

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 1 Accounting principles company

The Company financial statements are prepared in accordance with the Norwegian Accounting Act and Norwegian Generally Accepted Accounting Practice (N GAAP). Under Norwegian Accounting Act and N GAAP companies that are part of a public listed company are allowed to prepare the financial statements according to IFRS Light. Eltek ASA's financial statements are prepared according to IFRS Light. Deviations from N GAAP are listed below under applicable paragraphs.

BASIS OF PREPARATION

The financial statements are presented in Norwegian Kroner (NOK) million. The accompanying financial statements have been prepared under the historical cost convention.

CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash with banks. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

RECEIVABLES

Receivables are stated at face value, after provision for doubtful accounts.

FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities carried on the balance sheet include cash and cash equivalents, accounts receivable and payable, long term receivables, loans and investments. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies disclosures in this note. In 2008 the Company has in accordance with IFRS Light recognized unrealized loss related to derivative financial instruments (note 14).

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings	5–50 years
Plant and machinery	3–10 years
Fixtures and office equipment	3–10 years

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

IMPAIRMENT OF ASSETS

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Whenever the carrying amount of an asset exceeds its recoverable amount, impairment is recognized in income statement for items of property, plant and equipment and intangibles carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. Reversal of impairment recognized in prior years is recorded when there is an indication that the impairment recognized for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

ACCOUNTING FOR LEASES

Finance lease

The Company recognizes finance leases as assets and liabilities in the balance sheets at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. A finance lease gives rise to depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

Operating lease

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

FOREIGN CURRENCY TRANSACTIONS

Foreign currency denominated monetary balance sheet items such as cash, receivables, payables and loans are translated at the exchange rate at the balance sheet date. The currency effects from these translations are recorded in the income statement.

EMPLOYEE BENEFITS

Pension obligations

The Company provides defined contribution pension plan for all employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Stock options

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

Social security taxes on stock options are measured at the end of each reporting period based on the excess of the quoted market price of the shares over the exercise price. The expenses are recognized as cost on a straight-line basis over the service period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

INCOME TAXES

The income tax charge is based on profit for the year and considers deferred taxation. Deferred taxes are calculated using the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates at the balance sheet date. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to reverse. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, unrecognized deferred tax assets and the carrying amount of deferred tax assets are reassessed. The enterprise recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity, including adjustments to the opening balance of retained earnings resulting from either a change in accounting policy that is applied retrospectively or the correction of a fundamental error.

CLASSIFICATIONS IN THE BALANCE SHEET

Assets intended for long term ownership or use has been classified as fixed assets. Assets relating to the trading cycle have been classified as current assets. Receivables are classified as current assets if they are to be repaid within one year after the transaction date. Similar criteria apply to liabilities.

NOTE 2 Intangible and tangible assets

	Intangible assets	Property, plant & equipment		
	Software and licenses etc.	Land and buildings	Fixtures and office equipment	Total
Cost at 1 January 2007	10.5	1.8	3.9	5.7
Acquisitions	0.4		0.4	0.4
Cost at 31 December 2007	11.0	1.8	4.3	6.1
Depreciation and impairment losses at 1 January 2007	10.5	1.5	1.8	3.3
Depreciation for the year		0.1	0.7	0.8
Depreciation and impairment losses at 31 December 2007	10.5	1.6	2.5	4.1
Carrying amount at 31 December 2007	0.4	0.2	1.8	2.0
Cost at 1 January 2008	11.0	1.8	4.3	6.1
Acquisitions	1.8		0	0
Cost at 31 December 2008	12.8	1.8	4.3	6.1
Depreciation and impairment losses at 1 January 2008	10.5	1.6	2.5	4.1
Depreciation for the year	0.2	0.1	0.5	0.6
Depreciation and impairment losses at 31 December 2008	10.7	1.7	3.0	4.7
Carrying amount at 31 December 2008	2.0	0.1	1.3	1.4
	Cost	Cost	Cost	Cost
Leasing contracts	this year	2009	2010 - 2013	2014 ++
Company cars	0.9	1.4	0.4	

The Company has no agreements for takeover of assets upon expiry of the leasing contracts. Eltek ASA is liable for leasing contracts relating to various machinery/equipment and cars which are used by the subsidiary Eltek Valere AS. The annual rental cost is NOK 3.1 million with expiry in 2009-2012.

