

# REPORT 4th QUARTER 2008

# REPORT

## 4th QUARTER 2008

### Highlights

#### Financial restructuring

- Strengthened liquidity and financial flexibility through share issues and revised loan structures
- NOK 250 million private placement at NOK 1 per share in December
- Additional NOK 30 million share issue towards existing shareholders at NOK 1 in February
- Postponements of loan repayments from 2009 to 2010 and revised loan covenants

#### Operational highlights for 4Q

- Strong growth - record revenue and order entry
- Lower gross margin
- Continued improvement in operational profit before non-recurring items
- Non-recurring items of NOK -832 million, including goodwill write-down of NOK 728 million
- Weak net finance due to currency effects and higher net debt
- Weak free cash flow
- Cash position of NOK 622 million at year-end 2008

(NOK million, unaudited)	4Q '08	4Q '07	2008	2007	3Q '08
Order entry	1 770	1 373	6 252	5 238	1 558
Revenue	1 873	1 427	5 958	4 821	1 407
Gross Profit	366	332	1 364	1 132	360
EBITDA	64	43	385	424	138
Depreciation & amortization	-796	-50	-940	-379	-53
EBIT	-731	-7	-555	45	85
Pre-tax profit	-807	16	-697	49	-8
Gross margin (%)	19,5 %	23,3 %	22,9 %	23,5 %	25,6 %
Non-recurring operational items	-832	-70	-850	-106	0
EBITDA before non-recurring items	168	113	507	321	138
EBIT before non-recurring items	101	63	295	151	85

Note: EBIT includes amortization of PPA related with M&A of NOK 11 million in 4Q'08 (9) and NOK 37 million in 2008 (36).

### Key Financials

The figures below describe developments in the fourth quarter 2008 (fourth quarter 2007 in brackets) and in 2008 (2007 in brackets). Note that the acquisition of Valere Power Inc. by Eltek Energy AS was finalized and consolidated with effect from 1 June, 2007.

Eltek reported revenue of NOK 1,873 million in the fourth quarter 2008, which was an increase of 31 percent from the fourth quarter 2007 and an increase of 33 percent from the previous quarter.

For the full year 2008 revenue increased 24 percent to NOK 5,958 million. Part of the revenue growth is explained by acquisitions in 2007.

Both Eltek Valere and Nera Networks reported record revenue in the fourth quarter and for the full year. Revenue in NeraTel also rebounded in the fourth quarter, although full year revenue declined slightly from 2007.

Order entry was NOK 1,770 million in the fourth quarter 2008, which was an increase of 29 percent from the fourth quarter 2007 and 14 percent above the previous quarter.

For the full year 2008, order entry increased by 19 percent to NOK 6,252 million.

Gross profit increased 10 percent from the fourth quarter 2007. However, gross margin declined to 19.5 percent in the fourth quarter. Adjusted for NOK 59 million in non-recurring negative inventory adjustments the gross margin was 22.7 percent, which was in line with the fourth quarter 2007.

The margin decline from the third quarter 2008 is mainly explained by significant changes in geographical sales mix and relatively higher sales of low margin products.

Gross profit increased by 20 percent for the full year 2008.

Excluding non-recurring items, EBITDA was NOK 168 million in the fourth quarter. Non-recurring items amounted to a negative NOK 104 million, including the above mentioned inventory adjustments. These items will be discussed in more detail under each of the segments.

EBITDA was NOK 507 million before non-recurring items for the full year 2008 compared to NOK 321 million in 2007.

EBIT before non-recurring items was NOK 101 million in the fourth quarter.

Impairment tests resulted in a write-down of all goodwill in Eltek Valere, and the Income Statement was consequently charged with NOK 728 million (see note 3 and 6). The goodwill impairment has no effect on cash flow, tax positions or loan covenants, nor any impact on the operations.

Reported EBIT loss was thus NOK 731 million for the fourth quarter 2008.

EBIT before non-recurring items was NOK 295 million for the full year, compared to NOK 151 million in 2007. Reported EBIT loss was NOK 555 million.

Net financial costs were NOK 77 million in the fourth quarter 2008 including negative currency effects of NOK 27 million, and NOK 18 million in non-cash calculation of interest related to put options. The put options are described under the Balance Sheet and in note 6.

In the fourth quarter 2007, net financials were a positive NOK 22 million, when currency developments had a positive effect of NOK 38 million

For the full year 2008, net financial costs amounted to NOK 143 million, compared to positive net financials of NOK 2 million in 2007. The higher net financial costs reflect currency developments, higher net debt, and increased interest rates and spreads.

Reported loss before tax was thus NOK 807 million in the fourth quarter 2008, compared to a profit before tax of NOK 15 million in the fourth quarter 2007.

The full year loss before tax of NOK 697 million compares to a profit before tax of NOK 49 million in 2007.

## Financial restructuring

Increased working capital requirements and currency developments contributed to a sharply negative cash flow and increasing net debt in 2008. As described in the interim report for the third quarter 2008, Eltek therefore had to consider measures to improve its liquidity position.

In the fourth quarter 2008, the company carried out a financial restructuring comprising of a share capital increase and rescheduling of the debt repayment structure.

The share capital was increased through a private placement of 250 million shares at NOK 1 per share. As a result, the number of shares increased from 49.2 million to 299.2 million as at 31 December, 2008.

In February 2009 the company issued further 30 million shares in a subsequent offering at NOK 1 per share directed towards existing shareholders which had not been invited to participate in the private placement.

As a result, the number of shares increased from 299.2 million to 329.2 million. Net proceeds from the two share issues amounted to NOK 266 million.

Contingent on the raising of new equity, Eltek's main financing banks had agreed to postpone scheduled debt instalments.

A NOK 350 million term loan in Eltek will be repaid with NOK 116 million in the fourth quarter 2010, and thereafter in annual instalments of NOK 58 million.

A USD 100 million loan in Eltek Valere will be in six equal instalments, with the first due in second quarter 2009, the second in the fourth quarter 2009, and the remaining over the following four years.

