



# 2<sup>nd</sup> quarter and 1<sup>st</sup> half year 2009

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## Agenda

- 2Q 2009 Highlights
- Operational Review
- Financial Review
- Summary and outlook

## 2Q 2009 Highlights

- Revenue growth of 5 percent – supported by currency
  - Currency adjusted revenue -8 percent from 2Q'08
  - Challenging environment with lower demand in many markets
- Stable gross profit and EBITDA
  - Positive margin development in Eltek Valere, setback in Nera Networks
- Positive net finance
  - Including positive currency effects
- Improved net working capital and reduced net debt
  - Free cash flow of NOK 128 million in 2Q'09 and NOK 249 million in 1H'09

## Key financials – Eltek Group

NOKm	2Q'09	2Q'08	<b>Growth</b>	2008	1Q'09
Order entry	1,370	1,448	<b>-5%</b>	6,252	1,418
Revenue	1,487	1,413	<b>5%</b>	5,958	1,386
Revenue growth, currency adj.			<b>-8%</b>		
Gross Profit	341	335	<b>2%</b>	1,364	333
Gross Margin (%)	23.0	23.7		22.9	24.0
EBITDA	103	100	<b>4%</b>	323	106
EBIT	41	52	<b>-22%</b>	-616	47
Net financial items and associates	28	-1		-142	-61
Profit before tax	68	51	<b>33%</b>	-758	-14
Non-recurring operational items	-20	-15		-911	0
EBITDA before non-recurring items	124	115	<b>8%</b>	507	106
EBIT before non-recurring items	61	67	<b>-9%</b>	295	47



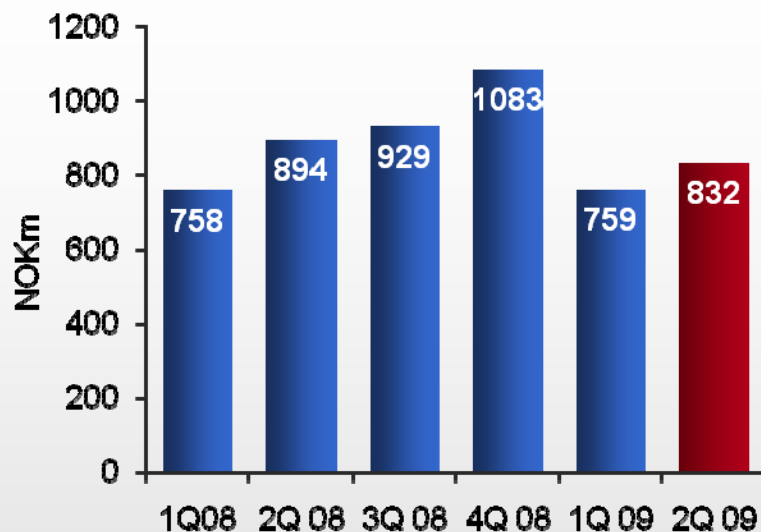
Eltek Valere

## Eltek Valere – key financials

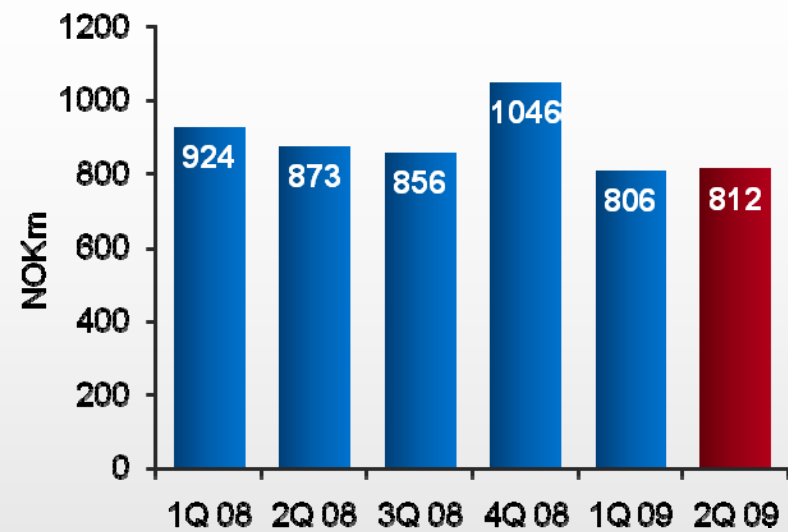
NOKm	2Q'09	2Q'08	<b>Growth</b>	2008	1Q'09
Order entry	812	873	<b>-7%</b>	3,703	806
Revenue	832	894	<b>-7%</b>	3,664	759
Revenue growth, currency adj.			<b>-20%</b>		
Gross Profit	212	209	<b>1%</b>	866	191
<i>Gross Margin (%)</i>	25.5	23.4		23.6	25.2
EBITDA	79	79	<b>0%</b>	286	66
EBIT	44	50	<b>-14%</b>	-571	32
Non-recurring items	-10	-		-794	-
EBITDA before non-recurring items	89	79	<b>12%</b>	352	66
EBIT before non-recurring items	53	50	<b>6%</b>	224	32

# Eltek Valere - Revenue and order entry

**Revenues, quarterly**



**Order entry, quarterly**



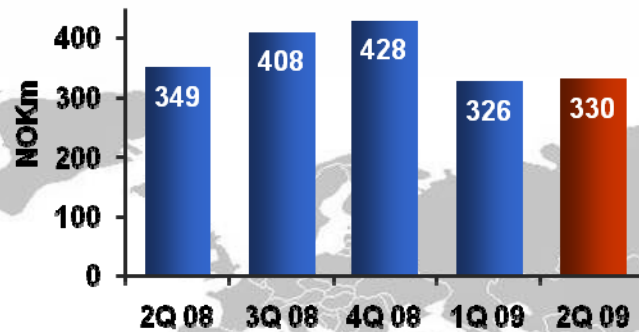
**Revenue by geographical segment**

	2Q'09	Chg. vs. 2Q'08	Chg. vs. 1Q'09
Americas	239	3%	23%
EMEA	330	-6%	1%
Asia Pacific	263	-16%	10%
<b>Total</b>	<b>832</b>	<b>-7%</b>	<b>10%</b>

