



POWERFUL TECHNOLOGY

Second Quarter Results 2006

Wednesday 12 July 2006

CEO Morten Angelil

CFO Jørgen Larsen

Agenda

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- ▶ **Operational Review**
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 - ▶ Revenue
 - ▶ Gross Margin development
 - ▶ Operating Costs
- ▶ **Regional development**
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 - ▶ Asia Pacific
 - ▶ Major Growth Regions
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Key financial figures

NOKm	2Q 06	1Q 06	4Q 05	3Q 05	2Q 05	FY 2005	FY 2004
Order entry	657	607	570	601	602	2 216	1 708
Revenue	632	599	597	600	489	2 086	1 634
Gross Profit	160	157	171	170	144	595	461
Gross Margin (%)	25.4	26.3	28.7	28.4	29.5	28.5	28.2
Gain from divestment		22.7					
EBIT	52.8	74.1	62.8	74.7	56.8	227	164
Net financials	-6.0	0.2	0.8	-1.5	0.5	-2	-9
Pre-tax Profit	46.7	74.4	65.6	74.3	57.3	228	155
EPS ₃	0.86	1.56	1.47	1.48	1.08	4.74	3.74

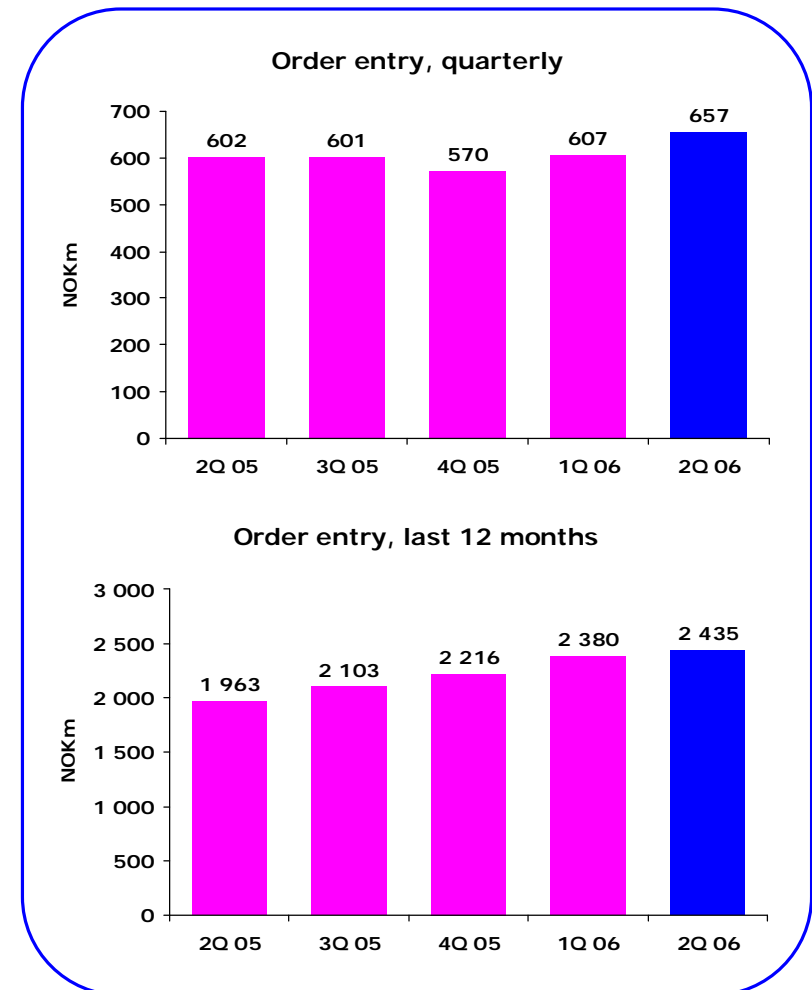


Operational review

2nd quarter 2006

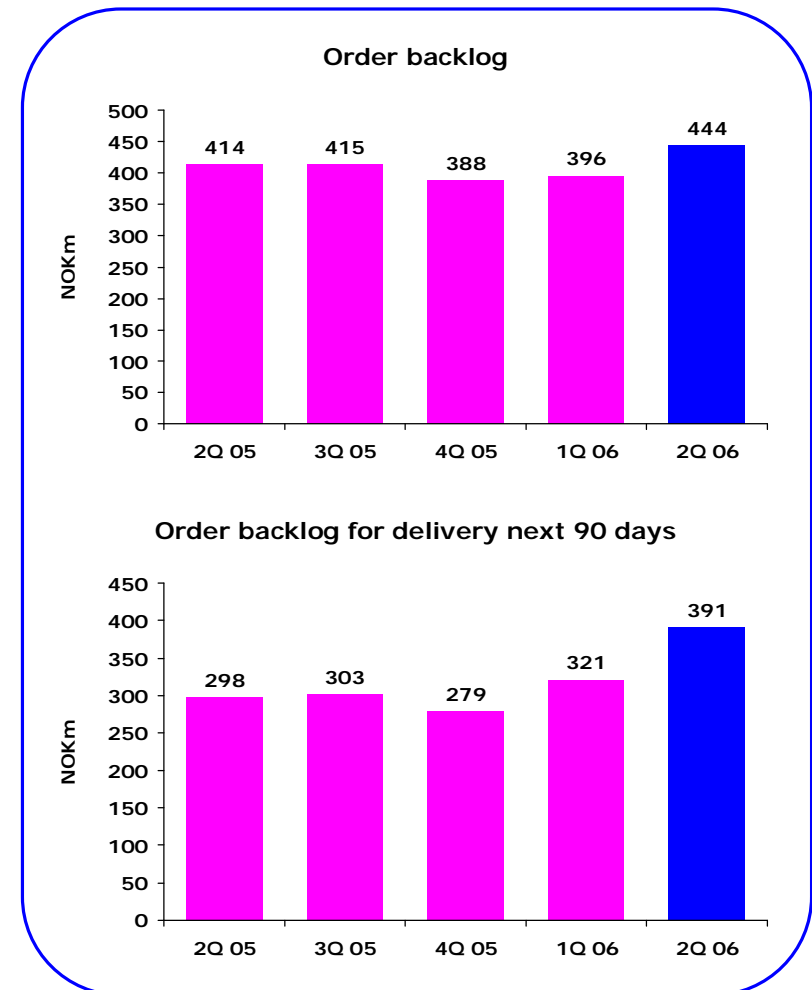
Order entry

- ▶ **Continued growth**
 - ▶ +9% Y/Y, +8% Q/Q
 - ▶ Convertronic accounts for NOK 22 million
- ▶ **2Q versus 1Q**
 - ▶ Increase in EMEA
 - ▶ Strong in Eastern Europe
 - ▶ Flat in Asia Pacific
 - ▶ Strong in India, Malaysia
 - ▶ Weaker in Americas