Eltek has also obtained a postponement of a reduction of an overdraft facility from USD 90 million to USD 70 million from the fourth quarter 2009 until the second quarter 2010.

Interest margin on the loans are 200-350bp, depending on the ratio of net interest bearing debt to EBITDA. Margin is fixed at 350 bp until 1 December 2009.

As part of the refinancing, the financing banks have also agreed to adjust the loan covenants, as follows.

Covenants		31.12.08	31.12.09
Eltek ASA	GW-dj. equity ratio	24%	27%
	Net IB debt/EBITDA	4,2	3,0

## Cash Flow

Net cash flow from operating activities was a negative NOK 72 million in the fourth quarter and a negative NOK 108 million for the full year 2008.

Nera Networks contributed negatively to net cash flow from operations in both the fourth quarter and full year 2008, as a result of higher working capital and adverse effects of exchange rate developments. In Eltek Valere, net cash flow from operations was positive for both the fourth quarter and the full year.

Net cash flow from investing activities was a negative NOK 75 million in the fourth quarter 2008, including capitalized R&D of NOK 41 million. For the full year, net cash flow from investing activities amounted to a negative NOK 354 million, including capitalized R&D of NOK 159 million.

Net cash flow from financing activities amounted to NOK 141 million in the fourth quarter, which primarily reflects the private placement with net proceed of NOK 239 million and reduction of bank overdraft. For the full year 2008, net cash flow from financing was NOK 387 million.

Including currency translation effect, total net change in cash and cash equivalents was NOK 98 million in the fourth quarter and NOK 30 million for the full year 2008.

## Balance Sheet

The gross cash position improved to NOK 622 million at 31 December 2008, from NOK 592

million at 31 December 2007 and NOK 525 million at 30 September 2008.

It should be noted that parts of the gross cash holding is tied up in Eltek Valere and NeraTel and not readily available to the holding company for financing of Nera Networks.

Gross borrowings amounted to NOK 1,647 million at 31 December 2008, up from NOK 1,598 million at 30 September 2008 and NOK 1,226 million at 31 December, 2007.

The continued increase mainly reflects an increase in the value of USD-denominated debt by NOK 135 million due to the strengthening of USD/NOK during the fourth quarter.

Net interest bearing debt amounted to NOK 1,025 million at 31 December, which was a decrease of NOK 49 million from the end of the third quarter and an increase of NOK 391 million from the end of 2007.

Provisions for non-interest bearing liabilities increased in the fourth quarter, to cover minority shareholders' put options. This relates both to minority shareholders in Eltek Valere, who hold put options on Eltek ASA, and to minority shareholders in subsidiaries who hold put options on Eltek Valere. In total, Eltek has included total provisions of NOK 157 million in the Balance Sheet, whereof NOK 34 million as a current liability. The put options on Eltek Valere are exercisable 1 February 2009-31 July 2009. Please also refer to note 6.

Total assets amounted to NOK 6,171 million at 31 December 2008, compared to NOK 6,379 million at 30 September 2008 and NOK 5,629 million at the end of 2007.

Total assets declined, mainly due to impairment of goodwill, see note 3 and 6. At the end of the year, remaining goodwill in the Balance Sheet was NOK 77 million, which relates to NeraTel. Total intangible fixed assets were NOK 719 million.

Working capital increased during the year, due to higher sales and order entry, and currency developments which increased asset values measured in NOK.

Net working capital was NOK 1,584 million, compared to NOK 1,456 million at the end of the third quarter and NOK 1,176 million at the

end of 2007, with the bulk of the increase explained by increased accounts receivable.

Equity amounted to NOK 1,912 million at the end of 2008, which was a decline from NOK 2,469 million at the end of the third quarter and NOK 2,394 million at the end of 2007.

The equity ratio declined to 31.0 percent from 38.7 percent at the end of the third quarter and 42.5 percent at the end of 2007.

Adjusted for goodwill, the equity ratio was 30.0 percent, compared to 30.1 percent at the end of the third quarter and 34.3 percent at the end of 2007.

Please note that the NOK 30 million share issue carried out in January is not included in the Balance Sheet as at 31 December 2008.

## Segment information

Eltek 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.

All the business areas mainly operate outside of Norway. Measured in NOK, revenue, order entry/backlog, and operational costs are thus significantly influenced by currency developments. The below table outlines reported and currency adjusted revenue growth.

Reported		Currency adjusted	
4Q'08 vs. 4Q'07	2008 vs. 2007	4Q'08 vs. 4Q'07	2008 vs. 2007
20%	20%	9%	22%
59%	37%	34%	35%
29%	-2%	14%	-1%
<b>31%</b>	<b>24%</b>	<b>15%</b>	<b>25%</b>

## Eltek Valere

NOKm	4Q 2008	4Q 2007	2008	2007	3Q 2008
Order entry	1 046	865	3 703	3 096	861
Revenue	1 083	901	3 664	3 065	929
Gross profit	233	227	866	770	232
EBITDA	45	88	286	259	100
Depreciation and amortization	-771	-33	-856	-99	-31
EBIT	-726	54	-571	160	70
Gross margin (%)	21.5 %	25.2 %	23.6 %	25.1 %	25.0 %
Non-recurring items	-791	-4	-794	-40	0
EBITDA before non-recurring items	108	92	352	298	100
EBIT before non-recurring items	65	59	224	200	70

Notes: Valere Power included from 1 June, 2007. EBIT includes amortization of PPA with NOK 27 million in 2008 (19).

## Revenue

Eltek Valere revenue exceeded NOK 1 billion for the first quarter ever, with revenue of NOK

1,083 million in the fourth quarter 2008. This was an increase of 20 percent from the fourth quarter 2007 and 17 higher than in the third quarter of 2008.

## 4Q 2008 revenue by geographical segment

	4Q'08	Chg. vs. 4Q'07	Chg. vs. 3Q'08
EMEA	428	1%	5%
Americas	338	50%	29%
Asia Pacific	316	25%	22%
Total	1 083	20%	17%

Although EMEA remains the largest region in terms of revenue, growth was significantly stronger in the other regions.

