

# 3<sup>rd</sup> quarter 2008

CEO Jan T. Jørgensen  
CFO Pål Skistad

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# Agenda

- Third Quarter Highlights
  - Key Financial Figures for the Eltek Group
  - Cash Flow and Balance Sheet issues
- Segment Information
  - Eltek Valere
  - Nera Networks
  - Nera Telecommunications (NeraTel)
- Summary and Outlook

## Third Quarter Highlights

- + 10 percent revenue growth year-on-year
- + Continued growth in both Eltek Valere and Nera Networks
- + Overall higher order entry and order backlog
- Continued negative cash flow and increased net debt

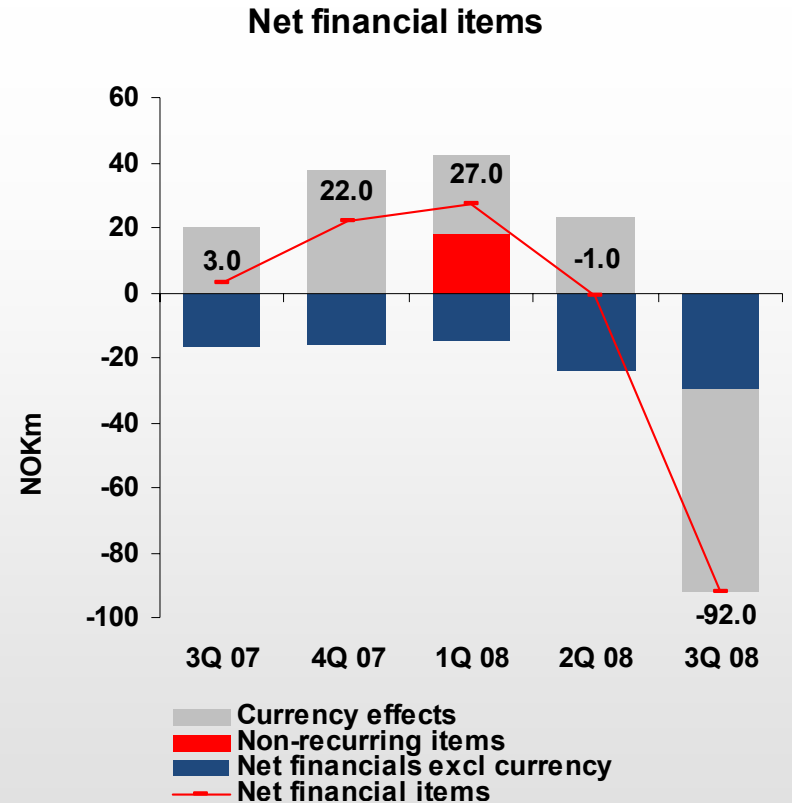
# Eltek Group – key financials

NOKm	3Q 08	3Q 07	Growth	9M 08	9M 07	Growth
Order entry	1,558	1,569	0%	4,499	3,865	16%
Revenue	1,407	1,282	10%	4,086	3,394	20%
Revenue growth, currency adj.	-	-	12%	-	-	28%
Gross Profit	360	310	16%	998	800	25%
Gross Margin (%)	25.6	24.2		24.4	23.6	
EBITDA	138	64	119%	320	173	86%
EBIT	85	17	400%	176	52	231%
Net financial items	-92	3		-66	-19	
Profit before tax	-8	20	-86%	110	33	684%
Non-recurring items	-	-31		-19	-36	
EBITDA before non-recurring items	138	94	47%	339	208	63%
EBIT before non-recurring items	85	48	77%	194	89	119%

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

# Net financial items

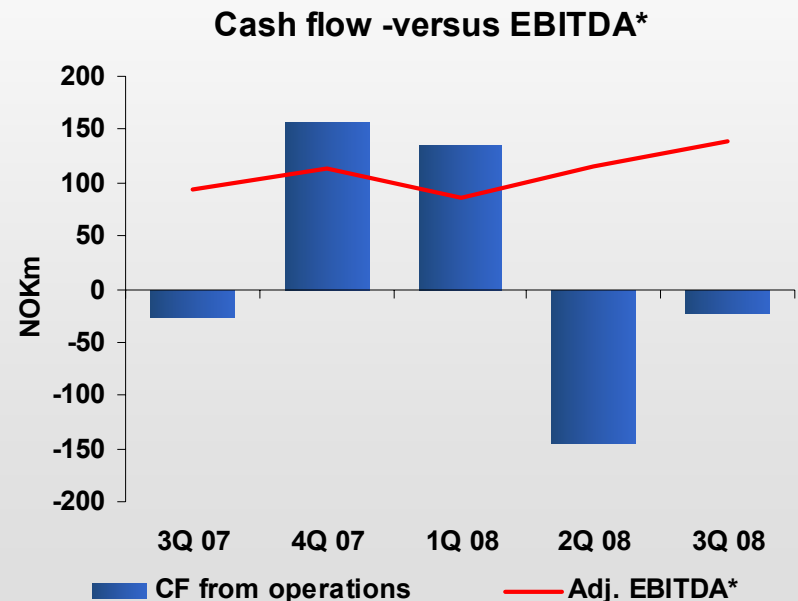
- Higher net debt
- Higher average interest rates
- Negative currency effects