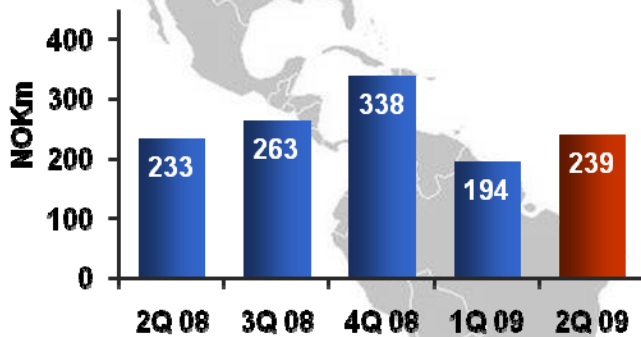
Order backlog: NOK 593 million

# Eltek Valere - Regional development

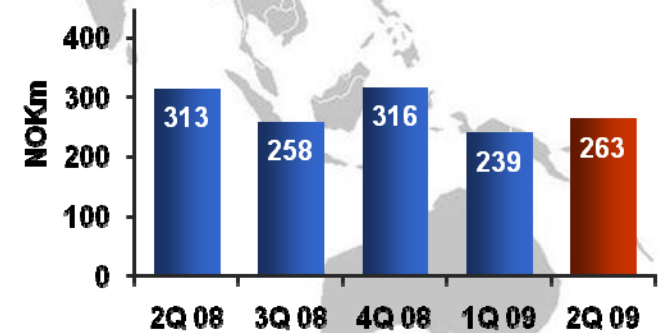
**EMEA revenue**



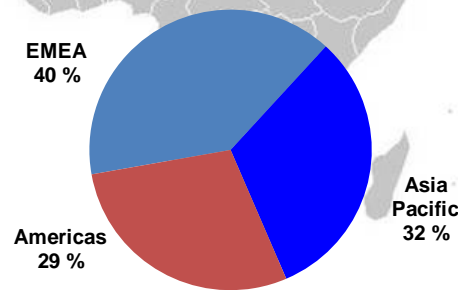
**Americas revenue**



**Asla Pacific revenue**

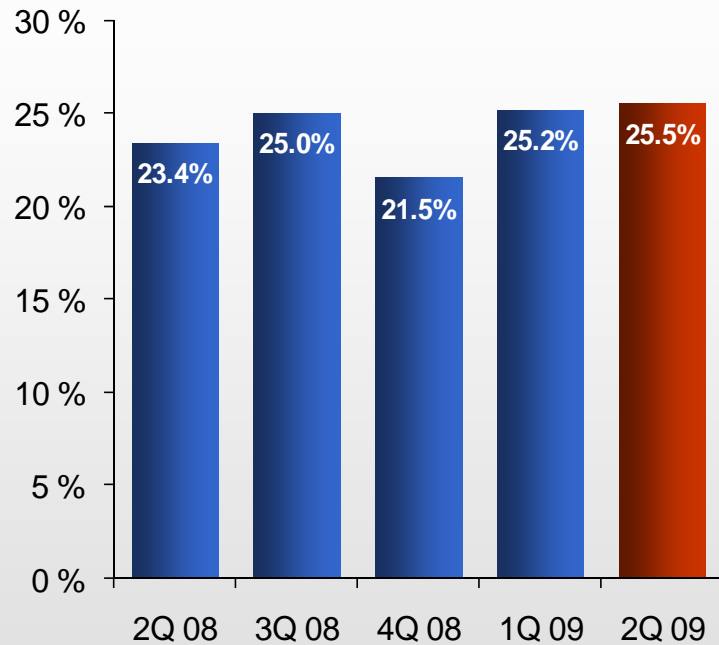


**2Q 2009 Revenue by region**



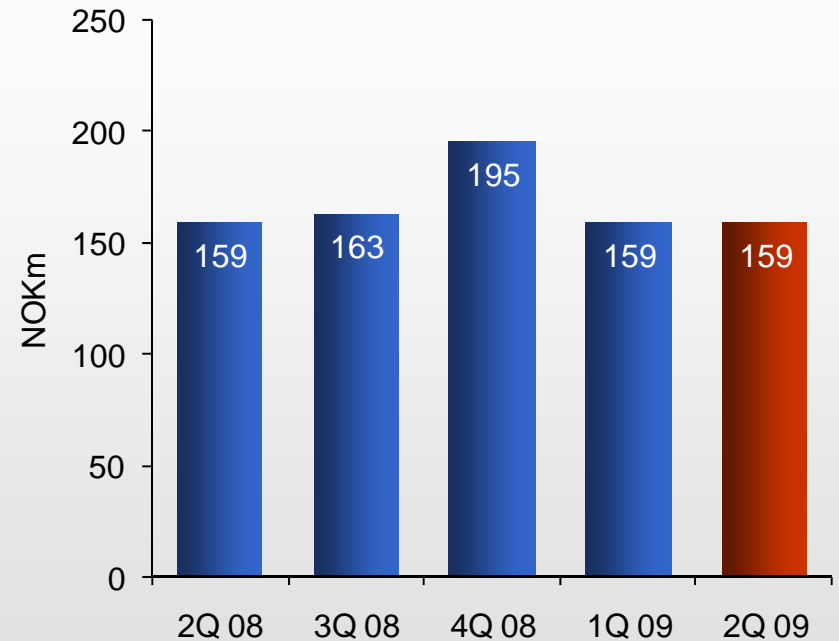
# Eltek Valere - Gross margin and OPEX

Gross margin, quarterly



Note: Gross margin in 4Q '08 was negatively affected by NOK 27 million (2.5%-points) in inventory write-downs

Operating costs, quarterly  
-excluding non-recurring items



Note: Excluding non-recurring items of, NOK -763 million in 4Q'08 and NOK -10 million in 2Q'09

## Adapting costs to the market trends

- Income Statement charged with NOK 10 million in severance pay related to personnel reductions
- Restructuring to adapt to lower demand in several markets, most notably in the German telecom entity
- Cost reductions are expected to amount to approximately NOK 30 million on an annual basis, with gradually increasing effect through the second half 2009



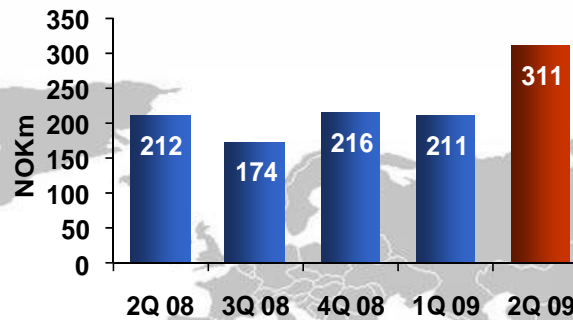
# Nera Networks

## Nera Networks – key financials

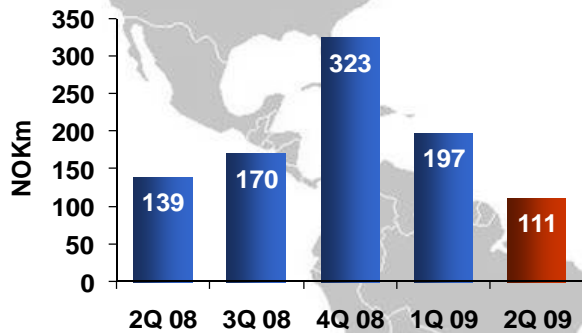
NOKm	2Q'09	2Q'08	<b>Growth</b>	2008	1Q'09
Order entry	442	473	<b>-7%</b>	1,882	493
Revenue	468	402	<b>17%</b>	1,797	456
Revenue growth, currency adj.			<b>6%</b>		
Gross Profit	87	88	<b>-2%</b>	347	94
<i>Gross Margin (%)</i>	<i>18.5</i>	<i>22.0</i>		<i>19.3</i>	<i>20.6</i>
EBITDA	19	29	<b>-36%</b>	34	32
EBIT	-3	15		-28	13
Non-recurring items	-10	-		-102	-
EBITDA before non-recurring items	29	29	<b>-1%</b>	136	32
EBIT before non-recurring items	8	15	<b>-49%</b>	74	13

