

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

## **NOTE 1** Accounting principles company

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

### **BASIS OF PREPARATION**

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

### **CASH AND CASH EQUIVALENTS**

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

### **RECEIVABLES**

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

### **FINANCIAL ASSETS AND LIABILITIES**

Financial assets and liabilities carried on the balance sheet include cash and cash equivalents, accounts receivable and payable, long term receivables, loans and investments. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies disclosures in this note. In 2009 the Company has in accordance with IFRS Light recognized unrealized gain related to derivative financial instruments (note 12).

### **PROPERTY, PLANT AND EQUIPMENT**

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

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

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

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

### **IMPAIRMENT OF ASSETS**

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

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

### **ACCOUNTING FOR LEASES**

#### **Finance lease**

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

#### **Operating lease**

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

#### **FOREIGN CURRENCY TRANSACTIONS**

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

#### **EMPLOYEE BENEFITS**

##### **Pension obligations**

The Company provides defined contribution pension plan for all employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

##### **Stock options**

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

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

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

#### **INCOME TAXES**

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

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

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

#### **CLASSIFICATIONS IN THE BALANCE SHEET**

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

**NOTE 2** Intangible and tangible assets

	Intangible assets	Property, plant & equipment		Total
	Software and licenses etc.	Land and buildings	Fixtures and office equipment	
Cost at 1 January 2007	10.5	1.8	3.9	5.7
Acquisitions	0.4		0.4	0.4
<b>Cost at 31 December 2007</b>	<b>11.0</b>	<b>1.8</b>	<b>4.3</b>	<b>6.1</b>
Depreciation and impairment losses at 1 January 2007	10.5	1.5	1.8	3.3
Depreciation for the year		0.1	0.7	0.8
<b>Depreciation and impairment losses at 31 December 2007</b>	<b>10.5</b>	<b>1.6</b>	<b>2.5</b>	<b>4.1</b>
<b>Carrying amount at 31 December 2007</b>	<b>0.4</b>	<b>0.2</b>	<b>1.8</b>	<b>2.0</b>
Cost at 1 January 2008	11.0	1.8	4.3	6.1
Acquisitions	1.8		0.0	0.0
<b>Cost at 31 December 2008</b>	<b>12.8</b>	<b>1.8</b>	<b>4.3</b>	<b>6.1</b>
Depreciation and impairment losses at 1 January 2008	10.5	1.6	2.5	4.1
Depreciation for the year	0.2	0.1	0.5	0.6
<b>Depreciation and impairment losses at 31 December 2008</b>	<b>10.7</b>	<b>1.7</b>	<b>3.0</b>	<b>4.7</b>
<b>Carrying amount at 31 December 2008</b>	<b>2.0</b>	<b>0.1</b>	<b>1.3</b>	<b>1.4</b>
Cost at 1 January 2009	12.8	1.8	4.3	6.1
Acquisitions	0.8			0.0
<b>Cost at 31 December 2009</b>	<b>13.6</b>	<b>1.8</b>	<b>4.3</b>	<b>6.1</b>
Depreciation and impairment losses at 1 January 2009	10.7	1.7	3.0	4.7
Depreciation for the year	0.1	0.1	0.1	0.2
<b>Depreciation and impairment losses at 31 December 2009</b>	<b>10.8</b>	<b>1.8</b>	<b>3.1</b>	<b>4.9</b>
<b>Carrying amount at 31 December 2009</b>	<b>2.7</b>		<b>1.3</b>	<b>1.3</b>
	Cost	Cost	Cost	Cost
Leasing contracts	this year	2010	2011 - 2014	2015 -
Company cars	0.9	1.4	0.4	

The Company has no agreements for takeover of assets upon expiry of the leasing contracts. Eltek ASA is liable for leasing contracts relating to various machinery/equipment and cars which are used by the subsidiary Eltek Valere AS. The annual rental cost is NOK 3.1 million with expiry in 2010-2013.

**NOTE 3** Taxes

	2009	2008	2007
<b>Reconciliation between profit before tax and taxable profit:</b>			
Profit before tax	8.5	-511.9	-234.0
Permanent differences	-287.6	477.0	195.1
Change in temporary differences	151.5	22.3	-18.3
<b>Taxable income excl group contribution</b>	<b>-127.6</b>	<b>-12.5</b>	<b>-57.2</b>
Group contribution	13.4		26.4
<b>Taxable profit</b>	<b>-114.2</b>	<b>-12.5</b>	<b>-30.8</b>
<b>Reconciliation of taxes:</b>			
Deferred taxes booked against equity	-2.5	-3.6	-0.7
Excess allocation for previous years			-0.1
Change in deferred tax	-93.4	-9.8	-2.6
<b>Taxes</b>	<b>-95.9</b>	<b>-6.1</b>	<b>-3.4</b>
<b>Reconciliation of tax rate:</b>			
Profit before tax	8.5	-511.9	-234.0
Tax calculated at domestic tax rates applicable to profits in the respective countries	2.4	-143.3	-65.5
Income not subject to tax	-80.5	-7.6	-6.0
Expenses not deductible for tax purposes	1.2	141.2	60.6
Change in valuation allowance	-19.0		
Other		3.7	7.5
<b>Tax charge</b>	<b>-95.9</b>	<b>-6.1</b>	<b>-3.4</b>
<b>Temporary differences:</b>			
Current assets/short term debt	-350.6	-189.2	-157.3
Fixed assets/long term debt	-92.7	-102.6	-112.1
Tax loss carry forward	-737.3	-623	-610.5
<b>Net taxable (+)/deductable (-) temporary differences</b>	<b>-1 180.6</b>	<b>-914.8</b>	<b>-879.9</b>
Calculated deferred tax liability (-)/asset (+)	330.6	256.2	246.4
Valuation allowance	27.7	46.7	46.7
<b>Recognized deferred tax asset</b>	<b>302.9</b>	<b>209.5</b>	<b>199.7</b>