NOTE 3 Taxes

	2008	2007	2006
Reconciliation between profit before tax and taxable profit:			
Profit before tax	-511.9	-234.0	-15.6
Permanent differences	477.0	195.1	7.3
Change in temporary differences	22.3	-18.3	-90.6
Taxable income excl group contribution	-12.5	-57.2	-98.8
Group contribution		26.4	23.0
Taxable profit	-12.5	-30.8	-75.8
Reconciliation of taxes:			
Tax payable			
Deferred taxes booked against equity	-3.6	-0.7	
Excess allocation for previous years		-0.1	
Deferred tax from acquisition			187.2
Change in deferred tax	-6.1	-2.6	-186.4
Taxes	-9.8	-3.4	0.7
Reconciliation of tax rate:			
Tax rate on profit before tax	1.9%	1.5%	-4.5%
Tax rate on permanent differences	26.1%	23.2%	13.2%
Tax rate on over/under payments in previous years		0.1%	
Tax rate on Group contribution		3.2%	41.4%
Tax rate on valuation allowance			-22.1%
Tax rate	28.0%	28.0%	28.0%
Temporary differences:			
Current assets/short term debt	-189.2	-157.3	-172.7
Fixed assets/long term debt	-102.6	-112.1	-118.3
Tax loss carry forward	-62.3	-610.5	-579.7
Net taxable (+)/deductable (-) temporary differences	-914.8	-879.9	-870.8
Calculated deferred tax liability (-)/asset (+)	256.2	246.4	243.9
Valuation allowance	46.7	46.7	46.7
Recognized deferred tax asset	209.5	199.7	197.2

NOTE 4 Shares

Shares in subsidiaries	Business office	Share in %	Book value as at 31.12
Eltek Valere AS	Norway	100%	925.5
Nera Networks AS	Norway	100%	271.7
Nera Telecommunications Ltd	Singapore	50%	223.9
Nera Telecom Latin America	Venezuela	100%	44.5
Nera Broadband Satellite AS	Norway	100%	2.8
Nera Invest AS	Norway	100%	0.1
Total shares in subsidiaries			1 468.5

Shares in Eltek Valere AS were in 2002 written down by NOK 26.0 million. In 2007 shares in Nera Networks AS were written down by NOK 274.0 million and in 2008 shares in Eltek Valere AS have been written down with NOK 513.0 million. Share based payments to employees in subsidiaries, NOK 30.3 million is included as part of the investment in subsidiaries by end of 2008.

Other investments	Business office	Share in %	Book value as at 31.12
Vensafe AS	Norway	1.33%	0.4
Total shares in other companies			0.4

NOTE 5 Cash and cash equivalents

All cash and cash equivalents are cash at bank. No cash is restricted.

NOTE 6 Equity

Reconciliation of movements in capital and reserves.

	Number of shares (thousands)	Attributable to equity holders of the Company				Total
		Share capital	Treasury shares	Share premium reserve	Retained earnings	
Balance as at 1 January 2006	32 261	32.3		300.8	545.9	879.0
Total recognized income for the year					-15.9	-15.9
Stock options exercised by employees	271	0.3		12.1		12.3
Issue of shares	16 674	16.7		1 221.4		1 238.0
Share issue cost				-0.4		-0.4
Treasury shares			-4.7			-4.7
Cost of share based payments					10.2	10.2
At 31 December 2006	49 206	49.2	-4.7	1 533.8	540.3	2 118.6
Balance as at 1 January 2007	49 206	49.2	-4.7	1 533.8	540.3	2 118.6
Total recognized income for the year					-228.9	-228.9
Treasury shares			-0.9		-1.4	-2.3
Cost of share based payments					8.4	8.4
At 31 December 2007	49 206	49.2	-5.6	1 533.8	318.4	1 895.8
Balance as at 1 January 2008	49 206	49.2	-5.6	1 533.8	318.4	1 895.8
Total recognized income for the year				-191.7	-323.4	-515.1
Issue of shares	250 000	250.0				250.0
Share issue costs				-10.3		-10.3
Cost of share based payments					5.0	5.0
At 31 December 2008	299 206	299.2	-5.6	1 331.8	-	1 625.4

NOTE 7 Pension obligations

Eltek ASA is required by law to have pension schemes for the employees. In 2007 the pension scheme was changed from a defined benefit pension scheme to a defined contribution pension scheme. The Company also has a pension scheme that is funded by operations which include 25 former employees. The contractual pension committed has been calculated and is included under unfunded obligations.