# Cash flow

Amounts in NOK million	3Q 08	3Q 07	9M 2008	9M 2007
Net cash flow from operations	-22	-27	-35	-84
Net cash flow from investments	-76	-104	-279	-781
Net cash flow from financing	33	79	247	458
<b>Net change in cash and cash equivalents</b>	<b>-66</b>	<b>-52</b>	<b>-67</b>	<b>-406</b>

- Increased working capital in 3Q
  - High work-in-progress in Nera Networks and NeraTel
  - Increased receivables also due to;
    - higher deliveries,
    - high sales late in quarter, and
    - geographical sales mix

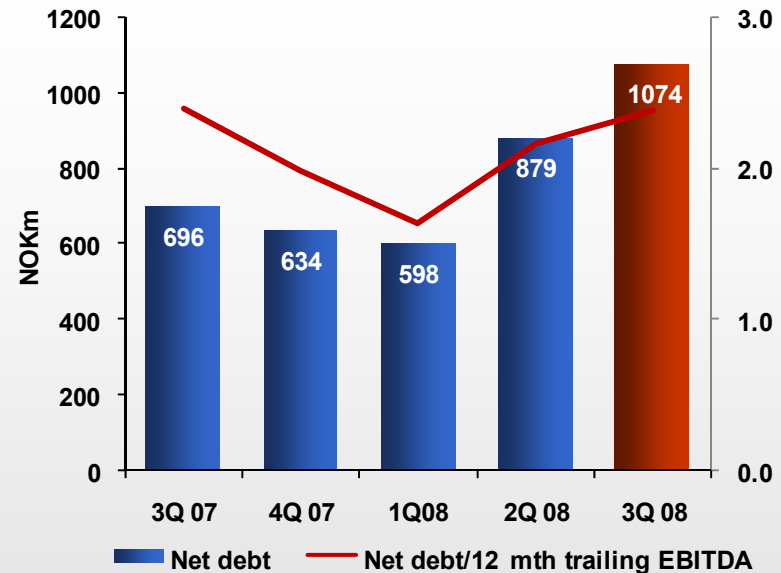


\* EBITDA adjusted for non-recurring items

# Balance sheet issues and net debt

- Net debt increase of NOK 195 million in 3Q '08
  - Net cash flow of NOK -98 from operations and investments
  - NOK -86 million effect of revaluation of USD debt
- No loan repayments in 4Q '08
  - Postponed installments of USD 16.7 million from November '08 to May '09

Net debt development  
-and net debt/12 mth trailing EBITDA



Eltek Valere

# Eltek Valere – key financials

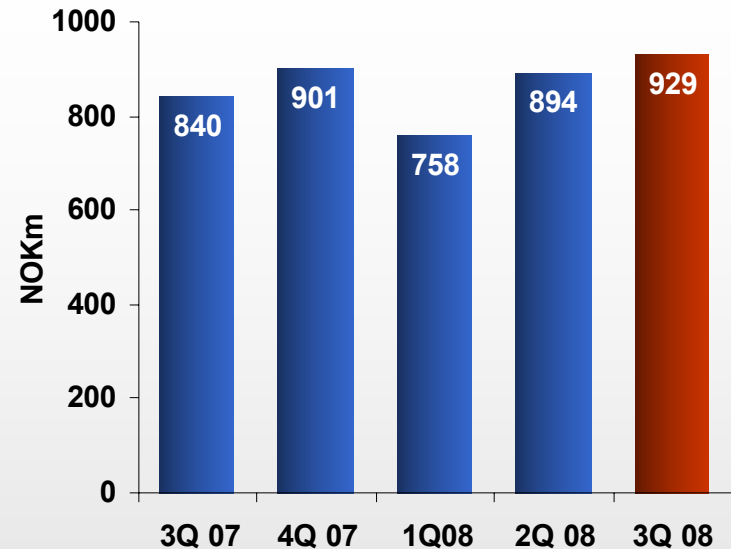
NOKm	3Q 08	3Q 07	Growth	9M 08	9M 07	Growth
Order entry	861	841	2%	2,658	2,231	19%
Revenue	929	840	11%	2,581	2,164	19%
Revenue growth, currency adj.	-	-	13%	-	-	27%
Gross Profit	232	216	8%	633	543	17%
Gross Margin (%)	25.0%	25.7%		24.5%	25.1%	
EBITDA	100	54	86%	240	170	41%
EBIT	70	26	168%	155	106	46%
Non-recurring items	-	-31		-4	-36	
EBITDA before non-recurring items	100	85	18%	244	206	18%
EBIT before non-recurring items	70	57	22%	158	142	12%