**NOTE 4** Shares

Shares in subsidiaries	Business office	Share in %	Book value as at 31.12
Eltek Valere Holding AS	Norway	100.0%	1 581.9
Nera Networks AS	Norway	100.0%	23.6
Nera Telecommunications Ltd	Singapore	50.1%	223.9
Nera Telecom Latin America	Venezuela	100.0%	44.5
Nera Broadband Satellite AS	Norway	100.0%	2.8
Nera Invest AS	Norway	100.0%	0.1
<b>Total shares in subsidiaries</b>			<b>1 876.8</b>

Shares in Eltek Valere AS were in 2002 written down by NOK 26.0 million. In 2007 shares in Nera Networks AS were written down by NOK 274.0 million and in 2008 shares in Eltek Valere AS were written down with NOK 513.0 million. In 2009 the write down of shares in Eltek Valere AS has been reversed in connection with the establishment of Eltek Valere Holding AS. Eltek Valere Holding AS was established in December 2009 as part of the transaction with the Eltek Valere minority shareholders. Also, in 2009 the shares in Nera Networks AS has been written down with NOK 248.1 million. Share based payments to employees in subsidiaries with an accumulated value of NOK 34.4 million, is included as part of the investment in subsidiaries by end of 2009.

Other investments	Business office	Share in %	Book value as at 31.12
Vensafe AS	Norway	1.3%	0.4
<b>Total shares in other companies</b>			<b>0.4</b>

**NOTE 5** Cash and cash equivalents

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

**NOTE 6 Pension obligations**

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

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

	2009	2008	2007
Present value of unfunded obligations	88.7	97.5	82.6
<b>Pension liability in the balance sheet</b>	<b>88.7</b>	<b>97.5</b>	<b>82.6</b>

The amounts recognized in the income statement are as follows:

	2009	2008	2007
Current service cost			0.5
Interest cost	3.9	3.8	3.8
Expected return on plan assets			-0.2
Payroll tax			0.1
<b>Total included in employee benefit expenses (note 10)</b>	<b>3.9</b>	<b>3.8</b>	<b>4.2</b>

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

	2009	2008	2007
Beginning of year	97.5	82.6	87.4
Recognized in income statement	3.9	3.8	4.4
Benefits paid	-1.9	-1.9	-1.6
Actuarial losses/gains	-10.8	13.0	-0.4
Settlements			-7.2
<b>Pension liabilities as of 31 December</b>	<b>88.7</b>	<b>97.5</b>	<b>82.6</b>

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

	2009	2008	2007
Beginning of year			-5.1
Expected return on plan assets			-0.2
Actuarial losses/gains			0.5
Settlements			4.9
<b>Pension assets as of 31 December</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net pension liability</b>	<b>88.7</b>	<b>97.5</b>	<b>82.6</b>

The principal actuarial assumptions used were as follows:

	2009	2008	2007
Discount rate	4.50%	4.00%	4.70%
Expected return on plan assets			5.75%
Pay regulation	4.50%	4.50%	4.50%
Inflation/Basic amount reg.	4.25%	4.25%	4.25%

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

**NOTE 7** Bond loan, borrowings, other non-current liabilities and other current liabilities

	2009	2008	2007
Debt secured by mortgages	581.2	667.8	199.2
Promissory notes	235.0		
<b>Total borrowings</b>	<b>816.2</b>	<b>667.8</b>	<b>199.2</b>

Shares in Eltek Valere Holding AS, Nera Telecommunication Ltd and Nera Networks AS have been pledged as security for borrowings. See note 4. In addition receivables and plant & machinery are pledged together with assets in Nera Networks AS and the total borrowings are guaranteed by Eltek Valere Holding AS and Nera Networks AS.

Borrowings split by currency (translated into NOK)			
	2009	2008	2007
NOK	581.2	667.8	522.8
USD	235.0		
<b>Total borrowings</b>	<b>816.2</b>	<b>667.8</b>	<b>522.8</b>

In April 2008 the Eltek ASA 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 agreed to postpone installment NOK 58 million due October 2009 to October 2010. Eltek ASA also has an overdraft facility of USD 90 million and in December 2008 Eltek obtained postponement of a USD 20 million reduction in this facility from the second quarter 2009 until the second quarter 2010.