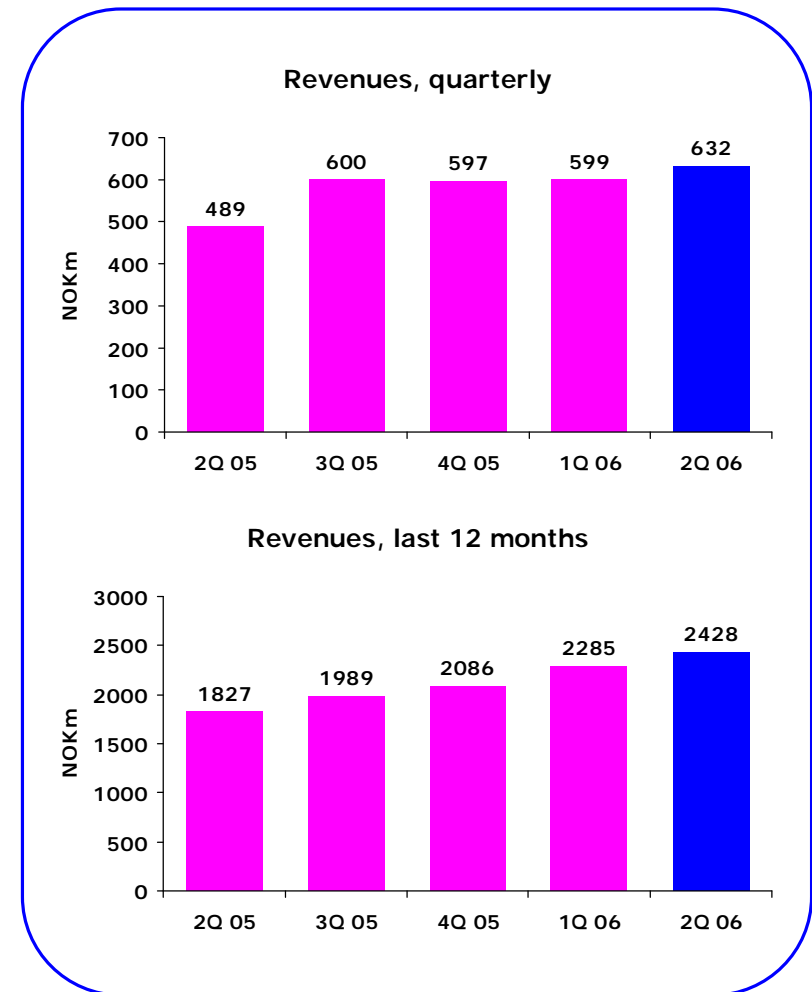
Order backlog

- Order backlog;
 - 7% increase Y/Y
 - 12% increase Q/Q
- Orders for next-quarter delivery
 - 31% increase Y/Y
 - 22% increase Q/Q



Revenue

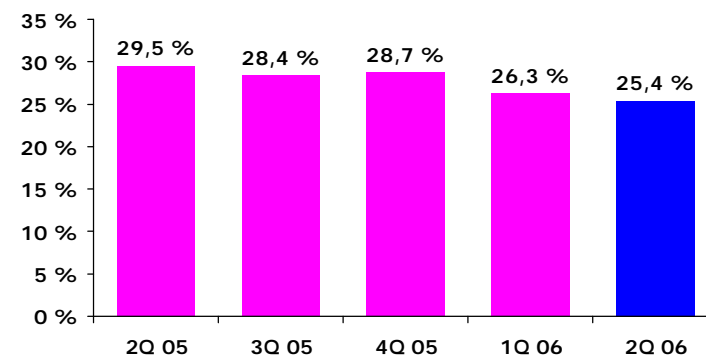
- ▶ **Healthy 2Q**
 - ▶ Convertronic accounts for NOK 19 million
 - ▶ Adverse currency effect NOK 30 million vs 1Q
- ▶ **Y/Y +29%**
 - ▶ Growth in all regions
- ▶ **Q/Q +5%**
 - ▶ Growth in EMEA
 - ▶ Slight decline in Asia Pacific
 - ▶ Decline in Americas



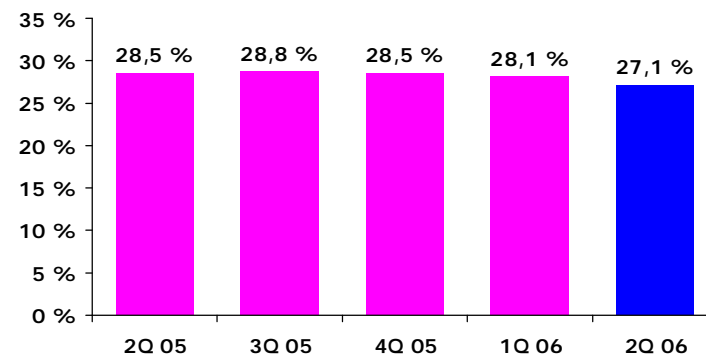
Gross margin

- ▶ **Both level and trend are unsatisfactory**
 - ▶ Sourcing, logistics and transportation costs
 - ▶ Consolidation of Convertronic
 - ▶ Slow replacement of older, lower-margin products in the US
 - ▶ Continued ramp-up of the system assembly hubs in Slovakia and China