The amounts recognized in the balance sheet are determined as follows:

	2008	2007	2006
Present value of funded obligations			5.1
Fair value of plan assets			-5.1
Net funded obligations			0.1
Present value of unfunded obligations	97.5	82.6	82.3
Liability in the balance sheet	97.5	82.6	82.4

The amounts recognized in the income statement are as follows:

	2008	2007	2006
Current service cost		0.5	0.5
Interest cost	3.8	3.8	1.0
Expected return on plan assets		-0.2	-0.2
Payroll tax		0.1	0.1
Total included in employee benefit expenses (note 11)	3.8	4.2	1.3

The movement in the liability recognized in the balance sheet is as follows:

	2008	2007	2006
Beginning of year	82.6	87.4	5.0
Change in accounting principles			
Recognized in income statement	3.8	4.4	1.5
Benefits paid	-1.9	-1.6	-0.5
Actuarial losses/gains	13.0	-0.4	-0.5
Liabilities acquired in a business combination			81.9
Settlements		-7.2	
End of year	97.5	82.6	87.4

The movement in the assets recognized in the balance sheet is as follows:

	2008	2007	2006
Beginning of year		-5.1	-4.3
Change in accounting principles			
Expected return on plan assets		-0.2	-0.2
Employer contributions			-0.6
Actuarial losses/gains		0.5	0.1
Settlements		4.9	
End of year		-	-5.1
Net pension liability	97.5	82.6	82.3

The principal actuarial assumptions used were as follows:

	2008	2007	2006
Discount rate	4.00%	4.70%	4.35%
Expected return on plan assets		5.75%	5.40%
Pay regulation	4.50%	4.50%	4.50%
Inflation/Basic amount reg.	4.25%	4.25%	2.00%
Pension regulation	2.00%	2.00%	2.50%

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in each territory.

NOTE 8 Bond loan, borrowings, other non-current liabilities and other current liabilities

	2008	2007	2006
Debt secured by mortgages	667.8	199.2	94.6

Assets in Eltek Valere AS have been pledged as security.

Borrowings split by currency (translated into NOK)

	2008	2007	2006
NOK	667.8	522.8	328.8
USD			94.4
GBP			
Total borrowings	667.8	522.8	423.3

In a bondholders meeting 31. March 2008 Eltek ASA obtained approval from bondholders for early redemption of a NOK 300 million bond loan at 101% of par value. The bond loan was recognized at fair value when Eltek ASA merged with Nera ASA in 2006, and the early redemption created a gain of NOK 18 million, which is included in the Income statement for 2008.

In April 2008 the bond loan was replaced by a NOK 350 million term loan with an eighteen months grace period and repayments in equal annual installments over the following six years. In December 2008 the financing banks have agreed to postpone installment NOK 58 million due October 2009 to October 2010. Eltek ASA also has an overdraft facility of USD 90 million and in December 2008 Eltek obtained postponement of a USD 20 million reduction in this facility from the second quarter 2009 until the second quarter 2010.

Average interest rate terms for the financial institutions borrowings in NOK are NIBOR + 3.5%.

The loan agreements for the Company contain covenants where the covenants will change quarterly through 2009:

- i) Goodwill adjusted equity ratio above 24% at 31 December 2008 and increasing to above 27% at 31 December 2009
- ii) Net interest bearing debt/EBITDA – ratio below 4.2 at 31 December 2008 and decreasing to below 3.0 at 31 December 2009
- iii) The loan covenants also include negative pledge related to assets not already placed as security

If the minority shareholders of Eltek Valere AS and Eltek Energy Holding Inc. in 2009 exercise their put option and end up with an interest bearing note, there is a mechanism in the loan agreements for adjusting the covenants correspondingly.