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

# Eltek Valere – Revenue

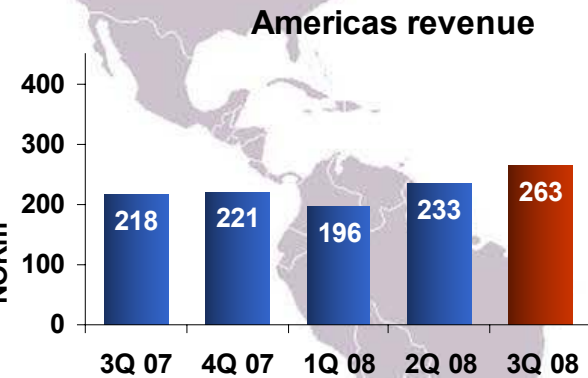
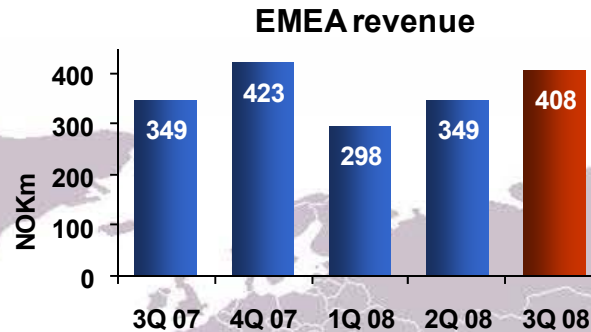
- +11%Y/Y and +4% Q/Q
- Geographic highlights:
  - Increase in EMEA
    - Up in Russia, UK, Middle East
    - Decline in Mediterranean region
  - Increase in Latin-America
    - Strong in Brazil
    - Continued weak demand in USA
  - Decline in Asia Pacific
    - Decline from high level in India
    - Decline in Vietnam, Philippines
    - Up in Thailand, Pakistan

Revenue, quarterly

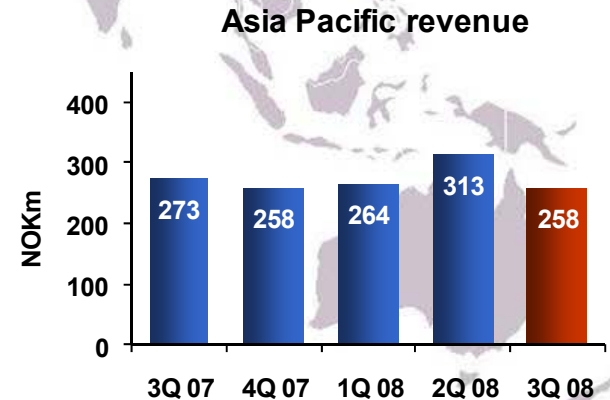
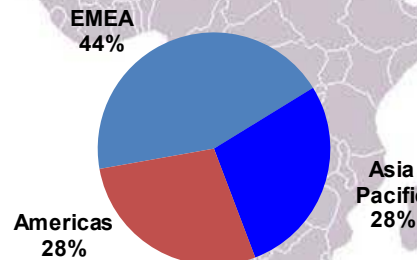


# Eltek Valere - Regional development

## Reported figures



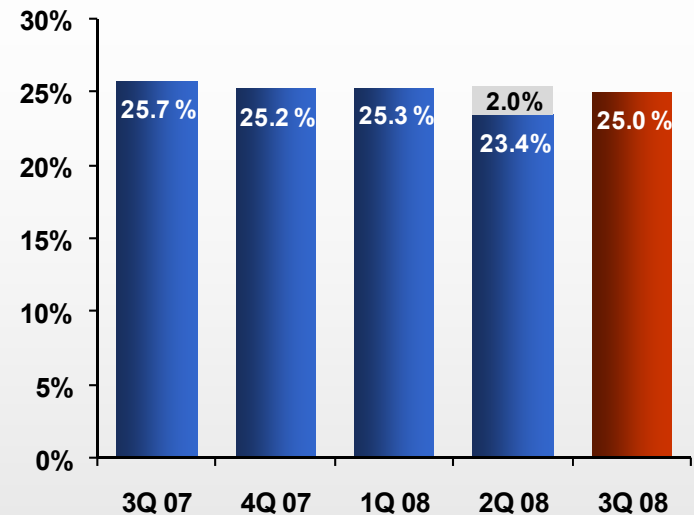
### 3Q 2008 Revenue by region



# Eltek Valere – Gross margin

- Increase from 2Q
  - Explained by NOK 18 million warranty provision in 2Q
- Relatively stable underlying gross margin
  - Challenged by changes in geographical sales mix
  - Higher sales in Latin-America, lower sales in USA

Gross margin, quarterly

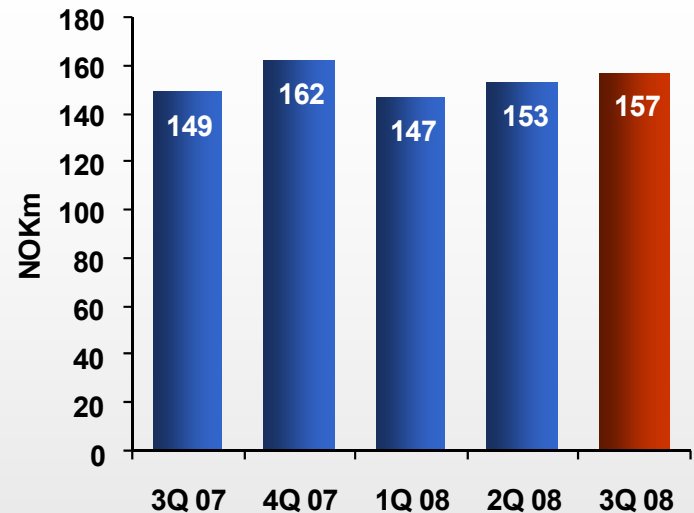


Note: Gross margin in 2Q '08 was negatively affected by NOK 18 million (2.0%-p) by warranty provision

