

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Corporate information

Eltek Group (the Group), consisting of Eltek ASA (the Company) and its subsidiaries, is a supplier to the global telecommunication industry. The Group carries out its business through three main companies and their subsidiaries: Eltek Valere AS (energy systems), Nera Networks AS (transmission) and Nera Telecommunications Ltd. (telecom and infocom).

Eltek ASA is a public limited liability company incorporated and domiciled in Norway. The address of its registered office is Gråterudveien, Drammen. The Company is listed on the Oslo Stock Exchange.

The consolidated financial statements of the Group for the year ended 31 December 2008 comprise the Company and its subsidiaries and the Group's interest in associates and jointly controlled entities.

These financial statements were approved for issue by the Board of Directors on 31 March 2009.

NOTE 2 Accounting principles

STATEMENT OF COMPLIANCE

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements are presented in Norwegian Kroner (NOK) million. They have been prepared under the historical cost convention, except that the following assets and liabilities are stated at their fair value: derivative financial instruments and available for sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

(a) Interpretations effective in 2008

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the group's financial statements, as the group has a pension deficit and is not subject to any minimum funding requirements.

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the group's financial statements.

(b) Standards and amendments early adopted by the group

Not applicable for the Group in 2008.

(c) Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the group's operations:

- IFRIC 12, 'Service concession arrangement'

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods, but the group has not early adopted them:

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009).

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009).
- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009).
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009).
- IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009).
- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009).
- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009).
- IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009).
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).
- IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009).
- IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009).
- IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).
- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).
- IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009).
- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the group's accounts and have therefore not been analysed in detail.
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008).

(e) Interpretations and amendments to existing standards that are not yet effective and not relevant for the group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009, or later periods, but are not relevant for the group's operations:

- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).
- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009).
- IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009).
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).
- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).
- IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009).
- IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009).
- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009).
- IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).
- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).
- The minor amendments to IAS 20 'Accounting for government grants and disclosure of government assistance' and IAS 29, 'Financial reporting in hyperinflationary economies' IAS 40, 'Investment property' and IAS 41, 'Agriculture', which are part of the IASB's which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments will not have an impact on the group's operations as described above.
- IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009).

CONSOLIDATION

Subsidiaries

Subsidiaries are all entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the aggregate of the fair values of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group, which are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Where an acquisition results in minority shareholders having the option to require the Group to purchase their shareholding (a put option) then no amount is allocated to the minority in respect of those shares subject to the put option. Instead, a liability is recognised at the value of management's best estimate of the present value of the redemption amount of the put option.

The accretion of the discount on the put liability is recognised as a finance charge in the income statement, as part of other finance expense. The liability is treated as contingent consideration and any adjustment to the redemptions amount are recognised against goodwill.

Associates

Associates are all entities over which the Group has significant influence but not control, over the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves.

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products and/or services that are subject to risk and returns that are different from those of other business segments. A geographical segment is engaged in providing products and/or services within a particular economic environment that are subject to risk and return that are different from those of segments operating in other economic environments.

Segment income and expenses are that portion of the Company's operating revenues and expenses that are directly attributable to the activities in the segments. Internal profits on sales between the various segments are eliminated in the segment reporting. Segment assets and liabilities are balance sheet items that are directly attributable to the activities in the segments.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Norwegian Kroner (NOK), which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the individual transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end

exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Translation differences on non-monetary assets and liabilities, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at average exchange rates.
- All resulting exchange differences are recognized as a separate component of equity.

Upon consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

PROPERTY, PLANT & EQUIPMENT

Property, plant & equipment, other than investment properties, are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Negative goodwill arising on an acquisition is recognized directly in profit and loss.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically feasible and the Group has sufficient resources to complete the development. The expenditure capitalized includes the cost of materials, direct labor and an appropriate proportion of overheads. Other development expenditures is recognized in the income statement as an expense as incurred. Capitalized development expenditures are stated at cost less accumulated amortization (see next page) and impairment losses.

Amortization is calculated using the straight-line method to allocate the cost over their estimated useful lives (3-5 years). Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the income statement when the asset is derecognized.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (3-4 years).

Costs associated with maintaining computer software are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that are probable to generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized over their estimated useful lives (3-4 years).

Other intangible assets

Acquired technology, trademarks, licenses and customer relationships are capitalized and carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated useful lives, as follows:

Developed technology	2-5 years
Customer relationships	3-5 years
Order backlog	1 year
Licenses	16 years
Patents	13 years
Trademark	indefinite useful life

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortization and are tested for impairment at least annually. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

FINANCIAL ASSETS

The Group classifies its financial assets in the following categories:

Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as Trade and other receivables, except for maturities greater than 12 months after the balance sheet date, which are classified as 'Other non-current assets' in the balance sheet. Loans and receivables are carried at amortized cost using the effective interest method.

Available-for-sale financial assets

Investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments classified as available-for-sale, are measured at fair value. Gains and losses are

recognized as a separate component of equity until the investment is sold or otherwise disposed of, or until the investment is determined to be impaired.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

No derivatives or financial instruments used for hedging activities are recognized for hedge accounting as fair value hedges, cash flow hedges or net investment hedges. Derivatives are therefore assessed at fair value at each period end and changes in fair value are recognized in the income statement.

INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are carried at amortized cost, less provision for impairment. The interest element is disregarded if it is insignificant. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is recognized in the income statement within administrative expenses.

CONSTRUCTION CONTRACTS

Contract costs are recognized when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are deemed to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The Group uses the "percentage of completion method" to determine the appropriate amount of revenue to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within trade and other receivables.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

EQUITY

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

Currency translation reserve

Conversion differences arise in connection with foreign currency differences in the consolidation of foreign entities. Foreign currency differences with respect to monetary items (liabilities or receivables) that are in reality part of the Company's net investment in a foreign entity are treated as conversion differences. Upon the disposal of a foreign entity the accumulated conversion differences related to that entity are reversed and recorded in the profit and loss account in the same period that the profit or loss on the disposal is recorded.

Fair value reserve

The fund for unrealized profit includes actuarial gains and losses recognized directly in equity and the overall net changes in the fair value of financial instruments classified as available for sale until the investment has been disposed of or it has been ascertained that the investment is of no value.

BORROWINGS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

INCOME TAXES

Income tax on the profit and loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The evaluation is based on historical performance and future budgets and business plans. Future pre-tax profit estimates is a key indication in the evaluation.

Taxable and deductible differences, which are, or may be, reversed in the same period, are offset. Any remaining deductible difference is used as a basis for recognizing a deferred tax asset if future taxable income is likely to occur. Deferred tax liability and assets are presented net within the same tax regime.

EMPLOYEE BENEFITS

Pension obligations

The Group has both defined benefit and defined contribution plans. 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. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized prior service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the Statement of Recognized Income and Expense in the period in which they arise.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group 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 Group 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.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing where contractually obligated or where there is a past event that has created a constructive obligation.

PROVISIONS

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical experience and a weighting of all possible outcomes against their associated probabilities.

Restructuring expenses

Restructuring provisions include only direct expenses that are related to the actual restructuring and not part of the day-to-day operations. Provisions are only made for expenses that cannot be associated with future revenues. Restructuring provisions are recorded in the accounts when the Company has a detailed restructuring plan for an identified business area, the affected sites have been clarified, the types of departments that will be affected and the number of employees who will receive severance packages have been defined, the type of expenses that will be incurred has been estimated, the start date for the restructuring has been determined and the restructuring plan has been communicated to those who will be affected by the plan. Fixed assets that are to be disposed of shall be valued at the lesser of the book value and fair value (sales value less sales expenses). When some or all of the expenses related to the restructuring are to be covered by others, this related receivable is not taken into account before it is clear that the expenses will be covered.

TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after intercompany sales within the Group.

Sales of goods are recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Revenues related to projects are recognized using the percentage-of-completion method, see the paragraph on Construction contracts for further details.

Interest income is recognized on a time-proportion basis using the effective interests' method. Dividend income is recognized when the right to receive payment is established.

ACCOUNTING FOR LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. 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.

EARNINGS/LOSS PER SHARE (EPS)

Basic earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is computed using the weighted average number of shares outstanding during the period plus the dilutive effect of stock options. Stock options are deemed to have been converted into ordinary shares on the date when the options were granted.

CONTINGENT LIABILITIES

Contingent liabilities are defined as potential liabilities resulting from prior events where the existence of the liabilities are dependent on future events; liabilities that are not recorded in the accounts since it is not probable that they will entail any settlement payments; and liabilities that cannot be measured with an adequate degree of reliability.

Contingent liabilities are not recognized in the annual accounts with the exception of uncertain liabilities taken over in connection with the purchase of a business. Significant contingent liabilities are disclosed unless the probability of the liability is low. A contingent asset is not recorded in the annual accounts, but it will be disclosed if there is a certain probability that it will benefit the Group.

EVENTS AFTER THE BALANCE SHEET DATE

New information on the Company's positions on the balance sheet date has been incorporated into the annual accounts. Events after the balance sheet date that do not affect the Company's position on the balance sheet date, but will affect the Company's position in the future have been disclosed if they are material.

NOTE 3 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

CONSTRUCTION CONTRACTS

Construction contracts are recognized in accordance with the percentage-of-completion method. The recognition of revenue is deferred until the progress reaches an adequate degree of completion, based on milestones in the contract, so that the outcome can be estimated with an adequate degree of probability. The per contract profit is estimated based on the calculated cost of equipment deliveries, shipment, any installation and other associated costs. Budgeted costs may change significantly in the event of unforeseen problems in the delivery of the contract, or if prices for purchased services or third-party materials change.

WARRANTY PROVISIONS

The Group provides for the estimated cost of product warranties at the time revenue is recognized. Warranty provision is established based upon best estimates of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. This includes making estimates for failure rates, the length of warranty periods and repair costs. While we believe that warranty provisions are adequate and that the judgment applied are appropriate, the ultimate cost of product warranties could differ materially from the estimates.

INVENTORY-RELATED ALLOWANCES

Inventories are periodically reviewed for excess amounts, obsolescence and declines in market value below cost, and the Group records an allowance against the inventory balance for any such declines. These reviews require management to estimate future demand for our products. Possible changes in these estimates could result in revisions to the valuation of inventory in future periods.

PENSIONS

The determination of pension benefit obligations and expense for defined benefit pension plans is dependent on selection of certain assumptions used by actuaries in calculating such amounts. These assumptions are described in note 19 and include, amongst others, the discount rate, expected long-term rate of return on plan assets and annual rate of increase in future compensation levels. The assumptions are based on actual historical experience and external data regarding compensation and discount rate trends. While we believe that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect pension obligation and future expense.

CAPITALIZED DEVELOPMENT COSTS

Certain development costs are capitalized when it is probable that a development project will generate future economic benefits and certain criteria, including commercial and technological feasibility, have been met. These costs are then amortized on a systematic basis over their expected useful lives. During the development stage, management must estimate the commercial and technological feasibility of these projects as well as their expected useful lives.

Whenever there is an indicator that development costs capitalized for a specific project may be impaired, the recoverable amount of the asset is estimated. An asset is impaired when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's net selling price and value in use. Value in use is the present value of discounted estimated future cash flows. While we believe that the assumptions are appropriate, such amounts estimated could differ materially from what will actually occur in the future.

GOODWILL

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 7).