Compared to the third quarter, the business level was higher in Argentina and USA and continued on a high level in Brazil. The growth in Asia Pacific compared to the prior quarter was primarily due to higher revenue levels in Vietnam, Malaysia, China and India.

For the full year, revenue in Eltek Valere increased by 20 percent to NOK 3,664 million.

## Gross margin

Eltek Valere reported a gross profit of NOK 233 million and a gross margin of 21.5 percent in the fourth quarter 2008.

This includes non-recurring write-downs of inventory, which negatively affected gross profit by NOK 27 million.

Gross margin was 24.0 percent excluding the inventory adjustments.

Compared to the previous quarter, gross margin was also affected by changes in geographical sales mix, and high volumes of battery deliveries with low margin.

Gross profit for the full year 2008 was NOK 866 million, which corresponded to a gross margin of 23.6 percent.

## Operating costs

Operating costs amounted to NOK 187 million in the fourth quarter (157), excluding non-recurring items and amortization of PPA.

The cost increase of NOK 30 million from the previous quarter can primarily be explained by significantly higher activity, currency developments and write-down of capitalized R&D.

For the full year 2008, operating costs amounted to NOK 643 million (569), excluding non-recurring items and amortization of PPA. The increase primarily reflects the acquisition of Valere Power in 2007, as well as organic volume growth.

### Non-recurring items

In addition to the inventory write-downs described under Gross Margin, the Income Statement in Eltek Valere was charged with a write-down of goodwill of NOK 728 million and other non-recurring costs of NOK 35 million in the fourth quarter 2008.

NOK 21 million reflects provision for idle facility costs in the US, and NOK 14 million in severance pay and other costs related to headcount reductions.

The leased facility was abandoned when the US operations were relocated in 2007. Provisions taken at the time were not sufficient as the company has not been able to find new tenants.

The goodwill write down of NOK 728 million reflects all of the goodwill previously on the Balance Sheet of Eltek Valere.

### Operating profit

EBITDA was NOK 45 million in the fourth quarter 2008.

Excluding non-recurring items, EBITDA was NOK 108 million. This was an increase of NOK 16 million from the fourth quarter 2007 and NOK 9 million higher than in the third quarter 2008.

For the full year 2008, EBITDA was NOK 286 million.

Excluding the non-recurring items EBITDA was NOK 352 million, which was an improvement of NOK 54 million from 2007.

Reported EBIT loss was NOK 726 million in the fourth quarter, with the loss primarily explained by write-down of goodwill.

Excluding the goodwill write-down and other non-current items, EBIT was NOK 65 million in the fourth quarter. This was an improvement of NOK 6 million from the fourth quarter 2007 and a NOK 5 million decline from the previous quarter.

The decline from the previous quarter can mainly be explained by the change in geographical sales mix and product mix described under Gross Margin.

For the full year, reported EBIT loss was NOK 571 million (160). Excluding the write-down of goodwill and other non-recurring items, EBIT was NOK 224 million in 2008, which was 11 percent above adjusted EBIT in 2007.

### Order entry

Eltek Valere obtained a record order entry of NOK 1,046 million in the fourth quarter 2008, which was 21 percent above both the fourth quarter 2007 and the previous quarter.

Order entry and backlog were positively impacted by currency developments in the fourth quarter.

Order entry for the full year increased 20 percent to NOK 3,703 million.

Order backlog was NOK 566 million at the end of the year, down 6 percent from the end of the previous quarter but up 8 percent from the end of 2007. NOK 425 million was for delivery within 90 days.

### Nera Networks

NOKm	4Q 2008	4Q 2007	2008	2007	3Q 2008
Order entry	457	416	1 881	1 431	504
Revenue	604	379	1 797	1 311	420
Gross profit	90	69	347	214	95
EBITDA	11	-54	95	-70	39
Depreciation and amortization	-19	-11	-63	-47	-17
EBIT	-8	-65	33	-118	21
Gross margin (%)	15,0 %	18,2 %	19,3 %	16,3 %	22,6 %
Non-recurring items	-41	-65	-41	-65	0
EBITDA before non-recurring items	52	12	136	-6	39
EBIT before non-recurring items	33	1	74	-52	21

### Revenue

Nera Networks achieved revenue of NOK 604 million in the fourth quarter 2008, which was 59 percent higher than the fourth quarter 2007 and 44 percent above the previous quarter.

### 4Q 2008 revenue by geographical segment

	4Q'08	Chg. vs. 4Q'07	Chg. vs. 3Q'08
EMEA	216	26%	24%
Americas	323	97%	90%
Asia Pacific	65	52%	-14%
<b>Total</b>	<b>604</b>	<b>59%</b>	<b>44%</b>

Revenue growth in Americas was particularly strong in Argentina and Brazil in the fourth quarter. Europe was the main growth contributor in EMEA, whereas the decline in Asia Pacific from the previous quarter reflects lower deliveries to NeraTel.

Revenue for the full year 2008 increased by 37 percent to NOK 1,797 million.

The high growth rate is proof of the competitiveness of the software defined Evolution Series radios. The Evolution Series portfolio enables Nera Networks to address a larger portion of the Point-to-Point (PtP) transmission market than the company was able to target with its previous product generations.

Evolution was first launched in the high- to mid-capacity range in 2007. Evolution Long-Haul was introduced in 2008. The product has been very well received in the market, and accounted for approximately 12 percent of deliveries in the fourth quarter.

Nera Networks further adds to the Evolution Series portfolio with the upcoming launch of Evolution Series Edge, which is tailor-made for the lower capacity IP/Voice market.

### Gross margin

Nera Networks reported gross profit of NOK 90 million in the fourth quarter, which was an increase of 31 percent from the fourth quarter 2007 but a 5 percent decline from the previous quarter.

The decline from the previous quarter is explained by non-recurring adjustments to inventory, which negatively affected gross profit by NOK 32 million.

Gross margin was 15.0 percent in the fourth quarter, and 20.3 percent excluding the inventory adjustments.