# Eltek Valere – Operating costs

- 3Q vs. 2Q:
  - Higher volumes
  - Higher cost level in NOK
- Costs have declined slightly as % of revenue
  - 3Q 2008: 16.9%
  - 2Q 2008: 17.1%
  - 3Q 2007: 17.7%

Operating costs, quarterly

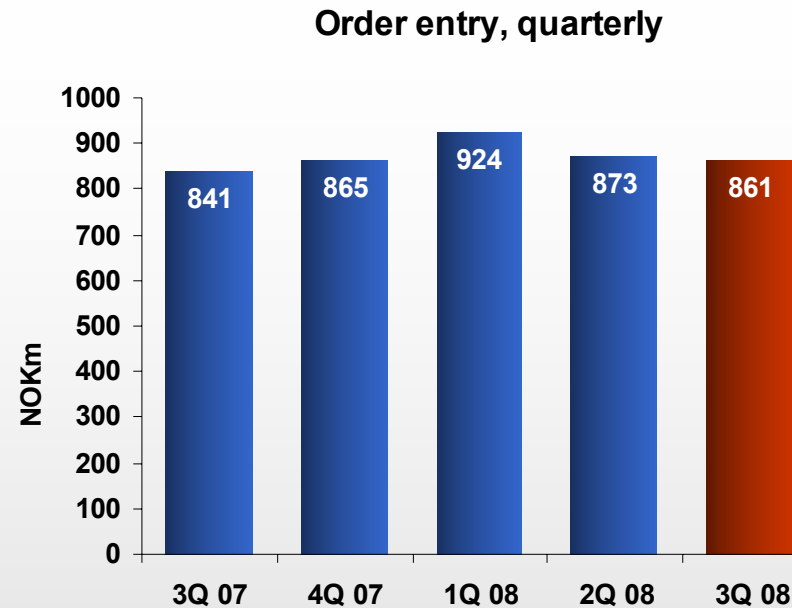


Notes: Excluding non-recurring items; NOK -31m in 3Q'07, NOK -4m in 4Q'07 and NOK -4 million in 1Q'08

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

# Eltek Valere – Order entry

- Relatively flat development
  - +2% Y/Y and -2% Q/Q
- Some shifts in geographical patterns
  - Decline from historically high levels in India
  - Continued strength in Latin America
  - Weak in North America
- US customers curtail demand in 4Q due to financial turmoil



# Eltek Valere

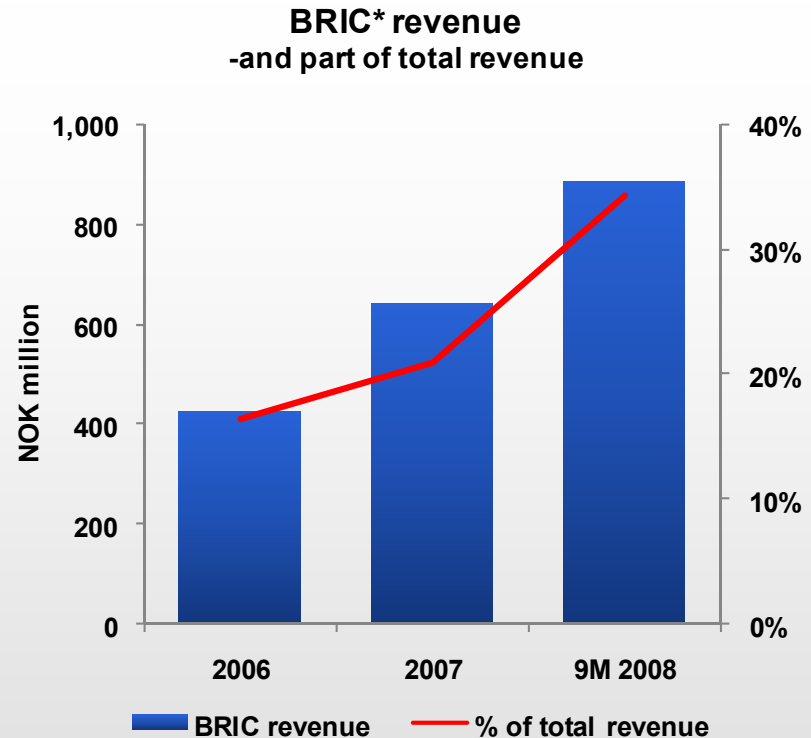
## - Capturing growth in developing markets

- Developing markets have been driving growth

Examples:

- Strong growth in India in '07- 1H '08
- Growth momentum in Brazil
- Solid position in Russia/Ukraine
- China improving from a low level