INCOME TAXES

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes, deferred tax assets and liabilities and the extent to which deferred tax assets can be recognized. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Valuation allowances are recorded to reduce the deferred tax assets to an amount that is more likely than not to be realized. Our valuation allowances relate primarily to our foreign operations. Deferred tax assets are recognized if it is probable that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilized. We have considered future taxable income and tax planning strategies in assessing whether deferred tax assets should be recognized. These strategies are based on the Group structure as of 31 December 2008.

MINORITY PUT OPTIONS

Net present value of future acquisition price of the minority put options on shares in subsidiaries are recognized as non-current and current liabilities (see note 21). These liabilities are recognized using estimated values, and the estimates can be changed in future periods as the pricing is dependent on future fair value and/or future results.

NOTE 4 Group entities

The following subsidiaries are included in the consolidated financial statements:

Company	Country of incorporation	Owership interest	Voting power
Eltek Valere Inc.	USA	81.9%	100.0%
Eltek Energy Holding Inc.	USA	81.9%	100.0%
Eltek Energy International de Mexico. S. de R.L. de C.V.	Mexico	81.9%	100.0%
Eltek Sistemas de Energia Indústria e Comércio S.A.	Brazil	46.6%	56.9%
Eltek Energy de Peru S.R.L.	Peru	81.9%	100.0%
Eltek Valere Energy Technology (Dongguan) Ltd.	China	90.9%	100.0%
Eltek Valere Ltd.	China	90.9%	100.0%
Eltek Valere Science & Technology (Shenzhen) Co. Ltd.	China	90.9%	100.0%
Eltek Valere Pte. Ltd.	Singapore	90.9%	100.0%
Eltek Valere (Thailand) Co. Ltd.	Thailand	46.6%	100.0%
Eltek Pacific Pty. Ltd.	Australia	81.0%	89.1%
Eltek SGS Pvt. Ltd.	India	74.8%	100.0%
Eltek SGS Mechanics Pvt. Ltd.	India	46.4%	100.0%
Eltek Energy (M) Sdn. Bhd.	Malaysia	35.5%	100.0%
Nextera Communications (Pvt) Ltd.	Pakistan	46.4%	100.0%
Eltek Valere Inc.	Philippines	90.9%	100.0%
Eltek Energy CVI Ltd.	British Virgin Island	90.9%	100.0%
Eltek Valere AS	Norway	90.9%	100.0%
Eltek Valere (UK) Ltd.	UK	90.9%	100.0%
OOO Eltek St. Petersburg	Russia	90.9%	100.0%
Eltek Valere Oy	Finland	60.0%	66.0%
Eltek Valere Sp. z.o.o.	Poland	46.4%	51.0%
Eltek Valere SA	France	90.9%	100.0%
Eltek Energia S.A.	Spain	46.4%	51.0%
Eltek Energy AB	Sweden	90.9%	100.0%
Eltek Valere s.r.o.	Slovakia	90.9%	100.0%
Eltek Valere Deutschland GmbH	Germany	90.9%	100.0%
Eltek Valere Industrial	Germany	90.9%	100.0%
VH Montage GmbH	Germany	90.9%	100.0%

Company (cont.)	Country of incorporation	Owership interest	Voting power
Eltek VH Holding GmbH	Germany	90.9%	100.0%
Convertronic CIE Geratebau GmbH	Germany	90.9%	100.0%
Eltek Valere MEA FZCO	UAE	90.9%	100.0%
Eltek Egypt	Egypt	46.4%	51.0%
Pars Eltek	Iran	46.4%	51.0%
Eltek Holding AB	Sweden	90.9%	100.0%
AIAB DC Systems AB	Sweden	90.9%	100.0%
Eltek UPS Svenska AB	Sweden	77.3%	90.9%
PEP Convertronic zoo	Poland	90.9%	100.0%
Eltek Valere Italia S.r.l.	Italy	90.9%	100.0%
Nera America Latina Ltda	Brasil	100.0%	100.0%
Nera Ltd.	UK	100.0%	100.0%
Nera (India) Ltd.	India	99.9%	100.0%
Nera Networks Srl.	Italy	100.0%	100.0%
Nera de Mexico SA de CV	Mexico	100.0%	100.0%
Nera Microwave Nigeria Ltd.	Nigeria	100.0%	100.0%
Nera Networks Polska Sp.z.o.o.	Poland	100.0%	100.0%
Nera Telec. De Uruguay SA	Uruguay	100.0%	100.0%
Nera Paraguay SA	Paraguay	100.0%	100.0%
Mega Link d.o.o. Beograd	Serbia	100.0%	100.0%
Nera Networks Algeria EURL	Algeria	100.0%	100.0%
Nera Networks (SA) (Pty) Ltd.	South-Africa	100.0%	100.0%
Nera Uganda Ltd.	Uganda	100.0%	100.0%
Nera Argentina SA	Argentina	100.0%	100.0%
Nera Networks OOO	Russia	100.0%	100.0%
Nera Networks s.r.o	Slovakia	100.0%	100.0%
Nera Inc.	USA	100.0%	100.0%
Nera Telecomunicaciones Latin-America SA	Venezuela	100.0%	100.0%
Nera Invest AS (owner ELTEK ASA)	Norway	100.0%	100.0%
Nera Broadband Satellite AS (owner Eltek ASA)	Norway	100.0%	100.0%
Nera Bulgaria EOOD	Bulgaria	100.0%	100.0%
Nera Telecommunications Ltd.	Singapore	50.1%	50.1%
Nera (Malaysia) Sdn. Bhd.	Malaysia	30.0%	30.0%

Although the Group owns less than half of the voting power of Eltek Valere (Thailand) Co Ltd., Eltek Energy (M) Sdn. Bhd. (Malaysia) and Nera (Malaysia) Sdn. Bhd. it is able to govern the financial and operating policies of the companies by virtue of agreement with the other investors of the three companies. Consequently, the Group consolidates its investment in these three companies.

NOTE 5 Segment information

PRIMARY REPORTING FORMAT - BUSINESS SEGMENTS

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

Eltek Valere develops and markets energy systems for telecom networks as well as for industrial applications. Nera Networks specializes in wireless microwave transmission systems for telecom networks. Nera Telecommunications is a provider of microwave, satellite and wireless broadband access solutions for telecom networks, as well as of a range of infocom solutions, including broadcasting and retail payment solutions.

The Eltek Valere business area includes Valere Power Inc. Valere Power Inc. is consolidated from 1 June 2007, (note 29) and consequently only included in the segment information below with numbers from this date. Nera Networks (Networks) and Nera Telecommunications (NeraTel) are consolidated as 1 October 2006 (note 29), and consequently, they are only included in the segment information below with numbers from this date.

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The segment figures for the year ended 31 December 2008 are as follows:

	Business segment				Group
	Eltek Valere	Nera Networks	NeraTel	Unallocated	
INCOME STATEMENT					
Total segment revenue	3 663.6	1 797.4	665.8		6 126.8
Inter-segment revenue	-19.2	-140.6	-8.6		-168.4
Revenue	3 644.4	1 656.8	657.2	-	5 958.4
Gross profit	866.3	346.9	154.9	-4.3	1 363.8
Operating profit/Segment results	-570.7	-28.3	42.7	-60.1	-616.4
Share of result in associated companies	1.1				1.1
Net financial items					-142.9
Profit/loss before income tax					-758.3
Income tax expense					-65.8
Net profit/loss continuing operations					-824.1
Profit/loss from discontinued operations					
Net profit/loss					-824.1

ASSETS AND LIABILITIES

	Eltek Valere	Nera Networks	NeraTel	Unallocated	Group
Total assets	2 976.7	2 012.7	699.1	482.7	6 171.2
Liabilities	2 044.3	1 830.6	283.2	162.3	4 320.4

OTHER SEGMENTS INFORMATION INCLUDED ABOVE

	Eltek Valere	Nera Networks	NeraTel	Unallocated	Group
Depreciation (note 6)	39.2	18.7	10.4	0.6	68.9
Amortization (note 7)	81.7	43.7	10.0	0.1	135.6
Impairment goodwill, R&D (note 7, 22)	735.3				735.3
Restructuring (note 21, 22)	35.3				35.3
Provision Claim Brazil (note 21)		61.0			61.0
Capital expenditure (note 6, 7)	210.5	169.6	15.0	1.7	396.8
EBITDA	285.5	34.1	63.1	-59.4	323.3

The segment figures for the year ended 31 December 2007 are as follows:

	Business segment				Group
	Eltek Valere	Nera Networks	NeraTel	Unallocated	
INCOME STATEMENT					
Total segment revenue	3 064.5	1 311.1	679.1		5 054.7
Inter-segment revenue	-10.4	-192.9	-30.6		-233.9
Revenue	3 054.1	1 118.2	648.5	-	4 820.8
Gross profit	770.2	212.8	149.1		1 132.2
Operating profit/Segment results	159.9	-117.5	38.1	-35.4	45.2
Share of result in associated companies	0.9				0.9
Net financial items					2.6
Profit before income tax					48.7
Income tax expense					-152.1
Net profit/loss continuing operations					-103.5
Profit from discontinued operations					33.0
Net profit/loss					-70.5

(cont.)	Business segment				Group
	Eltek Valere	Nera Networks	NeraTel	Unallocated	
ASSETS AND LIABILITIES					
Total assets	3 234.2	1 700.6	562.7	131.4	5 628.8
Liabilities	1 676.8	1 382.4	214.2	-38.9	3234.5
OTHER SEGMENTS INFORMATION INCLUDED ABOVE					
Depreciation (note 6)	35.9	15.7	7.8	0.8	60.2
Amortization (note 7)	70.9	31.1	16.0		118.0
Impairment goodwill (note 7, 22)		209.6			209.6
Restructuring (note 21, 22)	35.9				35.9
Gain change pension scheme (note 22)	18.4	144.2			162.6
Capital expenditure (note 6, 7)	940.7	196.6	14.9	1.3	1 153.5
EBITDA	258.7	138.9	61.9	-34.7	424.8

The segment figures for the year ended 31 December 2006 are as follows:

	Business segment				Group
	Eltek Valere	Nera Networks	NeraTel	Unallocated	
INCOME STATEMENT					
Total segment revenue	2 585.3	398.5	179.0		3 162.8
Inter-segment revenue		-30.4	-11.3		-41.7
Revenue	2 585.3	368.1	167.7	-	3 121.1
Gross profit	661.0	72.7	39.8		773.5
Operating profit/Segment results	274.3	-60.5	6.8	-31.2	189.3
Share of result in associated companies	0.9				0.9
Net financial items					-33.0
Profit before income tax					157.2
Income tax expense					-50.6
Net profit					106.6
ASSETS AND LIABILITIES					
Total assets	2 024.7	1 845.6	542.7	372.8	4 785.9
Liabilities	746.2	917.5	150.7	567.0	2 381.3
OTHER SEGMENTS INFORMATION INCLUDED ABOVE					
Depreciation (note 6)	17.9	4.6	1.8	0.2	24.5
Amortization (note 7)	34.1	7.1	4.8	0.3	46.3
Restructuring (note 22)		49.7			49.7
Gain from sale of assets (note 22)	22.3				22.3
Capital expenditure (note 6, 7)	210.2	418.3	151.9	1.2	781.6
EBITDA	326.0	-49.0	14.0	-31.0	260.0

Inter-segment transfers or transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets consist primarily of property, plant and equipment, intangible assets, investments in associates, inventories, trade and other receivables, derivatives designated as hedges of future commercial transactions, and cash and cash equivalents. Unallocated assets comprise the assets of the holding company and elimination of inter-segment items.