# Nera Networks - Regional development

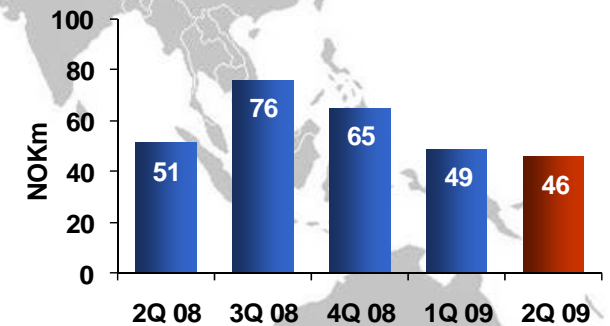
EMEA revenue, quarterly



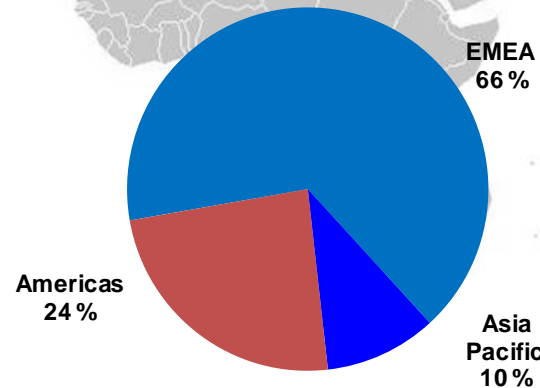
Americas revenue, quarterly



Asia Pacific revenue, quarterly

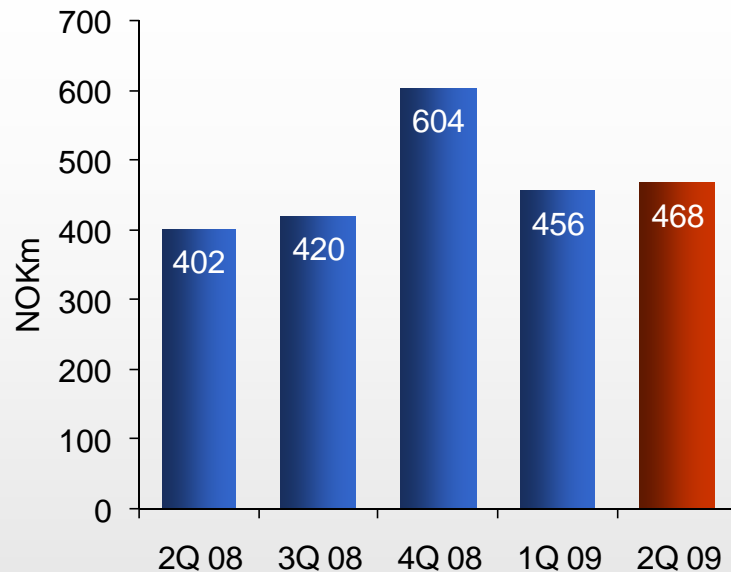


2Q 2009 Revenue by region

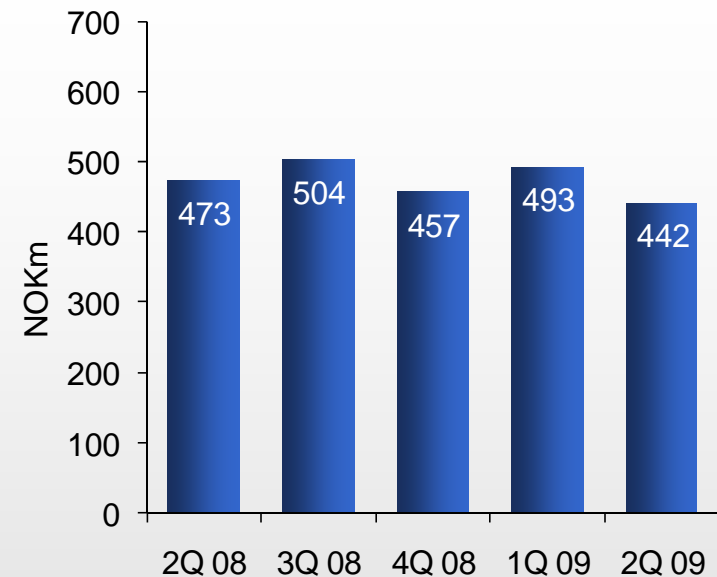


## Nera Networks- Revenue and order entry

**Nera Networks - Revenue**



**Nera Networks - Order Entry**



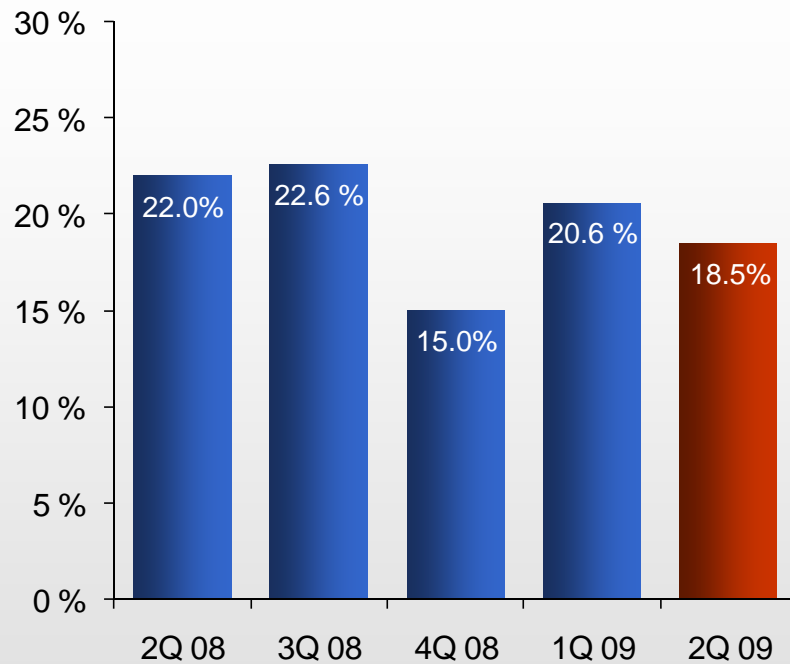
**Revenue by geographical segment**

	2Q'09	Chg. vs. 2Q'08	Chg. vs. 1Q'09
Americas	111	-20%	-43%
EMEA	311	47%	47%
Asia Pacific	46	-9%	-5%
<b>Total</b>	<b>468</b>	<b>17%</b>	<b>3%</b>