- Global financial turmoil reduces demand visibility



\*BRIC: Brazil, Russia, India and China

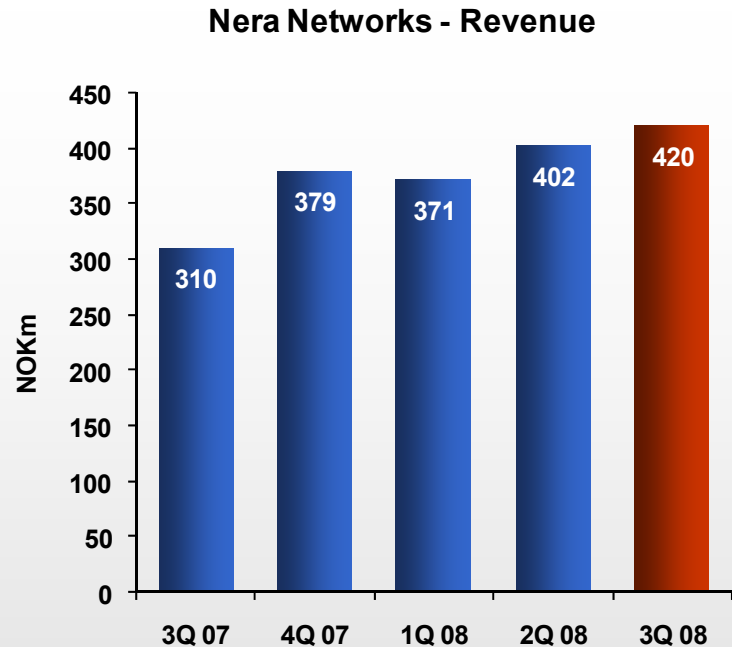
# Nera Networks

# Nera Networks – key financials

NOKm	3Q 08	3Q 07	<b>Growth</b>	9M 08	9M 07	<b>Growth</b>
Order entry	504	408	<b>23%</b>	1,425	1,015	<b>40%</b>
Revenue	420	310	<b>36%</b>	1,194	932	<b>28%</b>
Revenue growth, currency adj.	-	-	<b>38%</b>	-	-	<b>35%</b>
Gross Profit	95	57	<b>66%</b>	256	145	<b>77%</b>
Gross Margin (%)	22.6%	18.4%		21.5%	15.6%	
EBITDA	38	3		84	-18	
EBIT	21	-9		41	-53	

# Nera Networks – Revenue

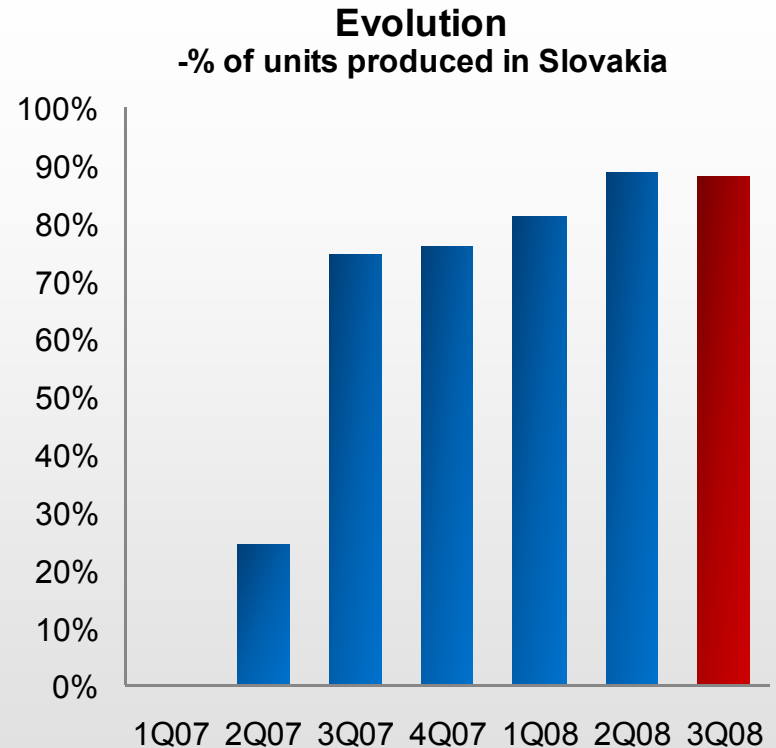
- +36% Y/Y and +4% Q/Q
- Continued increased delivery capacity
- Geographical, vs. 2Q:
  - EMEA: - 18%
  - Asia Pacific: +22%
  - Americas: +48%



Note: Gross revenues, including deliveries to NeraTel

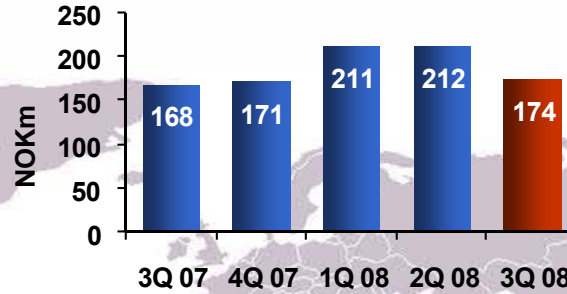
# Evolution taking over

- Evolution accounts for close to 90% of radios produced in the past few quarters
- Evolution production up 40% from previous quarter
- High interest in Evolution long-haul
- Interlink will be phased-out during first half 2009
  - Production up ~60% in 3Q due to “last-time buys”