This is lower than expected, and is mainly explained by changes in geographical sales mix with almost a doubling of sales in Americas in the quarter. Operations were also impacted by the strained financial situation in the fourth quarter.

For the full year 2008, gross profit increased 62 percent to NOK 347 million, and the corresponding gross margin improved by 3%-points to 19.3 percent.

### Operating costs

Nera Networks had operating costs of NOK 89 million in the fourth quarter, before non-recurring items. This was an increase of NOK 15 million from the previous quarter.

Higher volumes and currency developments explain parts of the increase, although costs also increased due to the establishment of new offices in Saudi Arabia and Serbia, legal fees in Brazil, and increased R&D.

For the full year 2008, operating costs amounted to NOK 305 million excluding non-recurring items. This was an increase of NOK 40 million from 2007. The cost ratio declined to 17.0 percent from 20.3 percent in the previous year.

### Non-recurring items

In addition to the inventory adjustment described above under Gross Profit, the Income Statement in Nera Networks was negatively affected by NOK 9 million in increased provisions for potential loss on receivable.

Total non-recurring items in Nera Networks thus amounted to NOK 41 million in the fourth quarter.

Nera Networks has received two tax/ VAT claims in Brazil. In one of the cases, Nera Networks has paid VAT in one federal state in Brazil but received a VAT claim for the same deliveries from another federal state. The other case relates to income tax in affiliates of Nera's Brazilian subsidiary. Nera Networks disputes these claims. Nera Networks has not made any provisions for these claims in the Balance Sheet. Further analysis will be made before filing the audited annual accounts. Please refer to note 7 for more details.

### Operating profit

EBITDA was NOK 11 million in the fourth quarter.

Excluding non-recurring items EBITDA was NOK 52 million, which was an increase of NOK 40 million from the fourth quarter 2007 and NOK 13 million higher than in the previous quarter.

For the full year 2008, EBITDA amounted to NOK 95 million, whereas EBITDA excluding non-recurring items improved from NOK -6 million to NOK 136 million.

Reported EBIT was NOK –8 million in the fourth quarter, with the loss being explained by the non-recurring items described above.

Excluding non-recurring items, EBIT was NOK 33 million in the fourth quarter, which was NOK 32 million higher than in the fourth quarter 2007 and NOK 12 million higher than in the previous quarter.

For the full year 2008, reported EBIT was NOK 33 million. Excluding non-recurring items, EBIT improved from a loss of NOK 52 million in 2007 to a positive NOK 74 million in 2008.

The improvement in operating profit for the year reflects higher revenue, higher gross margin and relatively lower operating expenses, as a result of higher capacity utilization, a more cost-efficient product portfolio, and operational leverage.

### Order entry

New orders amounted to NOK 457 million in the fourth quarter 2008, which was 10 percent higher than in the fourth quarter 2007 but 9 percent below the previous quarter.

Order entry and backlog were positively impacted by currency developments in the fourth quarter.

Order entry for the full year 2008 increased by 33 percent to NOK 1,881 million.

Order backlog was NOK 700 million at the end of the year, down 17 percent from the end of the previous quarter but up 14 percent from the end of 2007. NOK 367 million was for delivery within 90 days.

### NeraTel

NOKm	4Q 2008	4Q 2007	2008	2007	3Q 2008
Order entry	317	132	834	897	272
Revenue	239	185	666	680	128
Gross profit	47	37	155	150	33
EBITDA	21	17	63	63	10
Depreciation and amortization	-6	-5	-20	-23	-5
EBIT	15	11	43	39	5
Gross margin (%)	19,7 %	20,0 %	23,3 %	22,1 %	25,4 %

Note: EBIT includes quarterly amortization of PPA with NOK 10 million in 2008 and NOK 18 million for 2007.

NeraTel reported revenue of NOK 239 million in the fourth quarter 2008, which was up 29 percent from the fourth quarter 2007 and up 87 percent from the previous quarter.

The Transmission segment was the main contributor to the revenue growth in the quarter.

Gross profit was NOK 47 million, up NOK 10 million from the fourth quarter 2007 and up NOK 14 million from the third quarter 2008.

Gross margin was 19.7 percent, with the decline from previous periods mainly explained by the above mentioned change in product mix with higher Transmission revenue and relatively lower Infocomm revenue in the fourth quarter.

Gross profit increased by NOK 5 million to NOK 155 million for the full year, and gross margin improved to 23.3 percent.

EBITDA was NOK 21 million in the fourth quarter, which was NOK 4 million above the fourth quarter 2007 and NOK 11 million above the previous quarter. The improvement reflects higher revenue.

EBIT was NOK 15 million, which was also NOK 4 million above the fourth quarter 2007, and NOK 10 million higher than in the third quarter 2008.

For the full year 2008, EBITDA was flat at NOK 63 million, whereas EBIT increased by NOK 4 million to NOK 43 million. Lower depreciation and amortisation was due to lower amortization of PPA.

Order entry improved sharply in the second half of the year, and reached NOK 317 million in the fourth quarter. This was an increase of 140 percent from the fourth quarter 2007 and 17 percent above the previous quarter. Order entry and backlog were positively impacted by currency developments in the fourth quarter.

Order entry was low in the first half of the year, and declined by 7 percent to NOK 834 million for the full year 2008.

Compared with 2007, order entry increased close to 30 percent in Infocomm and more than 10 percent in SatCom. Order entry in Transmission more than halved in 2008 but picked up in the second half of the year.

Overall, the order backlog was NOK 618 million at the end of the year, up 14 percent from the previous quarter and up 37 percent from the end of 2007.

NeraTel is a separately listed company on the Singapore Exchange. The company presented its interim results for the fourth quarter 2008 on 12 February 2009. For further information, please see [www.neratel.com.sg](http://www.neratel.com.sg).

## Corporate

Corporate costs and eliminations amounted to NOK 12 million in the fourth quarter 2008, which was slightly higher than in the third quarter.

For the full year 2008, corporate costs amounted to NOK 60 million, including NOK 15 million in severance pay, recruitment cost, legal fees and other costs related to changes in Group management. The corresponding costs amounted to NOK 35 million in 2007.