Order backlog: NOK 710 million

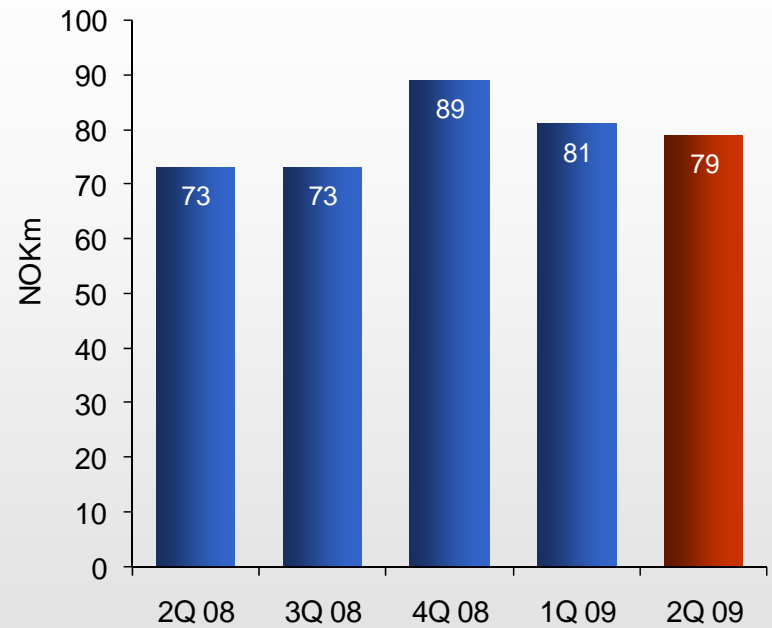
# Nera Networks – Gross margin and OPEX

**Gross margin, quarterly**



Note: Gross margin in 4Q '08 was negatively affected by NOK 32 million (5.3%-points) in inventory adjustments

**Operating costs  
-excluding non-recurring items**



Note: Excludes non-recurring provisions of NOK -61 million in 4Q'08 and NOK -10 million in 1Q'09

## Performance improvement program

- Initiated improvement program in two phases
- Phase I:
  - Mainly personnel reductions
  - Severance pay and other costs of NOK 10 million charged to the Income Statement in the second quarter 2009
  - Targeting savings in both costs of good sold and OPEX
  - Estimated total savings of approximately NOK 55 million on an annual basis, with gradually increasing effect in 2H'09
- Phase II will mainly focus on process improvements



NeraTel

## NeraTel – key financials

NOKm	2Q'09	2Q'08	<b>Growth</b>	2008	1Q'09
Order entry	127	119	<b>6%</b>	834	174
Revenue	219	137	<b>60%</b>	666	221
Revenue growth, currency adj.			<b>33%</b>		
Gross Profit	43	37	<b>14%</b>	155	48
<i>Gross Margin (%)</i>	19.5	27.3		23.3	21.8
EBITDA	18	17	<b>5%</b>	63	23
EBIT	12	12	<b>-2%</b>	43	17

- Volatile transmission revenue explains both revenue and margin changes compared to 2Q'08
  - Improvement in Transmission and Infocomm YTD, decline in Satcom
- Order backlog of NOK 478 million



2Q 2009

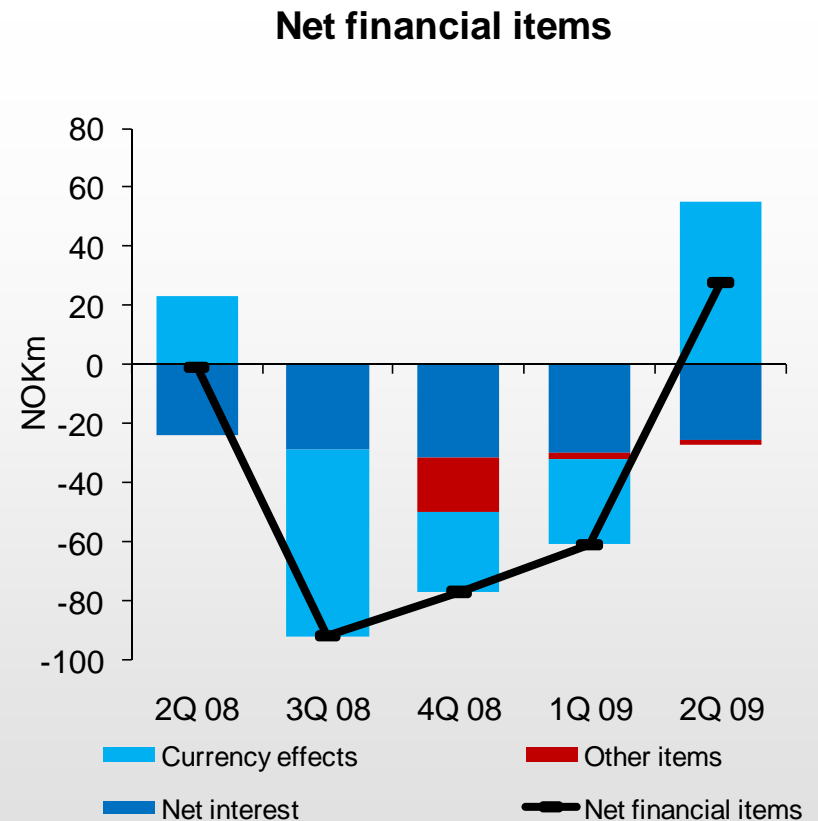
# Financial review

## Income Statement - unaudited

Amounts in NOK million	2Q 09	2Q 08	1H 09	1H 08	2008
Revenue	1,487	1,413	2,873	2,679	5,958
Cost of sales	-1,146	-1,078	-2,198	-2,041	-4,595
<b>Gross profit</b>	<b>341</b>	<b>335</b>	<b>675</b>	<b>638</b>	<b>1,364</b>
Selling and marketing costs	-130	-126	-256	-246	-518
Administrative expenses	-81	-76	-171	-161	-346
R&D and engineering costs	-69	-62	-140	-121	-274
Other operating items	-20	-19	-20	-19	-843
<b>Operating profit</b>	<b>41</b>	<b>52</b>	<b>88</b>	<b>91</b>	<b>-616</b>
Share of result in associated companies	0	0	0	0	1
Net financial items	28	-1	-34	26	-143
<b>Profit before income tax</b>	<b>68</b>	<b>51</b>	<b>54</b>	<b>117</b>	<b>-758</b>
Income tax expense	-16	-15	-28	-38	-66
<b>Net profit</b>	<b>52</b>	<b>36</b>	<b>26</b>	<b>80</b>	<b>-824</b>
<b>Attributable to:</b>					
Equity holders	41	25	10	54	-798
Minority interests	12	11	15	26	-26