Segment liabilities comprise operating liabilities (including derivatives designated as hedges of future commercial transactions), taxation and borrowings. Unallocated liabilities comprise the liabilities of the holding company and elimination of inter-segment items.

Capital expenditure comprises additions to property, plant and equipment (note 6) and intangible assets (note 7), including additions resulting from acquisitions through business combinations (note 29).

SECONDARY REPORTING FORMAT - GEOGRAPHICAL SEGMENTS

The Group operates in three main geographical areas, even though they are managed on a world-wide basis; EMEA (Europe, Middle East and Africa), Americas and Asia Pacific. Transactions within the various segments are eliminated.

Revenue	2008		2007		2006	
EMEA (Europe, Middle East and Africa)	2 291.5	38%	2 017.3	42%	1 522.9	49%
Americas	1 767.0	30%	1 186.8	25%	758.8	24%
Asia Pacific	1 899.9	32%	1 616.7	33%	839.5	27%
Total revenue	5 958.4	100%	4 820.8	100%	3 121.1	100%

Sales are allocated based on the country in which the customer is located ("sales by destination").

Operating profit	2008		2007		2006	
EMEA (Europe, Middle East and Africa)	-28.8	4%	-82.3	-182%	117.6	62%
Americas	-590.3	96%	-54.8	-121%	3.2	2%
Asia Pacific	2.7	0%	182.3	403%	68.5	36%
Total operating profit	-616.4	100%	45.2	100%	189.3	100%

Operating profit are allocated based on the country in which the company operates.

Total assets	2008		2007		2006	
EMEA (Europe, Middle East and Africa)	3 352.4	54%	2 977.5	53%	3 026.9	63%
Americas	1 358.0	22%	1 495.9	26%	863.7	18%
Asia Pacific	1 460.8	24%	1 155.5	20%	895.3	19%
Total assets	6 171.2	100%	5 628.8	100%	4 785.9	100%

Total assets are allocated based on where the assets are located.

Capital expenditure	2008		2007		2006	
EMEA (Europe, Middle East and Africa)	252.9	64%	299.2	26%	557.3	71%
Americas	23.9	6%	817.5	71%	19.7	3%
Asia Pacific	120.0	30%	36.8	3%	204.6	26%
Total capital expenditure	396.8	100%	1 153.5	100%	781.6	100%

Capital expenditure includes property, plant and equipment and intangible assets. Geographical allocation is based on where the assets are located.

Analysis of sales by category	2008		2007		2006	
Sales of goods	4 003.2	67%	3 401.5	71%	2 501.5	80%
Revenue from services	668.5	11%	441.3	9%	283.2	9%
Revenue from construction contracts	1 286.6	22%	978.0	20%	336.4	11%
Total revenue	5 958.4	100%	4 820.8	100%	3 121.1	100%

NOTE 6 Property, plant and equipment

	Land and buildings	Plant and machinery	Fixtures and office equipment	Total
Cost at 1 January 2006	69.6	19.4	102	191
Acquisitions	49.6	50.8	64.5	164.9
Disposals	-0.4	-1.6	-9.4	-11.4
Exchange differences	2.4	0.2	-2.9	-0.3
Cost at 31 December 2006	121.2	68.8	154.2	344.2
Depreciation and impairment losses at 1 January 2006	26.2	15.5	67.3	108.9
Depreciation for the year	4.6	4.4	15.5	24.5
Disposals	-0.4	-1.2	-8.9	-10.5
Exchange differences	0.4	-3.6	1.4	-1.8
Depreciation and impairment losses at 31 December 2006	30.8	15.0	75.3	121.2
Carrying amount at 31 December 2006	90.4	53.8	78.9	223.1
Cost at 1 January 2007	121.2	68.8	154.2	344.2
Acquisition through business combination	0.8	10.7	3.1	14.6
Acquisitions	96.7	52.9	45.6	195.2
Disposals		-41.5	-13.4	-54.9
Exchange differences	-4.1	-5.0	-7.0	-16.1
Cost at 31 December 2007	214.6	85.9	182.5	483.0
Depreciation and impairment losses at 1 January 2007	30.8	15.0	75.3	121.2
Depreciation for the year	13.0	18.8	28.4	60.2
Disposals		-38.1	-10.4	-48.5
Exchange differences	-1.5	-0.7	-6.3	-8.5
Depreciation and impairment losses at 31 December 2007	42.3	-5.0	87.0	124.4
Carrying amount at 31 December 2007	172.3	90.9	95.5	358.7
Cost at 1 January 2008	214.6	85.9	182.5	483.0
Acquisitions	78.3	27.0	44.7	150.0
Disposals	-2.1	-2.9	-6.3	-11.3
Exchange differences	72.7	22.4	42.4	137.5
Cost at 31 December 2008	363.5	132.4	263.3	759.2
Depreciation and impairment losses at 1 January 2008	42.3	-5.0	87.0	124.3
Depreciation for the year	9.9	24.1	34.9	68.9
Disposals	-0.8	-1.8	-2.8	-5.4
Exchange differences	10.5	16.4	22.9	49.8
Depreciation and impairment losses at 31 December 2008	61.9	33.8	142.0	237.7
Carrying amount at 31 December 2008	301.6	98.6	121.3	521.5

Depreciation expense of NOK 29.4 million (2007: NOK 21.1 million and 2006: NOK 9.1 million) has been charged in cost of sales, NOK 9.0 million (2007: NOK 6.8 million and 2006: NOK 1.5 million) in selling and marketing costs, NOK 17.6 million (2007: NOK 16.5 million and 2006: NOK 8.7 million) in administrative expenses and NOK 12.9 million (2007: NOK 15.8 million and 2006: NOK 5.3 million) in R&D and engineering costs.

Fixed assets NOK 110.6 million are pledged as security for liabilities (note 18).

LEASING AND RENTAL CONTRACTS

	Cost this year	Cost 2009	Cost 2010-2013	Cost 2014++
Operating lease and rental	2.4	1.4	1.4	0.5
Office machinery	0.8			
Fixtures & fittings	9.6	6.1	5.3	2.3
Company cars	1.6			
Software	0.2	0.2	0.2	0.2
Plant & machinery	73.1	53.9	96.8	24.9
Land & buildings	0.5	0.4	0.4	
Other	88.2	62.0	104.2	27.9
Total operative lease				

The company has no agreement to take over assets upon expiry of the leasing contract.

NOTE 7 Intangible assets

	Goodwill	Technology/ Capitalized development expenses	Other	Total
Cost at 1 January 2006	579.2	113.1	28.3	720.6
Acquisitions	332.2	186.0	98.5	616.7
Exchange differences	-32.8	3.4	2.0	-27.3
Cost at 31 December 2006	878.7	302.5	128.8	1 310.0
Amortization at 1 January 2006	117.6	15.0	17.1	149.7
Amortization for the year		35.3	11.0	46.3
Exchange differences	-6.7	3.1	-0.6	-4.1
Amortization at 31 December 2006	110.9	53.4	27.5	191.8
Impairment losses at 1 January 2006	384.1			384.1
Impairment during the year				
Exchange differences	-23.2			-23.2
Impairment losses at 31 December 2006	360.9	-	-	360.9
Carrying amount at 31 December 2006	406.8	249.1	101.3	757.3

(cont.)	Goodwill	Technology/ Capitalized development expenses	Other	Total
Cost at 1 January 2007	878.7	302.5	128.8	1 310.0
Acquisition through business combination	588.3	70.8	126.0	785.1
Acquisitions		156.8	1.8	158.6
Exchange differences	-125.3	-9.1	-14.3	-148.7
Cost at 31 December 2007	1 341.7	521.0	242.3	2 105.0
Amortization at 1 January 2007	110.9	53.4	27.5	191.8
Amortization for the year		81.1	36.9	118.0
Exchange differences	-2.3	-1.6	-0.2	-4.1
Amortization at 31 December 2007	108.6	132.9	64.2	305.7
Impairment losses at 1 January 2007	360.9			360.9
Impairment during the year	209.6			209.6
Exchange differences	-41.6			-41.6
Impairment losses at 31 December 2007	528.9	-	-	528.9
Carrying amount at 31 December 2007	704.1	388.1	178.1	1 270.4
Cost at 1 January 2008	1 341.7	521.0	242.3	2 105.0
Acquisitions	88.0	153.2	5.6	246.8
Disposals/adjustments	-183.4			-183.4
Exchange differences	273.0	50.2	66.9	390.1
Cost at 31 December 2008	1 519.3	724.4	314.8	2 558.5
Amortization at 1 January 2008	108.6	132.9	64.2	305.7
Amortization for the year		102.1	33.5	135.6
Exchange differences	0.2	26.6	30.4	57.2
Amortization at 31 December 2008	108.8	261.6	128.1	498.5
Impairment losses at 1 January 2008	528.9			528.9
Impairment during the year	728.1	7.2		735.3
Exchange differences	76.4			76.4
Impairment losses at 31 December 2008	1 333.4	7.2	-	1 340.6
Carrying amount at 31 December 2008	77.1	455.6	186.7	719.4

TECHNOLOGY/CAPITALIZED DEVELOPMENT EXPENSES

Capitalized development expenses in 2008 NOK 153.2 million consist of expenses incurred in the development of new products in the business areas Eltek Valere and Nera Networks.

Amortization of capitalized development expenses and technology is included in R&D and engineering costs.

OTHER INTANGIBLES

Other intangible fixed assets include:

- i) All intangible fixed assets (excluding technology) identified in the merger with Nera in 2006 and the acquisition of Valere Power Inc. in 2007. Amortization of these intangible assets is included in selling and marketing cost.
- ii) Capitalized software costs mainly relate to the ERP system. All functions are charged with their relative share of amortization.

GOODWILL

A segment-level summary of the goodwill allocation is presented below:

	2008			2007			2006		
	Eltek Valere	Nera Networks	NeraTel	Eltek Valere	Nera Networks	NeraTel	Eltek Valere	Nera Networks	NeraTel
EMEA (Europe, Middle East and Africa)				66.3			44.8	209.6	
Americas				529.3			29.8		
Asia Pacific			77.1	48.9		59.6	57.7		64.9
Total goodwill	-	-	77.1	644.5	-	59.6	132.3	209.6	64.9

The goodwill acquisition reported in 2008 relates to 1) regular acquisition of minority interests in Eltek Pacific Pty Ltd in Australia and Eltek SGS Pvt Ltd in India (NOK 32.7 million) and 2) effect of minority interests put options recognized as liabilities in the balance sheet as at December 31, 2008 (NOK 55.3 million). See note 21 and note 29 for further details.

The goodwill disposal NOK 183.4 million reported in 2008 relates to the effect of minority interest put options. See note 21 for further details.

Impairment:

When testing impairment, the business segment Eltek Valere, Nera Networks and NeraTel are considered Cash Generating Units (CGU). Both internal and external reporting follow this structure. Nera Telecommunications is a separate listed company (Singapore Stock Exchange), and Eltek Valere and Nera Networks have largely independent cash flow from each other. The recoverable amount of a CGU is determined based on value-in-use calculations. The Group considers fair value less selling costs to be less than the value-in-use. The value-in-use calculations use cash flow projections based on the 2009 financial budget as approved by the Board of Directors (the Board), the business plan for 2010-2011 and estimated figures for 2012-2013. Future cash flow is estimated based on historical performance and the Group's expectations for market development. The financial budget for 2009 is a detailed budget prepared on a reporting unit level and consolidated at the CGU level. Both the financial budgets for 2009 and the business plans for 2010-2011 reflect estimated impact of current economic trends. The average growth rates used for 2012-2013 and beyond is 2.5%. All three CGU's operate as supplier to the Telecom industry and since key market data will be similar, the impairment tests for each CGU have been performed using the same weighted average cost of capital rate. The after-tax discount rate used is 13% (effective pre-tax rate in the range 16%-20.4% dependent on CGU). The assumptions used imply a cost of debt 6.8% and a cost of equity of 19%.