## Organizational changes

Bengt Thuresson was elected new Chairman of the Board of Directors on an Extraordinary General Meeting on 5 February 2009. Einar J. Greve was elected new member of the Board.

Thuresson replaced Erik Thorsen, who had requested to step down after nine years as Chairman of the Board.

## Outlook

Demand growth in the telecom equipment industry was modest in 2008, and visibility for 2009 is low. Eltek sees signs of reduced demand in some markets, and the first quarter has historically also been seasonally lower. Due to the global financial turmoil, uncertainty is increasing with respect to implementation of planned new telecom projects in some regions, and Eltek prepares for a non-growth flat market development.

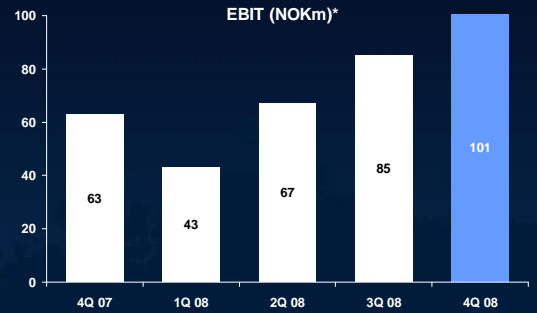
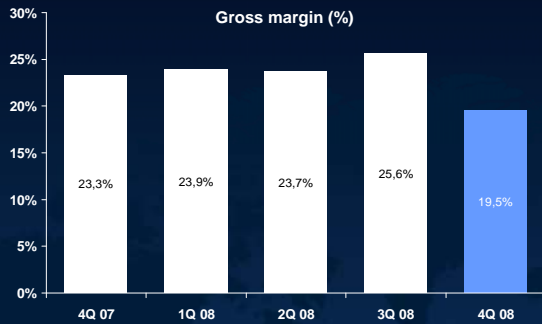
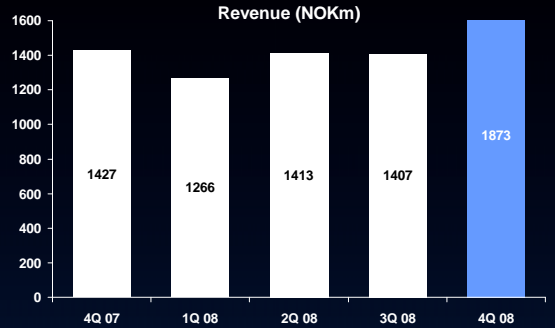
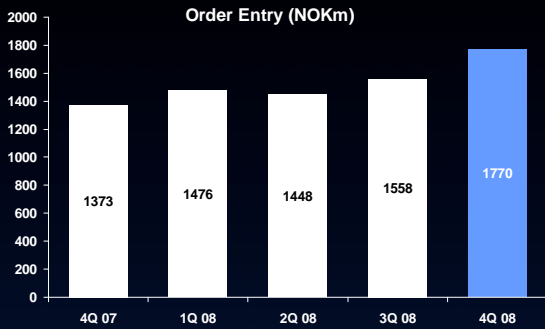
Eltek's high volume and revenue growth in 2008 posed challenges in terms of financing. As a result, the company generated insufficient cash flow, and needed a financial restructuring in the fourth quarter 2008 to avoid a strained liquidity situation.

Although the company began to see some progress in key performance indicators for working capital management in the fourth quarter, the operating cash flow was still weak. In order to improved cash conversion, Eltek will therefore continue its focused work to reduce

days of sales outstanding, increase inventory turnover, reduce project financing, and improve contract terms.

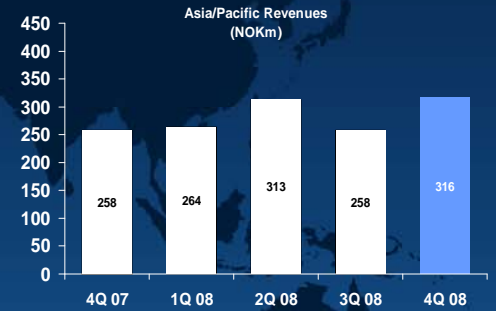
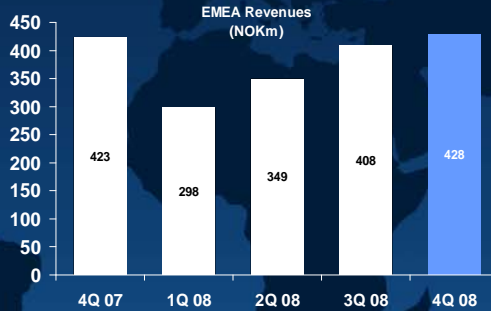
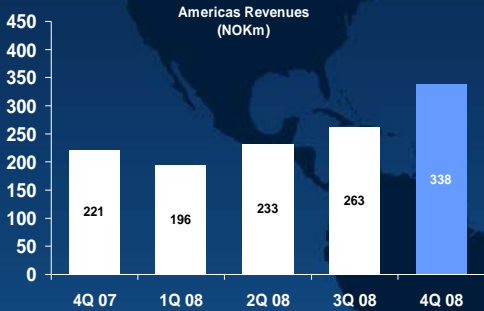
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Board of Directors