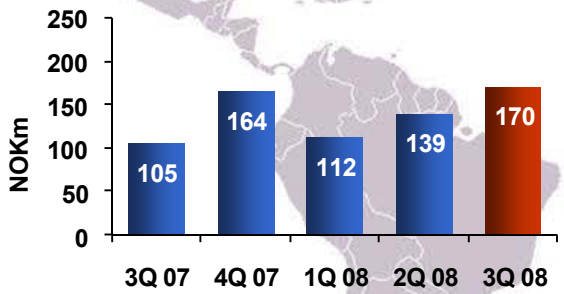


# Nera Networks - Regional development

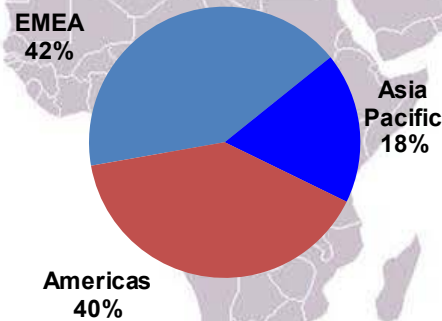
EMEA revenue, quarterly



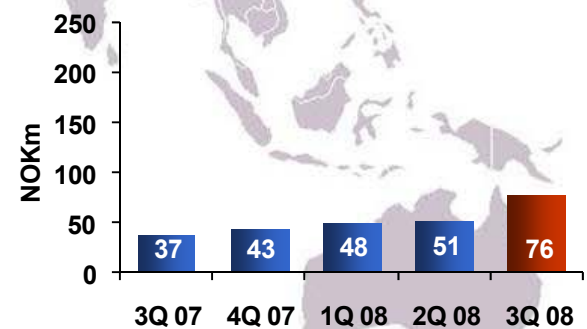
Americas revenue, quarterly



3Q 2008 Revenue by region

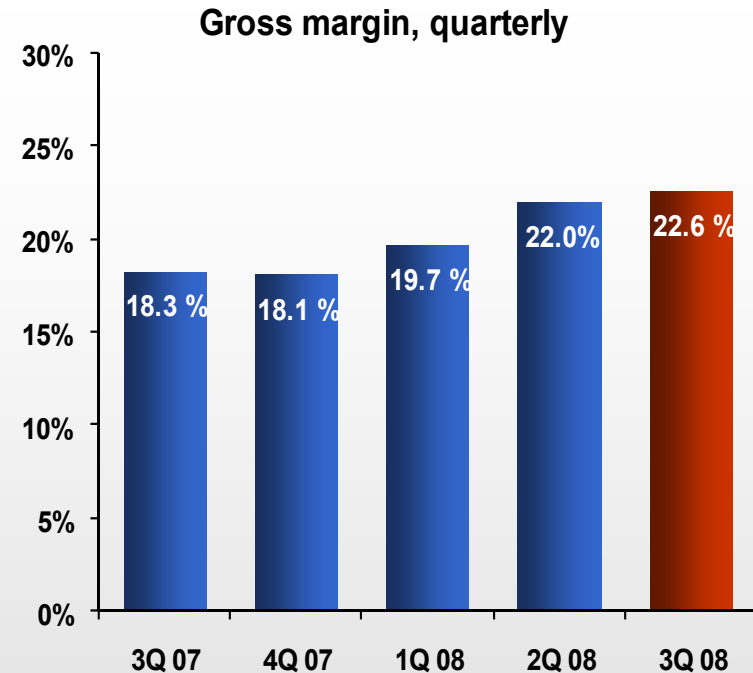


Asia Pacific revenue, quarterly



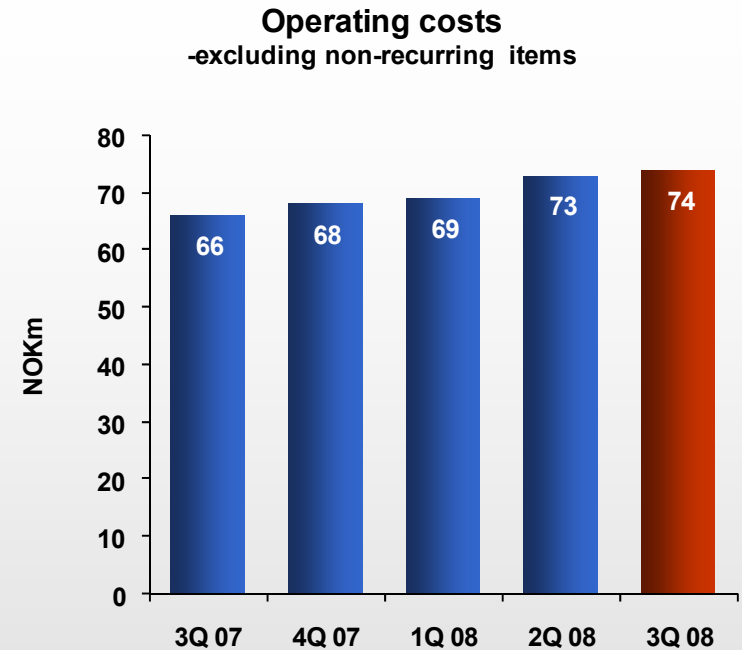
# Nera Networks – Gross margin

- Continued gradual improvement
- Shift to higher-margin products
- Lower unit costs
  - Higher volumes and increased capacity utilization