The impairment tests resulted in goodwill impairment related to the Eltek Valere segment of NOK 728.1 million. The goodwill impairment charge is included line "other (losses)/gains-net" in the income statement (see note 22). Applying a WACC rate/growth rate +/- 1%, has a negative impact of NOK 137 million on the value-in-use calculation related to the business segment Eltek Valere where impairment has been identified. All Eltek Group remaining goodwill (NOK 77.1 million) as at December 31, 2008 is related to Nera Telecommunications.

In addition a review of the R&D projects in the Eltek Valere business segment, resulted in an impairment charge of NOK 7.2 million.

NOTE 8 : Deferred income tax

RECOGNIZED DEFERRED TAX ASSETS

Deferred tax assets and liabilities are attributable to the following:

	Assets			Liabilities			Net		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Non-current assets	29.5	23.8	61.8	-66.1	-12.8	-47.7	-36.6	11	14.1
Current assets	86.1	32.5	60.8	-16.4	-2.8		69.7	29.7	60.8
Non-current liabilities	69.0	45.6	107.3		1.1		69.0	46.7	107.3
Current liabilities	31.8	30.1	53.4		0.4	-0.1	31.8	30.5	53.4
Other	34.2	27	23.4	-0.8	-3.3	-1.3	33.4	23.7	22.1
Tax value of loss carry-forwards	246.2	252.2	206.2		0.9		246.2	253.1	206.2
Tax asset/(liabilities)	496.8	411.2	512.9	-83.3	-16.5	-49.1	413.6	394.7	463.8
Set off of tax	-75.6	-16.5	-38.5	75.6	16.5	38.5			
Tax receivable			4.1						4.1
Recognized deferred tax asset/(liabilities)	421.2	394.7	478.5	-7.7	-	-10.5	413.6	394.7	468.0

UNRECOGNIZED DEFERRED TAX ASSETS

Deferred tax assets have not been recognized in respect of the following items:

	2008	2007	2006
Deductible temporary differences	84.9	45.5	38.6
Tax losses	212.9	126.3	150.7
Unrecognized deferred tax assets	297.8	171.8	189.3

Deferred tax assets have not been recognized in respect of these items because the probability for future tax profits is not sufficiently documented (note 2).

Expiry year of the tax losses carry-forwards:

	2008	2007	2006
1-5 years	44.7	13.8	
6-10 years	10.4	2.4	5.2
More than 10 years	1 474.1	1 332.7	1 001.2
Total tax losses carry-forwards	1 529.2	1 348.9	1 006.4

Reconciliation of movement in net deferred tax assets during the year:

	Balance 1 Jan 08	Recognized in income	Recognized in equity	Balance 31 Dec 08
Non-current assets	11.0	-49.7	2.1	-36.6
Current assets	29.7	39.7	0.3	69.7
Non-current liabilities	46.7	18.6	3.7	69.0
Current liabilities	30.5	0.3	1.0	31.8
Other	23.7	9.8	-0.1	33.4
Tax value of loss carry-forwards	253.1	-9.9	3.0	246.2
Recognized deferred tax asset/(liabilities)	394.7	8.8	10.0	413.6

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently as the amounts of the potential income tax consequences are not practically determinable.

NOTE 9 Investments in associates

	2008	2007	2006
Beginning of the year	2.0	2.0	0.9
Additions/disposals		-0.6	0.6
Share of profit/(loss)	1.1	0.9	0.9
Other equity movements		-0.4	-0.4
End of the year	3.0	2.0	2.0

Investments in associates at the end of 2008 include a 34% shareholding in Compower AS, Norway.

NOTE 10 Other investments

Other investments include the following available-for-sale financial assets:

Name	Business office	2008	2007	2006
Vensafe AS	Norway	0.4	1.6	1.9
Aeromarca	Venezuela	5.9		
Total other investments		6.3	1.6	1.9

Vensafe AS is an unlisted company. Book value of equity has been used as an estimate of the fair value for the 1.33% shareholding as at 31 December 2008. Nera Telecomunicaciones Latin-America SA owns 5.41% of Aeromarca. The investment has in 2008 been reclassified from short term investments.

NOTE 11 Other non-current assets

	2008	2007	2006
Prepaid expenses	0.3	1.2	
Loans	2.1	7.4	12.5
Non-current receivable	4.0	4.3	
Others		0.3	
Total other non-current assets	6.4	13.2	12.5

NOTE 12 Inventories

	2008	2007	2006
Raw materials	427.5	390.9	261.9
Work in progress	83.2	77.2	107.8
Finished goods	472.3	362.2	396.6
Total inventories	983.0	830.3	766.3

Inventories are shown net of inventory reserves of NOK 253.8 million (2007: NOK 187.4 million and 2006: NOK 158.8 million). Changes in inventory reserves are included in cost of sales in the income statement.

Inventories NOK 186.9 million are pledged as security for liabilities (note 18).

NOTE 13 Trade and other receivables

	2008	2007	2006
Trade receivables	2 019.0	1 568.7	1 399.9
Provision for impairment of receivables	94.9	84.0	65.5
Trade receivables - net	1 924.1	1 484.7	1 334.4
Refundable VAT	135.3	129.6	102.4
Amounts due from customers for contract work	634.7	386.5	258.1
Deposits	13.6	8.6	3.2
Prepaid expenses	56.5	46.1	47.2
Loans	6.1	2.8	2.8
Others	118.1	91.0	46.2
Other receivables	964.2	664.6	459.9
Total trade and other receivables	2 888.3	2 149.3	1 794.3

The aging analysis of trade receivables is as follows:

	2008	2007	2006
Not past due	1 395.2	1 029.0	745.6
Past due 1-90 days	409.5	328.8	371.6
Past due more than 90 days	214.3	210.9	282.7
Total trade receivables at 31 December	2 019.0	1 568.7	1 399.9

A large portion of the past due trade receivables relates to customers with slow payment approval processes, but limited or no credit risk. Provisions have been made primarily for accounts past due more than 90 days.

Movements on the Group provision for impairment of trade receivables are as follows:

	2008	2007	2006
At 1 January	84.0	65.5	16.5
Acquisitions		16.4	51.2
Provision for receivables impairment	18.3	21.9	0.4
Receivables written off during the year as uncollectible	-13.3	-19.8	-2.6
Unused amounts reversed	-6.0		
Currency translation	11.9		
Total provision at 31 December	94.9	84.0	65.5

The creation and release of provision and bad debt written off have been included in administrative expenses in the income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

Receivables NOK 1 973 million are pledged as security for liabilities (note 18).

The currency specification of trade receivables is as follows :

	2008	2007
USD	674.6	697.5
EUR	325.7	321.1
GBP	41.5	45.8
INR	90.7	102.8
NOK	269.8	53.3
BRL	276.4	100.8
SGD	21.0	11.8
Other	319.4	235.5
Total trade receivables	2 019.0	1 568.7

NOTE 14 Financial risk management

RISK MANAGEMENT

Risk management is an integral part of the Group's strategic business management with the objective to support the Group's strategic and financial goals. The goal of the risk management system is to survey all the significant risk areas and reduce the consequences of undesired incidents in strategic, operational and financial areas to acceptable levels through a structured and continuous process.

Within the financial area a set of special routines have been defined to survey and handle risk areas related to treasury, customer credit and other financial risk areas.

FINANCIAL RISK

Eltek has established a Group Treasury function at Corporate level that work on the identification, assessment and reduction of financial risks together with the operational units. In addition, business risk committees have been established for the assessment of major tenders. The business risk committees are responsible for the assessment of contract terms and conditions in tenders over certain maximum limits, including a credit assessment of the customer. Other ongoing credit assessment is performed in the individual business unit. Eltek do not perform interest rate or currency trading for it's own account for a speculative purpose.

MARKET RISK

Exchange rate risk

Due to its international operations Eltek is exposed to exchange rate fluctuations. The carrying amount of investments in foreign entities is exposed to fluctuations in exchange rate versus NOK. Revenues in other currencies than NOK are to some extent offset by costs in local operations and purchases in same currency, but net cash flow is exposed to currency fluctuations. The table below illustrates Eltek's 2008 and 2007 revenues broken down by currency;

	2008		2007	
	Amount in NOK	Share in percentage	Amount in NOK	Share in percentage
USD	1 781.4	29.9%	1 762.0	36.5%
EUR	1 229.8	20.6%	1 076.7	22.3%
BRL	701.9	11.8%	231.5	4.8%
INR	370.1	6.2%	389.9	8.1%
SGD	247.5	4.2%	213.4	4.4%
RUB	242.5	4.1%	112.1	2.3%
NOK	215.8	3.6%	192.9	4.0%
GBP	138.4	2.3%	163.3	3.4%
Other	1 031.1	17.3%	679.0	14.2%
Total	5 958.4	100.0%	4 820.8	100.0%

Of the revenue increase from 2007 to 2008 is NOK 43 million related to currency effects from changes in the average rates from 2007 to 2008.

Eltek's foreign currency hedging strategy is based on the hedging of net current assets and larger cash flows related to firm contract commitments. In addition to hedging future cash flows from operations, Eltek hedges currency denominated net investments in foreign subsidiaries and other assets based on a value assessment of each individual investment. The hedging instruments used are mainly a combination of foreign exchange contracts and currency borrowings.

As is the case with other risk management in Eltek, the responsibility for hedging the foreign currency risk lies with the individual business unit, which will gain risk relief against the Corporate treasury unit. The treasury units in Eltek ASA Corporate and in Nera Telecommunications, Singapore will enter into foreign currency hedging contacts with external banks.

Interest rate risk

Eltek is exposed to cash flow interest rate risk primarily related to Eltek's funding in USD and NOK, and bank deposits in various currencies. The whole net interest bearing debt amounted to NOK 1.025 million have floating interest rates and financial income and financial cost in the income statement are influenced by changes in interest rates. Historically there is a correlation between economic cycles and interest rate fluctuations. Economic cycles do also influence Eltek Group earnings. The objective of Eltek's Interest rate hedging strategy is to balance out these factors by having short term interest duration on net debt. Reference is made to note 19 for interest rate risk related to the Company's pension commitments.

Liquidity risk

Part of Eltek's business activities is capital intensive and the liquidity requirements may vary throughout the reporting period. As at 31 December 2008 the Group's liquid assets, consisting primarily of bank deposits, totalled NOK 622 million. In addition the Group has unused credit lines of NOK 381 million. It should be noted that part of the liquid assets and unused credit lines are tied up in Eltek Valere and Nera Tel and not readily available for funding of Nera Networks. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, and availability of funding through adequate committed credit facilities to meet commitments. Group Treasury monitors the groups liquidity reserve on Business unit level and on Group level.

Credit risk

Credit risk is managed on group level and for smaller trade credits on business unit level. Credit risk arises from credit exposures to customers, cash and cash equivalents, derivative financial Instruments and deposits with banks and financial Institutions. Eltek's customers are primarily large public and private telecommunications companies, whose credit worthiness is routinely being monitored. The credit risk is further reduced by internal quality assurance routines associated with project acceptance and pre-payments. It is customary in the telecom equipment business with long payment times. The group is exposed to some risk related to such receivables for some customers in current challenging financial market. Bad debt have historically been small.