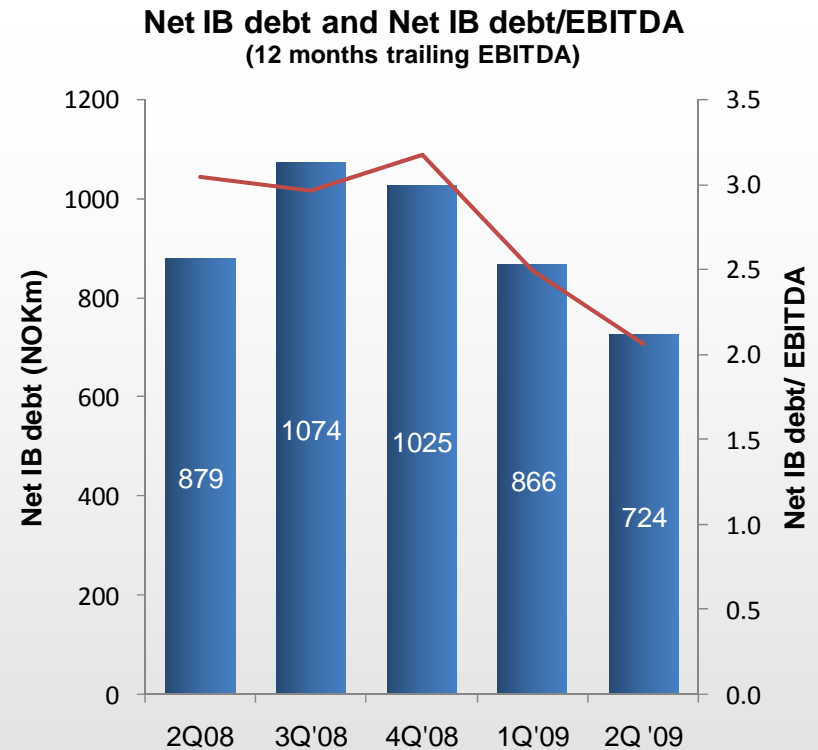
# Net financial items

- Net interest of NOK -25 million
- Positive currency effects of NOK 55 million
- NOK 2 million in non-cash calculated interest expense related to the put options



## Liquidity and debt

- Gross borrowings of NOK 1,493 million
- Gross cash position of NOK 769 million
- Net interest bearing debt of NOK 724 million
- Cash holdings in Eltek Valere and NeraTel are not readily available for the holding company