## Nera Networks – Operating costs

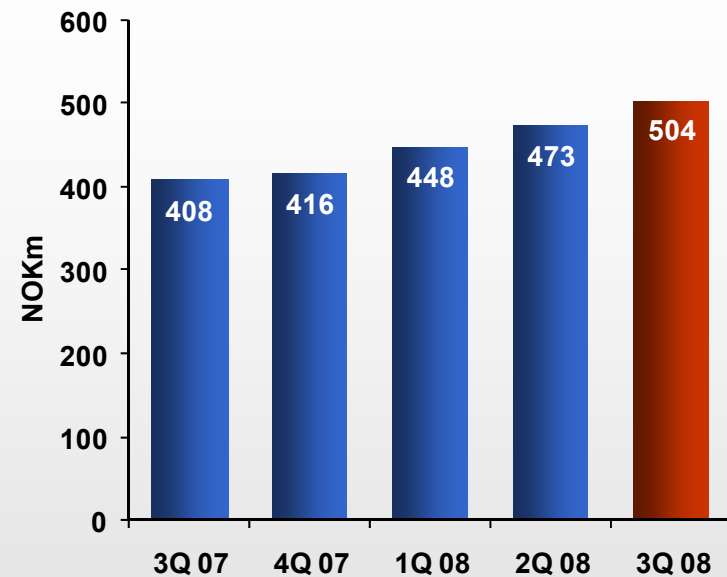
- Marginal Q/Q increase
  - Higher volumes
  - Higher amortization of R&D
- Costs keep declining as % of revenue
  - 3Q 2008: 17.7%
  - 2Q 2008: 18.2%
  - 3Q 2007: 21.2%



# Nera Networks – Order entry

- +23% Y/Y and +6% Q/Q
  - Continuously higher delivery capabilities as a result of the Evolution production ramp-up
- Evolution addresses a larger customer base
  - Increased demand from mobile customers globally in 2Q/3Q
- Geographical mix;
  - Strong demand in Latin America
  - Increase in Asia Pacific
  - Large order in Bulgaria

Nera Networks - Order Entry



Note: Gross order entry, including deliveries to NeraTel

NeraTel

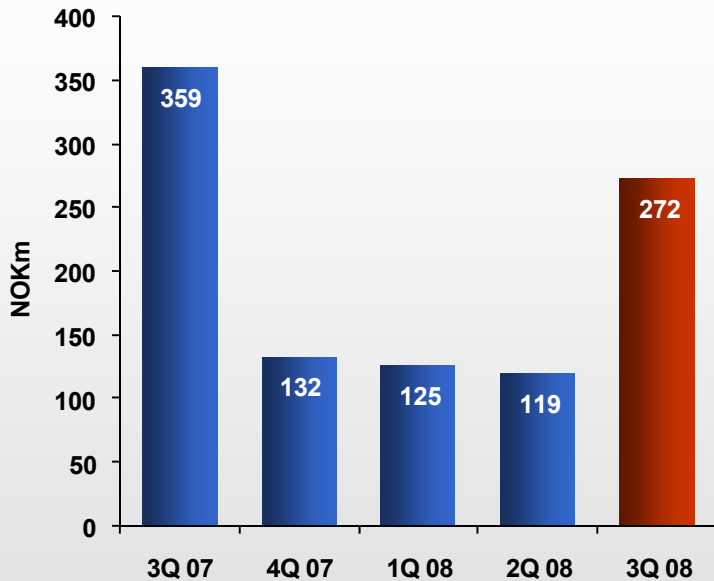
# NeraTel – key financials

NOKm	3Q 08	3Q 07	Growth	9M'08	9M'07	Growth
Order entry	272	359	-24%	517	765	-32%
Revenue	128	175	-27%	427	495	-14%
Revenue growth, currency adj.						
Gross Profit	33	37	-11%	108	113	-4%
Gross Margin (%)	25.4%	21.1%		25.3%	22.8%	
EBITDA	10	15	-33%	42	46	-9%
EBIT	5	10	-50%	28	28	-

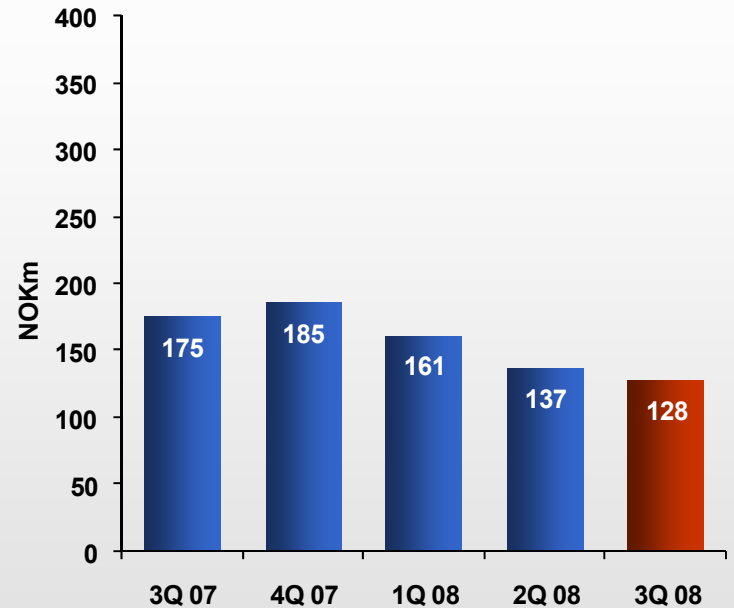
- Continued revenue decline due delayed projects
- Gross margin holding up due to change in product mix
  - Revenue high for Infocomm, low for Transmission
- Increase in 3Q order entry