Credit risk from financial transactions and deposits are small since a great majority of such transactions are limited to a couple of strong international banks. Some local operations have deposits with local banks.

RISK COVER

As stated in the introduction, Eltek seeks to reduce the consequences of undesired incidents through its risk management system. There will nevertheless be a risk of undesired incidents where the consequences cannot be limited adequately by preventative measures. Cover for this type of risk will be sought through the purchase of insurance. The Eltek Group's insurance program covers the most important areas that are common in our industry, such as insurance for transport damage, business interruption, damage to equipment and property, installation work during project deliveries, liability and other risk cover. In addition, various types of personnel insurance are included in Eltek's insurance program.

NOTE 15 Financial instruments

Financial instruments/derivatives are used for hedging of cash flow exchange rate risk. Cash flows are hedged with forward currency exchange contracts and currency option contracts. Broken down by purchase and sales contracts for USD, EUR and other currencies, the table below illustrates Eltek's contractual amounts translated into Norwegian kroner for forward currency exchange contracts and currency option contracts at 31 December 2008:

Currency	2008					2007				
	Maturity/ settlement period	Sales contracts		Purchase contracts		Maturity/ settlement period	Sales contracts		Purchase contracts	
		Nominal amount	Unrealized profit/(loss)	Nominal amount	Unrealized profit/(loss)		Nominal amount	Unrealized profit/(loss)	Nominal amount	Unrealized profit/(loss)
Currency forward contracts:										
USD	2009	698.8	1.7	13.2	-0.4	2008	394.7	9.6	0.7	
EUR	2009	124.7	-7.4			2008	249.9	1.6		
Other	2009	4.4	-0.2			2008	54.3	3.1	1.1	-0.3
Total		827.9	-5.9	13.2	-0.4		698.9	14.3	1.8	-0.3
Currency option contracts:										
USD	2009	24.5		12.6		2008	21.7	2.2	43.3	
EUR	2009	74.0	-21.4	37.5		2008	31.9	0.5	63.8	-0.3
Total		98.5	-21.4	50.1			53.6	2.7	107.1	-0.3
Total all contracts		926.4	-27.3	63.3	-0.4		752.5	17.0	108.9	-0.6

NOTE 16 Cash and cash equivalents

All cash and cash equivalents are cash at bank. No cash is restricted, however see note 14. Bank overdrafts are not considered as part of the Group's cash management, and therefore no bank overdrafts are included in cash and cash equivalents in the consolidated cash flow statement. Cash and equivalents include short-term deposit NOK 71.9 million with a financial institution in India.

NOTE 17 Capital and reserves

Reconciliation of movements in capital and reserves:

	Attributable to equity holders of the Company									
	Number of shares (thousands)	Share capital	Treasury shares	Share premium reserve	Fair value reserve	Currency translation reserve	Retained earnings	Total	Minority interests	Total equity
Balance as at 1 January 2006	32 261	32.3		1 191.9	1.7	4.4	-358.2	872.0	44.0	916.0
Total recognized income for the year					-3.9	-19.4	86.5	63.2	19.0	82.2
Stock options exercised by employees	271	0.3		12.1				12.3		12.3
Cost of share based payments				10.2				10.2		10.2
Treasury shares purchased			-4.7					-4.7		-4.7
Acquisition of subsidiary (note 29)	16 674	16.7		1 221.4				1 238.0	267.0	1 505.0
Share issue cost				-0.4				-0.4		-0.4
Dividends									-116.1	-116.1
At 31 December 2006	49 206	49.2	-4.7	2 435.1	-2.2	-15.1	-271.7	2 190.6	214.0	2 404.6
Balance as at 1 January 2007	49 206	49.2	-4.7	2 435.1	-2.2	-15.1	-271.7	2 190.6	214.0	2 404.6
Change in opening balance							1.2	1.2		1.2
Total recognized income for the year					3.2	-161.1	-106.8	-264.7	25.6	-239.1
Cost of share based payments							8.5	8.5		8.5
Treasury shares purchased			-0.9				-1.4	-2.3		-2.3
Capital increase minority							24.8	24.8	221.0	245.8
Share issue cost							-0.6	-0.6		-0.6
Dividends									-23.9	-23.9
At 31 December 2007	49 206	49.2	-5.6	2 435.1	1.0	-176.1	-346.0	1 957.6	436.7	2 394.3
Balance as at 1 January 2008	49 206	49.2	-5.6	2 435.1	1.0	-176.1	-346.0	1 957.6	436.7	2 394.3
Change in opening balance							-1.4	-1.4		-1.4
Total recognized income for the year					-1.0	280.5	-807.2	-527.7	57.6	-470.1
Cost of share based payments							6.5	6.5		6.5
Capital increase/decrease minority							0.0	0.0	-280.4	-280.4
Share issue	250 000	250.0						250.0		250.0
Share issue cost				-10.4				-10.4		-10.4
Dividends								0.0	-37.7	-37.7
At 31 December 2008	299 206	299.2	-5.6	2 424.7	0.0	104.4	-1 148.1	1 674.6	176.2	1 850.8

There is only one class of shares, all shares have an equal vote and all are fully paid. Currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Company. The fair value reserve includes actuarial gains and losses recognized directly in equity and the cumulative net change in the fair value of available-for-sale investments until the investment is derecognized.

At the Annual General Meeting May 2008 the Board was given authorization to buy back up to 4 900 000 shares. As at 31 December 2008, Eltek ASA holds 89 905 own shares.

Shareholders with a minimum of 1% share of ownership at 31 December 2008:

Shareholders	No. of shares	% of total
JP MORGAN CHASE BANK	67 517 300	22.57%
ELTEK HOLDING AS	53 214 800	17.79%
FERD AS INVEST	39 739 600	13.28%
SKAGEN VEKST	20 860 714	6.97%
FOLKETRYGDFONDET	14 661 133	4.90%
HOLBERG NORGE	12 400 000	4.14%
CITIGROUP GLOBAL MARKETS INC.	10 029 315	3.35%
MP PENSJON	9 000 000	3.01%
SEB ENSKILDA ASA	5 677 925	1.90%
VERDIPAPIRFONDET KLP AKSJENORGE	5 077 100	1.70%

STOCK OPTIONS

The Board has in accordance with authorization in the Annual General Meetings granted stock options in Eltek ASA to Group management and key employees, as well as a smaller number of options to the majority of the employees. Total stock options outstanding are 1 866 701. Prior to 2008 stock options were granted at the quoted market price of the stock at the date of the grant. In 2008, 993 500 stock options were granted with a strike price 5% above the weighted average price of the Company stock on the day of the Annual General Meeting. For Group Management the stock options granted are performance based and earned, if targets are met, over 3 years. The options normally mature up to two years after they are vested. Options vested can be exercised at four different points of time each year until maturity.

Exercising of options more than two years after they are granted requires that the authority to increase share capital given in the Annual General Meeting is renewed every year as long as the options are outstanding.

Movement in the number of share options outstanding (in thousands) and their related weighted average exercise prices (in NOK) are as follows:

	2008		2007		2006	
	Average exercise price per share	Options (thousands)	Average exercise price per share	Options (thousands)	Average exercise price per share	Options (thousands)
At 1 January	89.92	1 470	83.69	2 225	65.52	1 215
Granted	34.07	1 100	58.17	180	85.53	1 464
Forfeited	64.98	-305	77.59	-56	69.99	-49
Exercised			45.20	-86	46.63	-292
Expired	105.49	-395	70.98	-792	68.11	-113
At 31 December	57.94	1 867	85.74	1 470	80.94	2 225

Out of the 1 867 thousand outstanding options (2007: 1 470 thousand options) 183 thousand options (2007: 406 thousand) were exercisable. No options were exercised in 2008, all 86 thousand options exercised in 2007 were settled by selling own shares while options exercised in 2006 resulted in 292 thousand shares being issued. The average exercise price was NOK 45.20 each and the related weighted average market price at the time of exercise was NOK 63.47 per share. The related transaction costs have been netted off with the proceeds received.

Share options outstanding (in thousands) at the end of the year have the following expiry date and exercise prices:

Expiry	Average exercise price	No of options (thousands)
2009	94.96	653
2010		
2011	59.92	180
2012		
2013	34.08	1034
Total share options outstanding	-	1 867

The fair value of services received in return for share options granted are measured by reference to the fair value of the share options granted and is recognized during the vesting period. The fair value of options granted during the period determined using the Black-Scholes valuation model was NOK 6.5 million (2007: NOK 8.5 million). The significant inputs into the model were share price at the grant date, exercise price (ref. above), standard deviation of expected share price returns, option life (ref. above), and annual risk-free interest rate. Individual calculations are made based on the actual situation and terms at the date of the grant. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over a corresponding period as the vesting period of the granted stock.

In addition, there are 931 554 outstanding Eltek Valere AS options. In accordance with the Annual General Meeting's authorization of proxy for general share issue and mergers, and the Contribution Agreement dated April 15, 2007, by and among Eltek ASA, Eltek Energy AS, Eltek Energy Holding Inc., Valere Power Inc. and each Valere shareholder, outstanding options in Valere Power Inc. were converted into 931 554 Eltek Valere AS options at strikes between USD 1.37-3.42 per share. The options vest linearly on a monthly basis over 2 to 3 years. The options mature 4 to 9 years after being granted. The total number of shares in Eltek Valere is 93.5 million.

NOTE 18 Borrowings

Non-current	2008	2007	2006
Borrowings	845.2	782.5	460.7
Other non-current liabilities	4.1	5.4	3.9
Total non-current	849.3	787.9	464.6
Current	2008	2007	2006
Bank overdrafts	542.5	345.1	76.5
Current portion of bank borrowings	241.3	92.8	27.8
Other current borrowings	13.8		
Total current	797.6	438.0	104.3
Total borrowings	1 646.9	1 225.9	568.9

Borrowings are secured by property, plant and equipment (note 6), inventories (note 12) and trade and other receivables (note 13).

Book value of assets placed as security:

	2008	2007	2006
Fixed assets	110.6	52.3	54.7
Inventories	186.9	100.0	102.7
Trade receivables	1 973.0	65.0	71.4
Total book value	2 270.5	217.3	228.8

The maturity of non-current borrowings is as follows:

	2008	2007	2006
Between 1 and 2 years	233.2	97.3	32.3
Between 2 and 5 years	555.3	571.9	390.7
Over 5 years	60.8	95.3	12.7
Variance between nominal and fair value		23.5	28.8
Total non-current borrowings	849.3	787.9	464.6

Future cash requirements for non-current borrowings (installments and interest):

	2008
Between 1 and 2 years	290.3
Between 2 and 5 years	643.5
Over 5 years	71.3
Future cash requirements for non-current borrowings	1 005.1

The exposure of total borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows :

	2008
3 months or less	1 638.5
3-6 months	
6-12 months	6.6
1-5 years	1.8
over 5 years	
Total borrowings	1 646.9

Total borrowings split by currency (translated into NOK):

	Interest rate	2008	2007	2006
NOK, Senior unsecured bond	NIBOR + 3.75%		323.5	328.8
NOK, Other	NIBOR + 3.50%	667.7	195.8	5.0
USD	LIBOR + 3.50%	815.1	632.5	114.0
EUR	EURIBOR + 0.75%	20.1	17.1	80.1
GBP	LIBOR + 0.75%			
SEK	STIBOR + 0.75%	8.2	3.0	4.3
SGD	LIBOR + 0.75%	68.7	33.2	22.2
HKD	LIBOR + 0.75%	19.0	17.3	10.6
Other currencies		48.1	3.5	3.8
Total borrowings		1 646.9	1 225.9	568.9

Interest rate margin for bank borrowings through the main financing bank, can vary between 2.0% and 3.5% dependent on net interest bearing debt/EBITDA.