OTHER CURRENT LIABILITIES

	2008	2007	2006
Salary provisions	1.0	1.0	2.2
Social security on stock options			1.0
Fees provisions	0.3	1.3	3.1
Financial instruments			2.4
Provisions	1.9	2.1	2.6
Accrued interest cost	6.5		
Deferred payment related to purchase of shares		6.9	36.9
Other incurred costs	10.8	3.9	3.2
Total other current liabilities	20.5	15.2	51.3

Other incurred costs include NOK 5.9 million related to severance pay former group management and NOK 3.8 million related to accrued board membership compensation for 2008.

NOTE 9 Guarantee liability

The Company/Group has given certain representations and warranties for tax liabilities related to the divestiture of Eltek Fire & Safety.

NOTE 10 Related parties

No loans/guarantees are granted to Group management, Board members or shareholders.

NOTE 11 Employee benefit expenses

	2008	2007	2006
Wages and salaries	14.9	11.6	11.2
Social security fees	2.1	1.9	1.5
Pension costs (note 7)	4.4	4.2	1.3
Cost of stock options	-0.5	1.8	1.7
Other costs	2.3	1.6	0.3
Total employee benefit expenses	23.2	21.0	15.9

The number of man-labor years in Eltek ASA during 2008 has been 7.

For total remuneration to board members and Group CEO, including share options granted, see "Report on compensation to the Board, Board committees and Group Management" included as note 32 to the consolidated financial statements.

AUDITOR

The expensed fees to the Company's auditor consist of the following (VAT excluded):

	2008	2007	2006
Statutory Audit	4.5	0.7	0.8
Other assurance services			0.9
Financial Due Diligence			0.7
Tax advisory fee		0.6	0.4
Other advisory services	1.5		
Total fee to the auditor	6.0	1.3	2.9

NOTE 12 General, administrative and marketing expenses

	2008	2007	2006
Fees and rented services	14.8	8.2	6.2
Telephone, postage	0.3	0.3	0.2
Promotion	3.2	3.3	3.7
Car and travel costs	1.6	2.2	2.7
IT costs	0.2	0.2	0.1
Other operating costs	11.7	1.4	1.8
Total general, administrative and marketing expenses	31.8	15.6	14.7

The costs for 2008 include effects of changes in group in group management. See also note 11 and note 32 to the consolidated financial statements.

NOTE 13 Financial items

	2008	2007	2006
Group contribution and dividend received	27.3	47.7	23.0
Interest income	0.3	10.8	18.4
Interest income from Group companies	45.3	39.8	10.7
Gain on currency	56.5	33.3	9.6
Other financial income		33.0	0.8
Total financial income	129.4	164.7	62.5
Interest cost	-46.2	-23.3	-14.0
Interest cost from Group companies	-0.3	-0.8	-1.9
Loss on currency	-25.9	-63.1	-12.7
Write down financial assets	-513.0	-274.0	
Other financial costs	-0.1		-12.8
Loss on sale of stock and shares			-5.5
Total financial costs	-585.5	-361.3	-46.9
Net financial items	-456.1	-196.6	15.6

NOTE 14 Derivative financial instruments

	Assets	Liabilities
Forward foreign exchange contracts		0.7
Currency options contracts		-21.4
Net derivative financial instruments		-20.7

Forward foreign exchange contracts:

The nominal principal amounts of the outstanding forward foreign exchange contracts at 31 December 2008 were NOK 71.4 million.

Currency option contracts:

The nominal principle amounts of the outstanding sales contracts at 31 December 2008 were NOK 98.5 million and the principle amounts of the outstanding purchase contracts at 31 December 2008 were NOK 50.1 million.

NOTE 15 Provisions for other liabilities and charges

OTHER PROVISIONS

According to the Shareholder agreement dated 1 June 2007, by and among Eltek ASA, Eltek Valere AS, Eltek Energy Holding Inc and the former Valere shareholders the former Valere shareholders will on certain conditions have the opportunity to sell their shares to Eltek ASA at fair market value. Other provisions include financial liability of NOK 90,0 million related to this minority interest put option. The minority put obligation have previously not been recognized as liabilities in the balance sheet statement (see also Note 26 Contingencies in the Annual Report 2007). By recognizing the minority put options as financial liability, the corresponding Eltek ASA investment in shares in Eltek Valere AS has been increased. The liability is recognized using estimated value, and the estimate may change in future periods as the pricing is dependent on future fair value. A calculated interest expense of NOK 5.0 million related to this put obligation has been charged the profit and loss statement in 2008.