## QUARTERLY DEVELOPMENT ELTEK GROUP

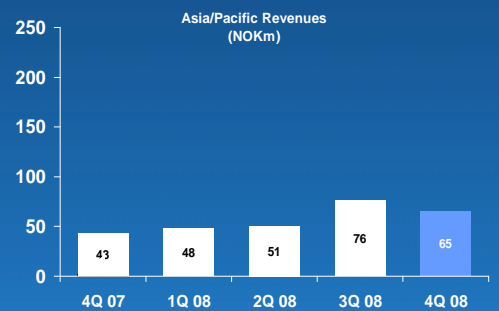
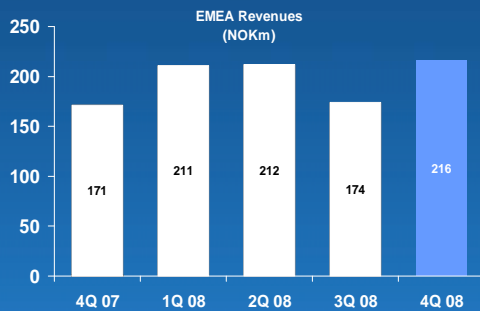
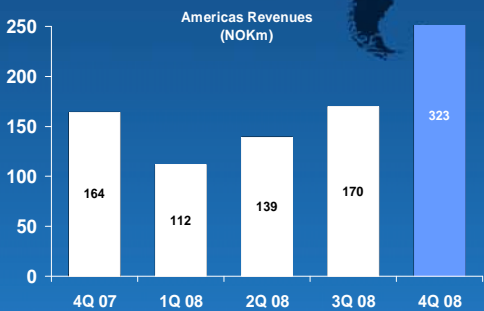


\*EBIT before non-recurring items

## QUARTERLY DEVELOPMENT BY REGION - ELTEK VALERE



## QUARTERLY DEVELOPMENT BY REGION - NERA NETWORKS



## **Consolidated income statement (unaudited)**

Amounts in NOK Million

	<b>4Q 2008</b>	<b>4Q 2007</b>	<b>2008</b>	<b>2007</b>
Revenue	1 872,6	1 427,3	5 958,4	4 820,8
Cost of sales	-1 506,5	-1 095,2	-4 594,6	-3 688,6
<b>Gross profit</b>	<b>366,1</b>	<b>332,1</b>	<b>1 363,8</b>	<b>1 132,2</b>
Selling and marketing costs	-146,0	-131,1	-518,0	-467,1
Administrative expenses	-105,6	-85,9	-345,6	-301,0
R&D and engineering costs	-83,3	-70,0	-273,6	-231,4
Other operating items	-762,3	-52,0	-781,9	-87,4
<b>Operating profit</b>	<b>-731,2</b>	<b>-6,9</b>	<b>-555,4</b>	<b>45,2</b>
Share of result in associated companies	1,1	0,9	1,1	0,9
Net financial items	-77,0	21,7	-142,9	2,6
<b>Profit before income tax</b>	<b>-807,1</b>	<b>15,7</b>	<b>-697,3</b>	<b>48,7</b>
Income tax expense	-12,5	-96,1	-65,8	-152,1
<b>Net profit from continuing operations</b>	<b>-819,6</b>	<b>-80,4</b>	<b>-763,1</b>	<b>-103,5</b>
Profit from discontinued operations	0,0	0,0	0,0	33,0
<b>Net profit</b>	<b>-819,6</b>	<b>-80,4</b>	<b>-763,1</b>	<b>-70,5</b>
<b>Attributable to:</b>				
Equity holders	-768,3	-79,6	-736,7	-105,1
Minority interests	-51,3	-1,0	-26,4	34,6
Basic EPS (NOK)	-14,03	-1,62	-14,56	-2,14
Diluted EPS (NOK)	-14,03	-1,62	-14,56	-2,14

## **Consolidated balance sheet (unaudited)**

Amounts in NOK Million

	<b>31.12.2008</b>	<b>31.12.2007</b>
Property, plant & equipment	521,5	358,7
Intangible assets	719,4	1 270,4
Deferred income tax asset	421,2	394,7
Other non-current assets	15,7	16,8
<b>Total non-current assets</b>	<b>1 677,8</b>	<b>2 040,6</b>
Inventories	983,0	830,3
Trade and other receivables	2 888,3	2 165,7
Cash and cash equivalents	622,1	592,2
<b>Total current assets</b>	<b>4 493,4</b>	<b>3 588,2</b>
<b>Total assets</b>	<b>6 171,2</b>	<b>5 628,8</b>
Share capital	299,2	49,2
Other reserves	1 436,4	1 908,4
Capital and reserves attributable to equity holders of the Company	1 735,6	1 957,6
Minority interest	176,2	436,7
<b>Total equity</b>	<b>1 911,8</b>	<b>2 394,3</b>
Borrowings	849,3	787,9
Deferred income tax liabilities	7,7	0,0
Retirement benefit obligations	170,2	153,0
Provisions for other liabilities and charges	147,7	35,5
<b>Total non-current liabilities</b>	<b>1 174,8</b>	<b>976,5</b>
Borrowings	797,6	438,0
Trade creditors and other payables	2 002,1	1 611,4
Current income tax payable	50,3	48,8
Provisions for other liabilities and charges	234,5	159,9
<b>Total current liabilities</b>	<b>3 084,5</b>	<b>2 258,1</b>
<b>Total liabilities</b>	<b>4 259,4</b>	<b>3 234,5</b>
<b>Total equity and liabilities</b>	<b>6 171,2</b>	<b>5 628,8</b>
<b>Equity ratio</b>	<b>31,0 %</b>	<b>42,5 %</b>

## **Cash flow analysis (unaudited)**

Amounts in NOK Million	<u>4Q 2008</u>	<u>4Q 2007</u>	<u>2008</u>	<u>2007</u>
Net cash flow from operations	-72,2	180,1	-107,5	96,5
Net cash flow from investments	-75,0	-121,4	-354,2	-901,7
Net cash flow from financing	140,5	188,9	387,5	647,3
Currency effect on cash and cash equivalents	104,2		104,2	
<b>Net change in cash and cash equivalents</b>	<b>97,6</b>	<b>247,6</b>	<b>30,1</b>	<b>-157,9</b>
Cash and cash equivalents, beginning of period	524,6	344,6	592,2	750,1
Cash and cash equivalents, end of period	622,2	592,2	622,2	592,2

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

Amounts in NOK Million	<u>4Q 2008</u>	<u>4Q 2007</u>	<u>2008</u>	<u>2007</u>
Actuarial gains/losses	-10,5	1,5	-10,5	1,5
Currency translation effects	299,4	8,9	360,4	-170,2
<b>Net income recognized directly in equity</b>	<b>288,9</b>	<b>10,4</b>	<b>349,9</b>	<b>-168,6</b>
Profit for the period	-819,6	-80,7	-763,1	-70,5
<b>Total recognized income</b>	<b>-530,7</b>	<b>-70,3</b>	<b>-413,2</b>	<b>-239,1</b>

## **Notes to the interim consolidated financial statements (unaudited)**

### **1. Accounting principles**

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as approved by EU and additional requirements in the Norwegian Securities Trading Act. They do not include all of the information required for full annual consolidated financial statements, and should be read in conjunction with the Eltek Annual report 2007. These interim consolidated financial statements are unaudited.