Gross margin, quarterly



Gross margin, last 12 months

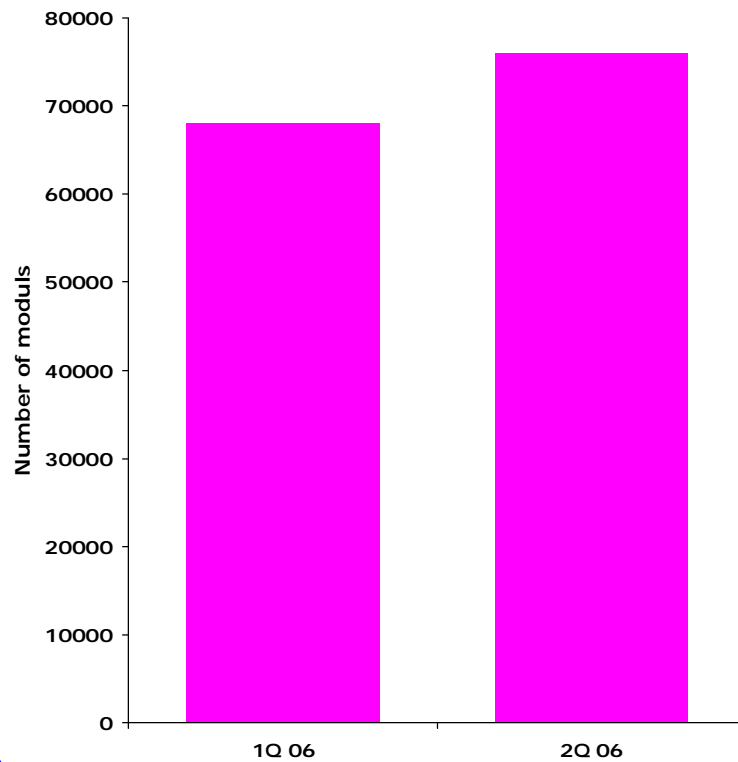


Gross margin measures

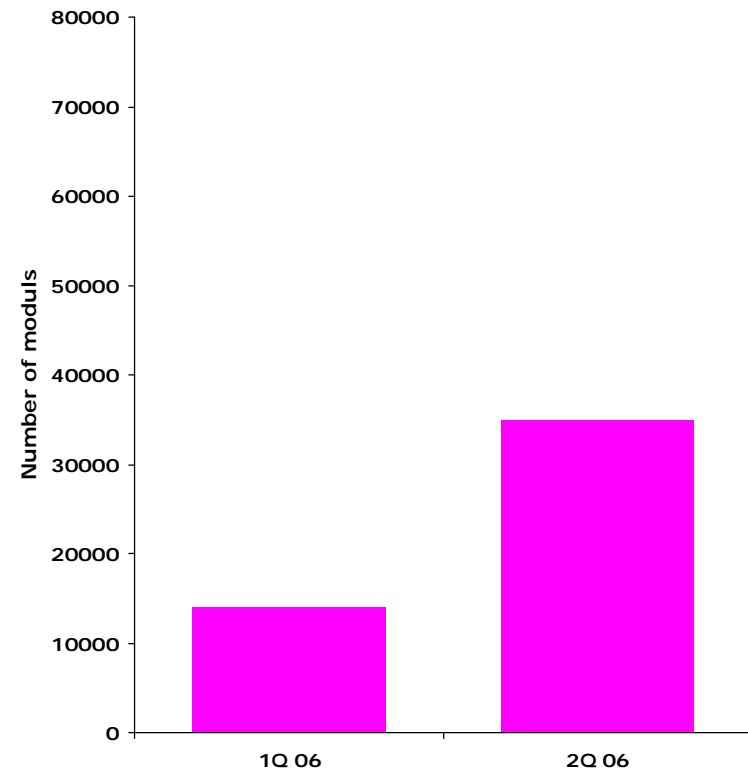
- ▶ **Migration from old to new products**
 - ▶ Flatpack 2 ramp-up
 - ▶ Replacement of lower-margin products in the US
- ▶ **Improved utilization of production capacity at Convertronic**
- ▶ **Significant increase in production at the system assembly hubs**
 - ▶ Slovakia: ~500 systems in May, >1,000 in June
 - ▶ Further increase to 3,000 per month by year-end
 - ▶ China: ~2,000 systems in May, >2,500 in June
 - ▶ Further increase to 5,000 per month by year-end