As disclosed in Note 22 and Note 28 to the 2008 consolidated financial statement of the Company, the minority shareholders of Eltek Valere AS/Eltek Energy Holding Inc (the former Valere shareholders) had the option, under certain conditions, to sell their shares to Eltek ASA at fair market value. As at 31 December 2008, the estimated value of these potential obligations was NOK 90.0 million and it was recorded as liabilities on the balance sheet. A calculated interest expense of NOK 3.6 million related to these put obligations have been charged the profit and loss statement in 2009 and is included within "Other financial costs" (see note 12). In 2009 these minority shareholders exercised their put option and elected to sell all their shares to the Company. In December 2009 the put option was effectuated and the Company became owner of 100.0% of the shares in Eltek Valere. The total consideration for the shares is NOK 235 million (USD 40.4 million), which the Company settled by issuance of promissory notes. The promissory notes have a 24 months maturity period and a coupon of 8% interest increasing 1%-point every quarter with a maximum of 15%.

In accordance with the loan agreements, the covenants have been adjusted to reflect the new debt (USD 40.4 million) related to the buy-out of the Eltek Valere minority shareholders (see note 21).

The financial institutions borrowings agreement contains the following covenants:

- i) Goodwill adjusted equity ratio above 22.3%
- ii) Net interest bearing debt/EBITDA - ratio below 3.5
- iii) Negative pledge related to assets not already placed as security

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

**OTHER CURRENT LIABILITIES**

	2009	2008	2007
Salary provisions	1.4	1.0	1.0
Fees provisions	3.9	0.3	1.3
Provisions		1.9	2.1
Accrued interest cost	4.3	6.5	
Deferred payment related to purchase of shares			6.9
Other incurred costs	14.1	10.8	3.9
<b>Total other current liabilities</b>	<b>23.7</b>	<b>20.5</b>	<b>15.2</b>

Other incurred costs include NOK 9.3 million related to change of CEO.

**NOTE 8** ..... Related parties

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

**NOTE 9** ..... Employee benefit expenses

	2009	2008	2007
Wages and salaries	14.5	14.9	11.6
Social security fees	2.1	2.1	1.9
Pension costs (note 7)	4.4	4.4	4.2
Cost of stock options	0.6	-0.5	1.8
Other costs	6.4	2.3	1.6
<b>Total employee benefit expenses</b>	<b>28.0</b>	<b>23.2</b>	<b>21.0</b>

The number of man-labor years in Eltek ASA during 2009 has been 8.

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

**AUDITOR**

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

	2009	2008	2007
Statutory Audit	1.5	4.5	0.7
Tax advisory fee			0.6
Other advisory services	0.9	1.5	
<b>Total fee to the auditor</b>	<b>2.4</b>	<b>6.0</b>	<b>1.3</b>

**NOTE 10** General, administrative and marketing expenses

	2009	2008	2007
Fees and rented services	25.0	14.8	8.2
Telephone, postage	0.2	0.3	0.3
Promotion	1.7	3.2	3.3
Car and travel costs	2.1	1.6	2.2
IT costs	0.2	0.2	0.2
Other operating costs	13.9	11.7	1.4
<b>Total general, administrative and marketing expenses</b>	<b>43.1</b>	<b>31.8</b>	<b>15.6</b>

The costs for 2009 include effects of change of CEO. See also note 22 and note 32 to the consolidated financial statements.

**NOTE 11** Financial items

	2009	2008	2007
Group contribution and dividend received	37.5	27.3	47.7
Interest income	0.3	0.3	10.8
Interest income from Group companies	32.7	45.3	39.8
Gain on currency	24.6	56.5	33.3
Other financial income			33.0
<b>Total financial income</b>	<b>95.1</b>	<b>129.4</b>	<b>164.7</b>
Interest cost	-35.6	-46.2	-23.3
Interest cost from Group companies		-0.3	-0.8
Loss on currency	-54.7	-25.9	-63.1
Write down financial assets	80.1	-513.0	-274.0
Other financial costs	-5.0	-0.1	
Loss on sale of stock and shares			
<b>Total financial costs</b>	<b>15.2</b>	<b>-585.5</b>	<b>-361.3</b>
<b>Net financial items</b>	<b>79.9</b>	<b>-456.1</b>	<b>-196.6</b>

Write down financial assets represent the net amount of reversal write down Eltek Valere AS NOK 513 million and write down shares and receivables Nera Networks NOK 433 million (see note 4).

Other financial costs include NOK 3.6 million related to calculated interest minority put options.

**NOTE 12** Derivative financial instruments

	Assets (+)/Liabilities (-)	
	2009	2008
Forward foreign exchange contracts	2.3	0.7
Currency options contracts		-21.4
<b>Net derivative financial instruments</b>	<b>2.3</b>	<b>-20.7</b>

*Forward foreign exchange contracts:*

The nominal principal amounts of the outstanding forward foreign exchange contracts at 31 December 2009 were NOK 58.0 million, and NOK 71.4 million at 31 December 2008.

*Currency option contracts:*

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