The accounting policies and methods of computation applied in these consolidated interim financial statements are the same as those applied in the Annual Report 2007.

As a result of rounding differences, numbers or percentages may not add up to the total.

### **2. Segment information**

Business segment is the primary reporting format for Eltek, as product and services represents the predominant source and nature of risk and returns. The Eltek Group operates in three business areas : Eltek Valere (energy systems), Nera Networks (transmission) and Nera Telecommunications (telecom and infocom).

#### ***Eltek Valere***

Amounts in NOK Million	<u>4Q 2008</u>	<u>4Q 2007</u>	<u>2008</u>	<u>2007</u>
<b>INCOME STATEMENT</b>				
Revenue	1 082,5	901,5	3 663,6	3 064,5
Gross profit	233,0	226,9	866,3	770,2
Operating profit/segment results	-725,7	54,5	-570,7	159,9
<b>ASSETS AND LIABILITIES</b>				
Total assets			2 976,7	3 234,2
Total liabilities			2 044,3	1 676,8
<b>OTHER SEGMENT INFORMATION INCL. ABOVE</b>				
Depreciation & amortization	35,5	41,1	120,9	106,7
Capital expenditure	80,2	45,1	210,5	940,7
Impairment goodwill and R&D	735,3		735,3	
Gain change pension scheme		18,4		18,4
Restructuring expenses	35,3	-0,1	38,9	35,9
<b>REVENUE BY GEOGRAPHICAL REGION</b>				
Americas	338,5	225,5	1 030,4	708,3
EMEA (Europe, Middle East and Africa)	428,3	424,2	1 483,0	1 416,1
Asia Pacific	315,7	251,7	1 150,2	940,0

**Nera Networks**

Amounts in NOK Million	<b>4Q 2008</b>	<b>4Q 2007</b>	<b>-</b>	<b>2008</b>	<b>2007</b>
<b>INCOME STATEMENT</b>					
Revenue	603,9	378,8		1 797,5	1 311,0
Gross profit	90,4	68,6		346,9	212,8
Operating profit/segment results	-7,9	-64,6		32,7	-117,5
<b>ASSETS AND LIABILITIES</b>					
Total assets				2 012,7	1 700,6
Total liabilities				1 769,6	1 382,4
<b>OTHER SEGMENT INFORMATION INCL. ABOVE</b>					
Depreciation & amortization	18,8	11,3		62,4	46,8
Capital expenditure	34,9	50,3		169,6	196,6
Impairment goodwill		209,6			209,6
Gain change pension scheme		144,2			144,2
<b>REVENUE BY GEOGRAPHICAL REGION</b>					
Americas	322,7	163,7		743,8	467,5
EMEA (Europe, Middle East and Africa)	216,1	172,5		812,8	606,4
Asia Pacific	65,1	42,7		240,9	237,2

**Nera Telecommunications**

Amounts in NOK Million	<b>4Q 2008</b>	<b>4Q 2007</b>	<b>-</b>	<b>2008</b>	<b>2007</b>
<b>INCOME STATEMENT</b>					
Revenue	239,3	184,8		665,9	679,1
Gross profit	47,0	36,7		154,9	149,1
Operating profit/segment results	14,9	11,3		42,7	38,1
<b>ASSETS AND LIABILITIES</b>					
Total assets				699,1	562,7
Total liabilities				283,2	214,2
<b>OTHER SEGMENT INFORMATION INCL. ABOVE</b>					
Depreciation & amortization	5,8	5,4		20,4	23,9
Capital expenditure	3,0	3,1		15,0	14,9
<b>REVENUE BY GEOGRAPHICAL REGION</b>					
Americas		-0,1			7,5
EMEA (Europe, Middle East and Africa)	0,4	1,5		2,5	9,6
Asia Pacific	238,9	183,3		663,4	661,9

**Corporate/unallocated/eliminations**

Amounts in NOK Million	<b>4Q 2008</b>	<b>4Q 2007</b>	<b>-</b>	<b>2008</b>	<b>2007</b>
<b>INCOME STATEMENT</b>					
Revenue	-53,1	-37,8		-168,6	-233,8
Gross profit	-4,3			-4,3	
Operating profit/segment results	-12,4	-8,4		-59,5	-35,5
<b>ASSETS AND LIABILITIES</b>					
Total assets				482,7	131,3
Total liabilities				162,3	-38,9
<b>OTHER SEGMENT INFORMATION INCL. ABOVE</b>					
Depreciation and amortization	0,1	0,2		0,7	0,8
Capital expenditure	1,3	-5,6		1,7	1,3

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

#### Three months ended 31 December 2008

	Intangible assets				Tangible assets
	Goodwill	R&D	Other	Total	
Net book amount at 01.10.2008	785,4	433,7	166,0	1 385,1	464,2
Additions *	55,3	41,5	3,0	99,8	19,6
Disposals/adjustment *	-183,4			-183,4	-2,2
Depreciation		-29,3	-9,1	-38,4	-20,0
Impairment	-728,1	-7,2		-735,3	
Foreign currency translation effects	147,9	17,0	26,7	191,6	59,8
Net book amount at 31.12.2008	<b>77,1</b>	<b>455,7</b>	<b>186,6</b>	<b>719,4</b>	<b>521,4</b>