Production of Flatpack products

Flatpack 1

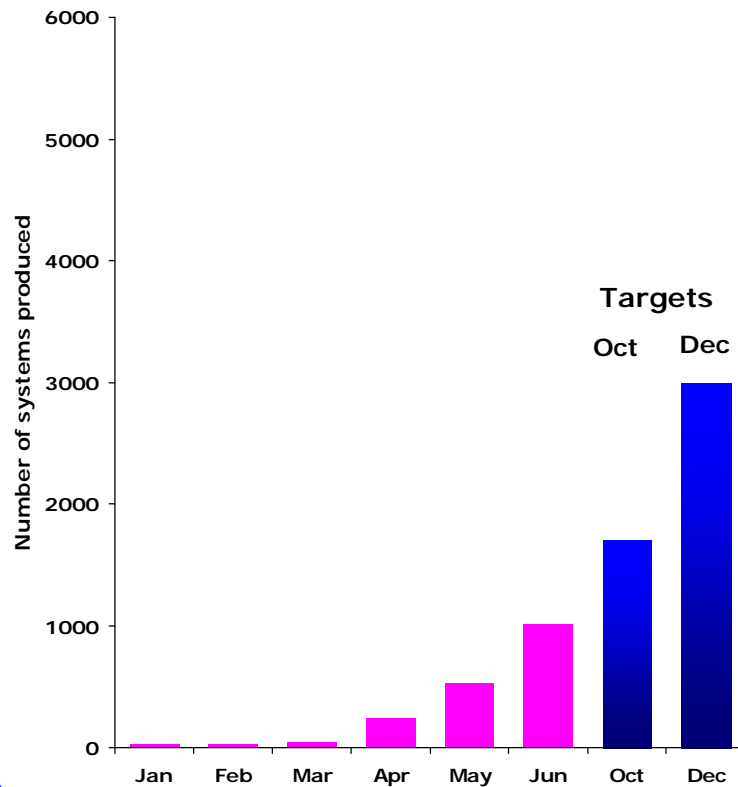


Flatpack 2

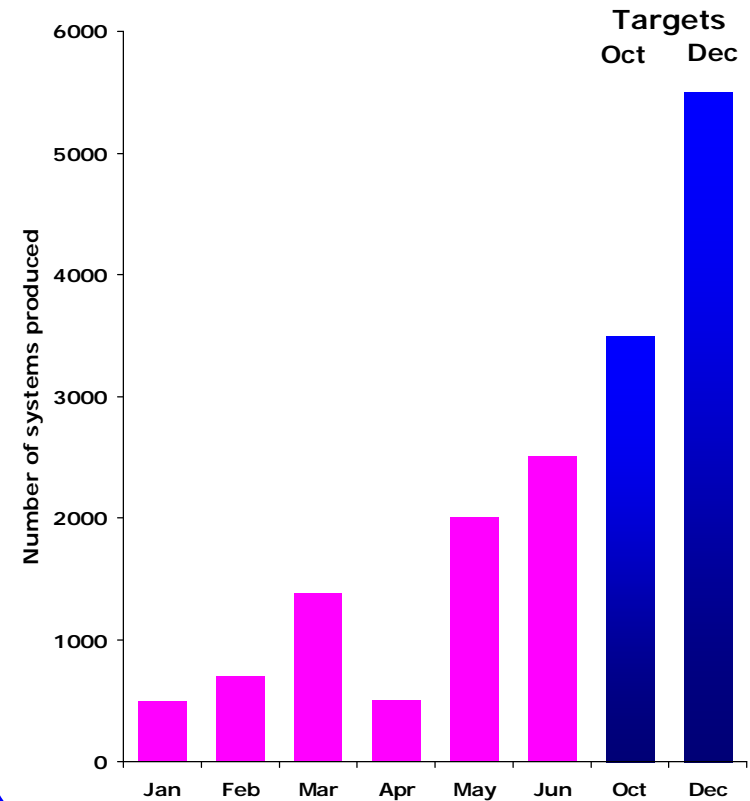


System assembly hubs – volume increase

Slovakia

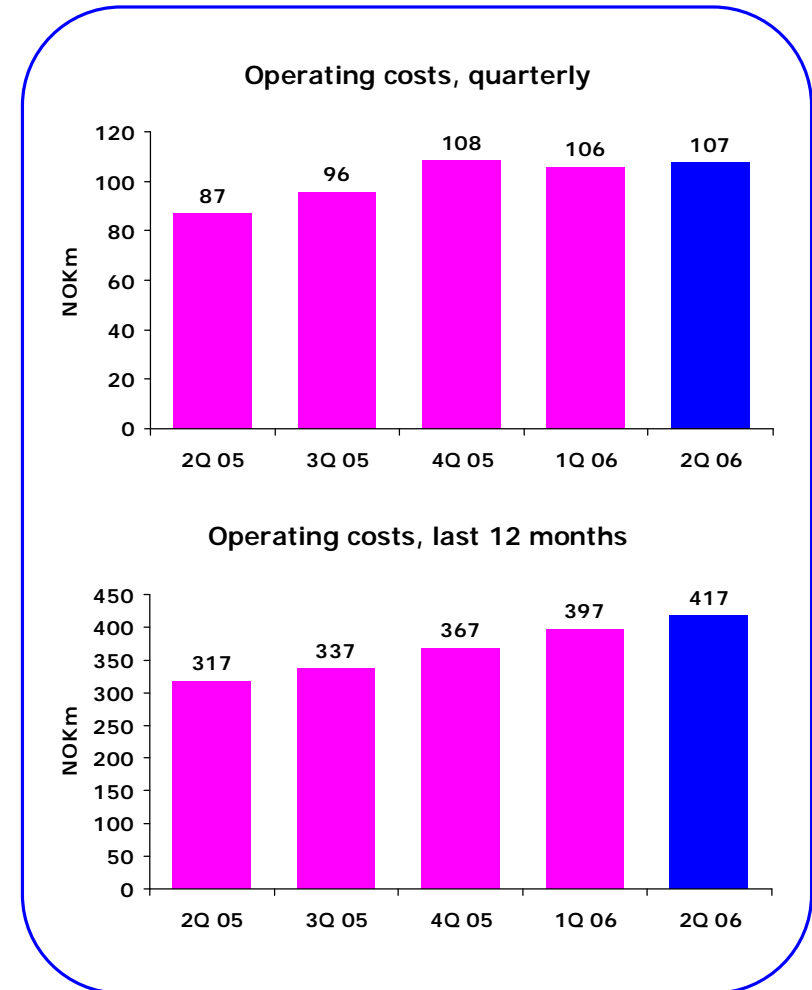


China



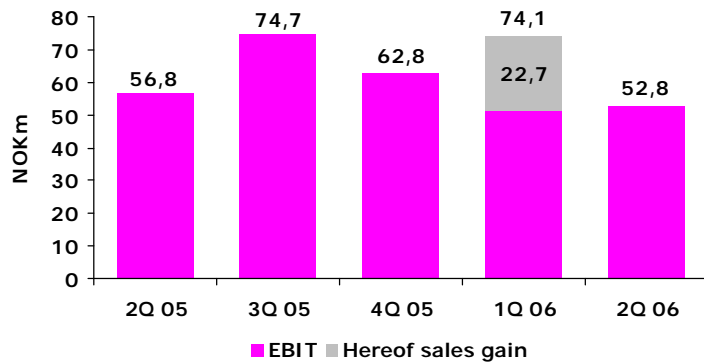
Operating costs

- ▶ 23% increase Y/Y
- ▶ Only NOK 1.4 million increase from 1Q
 - ▶ Including Convertronic from 1 May