On 31 March 2008, the Company obtained approval from bondholders for early redemption of a NOK 300 million bond loan at 101 percent of par value. The bond loan was recognized at fair value when the Company 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, within other financial income (see note 25).

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 an installment of NOK 58 million due October 2009 until October 2010. The Company also has an overdraft facility of USD 90 million and in December 2008 the Company obtained postponement of a USD 20 million reduction in this facility from the second quarter 2009 until the second quarter 2010.

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.

Overdraft facilities:

	2008	2007	2006	2005
Total overdraft facilities	984.6	497.9	366.4	167.9
Unutilized overdraft facilities	381.0	120.3	233.0	139.1

NOTE 19 Retirement benefit obligations

The Group companies in Norway are by law required to have pension schemes for their employees. Eltek ASA and the Norwegian subsidiaries changed to a large extent their pension schemes in 2007 from a defined benefit plan to a defined contribution plan. As of 31 December 2008, 108 employees and persons are covered under a defined benefit plan. In addition, 367 employees and persons who have opted for early retirement are included in the Company's pension schemes that are funded by operations. The contractual pension (AFP) commitment has also been calculated, and is included under unfunded obligations. The Group also has other unfunded pension schemes covering 45 persons.

Eltek Valere Deutschland GmbH (previously Voigt & Haeffner GmbH) had until 1995 a non-funded pension scheme covering 115 people. This scheme was then suspended and no further rights are earned. By end of 2008 the pension scheme covers 98 people. The vested employee benefits of NOK 19.3 million are provided for in the balance sheet.

Several other Group companies operate defined contribution pension schemes for the benefit of employees. The assets of these schemes are administrated by trustees in funds independent from those of the Company, and the pension funds have not been entered in the companies' balance sheet.

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

	2008	2007	2006
Present value of funded obligations	54.9	32.3	409.4
Fair value of plan assets	-32.7	-32.3	-252.8
Net funded obligations	22.2		156.6
Present value of unfunded obligations	148.0	153.0	154.3
Total retirement benefit obligations	170.2	153.0	310.9

The movement in the defined benefit obligation over the year is as follows:

	2008	2007	2006
Beginning of year	185.3	563.6	63.5
Recognized in income statement	11.1	49.2	18.8
Employer contributions			
Actuarial losses/gains	9.9	6.5	-4.5
Exchange differences	4.1	-0.7	0.5
Benefits paid	-7.2	-18.2	-2.1
Liabilities acquired in a business combination			520.7
Curtailements			-33.3
Settlements		-415.2	
End of year	203.2	185.3	563.6

The movement in the fair value of plan assets is as follows:

	2008	2007	2006
Beginning of year	-32.3	-252.8	-30.0
Expected return on plan assets	-1.8	-13.3	-4.6
Actuarial losses/gains		2.0	8.4
Exchange differences			
Employer contributions	1.4	-28.3	-12.4
Employee contributions			
Benefits paid		12.7	11.0
Business combination			-225.2
Settlements		247.4	
End of year	-32.7	-32.3	-252.8

The amounts recognized in the income statement are as follows:

	2008	2007	2006
Current service cost	2.4	22.8	9.4
Interest cost	15	25.3	7.7
Expected return on plan assets	-1.8	-13.7	-4.6
Social security	0.5	1.0	1.5
Administrative cost		0.8	0.3
Amortization recognized during the year	-0.1	-0.2	-0.1
Settlements	-6.7		
Total included in employee benefit cost expenses (note 24)	9.3	36.0	14.2
(Gain)/Losses on curtailment included in restructuring cost (note 21)			-22.1
Settlements (change of pension scheme - note 22)		-162.6	
Total recognized in the income statement	9.3	-126.6	-7.9

The costs are charged to the respective functions in which the employees belong.

The principal actuarial assumptions used were as follows:

	2008	2007	2006
Discount rate	4.00 - 5.50%	4.70 - 5.50%	4.35 - 4.50%
Expected return on plan assets	6.00%	5.75%	5.40%
Pay regulation	2.75 - 4.50%	2.75 - 4.50%	2.50 - 4.50%
Basic amount regulation	4.25%	4.25%	2.00%
Pension regulation	2.00 - 2.50%	2.00 - 2.50%	2.50%
Voluntary retirement	2.00 - 8.00%	4.00 - 8.00%	4.00 - 8.00%

Assumptions are set based on the individual circumstances in the respective Group entities.

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

NOTE 20 Trade creditors and other payables

	2008	2007	2006
Trade creditors	996.1	931.5	700.4
Advances received from contract work	438.9	279.3	179.3
Salary provisions	130.6	110.6	103.4
Fee provisions	35.5	14.6	8.1
Deferred income	29.8	11.1	11.4
Accrued customer bonuses	17.3	16.5	16.1
Deferred payment related to purchase of shares			19.9
Public duties payable	101.3	74.8	76.5
Other incurred costs	232.1	173.0	150.1
Total other payables	985.5	679.9	564.9
Trade creditors and other payables	1 981.6	1 611.4	1 265.2

The aging analysis of trade creditors is as follows:

	2008
Not past due	675.9
Past due 1-90 days	251.3
Past due more than 90 days	68.9
Total trade creditors at 31 December	996.1

The currency specification of trade creditors is as follows :

	2008	2007
USD	290.1	300.8
EUR	283.3	180.3
GBP	26.3	11.8
INR	9.8	7.7
NOK	32.0	55.8
BRL	70.5	54.9
SGD	100.7	64.1
Other	183.5	256.0
Total trade creditors	996.1	931.5

NOTE 21 Provisions for other liabilities and charges

	Restructuring	Warranties	Other provisions	Total
At 1 January 2006		22.3	5.5	27.7
Nera merger effect	21.1	77.2		98.3
Charged to consolidated income statement				
- Additional provisions	71.8	17.5	3.2	92.5
- Unused amounts reversed		-1.3	-3.2	-4.5
Exchange difference		0.2		0.2
Used during year	-7.3	-19.2	-1.2	-27.7
At 31 December 2006	85.6	96.6	4.3	186.6
Current liabilities part	42.6	96.6	4.3	143.6
Non-current liabilities part	43.0			43.0

	Restructuring	Warranties	Other provisions	Total
At 1 January 2007	85.6	96.6	4.3	186.5
Charged to consolidated income statement				
- Additional provisions	35.9	31.0	3.2	70.1
- Unused amounts reversed				
Exchange difference				
Used during year	-43.9	-17.1		-61.0
At 31 December 2007	77.6	110.3	7.5	195.3
Current liabilities part	42.1	110.3	7.5	159.9
Non-current liabilities part	35.5			35.5

	Restructuring	Warranties	Other provisions	Total
At 1 January 2008	77.6	110.3	7.5	195.4
Charged to consolidated income statement				
- Additional provisions	35.3	55.2	217.7	308.2
- Unused amounts reversed		-36.4	-3.7	-40.1
Exchange difference	3.3	14.5	0.3	18.1
Used during year	-30.8	-7.7		-38.5
At 31 December 2008	85.4	136.0	221.8	443.2
Current liabilities part	60.4	136.0	38.1	234.5
Non-current liabilities part	25.0		183.7	208.7

RESTRUCTURING

The restructuring provision in 2008 is related to the Eltek Valere segment. Provisions were made for idle facility costs in the US and severance costs primarily related to US and China operations.

WARRANTY

Warranty provisions reflect the expected future expenses related to warranty commitments for products that are in their warranty period on the balance sheet date. The warranty period is normally 1-5 years from the delivery date. The provisions are based on historical figures for actual warranty expenses, and they also take into account the expected expenses associated with new warranty problems that are identified.

OTHER PROVISIONS

As previously disclosed in Note 26 to the 2007 consolidated financial statements of the Company, the minority shareholders of certain subsidiaries of Eltek Valere have options to sell their minority shareholdings to Eltek Valere AS over a number of years at a price based on performance in a period preceding the year that the options can be exercised. Eltek Valere AS has similar options to buy the minority shares on the same terms. Also, the minority shareholders of Eltek Valere AS (the former Valere shareholders) will have the option, under certain conditions, to sell their shares to Eltek ASA at fair market value. As at December 31, 2008, the estimated value of these potential obligations has been recorded as liabilities on the balance sheet. The valuation method for valuation is as follows:

Company	Minority interest%	Valuation method
Eltek Valere AS	9.1%	Fair value
Eltek Energy Holding Inc	9.9%	Fair value
Nextera Communication (PVT) Ltd	49.0%	Fair value
Eltek Pacific PTY Ltd	10.9%	Future results
Eltek SGS PVT Ltd	17.7%	Future results

The total estimated liability related to these minority share obligations is 156.7 million which prior to 2008 was not reflected as a liability on the consolidated balance sheet. By recognizing the estimated obligation as a 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 previously in equity has 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 income statement in 2008, and is included within 'other financial costs' (see note 25).

Nera Networks has received two tax/VAT claims in Brazil. The first is a claim issued by the State of Sao Paulo to collect value added tax (CMS) 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 interest 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 but has made a provision of NOK 61 million in the balance sheet by end of 2008. The provision is calculated without taken into account effects of possible recourse action.

NOTE 22 Other (losses)/gain - net

	2008	2007	2006
Gain relating to the divestment of the defense power business			22.3
Other operating revenue	0.3	162.6	2.7
Restructuring costs (note 21)	-35.3	-35.9	-49.7
Provision claim Brazil (note 21)	-61.0		
Impairment of goodwill (note 7)	-728.1	-209.6	
Other operating costs	-18.8	-4.5	-0.6
Total	-842.9	-87.4	-25.3

OTHER OPERATING COSTS

Other operating costs in 2008 represents severance pay, legal fees and other costs related to changes in group management.

NOTE 23 Expenses by nature

	2008	2007	2006
Depreciation, amortization and impairment charges	211.6	178.2	70.8
Employee benefit expenses (note 24)	965.1	814.2	510.0
Changes in inventories of finished goods and work in progress	-232.4	65.0	-275.9
Raw materials and consumables used	3 847.2	2 823.3	2 108.2
Transportation	184.7	145.7	98.2
Outside labor	169.4	165.8	121.5
Fees and rented services	142.1	123.3	81.5
Cost of premises	125.3	97.6	54.0
Car and travel costs	131.1	127.2	77.6
Telephone, postage	22.2	23.3	15.4
IT costs	26.1	27.9	20.5
Warranty	33.7	33.9	15.2
Promotion	16.6	12.7	10.5
Bad debt	15.0	22.5	5.2
Capitalized development costs	-58.5	-56.5	-21.2
Other expenses	132.6	84.1	15.0
Total cost of sales, selling and marketing costs, administrative expenses and R&D and engineering costs	5 731.8	4 688.2	2 906.5

Expensed audit fee for the Group in year 2008 amounts to NOK 15.4 million (estimated audit fee 2007: NOK 7.4 million and 2006: NOK 4.3 million). Fees for other services provided by the auditor amounts to NOK 8.8 million (2007: NOK 4 million and 2006: NOK 3 million) and include attest services NOK 1.0 million, tax services NOK 3.4 million and other NOK 4.4 million.

