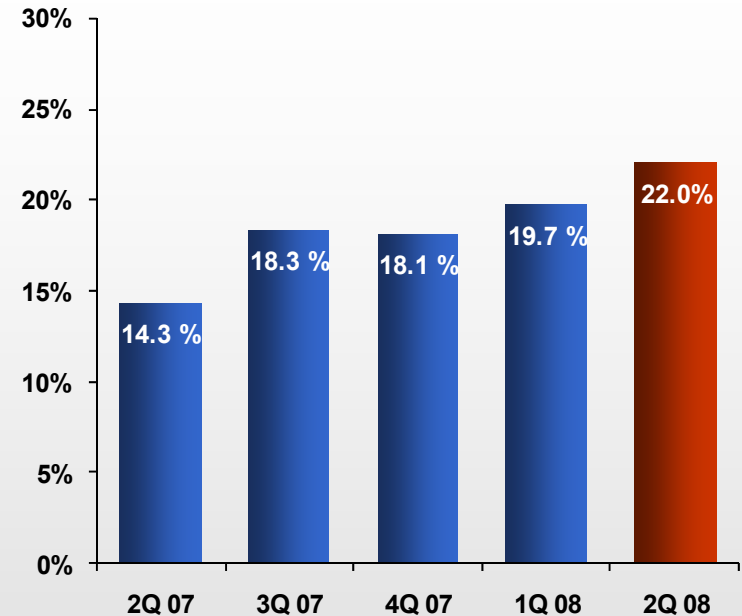
Asia Pacific revenue, quarterly



# Nera Networks – Gross margin

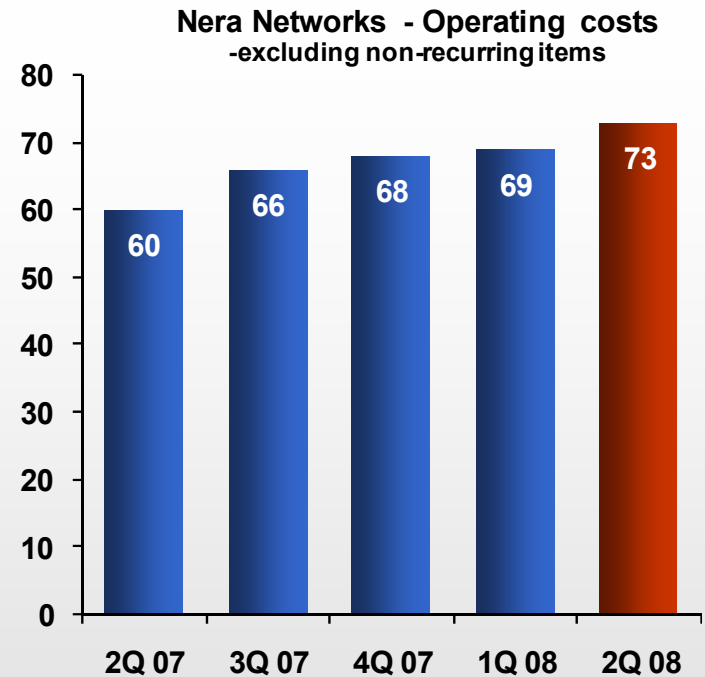
- Gradually improving
  - Higher manufacturing capacity and output yields lower unit costs
  - Evolution Long-Haul contributes positively

Gross margin, quarterly



## Nera Networks – Operating costs

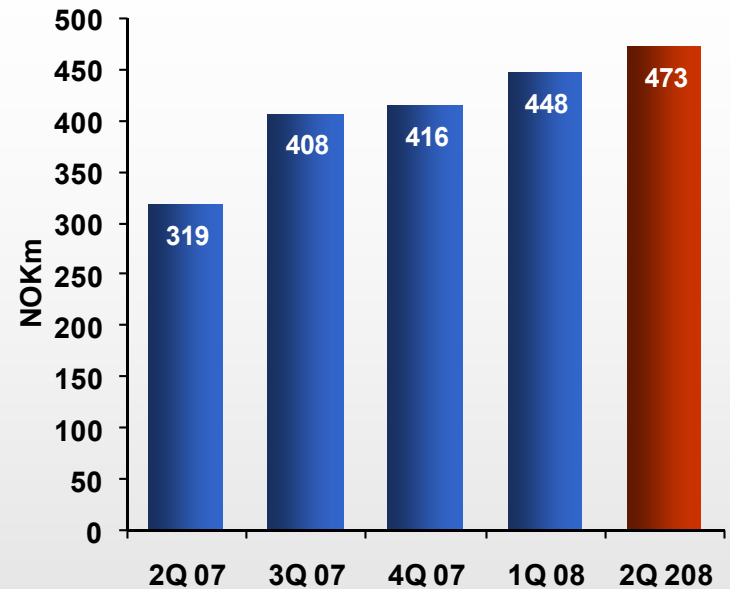
- Slight Q/Q increase explained by higher volumes and higher amortization of R&D
- Costs keep declining as percentage of revenue
  - 2Q 2008: 18.2%
  - 1Q 2008: 18.6%
  - 2Q 2007: 19.4%



# Nera Networks – Order entry

- +48% Y/Y and +6% Q/Q
  - Evolution continues to be well received across a broad base of geographies and customer segments
  - Particular strong performance in Africa and South America
- Geographical mix in 2Q;
  - EMEA: 39%
  - Americas: 53%
  - Asia: 8%