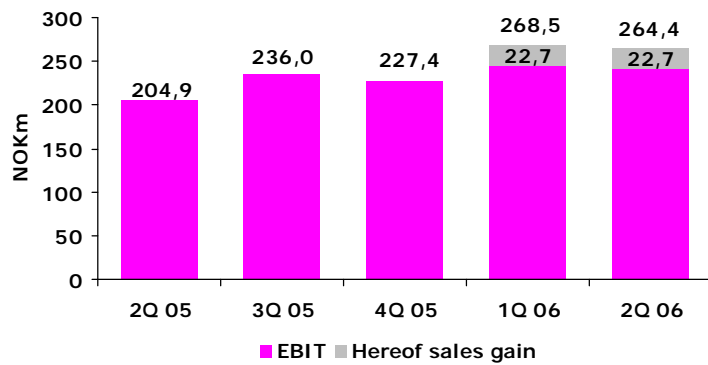


EBIT

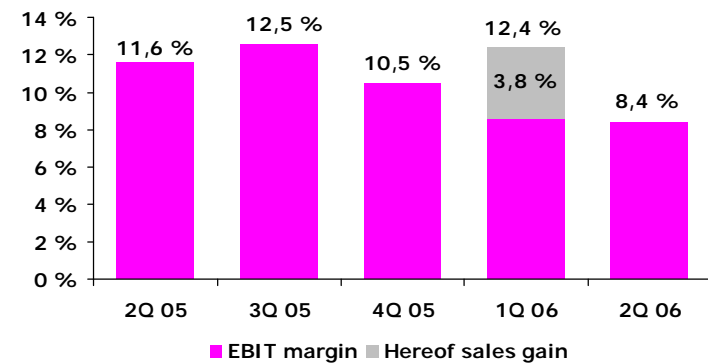
EBIT, quarterly



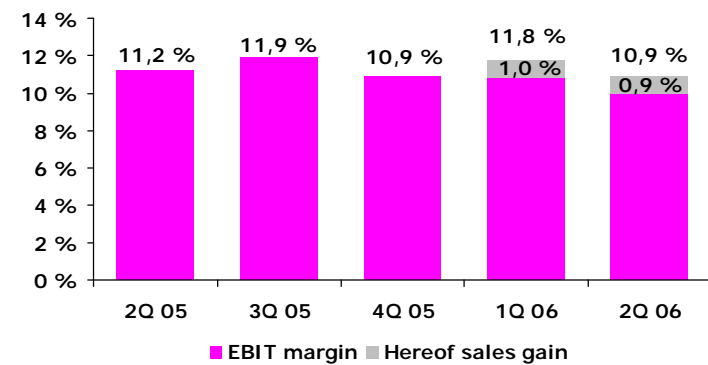
EBIT, last 12 months



EBIT margin, quarterly



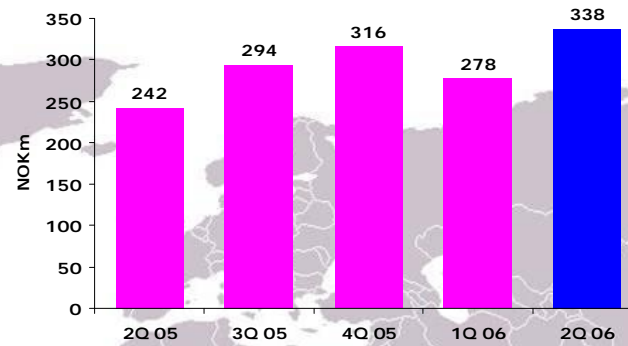
EBIT margin, last 12 months



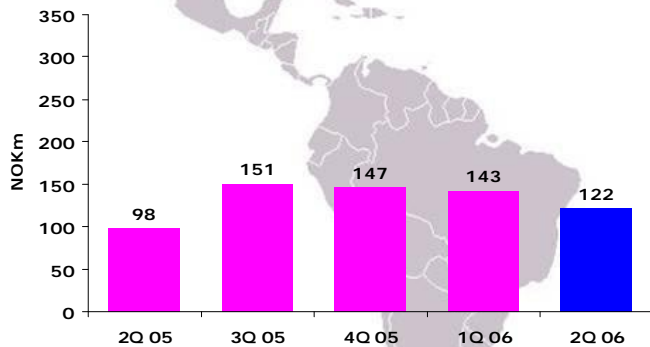


Regional development

EMEA revenue, quarterly



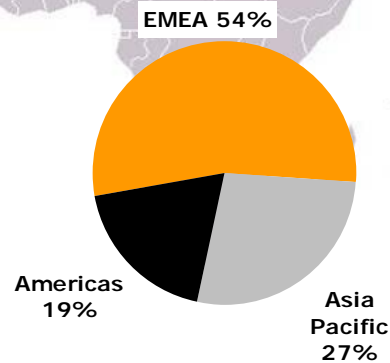
Americas revenue, quarterly



Asia Pacific revenue, quarterly

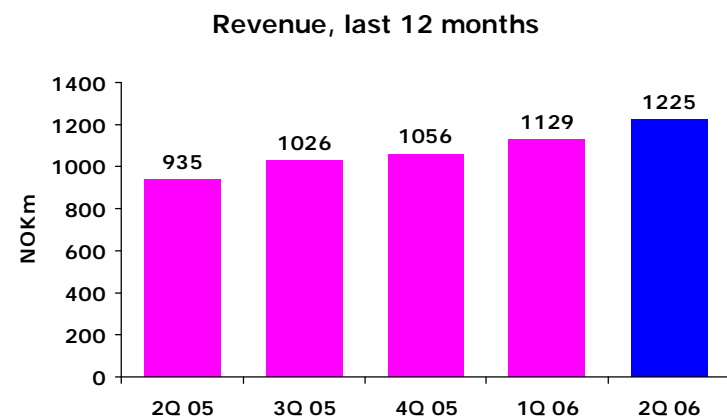
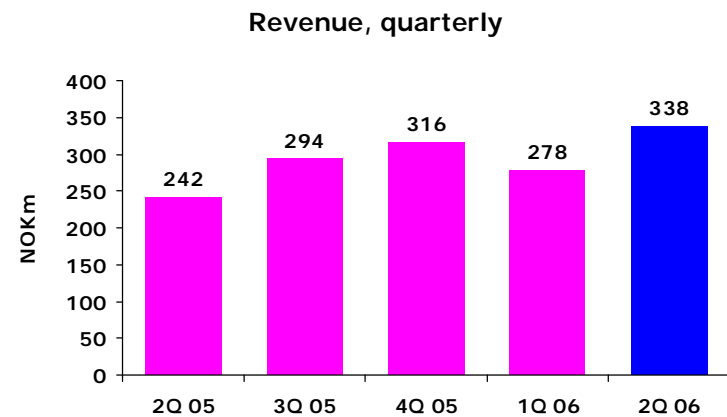


2Q 2006 Revenue by region



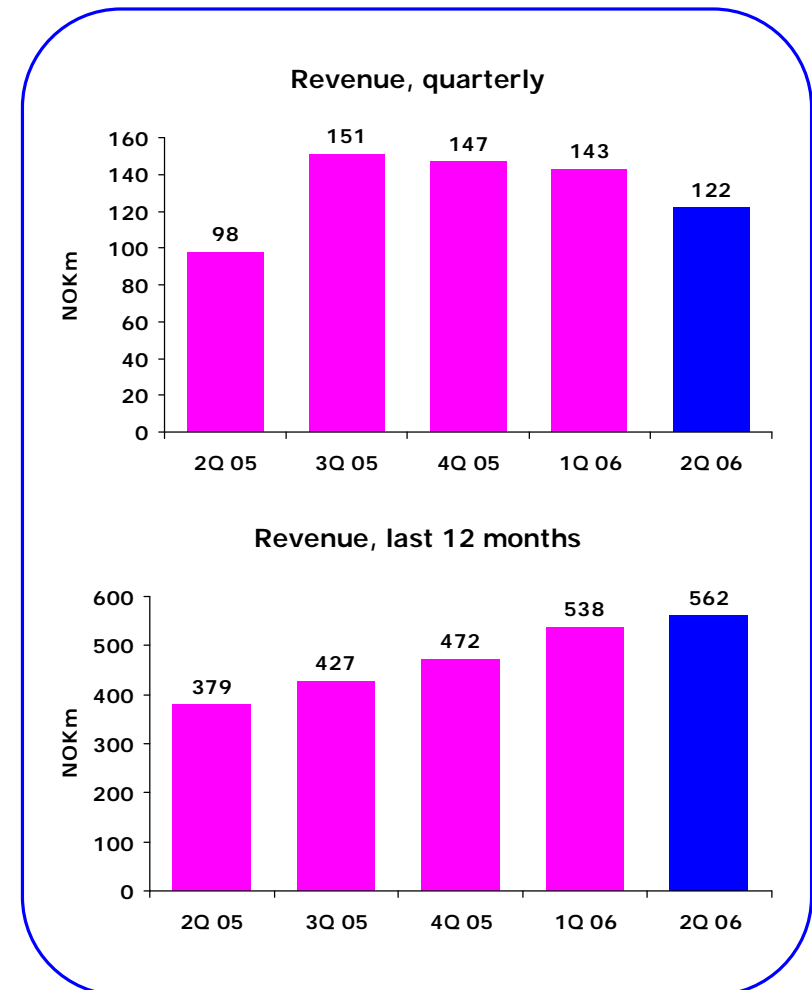
EMEA - Europe, Middle East & Africa

- ▶ 40% growth Y/Y
- ▶ 22% growth Q/Q
 - ▶ Continued growth both in emerging and mature markets
 - ▶ Middle East, Eastern Europe
 - ▶ Italy, France, Germany