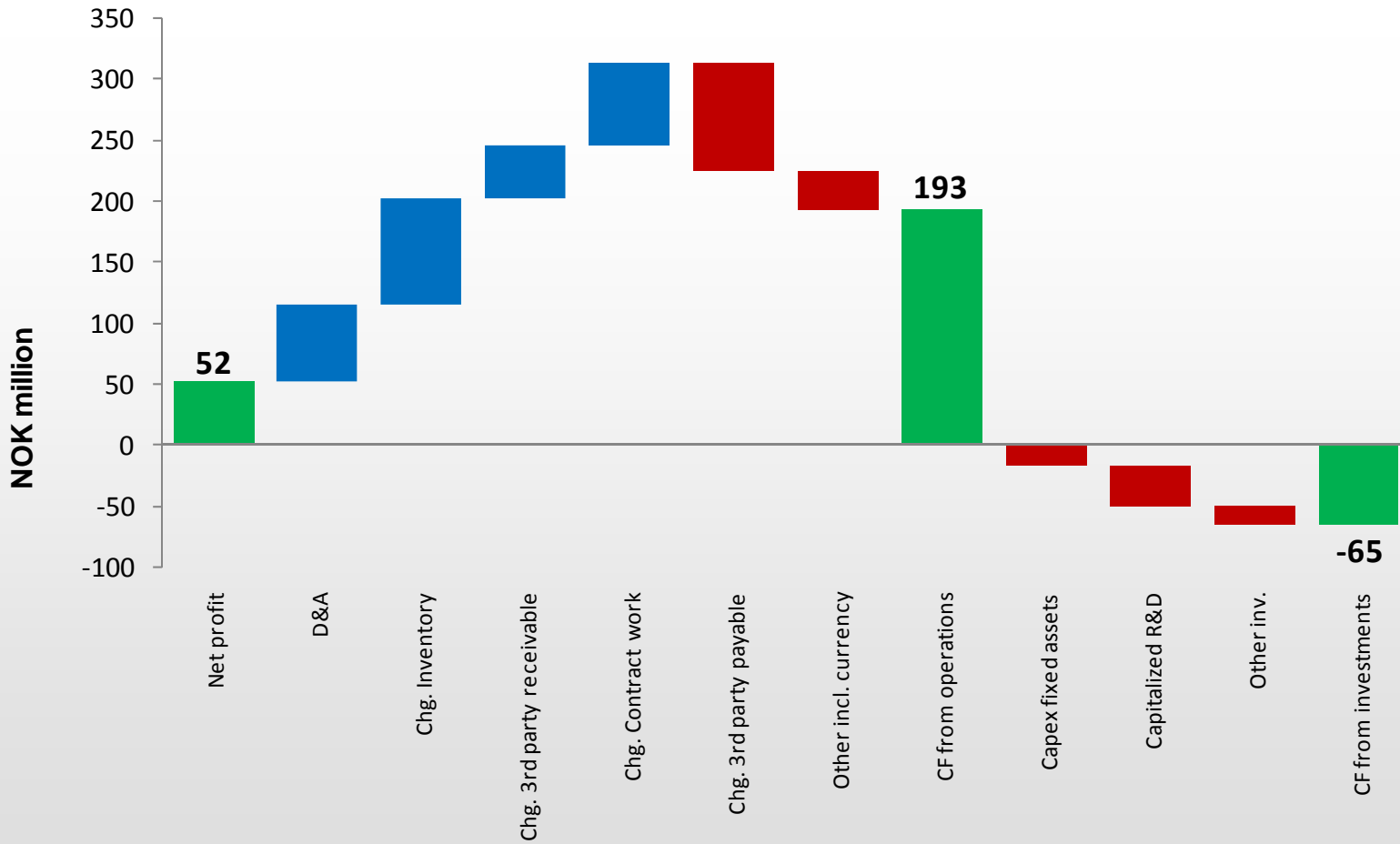


## Cash flow Statement - unaudited

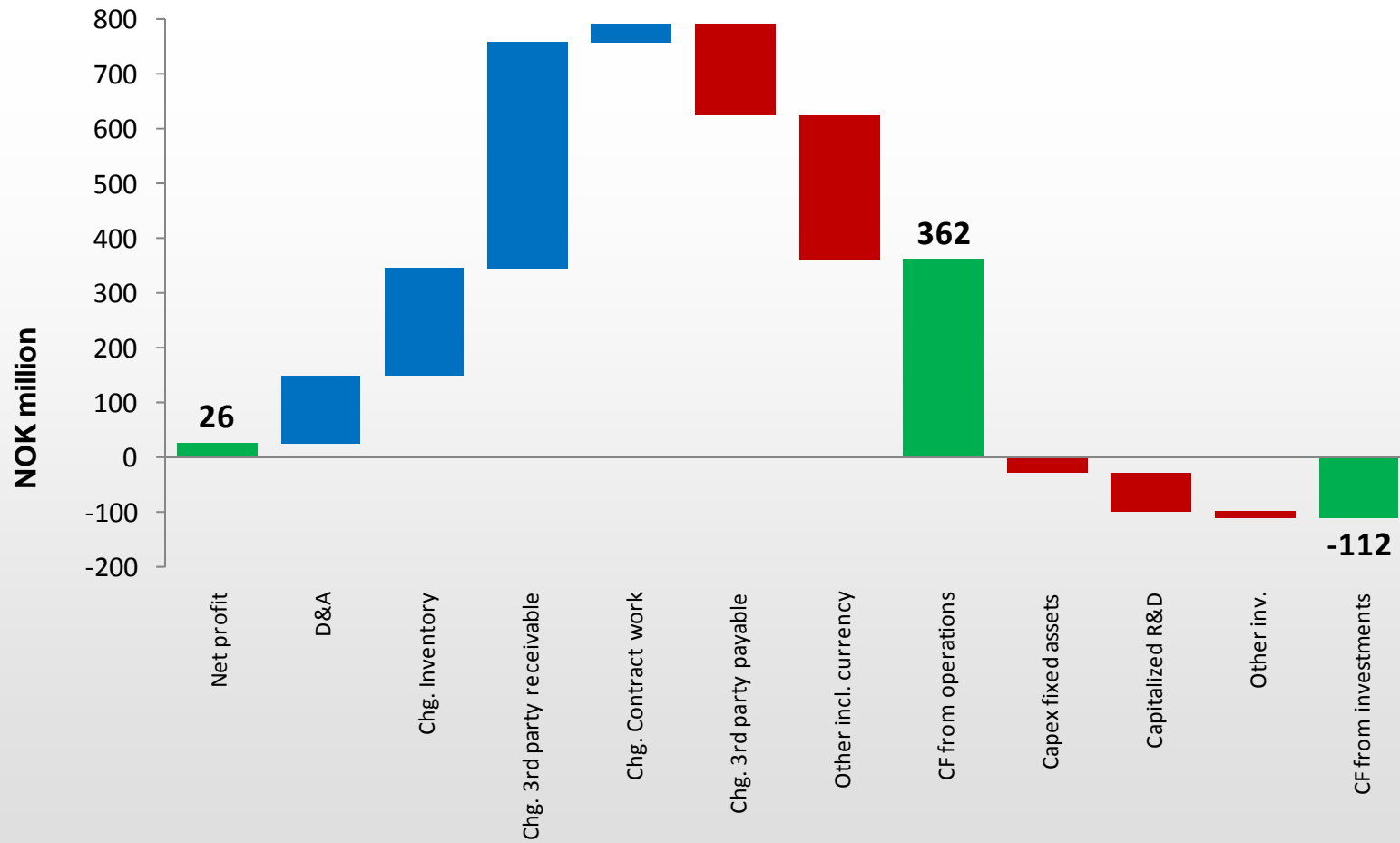
Amounts in NOK million	2Q'09	2Q'08	1H'09	1H'08	2008
Net cash flow from operations	193	-144	362	-13	-108
Net cash flow from investments	-65	-74	-113	-203	-354
Net cash flow from financing*	-185	222	-102	214	492
<b>Net change in cash and cash equivalents</b>	<b>-57</b>	<b>4</b>	<b>147</b>	<b>-2</b>	<b>30</b>
Cash and cash equivalents, beginning of period	826	587	622	592	592
Cash and cash equivalents, end of period	769	591	769	591	622