# NeraTel – Order entry and Revenue

NeraTel - Order entry



NeraTel - Revenue



# Summary

3Q wrap-up

Market Outlook

Concluding remarks

## 3Q summary

- + Continued growth in revenue
- + Improved operational earnings
- + Increased order book and backlog for 4Q
- High net financial cost
- Negative cash flow
- Increased net debt

# Outlook

- Financial turmoil = lower demand visibility
- Mixed picture in Eltek Valere:
  - Flat order entry over the past few quarters
  - Weak development in North America in 4Q, lower visibility in other markets
- Positive trend for Nera Networks:
  - High backlog for delivery in 4Q, indicating revenue and margin improvement
  - Lower demand visibility going into 2009
- Working capital remains top priority
- Eltek also considers several measures to improve the overall liquidity situation, such as increased credit lines and/or bridge loans, divestment of non-core assets, and possibly the raising of new equity.

# Detailed Financials

Income Statement

Balance Sheet

Cash Flow

# Income Statement - unaudited

Amounts in NOK million	3Q 08	3Q 07	YTD 2008	YTD 2007
Revenue	1 407	1 282	4 086	3 393
Cost of sales	-1 047	-972	-3 088	-2 593
<b>Gross profit</b>	<b>360</b>	<b>310</b>	<b>998</b>	<b>800</b>
Selling and marketing costs	-126	-120	-372	-336
Administrative expenses	-79	-77	-240	-215
R&D and engineering costs	-69	-65	-190	-161
Other operating items	-1	-31	-20	-35
<b>Operating profit</b>	<b>85</b>	<b>17</b>	<b>176</b>	<b>52</b>
Net financial items	-92	3	-66	-19
<b>Profit before income tax</b>	<b>-8</b>	<b>20</b>	<b>110</b>	<b>33</b>
Income tax expense	-16	-22	-53	-56
Profit from discontinued operations		33	0	33
<b>Net profit</b>	<b>-23</b>	<b>31</b>	<b>56</b>	<b>10</b>
<b>Attributable to:</b>				
Equity holders	-23	21	32	-25
Minority interests	-1	10	25	36

# Balance Sheet - unaudited

## ASSETS

<b>Amounts in NOK million</b>	<b>30.09.2008</b>	<b>30.06.2008</b>	<b>31.12.2007</b>
Property, plant & equipment	464	435	359
Intangible assets	1 385	1 281	1 270
Deferred income tax asset	406	407	395
Other non-current assets	14	14	17
<b>Total non-current assets</b>	<b>2 270</b>	<b>2 137</b>	<b>2 041</b>
Inventories	990	941	830
Trade and other receivables	2 594	2 333	2 166
Cash and cash equivalents	525	591	592
<b>Total current assets</b>	<b>4 110</b>	<b>3 865</b>	<b>3 588</b>
<b>Total assets</b>	<b>6 379</b>	<b>6 002</b>	<b>5 629</b>

# Balance Sheet - unaudited

## EQUITY AND LIABILITIES

Amounts in NOK million	30.09.2008	30.06.2008	31.12.2007
Capital/reserves attributable to equity holders	2 051	1 953	1 958
Minority interest	418	386	437
<b>Total equity</b>	<b>2 469</b>	<b>2 339</b>	<b>2 394</b>
Borrowings	862	795	788
Deferred income tax liabilities	2	2	0
Retirement benefit obligations	154	153	153
Provisions for other liabilities and charges	28	30	36
<b>Total non-current liabilities</b>	<b>1 046</b>	<b>980</b>	<b>976</b>
Borrowings	736	674	438
Trade creditors and other payables	1 922	1 799	1 611
Current income tax payable	25	30	49
Provisions for other liabilities and charges	182	179	160
<b>Total current liabilities</b>	<b>2 865</b>	<b>2 682</b>	<b>2 258</b>
<b>Total liabilities</b>	<b>3 911</b>	<b>3 663</b>	<b>3 235</b>
<b>Total equity and liabilities</b>	<b>6 379</b>	<b>6 002</b>	<b>5 629</b>
<b>Equity ratio</b>	<b>38,7 %</b>	<b>39,0 %</b>	<b>42,5 %</b>

# Cash flow Statement - unaudited

<b>Amounts in NOK million</b>	<b>3Q 08</b>	<b>3Q 07</b>	<b>YTD 2008</b>	<b>YTD 2007</b>	<b>2007</b>
Net cash flow from operations	-22	-27	-35	-84	97
Net cash flow from investments	-76	-104	-279	-780	-902
Net cash flow from financing	33	79	247	458	647
<b>Net change in cash and cash equivalents</b>	<b>-66</b>	<b>-52</b>	<b>-67</b>	<b>-406</b>	<b>-158</b>
Cash and cash equivalents, beginning of period	591	397	592	750	750
Cash and cash equivalents, end of period	525	345	525	345	592