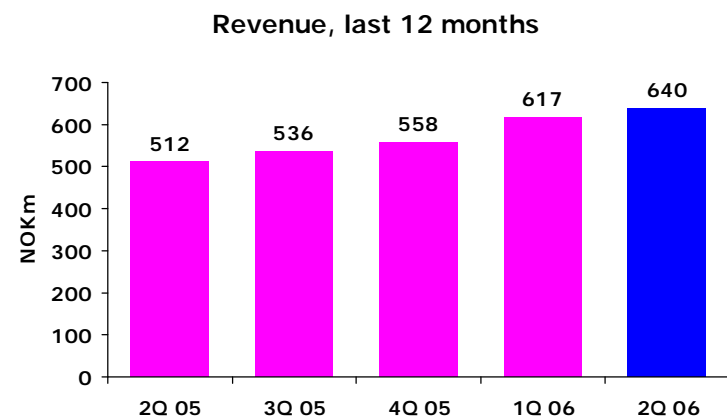
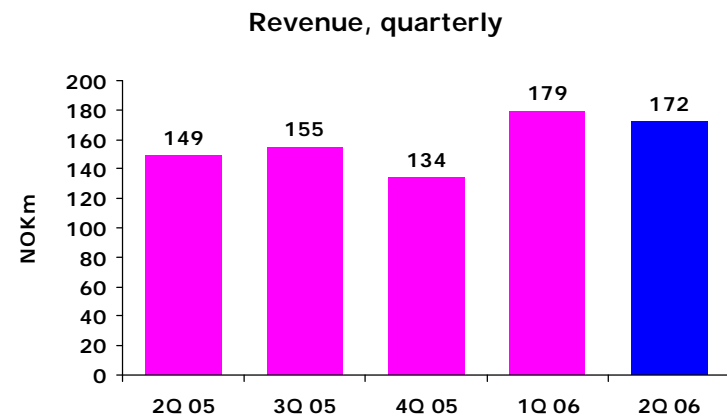
Americas

- ▶ **25% growth Y/Y**
 - ▶ Growth in Brazil and Canada
 - ▶ Decline in US and Mexico
- ▶ **14% decline Q/Q**
 - ▶ Adverse NOK/USD accounts for half the decline
 - ▶ Growth in Argentina and Canada
 - ▶ Decline in US and Mexico



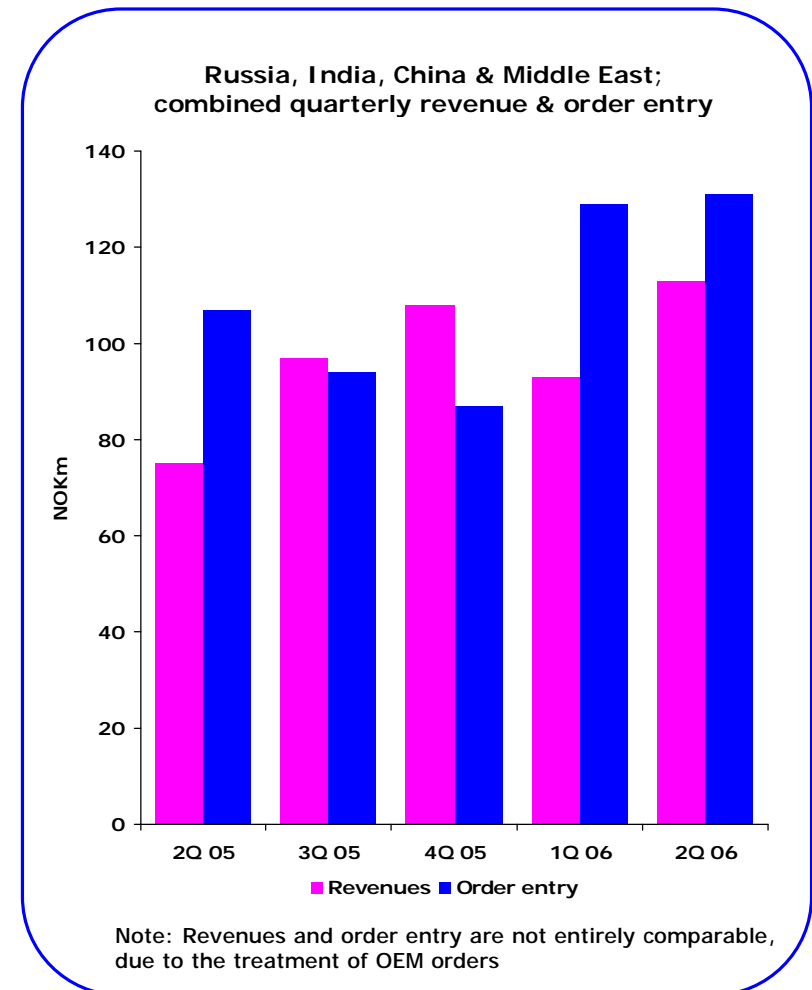
Asia Pacific

- ▶ **15% growth Y/Y**
 - ▶ Australia, China, Thailand, Bangladesh, Pakistan
- ▶ **4% decline Q/Q**
 - ▶ Still strong in India, Thailand and Bangladesh
 - ▶ Decline in Australia
 - ▶ Major contract almost completed by the end of 2Q



Major growth cases – Russia, India, China & Middle East

- ▶ **Y/Y growth:**
 - ▶ +50% in revenue
 - ▶ +22% in order entry
- ▶ **Q/Q growth**
 - ▶ +22% in revenue
 - ▶ Orders flat
- ▶ **Increasing importance**
 - ▶ H1(05): 15% of orders
 - ▶ H1(06): 20% of orders
- ▶ **Further growth opportunities**



Major new business opportunities

- ◊ **India:**
 - ▶ BSNL award to OEMs expected in 3Q
- ◊ **China:**
 - ▶ Growth depends on 3G license awards
 - ▶ Timeline still uncertain
- ◊ **Russia:**
 - ▶ 3G licenses awarded
 - ▶ Still no timeline for network deployment
- ◊ **Middle East and Africa**
 - ▶ Egypt
 - ▶ Turkey
 - ▶ Saudi Arabia
 - ▶ Iran