\*Including currency translation effect on cash and cash equivalents

# Group cash flow – 2Q 2009



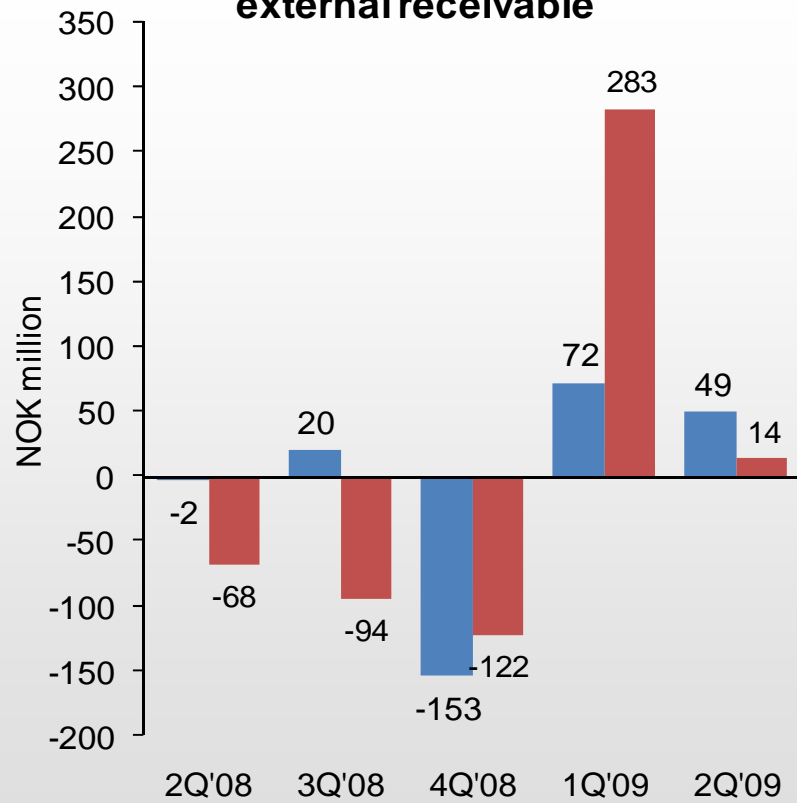
# Group cash flow – 1H 2009



# Receivable and DSO

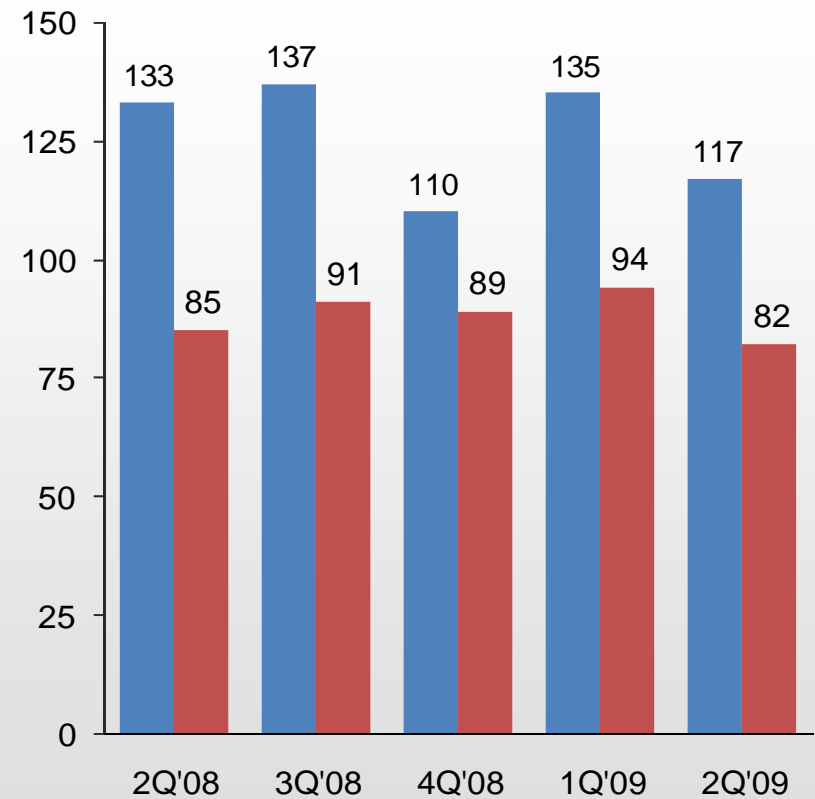
■ Nera Networks ■ Eltek Valere

**Cash flow effect of change in external receivable**



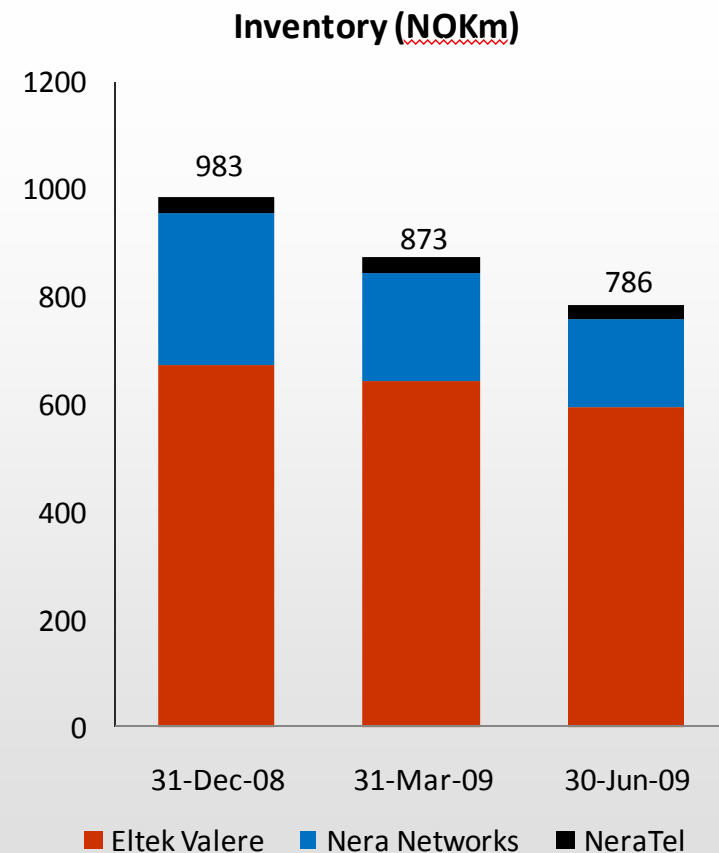
Negative figures represent increase in receivable

**Days of Sales Outstanding**



# Inventory development

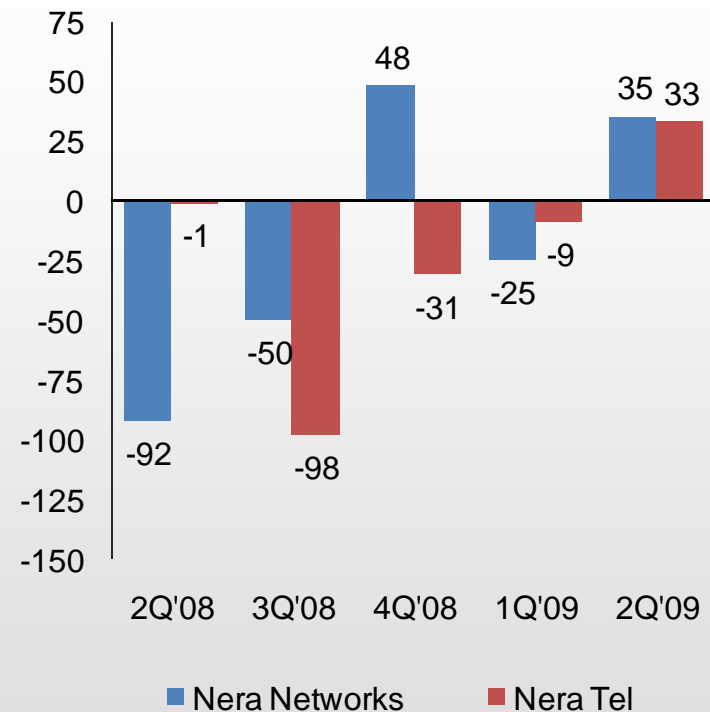
- Inventory decrease of NOK 87 million in 2Q'09
  - Nera Networks           NOK -33m
  - Eltek Valere            NOK -50m
  - NeraTel                 NOK -5m
  
- Inventory decrease of NOK 197 million in 1H'09
  - Nera Networks           NOK -118m
  - Eltek Valere            NOK -77m
  - NeraTel                 NOK -2m