NOTE 24 Employee benefit expenses

	2008	2007	2006
Wages and salaries	886.1	700.2	399.5
Social security fees	104.8	100.1	57.7
Pension costs - defined contribution plans	22.4	7.1	6.1
Pension costs - defined benefit plans (note 19)	9.3	36.0	14.2
Cost of stock options	6.5	8.5	10.2
Capitalized development costs	-108.1	-100.3	-58.6
Other cost	44.1	62.7	80.9
Total employee benefit expenses	965.1	814.2	510.0

The average number of employees was 3 368 in 2008, 2 882 in 2007 and 1 573 in 2006.

NOTE 25 Financial items

	2008	2007	2006
Interest income	12.0	12.4	9.7
Gain on currency		57.2	
Other financial income	25.3	2.1	2.9
Total financial income	37.3	71.7	12.6
Interest cost	-95.7	-59.2	-27.6
Loss on currency	-43.0		-6.8
Other financial costs	-41.5	-9.9	-11.3
Total financial costs	-180.2	-69.1	-45.6
Net financial items	-142.9	2.6	-33.0

NOTE 26 Income tax expense

	2008	2007	2006
Current tax	74.6	89.8	43.5
Deferred tax (note 8)	-8.8	62.3	7.1
Taxes in income statement	65.8	152.1	50.6

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2008	2007	2006
Profit before tax	-758.3	48.7	157.2
Tax calculated at domestic tax rates applicable to profits in the respective countries	-193.3	11.9	48.3
Income not subject to tax	-96.0	-10.7	-3.6
Expenses not deductible for tax purposes	238.0	70.4	8.7
Change in valuation allowance	70.8	65.6	
Other	63.4	14.9	
Utilization of previously unrecognized tax losses			-2.8
Income tax expense	65.8	152.1	50.6

NOTE 27 Earnings/loss per share

BASIC/LOSS

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2008	2007	2006
Profit/loss attributable to equity holders of the Company	-797.7	-105.1	86.5
Weighted average number of ordinary shares in issue	50.6	49.2	36.6
Basic earnings/loss per share (NOK per share)	-15.77	-2.14	2.36

DILUTED/LOSS

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, share options. For the share options a calculation is done to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2008	2007	2006
Profit/loss attributable to equity holders of the Company	-797.7	-105.1	86.5
Weighted average number of ordinary shares in issue	50.6	49.2	36.6
Adjustments for - share options			0.1
Weighted average number of ordinary shares for diluted earnings per share	50.6	49.2	36.8
Diluted earnings/loss per share (NOK per share)	-15.77	-2.14	2.35

Share options are anti-dilutive per 31 December 2008 and per 31 December 2007.

NOTE 28 Contingencies

The minority shareholders of Eltek Valere will on certain conditions have the opportunity to sell their shares (i.e. 9.1% in Eltek Valere AS and 9.9% in its subsidiary Eltek Energy Holding Inc) to Eltek at fair market value pursuant to a put option. The put option is exercisable between 1 February and 31 July 2009. Eltek believes that it has the right to issue in lieu of cash a promissory note with 8% interest, increasing with 1%- point every quarter with a cap at 15%. The note will have a 24 month maturity period. Also, prior to the put, the minority shareholders have the opportunity to convert their shareholdings in Eltek Energy Holding Inc into shares in the Norwegian parent company in the Eltek Valere Group (call option). If the ownership of Eltek ASA in Eltek Valere AS is less than 90% by end of the year, Eltek Valere will no longer be part of the same tax group as Eltek and Nera Networks.

Eltek and the minority shareholders in Eltek Valere AS/Eltek Energy Holding Inc have throughout 2008 tried to resolve outstanding disputes related to the Contribution Agreement dated 15th April 2007. Arbitration proceedings are ongoing.

Nera Networks has received two tax/VAT claims in Brazil. See note 21.

Through the merger with Nera ASA, the Company acquired a claim that was made by the Cypriot company Digimed Communications Ltd. against amongst others Nera ASA and a former employee in the Nera group of companies. Preliminary estimates constitute approximately NOK 100 million as a total claim against 9 legal entities together. Nera ASA and the former employee both played limited roles compared to several other defendants in the alleged factual events that form the basis for the plaintiff's lawsuit. Nera ASA, later Eltek ASA and the former employee, have all disputed the claim. Further, the defendants have all disputed that the District Court of Nicosia, the Cypriot court is competent to try the claim and pass judgment in the relevant case on 15 October 2007, Eltek ASA was informed that the Court, having accepted all of Eltek's ASA's arguments, had decided:

- To set aside the Notice of the Writ of Summons regarding among others Eltek ASA.
- An order invalidating the order dated 18 February 2005 which allowed substituted services of the Writ of Summons to among others Eltek ASA outside of the jurisdiction.
- An order staying any further proceedings in the above action in relation to among others Eltek ASA. Furthermore the Court also awarded costs against the plaintiff.

The plaintiff has appealed against the Court's decision, and the Cypriot Supreme Court held a preliminary hearing on the 29 October 2008. The Supreme Court has inducted the parties to submit their written addresses, and is likely to render its decision during the first half of 2009.

Until 1998, Nera Ltd UK participated in the Merchant Navy Officers Pension Fund (MNOFP). Former participating employers of the MNOFP are exposed to movements in the asset and liabilities of the MNOFP. An actuarial valuation of the scheme in 2003 indicated an overall deficit of GBP 194 million. The basis for determining how surpluses and deficits are allocated amongst participating member employers has been subject of legal proceedings. In March 2005, the legal case was settled and Nera Ltd UK received notification from the MNOFP its share of the 2003 deficit was GBP 140 thousand. This amount was settled. An additional payment of GBP 20 thousand was levied due to the shortfall in 2003. The 2006 valuation deficit share was GBP 112 thousand, which was settled in 2008. In view of the directors, it is not possible to assess the Company's proportion, if any, of future liability in respect of any further projected deficits or surpluses arising from actuarial valuations of the MNOFP. A survey of the larger companies within the scheme identified that they expense the shortfall in the year that it is determined due to the uncertainty of the value.

Through the merger with Nera ASA, the Company acquired a claim that had been put forward by Natelco, India, related to a dispute regarding delivery of telecom equipment. In an arbitrating legal proceeding, the Company was in November 2006, convicted to compensate Natelco INR 41.7 million. The Company has formally disputed the legal proceedings and the claim is to be tried by Dehli High Court. Dehli High Court has several times postponed review of the case, last time to 26 May 2009. The Company has issued a bank guarantee to cover this claim from Natelco. In a similar case the Company has received a claim of INR 38.5 million from Tecnicom Systems (I) Pvt Ltd which is a company related to Natelco. Closing arguments before the arbitration tribunal took place in November 2008. Final ruling from the arbitration tribunal is expected first half of 2009.

Nera Networks AS has received a claim regarding intangible property rights, that the Company considers to have no basis. The claimant has recently lost a similar case in an EU jurisdiction.

In August 2005, Emerson Network Power, Energy Systems, North America, Inc (Emerson) filed a lawsuit in McHenry County, Illinois against four of Eltek Energy, LLC's employees. Subsequently, Emerson added Eltek ASA and Eltek Energy LLC as parties to the lawsuit. Emerson's lawsuit alleges, among other things, claims for misappropriation of trade secrets and tortious interference with prospective economic advantage. Eltek is vigorously defending these claims. In June, 2006, Eltek files a counterclaim against Emerson claiming, among other things, that Emerson wrongfully interfered with Eltek's relationship with certain of Eltek's customers. Emerson has denied Eltek's claim. While the lawsuit was on hold, the two companies were to seek to work together to attempt to reach a final business resolution to their dispute. In March 2007 Emerson and Eltek put on hold the litigation which had been pending between the two companies since 2005. This matter has been settled, dismissed and amicably resolved in 2008.

Eltek Energy LLC and a vendor had a dispute regarding the obligations due to under a December 2005 Memorandum of Understanding (MOU) between the parties. Under the MOU, the vendor was to provide certain design, engineering, and manufacturing services, related to the production of cabinets to house electrical components. In the fourth quarter of 2007, the vendor began to assert that Eltek Energy LLC owed the vendor for certain of the design and engineering services that had been provided in accordance with the MOU and that the vendor had sole ownership of all intellectual property rights associated with the designs that had been developed on Eltek Energy LLC's behalf. This matter was settled during the fourth quarter of 2008.

NOTE 29 Business combinations

ACQUISITIONS AND ESTABLISHMENTS

		Change	Cash outflow/ (inflow)	Cost	Change in minority	Included in Group
		in interest	on acquisition		interest	accounts as at
Acquisitions/establishment in 2008						
Eltek Pacific Pty. Ltd (purchase of minority interest)	Australia	10.9%	9.2	9.3	-4.5	01.05.08
Eltek SGS Pvt. Ltd (purchase of minority interest)	India	9.2%	23.6	37.4	-10.2	01.06.08
Mega Link d.o.o.	Serbia	100.0%	-2.7	0.8		01.10.08
Eltek Valere Italia S.R.L.	Italy	100.0%		1.1		31.12.08
Total			30.1	48.6	-14.7	

Transaction cost of NOK 15.1 million related to the Valere Power Inc. acquisition in 2007 was paid in 2008.

Acquisitions/establishments in 2007

Valere Power Inc.	USA	81.9%	538.5	804.1		01.06.07
Eltek Egypt	Egypt	46.4%		0.7	0.5	01.01.07
Pars Eltek	Iran	46.4%		2.7	1.0	01.01.07
Eltek Nextera Communication	Pakistan	46.4%	14.6	15.7	1.0	02.01.07
AIAB DC Systems AB (purchase minority interest)	Sweden	49.0%	3.9	11.4	-1.9	18.09.07
Eltek Valere Industrial GmbH (purchase minority interest)	Germany	21.5%	6.5	6.5	-3.6	24.05.07
Total			563.5	841.1	-3.0	

Acquisitions/establishments in 2006

Nera ASA	Norway	100.0%	-308.7	1 658.8	272.3	30.09.06
Convertronic Holding GmbH	Germany	74.9%	17.3	13.5	2.6	01.05.06
Eltek Energy Science & Technology	China	100.0%		12.4		01.09.06
AIAB DC Systems AB	Sweden	51.0%	2.1	6.8	1.6	01.09.06
CPT AS	Norway	100.0%	4.0	4.0		01.06.06
Eltek Energia SA	Spain	51.0%		2.0	2.0	01.01.06
Eltek SGS Pvt Ltd (purchase of minority interest)	India	22.0%	28.1	28.1	-5.6	01.01.06
Eltek Pacific Pty Ltd (purchase of minority interest)	Australia	27.0%	20.7	31.9	-6.0	01.01./01.11.06
Total			-236.6	1 757.5	267.0	

NOTE 30 Contract work

Revenues from fixed price contracts are recognized in accordance with the percentage-of-completion method. The table below illustrates the status of ongoing projects as at 31 December 2008. The recognition of revenues is deferred until the progress reaches an adequate degree of completion, based on milestones in the contract, so that the outcome can be estimated with an adequate degree of probability.

	2008	2007	2006
Gross contractual value for ongoing projects	3 386,4	2 260,9	2 147,0
Accumulated revenues	2 333,1	1 473,9	1 526,6
Accumulated expenses	-1 994,7	-1 289,3	-1 357,0
Accumulated gross profit as a % of accumulated revenues	14.5%	12.5%	11.1%
Amount retained by customer	5,4		0,7
Accrued non-invoiced production	634,7	275,3	205,0
Amount of advances received	153,6	28,0	58,7
Production invoiced in advance	285,3	222,3	163,9

NOTE 31 Related-party transactions

IDENTITY OF RELATED PARTIES

The Group has related party relationship with its associates (note 9), larger shareholders (note 17) and with its Directors and executive officers.