Mergers & Acquisitions

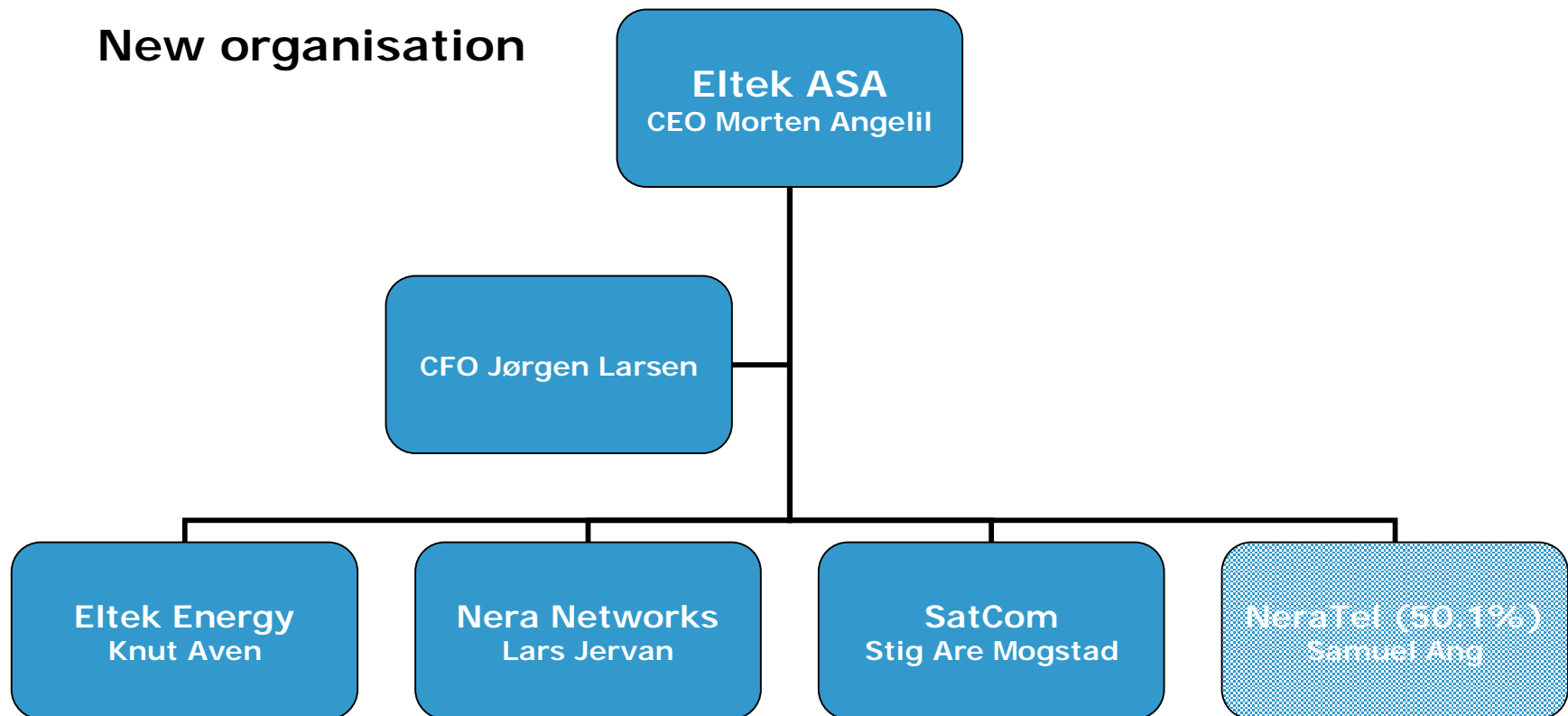
2nd quarter 2006

Eltek – Nera merger (I)

- ▶ **Approved by the Boards of Directors in both companies 28 June**
- ▶ **Strong strategic rationale**
 - ▶ Creates a uniquely positioned global telecom equipment and solutions provider
 - ▶ Combined revenue of NOK 4.7 bn in 2005
- ▶ **Identified annual cost synergies of NOK 120 million by 2007**
 - ▶ In addition to cost savings in both companies
 - ▶ In addition to significant revenue synergies

Eltek - Nera merger (II)

New organisation



Note: The merger might trigger a mandatory offer for the remaining shares in Nera Telecommunications Ltd

Eltek - Nera merger (III)

Merger terms:

- ▶ **1 Nera share gives approximately 0.16 Eltek-share plus NOK 1.39 in cash**
 - ▶ No consideration for Eltek's 13.2% in Nera or Nera's 0.9% own shares
 - ▶ New number of Eltek shares 47-50 million, depending on number of owned Nera shares
- ▶ **Extraordinary general meetings 10 August**
- ▶ **Closing expected late October**
- ▶ **More information available in Information Memorandum published 4 July**

Acquisition of Convertronic

- ▶ **Acquired 74.9 percent, option for remainder**
 - ▶ Payment via EUR 1.5 million capital injection in 2Q
 - ▶ Option to buy remaining 25.1 percent for EUR 1 million by 2012
 - ▶ Or earlier, if Eltek compensates seller's tax
 - ▶ Primary business is design and manufacture of power modules and systems
 - ▶ Sales split between Telecom (60%) and Industrial applications and Railways (40%)
- ▶ **Consolidated from 1 May 2006**
 - ▶ Recognized revenues of NOK 18.9 million
 - ▶ Recognized order entry of NOK 22 million



Financials

2nd quarter 2006



Consolidated Income Statement

(unaudited)

Amounts in NOK 1 000

	<u>2Q 2006</u>	<u>2Q 2005</u>	<u>YTD 2006</u>	<u>YTD 2005</u>	<u>2005</u>
Revenue	631 650	488 564	1 230 924	888 850	2 085 730
Cost of sales	-471 513	-344 552	-913 334	-635 637	-1 491 120
Gross profit	160 137	144 012	317 590	253 213	594 610
Selling and marketing costs	-43 397	-37 773	-85 910	-69 480	-155 472
Administrative expenses	-38 040	-32 388	-78 232	-61 610	-143 860
R&D and engineering costs	-26 267	-17 406	-49 550	-32 308	-67 187
Other operating items	320	349	22 981	13	-709
Operating profit	52 752	56 793	126 879	89 828	227 382
Share of result in associated companies	-	-5	-	-10	247
Net financial items	-6 028	486	-5 785	-1 554	-2 473
Profit before income tax	46 724	57 275	121 095	88 264	225 155
Income tax expense	-13 432	-14 837	-34 416	-22 569	-53 277
Net profit	33 292	42 437	86 679	65 695	171 878
Attributable to:					
Equity holders	27 956	36 434	78 311	56 222	151 191
Minority interests	5 336	6 004	8 368	9 474	20 688
Basic EPS (NOK)	0,86	1,08	2,42	1,71	4,74
Diluted EPS (NOK)	0,85	1,07	2,39	1,69	4,68



Consolidated Balance Sheet (unaudited)