Nera Networks - Order Entry



Note: Gross order entry, including deliveries to NeraTel

## Evolution update

- Ramp up of Evolution Series Long-Haul on track
- Continuous product improvements to defend competitive advantage
  - Cost competitiveness in general and on access products in particular
  - Feature enhancements in general and on Evolution IP Radio in particular



NeraTel

# NeraTel – Key financials

NOKm	2Q 08	2Q 07	Growth	H1 08	H1 07	Growth
Order entry	119	114	4%	245	406	-40%
Revenue	137	163	-16%	298	320	-7%
Revenue growth, currency adj.			-8%			3%
Gross Profit	37	40	-8%	75	76	-1%
Gross Margin (%)	27.3	24.5		25.2	23.8	
EBITDA	17	17	-	32	31	3%
EBIT	12	11	9%	23	18	28%

- Low order entry and revenue due to delays in projects
- Gross margin improvement due to changes in product mix
  - Higher Infocomm revenue, decline in Transmission
- NeraTel reported 2Q 2008 figures on 14 August 2008
  - Please also see [www.neratel.com.sg](http://www.neratel.com.sg)

# Detailed Financials

Income Statement

Balance Sheet

Cash Flow

# Income Statement - unaudited

Amounts in NOK million	2Q 08	2Q 07	YTD 2008	YTD 2007
Revenue	1 413	1 124	2 679	3 121
Cost of sales	-1 078	-858	-2 041	-2 348
<b>Gross profit</b>	<b>335</b>	<b>266</b>	<b>638</b>	<b>773</b>
Selling and marketing costs	-126	-110	-246	-243
Administrative expenses	-76	-70	-161	-179
R&D and engineering costs	-62	-51	-121	-137
Other operating items	-19	0	-19	-25
<b>Operating profit</b>	<b>52</b>	<b>35</b>	<b>91</b>	<b>189</b>
Share of result in associated comp.	0	0	0	1
Net financial items	-1	-11	26	-33
<b>Profit before income tax</b>	<b>51</b>	<b>23</b>	<b>117</b>	<b>157</b>
Income tax expense	-15	-24	-38	-51
Profit from discontinued operations			0	
<b>Net profit</b>	<b>36</b>	<b>-1</b>	<b>80</b>	<b>107</b>
<b>Attributable to:</b>				
Equity holders	25	-26	54	87
Minority interests	11	25	26	20

# Balance Sheet - unaudited

## ASSETS

<b>Amounts in NOK million</b>	<b>30 06 2008</b>	<b>31 03 2008</b>	<b>31 12 2007</b>
Property, plant & equipment	435	417	359
Intangible assets	1 281	1 243	1 270
Deferred income tax asset	407	404	395
Other non-current assets	14	16	17
<b>Total non-current assets</b>	<b>2 137</b>	<b>2 080</b>	<b>2 041</b>
Inventories	941	873	830
Trade and other receivables	2 333	2 106	2 166
Cash and cash equivalents	591	587	592
<b>Total current assets</b>	<b>3 865</b>	<b>3 565</b>	<b>3 588</b>
<b>Total assets</b>	<b>6 002</b>	<b>5 645</b>	<b>5 629</b>

# Balance Sheet - unaudited

## EQUITY AND LIABILITIES

Amounts in NOK million	30 06 2008	31 03 2008	31 12 2007
Capital/reserves attributable to equity holders	1 953	1 931	1 958
Minority interest	386	417	437
<b>Total equity</b>	<b>2 339</b>	<b>2 348</b>	<b>2 394</b>
Borrowings	795	447	788
Deferred income tax liabilities	2	2	0
Retirement benefit obligations	153	153	153
Provisions for other liabilities and charges	30	33	36
<b>Total non-current liabilities</b>	<b>981</b>	<b>635</b>	<b>976</b>
Borrowings	674	738	438
Trade creditors and other payables	1 799	1 734	1 611
Current income tax payable	30	41	49
Provisions for other liabilities and charges	179	148	160
<b>Total current liabilities</b>	<b>2 682</b>	<b>2 662</b>	<b>2 258</b>
<b>Total liabilities</b>	<b>3 663</b>	<b>3 297</b>	<b>3 235</b>
<b>Total equity and liabilities</b>	<b>6 002</b>	<b>5 645</b>	<b>5 629</b>
<b>Equity ratio</b>	<b>39.0 %</b>	<b>41.6 %</b>	<b>42.5 %</b>

# Cash Flow Statement - unaudited

Amounts in NOK million	2Q 08	2Q 07	YTD 2008	YTD 2007	2007
Net cash flow from operations	-144	21	-13	-57	97
Net cash flow from investments	-74	-598	-203	-676	-902
Net cash flow from financing	222	371	214	380	647
<b>Net change in cash and cash equivalents</b>	<b>4</b>	<b>-206</b>	<b>-2</b>	<b>-353</b>	<b>-158</b>
Cash and cash equivalents, beg. of period	587	603	592	750	750
Cash and cash equivalents, end of period	591	397	591	397	592

# Summary and Outlook

- Strong development in Nera Networks
  - Generally positive market for transmission equipment
  - Delivery capacity further ramped-up
  - Production interruptions solved towards the end second quarter
  - Evolution Long-Haul gradually replacing Interlink
  - Increasing efforts to introduce Evolution and secure growth in Asia
- Mixed picture in Eltek Valere
  - Still positive market opportunities in emerging markets
  - India expected to decline from a peak in 1H
  - Slow development in North America and Western Europe
  - High Efficiency products expected to contribute positively
- Rebound in NeraTel in 2H