COMPENSATION TO BOARD OF DIRECTORS AND GROUP MANAGEMENT

For information regarding remuneration to Board members and Group management including share options granted, reference made to the Report of the Board of Directors.

Total compensation to Group management is as follows:

	2008	2007	2006
Salaries and other short-term employee benefits	24,9	24,8	15,6
Post-employment benefits	0,2	0,5	0,2
Share based payments			5,2
Total	25,1	25,3	21,0

The Group management includes 8 persons in 2008 and 2007.

SALES OF GOODS AND SERVICES

	2008	2007	2006
Sales of goods to associates	0,5	1,0	1,2

PURCHASE OF GOODS AND SERVICES

Eltek entered into an agreement with Fortel AS in July 2007 regarding purchase of voice and data telecommunications services for the Group's operations in Norway. The agreement has a duration of minimum two years from the date of the service being operational (i.e. September 2007) and is entered into on commercial terms. For 2007 (from September 2007 only), the amount paid by Eltek in connection with the agreement was NOK 0.7 million. For 2008 Eltek has paid NOK 3.6 million in connection with the agreement. After increasing its shareholding during 2008, Eltek Holding AS owns 52.8% of the shares in Fortel AS. Eltek Holding AS is controlled by the Angelil family, one of the largest shareholders of Eltek ASA.

YEAR-END BALANCES ARISING FROM SALES/PURCHASES OF GOODS AND SERVICES

There are no year-end receivables from related parties by the end of 2008, end of 2007 and end of 2006. Eltek has a payable balance of NOK 1.5 million to Fortel AS by the end of 2008.

LOANS TO RELATED PARTIES

No loans or guarantees have been granted to related parties.

NOTE 32 Report on compensation to the board, board committees and group management

THE BOARD OF DIRECTORS

The Board of Directors was in 2008 compensated with a cash compensation of NOK 540 000 (2007: 540 000) to the Chairman, NOK 300 000 (2007: 300 000) to the other members elected by the General Meeting and NOK 200 000 (2007: NOK 50 000) to the members elected by the employees in Norway. A compensation of NOK 50 000 was paid to one of the three members of the Nomination Committee, NOK 80 000 to the second member and NOK 100 000 to the third member. In 2007, NOK 20 000 was paid to each of the three members. NOK 30 000 (2007: NOK 30 000) was paid to the two members of the Compensation Committee. All compensation was paid for 2007 as approved by the Annual General Meeting in 2008.

The cash compensation paid to the Board members in 2008 and 2007 is specified as follows:

Amounts in NOK 1 000		2008	2007
Name	Function	Total	Total
Erik Thorsen	Chairman	540	560
William H. Crown	Member of the Board	380	330
Arve Johansen	Member of the Board	330	330
Susan Swenson	Member of the Board	300	117
Astrid Kårstad	Member of the Board from Jan 08		
Mads Dahl	Member of the Board, employees' representative from Jan 07	200	
Per Thorvaldsen	Member of the Board, employees' representative from Jan 08		
Susanne Munch Thore	Member of the Board from Sept 06 until May 07	108	88
Svein Ove Strømmen	Member of the Board until Nov 06		38
Edward Weil	Member of the Board until Aug 06		203
Joe Ford	Member of the Board until May 06		100
Alain Angelil	Member of the Board until Feb 06, Committee member	150 ¹⁾	138 ²⁾
Svein Jacobsen	Committee member	80	
Hanne Løyning Dale	Member of the Board, employees' representative from Jan 08	200	50
Inge Forseth	Member of the Board, employees' representative until Jan 07		50

1) 50 related to pension cost former CEO

2) 113 related to pension cost former CEO

Members of the Board have not been granted stock options for 2008. Specification of shares and stock options owned by members of the Board are as follows:

Name	Shares owned 31.12.08	Options granted 2008	Options exercised 2008	Options expired 2008	Options owned 31.12.08	Average-strike	Shares owned 31.12.07	Options owned 31.12.07
Erik Thorsen	12 500 ¹⁾						2 500	
William H. Crown	77 389 777 ²⁾						8 625 828	
Arve Johansen	440 420 ³⁾						40 420	
Dia S. Weil	6 657 323 ⁴⁾							
Astrid Kårstad								
Birgitte F. Angelil	58 986 687 ^{5) 6) 7)}							
Mads Dahl	20 100	3 000			4 000	46	100	1 000
Per Thorvaldsen	19						19	
Hanne Løyning Dale		2 000		200	2 000	34		200

1) 12 500 shares owned through Toleko AS, controlled by Erik Thorsen

2) 77 344 777 shares are held by CC Industries and 45 000 shares are held by William H. Crown directly

3) 440 420 shares owned through Altera Management, controlled by Arve Johansen

4) 5 562 500 shares controlled by Edward S. Weil, Jr., husband of Dia S. Weil, through Edward S. Weil, Jr. Revocable Trust, Dia Weil 2002 Trust and Edward S. Weil, Jr. Descendant's Trust

5) 58 803 970 shares owned through Eltek Holding AS, a company controlled by the Angelil family. Birgitte Feginn Angelil's husband, Morten F. Angelil, is a shareholder of Eltek Holding AS

6) 178 408 shares owned through Mola AS, controlled by Morten F. Angelil and Lars Jervan

7) 4 300 shares owned by Bimo Invest AS, controlled by Morten F. Angelil

GROUP MANAGEMENT

According to the Executive Compensation Policy presented to the Annual General Meeting in 2008, Group management has a compensation package comprising salary, bonus, a defined pension scheme, company car, and stock options. The base salaries shall be on competitive market terms for the various positions. The basis for earning bonus is achievement of financial results for the Group and business areas. Bonuses could be up to 60 percent of base salary, and are based on targets for revenue, gross profit and margin, EBIT and EBIT margin, and working capital development for the fiscal year. Maximum bonus is earned if the top of these target ranges are achieved. The Board of Directors is reviewing the Executive Compensation Policy and the new policy will be presented to the Annual General Meeting in May 2009.

By the end of 2008, Group CEO, Jan T. Jørgensen, had an annual salary of NOK 3 500 000, and an annual performance bonus up to NOK 2 100 000. The Group CEO is part of the regular pension scheme in Eltek ASA. Jan T. Jørgensen can terminate the employee contract giving the company six months notice. On termination of the employment contract by the the Company, he is entitled to a salary for twelve + twelve months. However, the salary to be received from the Company for the last twelve months period shall be subject to deduction for any payment received from outside the Company.

Group management was in 2008 paid salaries and bonuses, and received pension benefits and other remuneration as follows:

Amount in NOK 1 000		2008					2007
Name	Function	Total	Salary	Bonus	Pension	Other	Total
Jan T. Jørgensen	Group CEO from Aug 08	1 544	1 445		21	78	
Jørgen Larsen	Group CFO until Sept 07, Bus. Dev. Dir. from Sept 07, Acting Group CEO from Jan 08, EVP from Aug 08	2 687	2 411		50	226	2 434
Pål Skistad	Finance Director until Sept 07, Group CFO from Sept 07	1 839	1 624		50	165	2 195
Knut Aven	President Eltek Energy until June 07, EVP Global Sales Eltek Valere from June 07, Acting CEO Eltek Valere from Jan 08	3 388	2 718	420	51	199	2 460
Per Arne Henæs	President Sales Nera Networks, Acting CEO Nera Networks from Jan 08, CEO from Oct 08	2 569	2 319		41	209	2 395
Seong Kang Samuel Ang	President and CEO Nera Telecommunications	3 618	2 185	1 401	32		5 370

Former Group CEO, Morten F. Angelil, resigned in April 2008 and will according to the termination agreement receive salary for twelve months after the notice period of six months. Morten F Angelil received a total compensation in 2008 of NOK 4 070 000 (2007: NOK 4 847 000). Former CEO Nera Networks, Lars Jervan, resigned in October 2008 and will according to the termination agreement receive salary for a total period of eight months. Lars Jervan received a total compensation in 2008 of NOK 2 842 000 (2007: NOK 3 348 000). Former CEO Eltek Valere, Andy Marsh, resigned in January 2008 and received a total compensation in 2008 including severance fee of NOK 2 568 000 (2007: NOK 2 051 000).

After authorizations were given to the Board of Directors by the Annual General Meeting in May 2008 to issue shares in connection with Eltek's stock option program, stock options were granted to key employees with the following amounts: Jørgen Larsen 25 000, Pål Skistad 25 000, Knut Aven 25 000 and Per Arne Henæs 25 000. Jan T. Jørgensen was granted 40 000 stock options when he was employed as the new Group CEO in August 2008.

Group management's investment in stock options are specified as follows:

Name	Shares owned 31.12.08	Options granted 2008	Options exercised 2008	Options expired 2008	Options owned 31.12.08	Average- strike	Shares owned 31.12.07	Options owned 31.12.07
Jan T. Jørgensen	260 000 ¹⁾	40 000			40 000	36.00		
Jørgen Larsen	395 216 ²⁾	25 000			80 000	61.81	95 216	55 000
Pål Skistad	265 000	25 000			45 000	49.67		20 000
Knut Aven	202 000	25 000			85 000	61.76	2 000	60 000
Per Arne Henæs	502 100	25 000			90 000	53.50	100	65 000
Seong Kang Samuel Ang	3 100 ³⁾						3 130	

1) 260 000 shares owned by Jantjo Invest AS, controlled by Jan T. Jørgensen

2) 395 216 shares owned by Eikrun AS, controlled by Jørgen Larsen

3) Seong Kang Samuel Ang's direct interest in NeraTel is 1 000 000 shares and deemed interests are 65 000 shares, shares whereby 40 000 are his own under the CPF Investment scheme and 25 000 NeraTel shares are held by his wife. He has 200 000 share options in NeraTel.

GUIDELINES FOR GRANTING STOCK OPTIONS IN 2008

The goal of Eltek's stock option program is that the organization shall have an incentive program that is linked to the development of the stock price. The program shall further secure that Eltek is able to offer competitive terms to both new and existing management and key employees and to retain these employees. The Board of Directors wishes to continue the Company's option program within a clearly defined framework in terms of number of options outstanding and number/type of participating employees.

- Top management and regional managers (35 people): 10 – 25 000 options
- Key employees (25 people): 7 – 9 000 options
- Level 1 and 2 managers (120 people): 3 – 5 000 options

The options shall be granted with a strike price 5% above the weighted average price of the Company stock on the day of the Annual General Meeting. The options will have a vesting period of 3 years and maturity of 2 years. The gain from the option program is capped at 300% of the strike price plus 25% of any additional gain above that level. The number of outstanding options shall at no time exceed 5% of the outstanding shares.

NOTE 33 Events after the balance sheet dates

Subsequent to the end of 2008, Eltek increased its share capital by 30 million shares at NOK 1 per share. This was directed towards existing shareholders who were not given the opportunity to participate in the private placement which was carried out in the fourth quarter 2008. The capital increase generated net proceeds of NOK 28.3 million.

On an extraordinary General Meeting on February 5, 2009, Bengt Thuresson was elected Chairman of the Board and Einar J. Greve new member of the Board.

On 10th February, the Valere Sellers exercised their Call Option to convert their shareholdings in Eltek Energy Holding Inc into shares in the Norwegian parent company in the Eltek Valere Group (call option). See note 28. The Call option is not yet effectuated.