Amounts in NOK 1 000	<u>30.06.2006</u>	<u>31.03.2006</u>	<u>31.12.2005</u>
Property, plant & equipment	128 815	87 800	82 100
Intangible assets	250 667	231 929	186 824
Deferred income tax asset	52 140	52 394	56 447
Other non-current assets	231 120	5 026	3 706
Total non-current assets	662 742	377 149	329 077
Inventories	508 844	414 933	368 646
Trade and other receivables	746 504	705 785	604 378
Cash and cash equivalents	327 371	421 787	466 573
Total current assets	1 582 718	1 542 504	1 439 597
Total assets	2 245 460	1 919 653	1 768 674
Share capital	32 522	32 522	32 261
Other reserves	905 333	893 926	839 673
Capital and reserves attributable to equity holders of the Company	937 855	926 449	871 934
Minority interest	41 393	37 275	44 023
Total equity	979 248	963 724	915 957
Borrowings	213 843	213 742	227 663
Deferred income tax liabilities	1 076	821	-
Retirement benefit obligations	33 258	33 393	33 502
Total non-current liabilities	248 176	247 957	261 164
Borrowings	398 188	77 401	52 784
Trade creditors and other payables	561 681	568 836	472 329
Current income tax payable	32 668	36 237	38 716
Provisions for other liabilities and charges	25 498	25 498	27 724
Total current liabilities	1 018 035	707 972	591 553
Total liabilities	1 266 211	955 929	852 717
Total equity and liabilities	2 245 460	1 919 653	1 768 674
Equity ratio	43,6 %	50,2 %	51,8 %



Consolidated Cash Flow Statement (unaudited)

Cash flow analysis (unaudited)

Amounts in NOK 1 000

	<u>2Q 2006</u>	<u>2Q 2005</u>	<u>YTD 2006</u>	<u>YTD 2005</u>	<u>2005</u>
Net cash flow from operations	-65 923	26 448	-137 223	-41 529	163 417
Net cash flow from investments	-328 589	-24 002	-328 798	-45 708	-96 279
Net cash flow from financing	300 096	20 696	326 819	38 929	18 403
Net change in cash and cash equivalents	-94 416	23 142	-139 202	-48 308	85 541
Cash and cash equivalents, beginning of period	421 787	309 582	466 573	381 031	381 031
Cash and cash equivalents, end of period	327 371	332 724	327 370	332 724	466 573

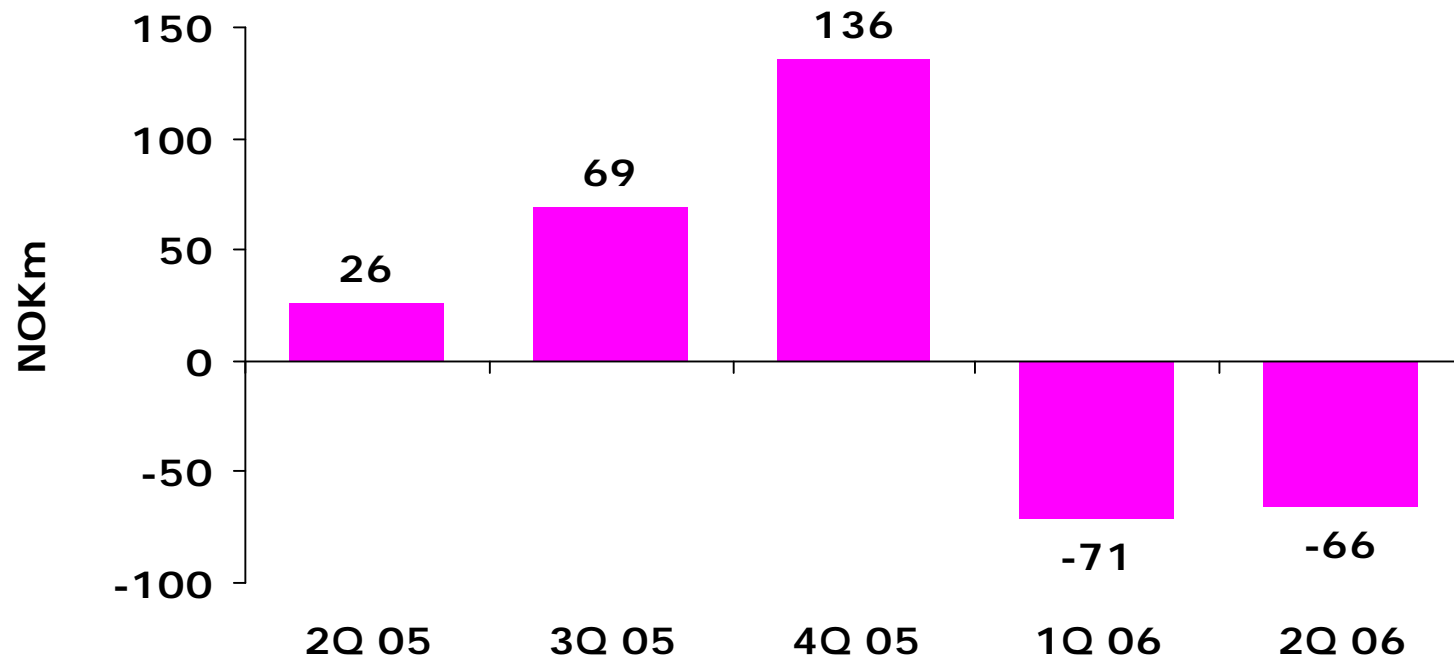
Consolidated statement of recognized income and expense (unaudited)

Amounts in NOK 1 000

	<u>2Q 2006</u>	<u>2Q 2005</u>	<u>30.06.2006</u>	<u>30.06.2005</u>	<u>31.12.2005</u>
Actuarial gains/losses	-	-	-	-	422
Currency translation effects	-22 613	9 779	-32 699	20 291	38 287
Taxes on items taken directly to or transferred from equity	-	-	-	-	-118
Net income recognized directly in equity	-22 613	9 779	-32 699	20 291	38 591
Profit for the period	33 292	42 437	86 679	65 695	171 878
Total recognized income for the year	10 679	52 216	53 980	85 986	210 469

Cash Flow from Operations

Cash Flow from Operations, quarterly



Cash flow from investments

- ▶ **Net cash flow from investments of NOK -329 million**
 - ▶ Acquired 13.2% of Nera ASA in 2Q
 - ▶ Cash flow effect of NOK -226 million in 2Q
 - ▶ Increased ownership India and Australia in 1Q
 - ▶ Cash flow effect of NOK -49 million in 2Q
 - ▶ Convertronic
 - ▶ Cash flow effect of NOK -19 million in 2Q

Outlook

- ▶ **Continued growth in order entry**
- ▶ **Addressing the gross margin development**
- ▶ **Merger with Nera opens new opportunities**
- ▶ **Aggressive sales remains top priority**



Q & A