#### Three months ended 31 December 2007

	Intangible assets				Tangible assets
	Goodwill	R&D	Other	Total	
Net book amount at 01.10.2007	983,1	377,6	122,6	1 483,3	316,5
Additions		43,5	-6,2	37,3	56,7
Disposals					-2,0
Depreciation		-28,7	-7,4	-36,1	-22,2
Impairment	-209,6			-209,6	
Foreign currency translation effects	-69,4	-4,3	69,1	-4,6	9,7
Net book amount at 31.12.2007	<b>704,1</b>	<b>388,1</b>	<b>178,2</b>	<b>1 270,4</b>	<b>358,7</b>

#### Twelve months ended 31 December 2008

	Intangible assets				Tangible assets
	Goodwill	R&D	Other	Total	
Net book amount at 01.01.2008	704,2	388,1	178,1	1 270,4	358,7
Additions *	88,0	153,2	5,6	246,8	150,0
Disposals/adjustment *	-183,4			-183,4	-6,0
Depreciation		-102,0	-31,5	-133,5	-68,9
Impairment	-728,1	-7,2		-735,3	
Foreign currency translation effects	196,4	23,6	34,4	254,4	87,6
Net book amount at 31.12.2008	<b>77,1</b>	<b>455,7</b>	<b>186,6</b>	<b>719,4</b>	<b>521,4</b>

#### Twelve months ended 31 December 2007

	Intangible assets				Tangible assets
	Goodwill	R&D	Other	Total	
Net book amount at 01.01.2007	406,8	249,1	101,3	757,3	223,1
Addition Valere Inc acquisition	563,9	70,8	126,0	760,7	14,6
Additions	24,3	156,8	1,8	182,9	195,2
Disposals					-6,4
Depreciation		-81,1	-36,9	-118,0	-60,2
Impairment	-209,6			-209,6	
Foreign currency translation effects	-81,3	-7,5	-14,1	-102,9	-7,6
Net book amount at 31.12.2007	<b>704,1</b>	<b>388,1</b>	<b>178,1</b>	<b>1 270,4</b>	<b>358,7</b>

\* See note 6 for further information related to effect of put obligation minority interest

### 4. Reconciliation of movements in capital and reserves

	4Q 2008	4Q 2007	2008	2007
Equity end of previous period	2 468,6	2 466,6	2 394,3	2 404,6
Change in opening balance				1,2
Equity beginning of this period	2 468,6	2 466,6	2 394,3	2 405,8
Total recognized income for the period	-530,7	-70,3	-413,2	-239,1
New equity	239,6		239,6	
New minority interest				245,8
Own shares		-1,9		-2,8
Acquisition of minority interests	-269,8		-284,6	
Cost of stock options	5,2	2,2	12,0	8,5
Dividends	-1,1	-2,5	-36,3	-23,9
<b>Equity end of period</b>	<b>1 911,8</b>	<b>2 394,3</b>	<b>1 911,8</b>	<b>2 394,3</b>

Eltek has in the fourth quarter increased the share capital through a private placement of NOK 250 million shares at NOK 1 per share. As a result, the number of shares has increased from 49,2million shares to 299,2 million shares. In February 2009 the Company issued further 30 million shares in a subsequent offering towards existing shareholders which had not been invited to participate in the private placement.

## 5. Borrowings

Contingent on the raising of new equity, Eltek's main financing banks have agreed to postpone scheduled debt installments. A NOK 350 million term loan in Eltek ASA will be repaid with NOK 116 million in the fourth quarter 2010, and thereafter in annual installments of NOK 58 million. Eltek has also obtained a postponement of a reduction of an overdraft facility from USD 90 million to USD 70 million from the second quarter 2009 until the second quarter 2010.

Interest margins on the loans have been changed and are now 200-350bp depending on the ratio of net interest bearing debt to EBITDA. For the

As part of the refinancing, the financing banks have also agreed to adjust the loan covenants. For Eltek ASA the covenants are as follows :

	31.12.08	31.12.09
GW adjusted equity ratio	0,24	0,27
Net interest bearing debt/EBITDA	4,2	3

## 6. Provisions for other liabilities and charges

Provisions for other liabilities and charges include financial liabilities related to minority interest put options. Non-current portion is NOK 122,7 million and current portion is NOK 34,0 million. These minority put obligations have previously not been recognized as liabilities in the balance sheet statement. By recognizing the minority put options as financial liability, the corresponding minority interest in equity has been removed. The deviation between the estimated value of the PUT obligation and the book value of the minority interest in equity have been booked towards goodwill in the balance sheet. Net effect of the put obligations on the goodwill balance is a decrease of NOK 128,1 million. The liabilities are recognized using estimated value, and the estimate may change in future periods as the pricing is dependent on future fair value / or future results. A calculated interest expense of NOK 18,6 million related to these put obligations have been charged the profit and loss statement in the fourth quarter.

## 7. Contingent liabilities

Nera Networks has received two tax/VAT claims in Brazil. One is a claim issued by the State of Sao Paulo to collect value added tax (ICMS) over imports made by Nera Brazil through a trading company in the State of Espirito Santo. The amount of the claim is Reais 30.7 million (approx NOK 92 million) including interests and penalties and relates to import of equipment in 2004 to 2006. The second claim is from Federal Tax Authorities to collect income tax and social contribution on the profits recognized by a branch of and a company controlled by Nera Brazil, respectively located in Colombia and in Argentina for the fiscal years 2003 to 2005. The full amount of the claim is Reais 5.6 million (approx. NOK 17 million). Nera Networks disputes both these tax claims in Brazil and has, except for a smaller provision for legal costs, not made any provisions for these tax issues in the balance sheet by end of 2008. Further analysis will be made before we post the audited annual accounts.

## 8. Other acquisitions

In the fourth quarter 2008, the Group has paid down NOK 7 million of the sellers credit related to the acquisition of shares in Eltek SGS Pvt Ltd as described in the 2nd Quarter Report. The remaining balance of NOK 14 million is included as borrowings in the balance sheet by end of December 2008.

## 9. Other operating items

Other operating items in the fourth quarter include goodwill impairment of NOK 728,1 million related to the Eltek Valere segment. In other operating items include provision for lease payments NOK 21 million and severance pay NOK 14,3mill both also related to the Eltek Valere segment.