## Projects in process (Nera Networks and NeraTel)

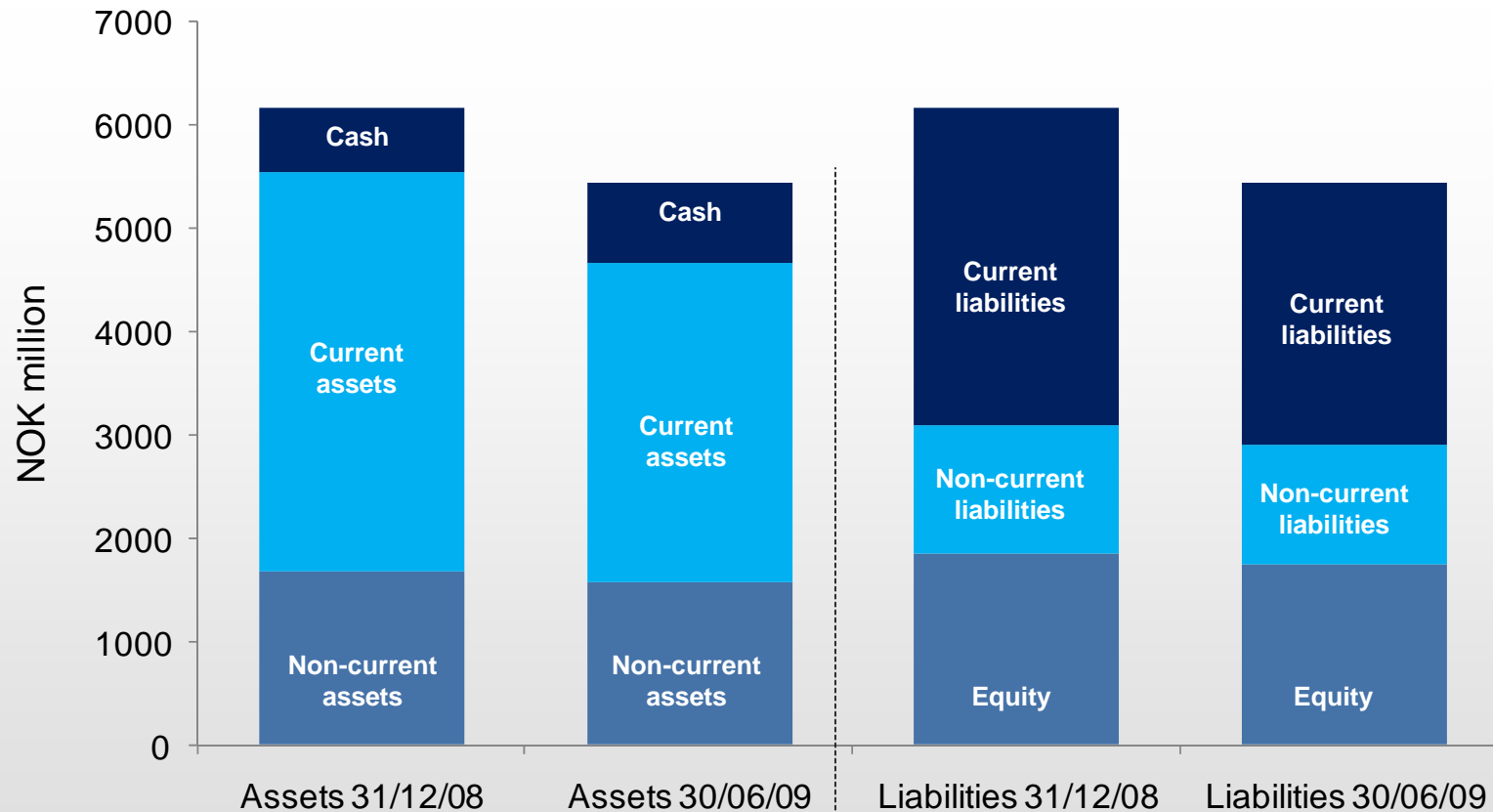
- Project management and capital efficiency initiatives taking effect
  - Renegotiation of existing contracts
  - Sales parameters and incentives
  - Training
  - Order management process improvements

Cash flow effect from change in projects in process



Negative figures represent increase in projects in process

# Balance Sheet overview



## Balance Sheet (unaudited), Assets

Amounts in NOK million	30/06/2009	31/03/2009	31/12/2008
Property, plant & equipment	468	468	521
Intangible assets	675	691	719
Deferred income tax asset	423	421	421
Other non-current assets	14	15	16
<b>Total non-current assets</b>	<b>1,581</b>	<b>1,595</b>	<b>1,678</b>
Inventories	786	873	983
Trade receivables	1,514	1,557	1,923
Projects in process	483	521	635
Other receivables	305	338	330
Cash and cash equivalents	769	826	622
<b>Total current assets</b>	<b>3,857</b>	<b>4,116</b>	<b>4,493</b>
<b>Total assets</b>	<b>5,438</b>	<b>5,711</b>	<b>6,171</b>

## Balance Sheet (unaudited), Equity and Liabilities

Amounts in NOK million	30/06/2009	31/03/2009	31/12/2008
Capital/reserves attrib. to equity holders	1,566	1,534	1,675
Minority interest	177	193	176
<b>Total equity</b>	<b>1,743</b>	<b>1,726</b>	<b>1,851</b>
Borrowings	800	821	849
Deferred income tax liabilities	9	9	8
Retirement benefit obligations	169	168	170
Provisions, other liabilities and charges	179	209	209
<b>Total non-current liabilities</b>	<b>1,157</b>	<b>1,207</b>	<b>1,236</b>
Borrowings	693	871	798
Trade creditors	827	916	996
Projects in process	169	140	285
Other payables	542	591	728
Current income tax payable	33	37	43
Provisions, other liabilities and charges	273	223	235
<b>Total current liabilities</b>	<b>2,538</b>	<b>2,778</b>	<b>3,085</b>
<b>Total liabilities</b>	<b>3,695</b>	<b>3,984</b>	<b>4,320</b>
<b>Total equity and liabilities</b>	<b>5,438</b>	<b>5,711</b>	<b>6,171</b>
<i>Equity ratio</i>	<b>32.1 %</b>	<b>30.2 %</b>	<b>30.0 %</b>
<i>Equity ratio, goodwill adjusted</i>	<b>31.2 %</b>	<b>29.4 %</b>	<b>29.1 %</b>

## Put options

- The balance sheet includes total provisions of NOK 174 million related to minority shareholders' put options.
- Put options on Eltek ASA were exercisable between 1 February 2009 and 31 July 2009, and Eltek in July received notice that the options had been exercised.
- The parties have not yet agreed on the Company Equity Value which will form the basis for any transaction. This will be determined by external valuation firms, in a process which is scheduled to be concluded in October 2009
- Following notice of the Company Equity Value, each of the minority shareholders will then have to provide a written notice to Eltek ASA on the sale of shares. Eltek ASA has the right to issue promissory notes to the sellers in lieu of cash
- The minority shareholders in Eltek Valere have previously exercised a call option to convert their shareholdings in Eltek Energy Holding Inc into shares in the parent company Eltek Valere AS. This transaction is not yet effectuated
- Arbitration proceedings are ongoing to resolve other outstanding disputes. These proceedings are unlikely to be resolved until the beginning of 2010



# Summary and Outlook

## Summary

- Relatively stable revenue, gross profit and EBITDA
- Improved NWC and free cash flow – reduced net debt
- Taken charges for measures to reduce costs and prepare for continued market uncertainties
  - Eltek Valere targets annual costs reductions of ~NOK 30 million
  - Nera Networks targets annual COGS/OPEX reduction of ~NOK 55 million in first phase of performance improvement program
- Continuing focus on working capital management and margin improvement