

## Interim report, nine months ended September 30, 2004

(All figures in parentheses pertain to corresponding period in the preceding year.)

- Net sales for the first nine months of the year amounted to SEK 2,098 M (2,067). Excluding currency effects, this was an increase of 8% compared with the year-earlier period.
- The operating result for the nine-month period was a loss of SEK 207 M (loss: 141). This loss includes expenses of SEK 253 M (expense: 164) reported as an item affecting comparability.
- Excluding items affecting comparability, the operating result for the nine-month period amounted to SEK 46 M (23) and for the third quarter to SEK 15 M (18).
- The loss after tax for the nine-month period was SEK 209 M (loss: 136).
- Earnings per share for the nine-month period amounted to a loss of SEK 3.90 (loss: 2.53).
- Cash flow from current operations was a negative SEK 97 M during the third quarter and a negative SEK 118 M (neg: 62) for the nine-month period. Net cash amounted to a negative SEK 69 M (pos: 49).

SEK M	Q3:2004	Q1-Q3:2004
Net sales	681 (723)	2 098 (2 067)
- North America	400 (455)	1 256 (1 266)
- Europe	250 (238)	750 (716)
Operating profit/loss before restructuring costs and other items affecting comparability	15 (18)	46 (23)
Operating profit/loss	15 (18)	-207 (-141)
Profit/loss after tax	14 (17)	-209 (-136)

### Net sales and earnings

Sales during the nine-month period amounted to SEK 2,098 M (2,067), an increase of 8% compared with the year-earlier period after adjustment for currency effects. Sales in the North American market rose 9% in local currency, which was due mainly to increased sales to Lowe's. In Europe, sales rose by 5%, adjusted for currency effects.

Sales during the third quarter amounted to SEK 681 M (723). Excluding currency effects, this was a decline of 1%. While sales continued to increase in Europe, sales declined in North America due mainly to the previously announced

reduction of Pergo's store space at The Home Depot.

During the first quarter, costs of SEK 250 M for the ongoing restructuring of the European product supply were charged against earnings, of which the major portion affected the gross margin. Excluding these costs, the gross margin for the first nine months was 25%, about 3 percentage points better than the year-earlier period.

An operating loss of SEK 207 M (loss: 141) was reported for the nine-month period. Excluding items affecting comparability, operating profit of SEK 46 M (23) was reported. These items mainly

consisted of SEK 250 M for the restructuring in Europe. The operating loss for 2003 was adjusted in a corresponding manner primarily for Witex-related items amounting to an expense of SEK 168 M.

For the third quarter, operating profit amounted to SEK 15 M (18). While Europe reports improved operating profit compared with a year earlier, results from North America were lower than in the preceding year. Earnings were affected adversely by a weaker product mix, due among other factors to the loss of Pergo's premium product *PERGO®Prodigy™* at The Home Depot, and market investments.

Compared with the corresponding period of the preceding year, currency movements had a negative impact of about SEK 28 M on earnings.

#### **North America**

Sales in North America amounted to SEK 1,256 M (1,266) during the nine-month period, 9% higher than the year-earlier period, excluding currency effects. The growth in sales was primarily a consequence of increased sales to Lowe's. Sales in the third quarter amounted to SEK 400 M (455), corresponding to a decline of 4% excluding currency effects. The decline was due mainly to the previously announced reduction of Pergo's store space at the Home Depot. Sales to the specialty segment were lower during the quarter compared with the corresponding period previous year. The cooperation with Lowe's was further strengthened through the launch of *PERGO®Hardwood* (wood flooring). *PERGO Hardwood* has initially been launched in 75 of Lowe's 950 stores.

Operating profit in North America for the nine-month period amounted to SEK 47 M (69). The lower earnings were attributable entirely to the third quarter. The decline was due to lower margins on sales, both to The Home Depot and the specialty segment, as well as market investments in conjunction with the launch of new products and to

strengthen the company's position in the specialty segment.

#### **Europe**

Sales in Europe during the nine-month period amounted to SEK 750 M (716), an increase of 5% excluding currency effects. The sales increase was due primarily to increased sales of premium products and an expanded product range in the medium-price segment.

The operating margin and operating profit have improved continually in Europe. Excluding items affecting comparability the operating profit for the nine-month period was SEK 41 M, an increase of 46% compared with the year-earlier period.

#### **Product supply and investments**

In preparation for the autumn campaign at The Home Depot, the capacity utilization has been high at the plant in Garner, North Carolina. Due to the customer's changed purchasing routines, the sell-in of the campaign was delayed, which resulted in a substantial build-up of inventory during the period.

In Europe, the focus continued to be on concentrating the European production to Trelleborg. The restructuring project is proceeding according to plan.

Investments during the nine-month period totaled SEK 105 M. Most of this amount pertains to investments in own production of accessories in the US. In 2003, Pergo launched a patented system of accessories in the US under the name *Four-In-One Molding™*. The project has proceeded as planned and, since the beginning of the third quarter, accessories for the American market are produced in Garner, North Carolina. During the year initial investments have also been made in the DL press at the Garner plant.

#### **Intellectual property**

Disputes relating to infringement of the company's patents for glue-free joints in the US continue against Shaw Industries, Witex Inc., Armstrong Industries and Alloc Inc./Berry Finance N-V.

In August, Pergo Inc. filed an action for damages and injunctive relief in US District Court in Raleigh, N.C., against Faus Group, Inc. and Industrias Auxiliares Faus S.L. Among other unfair practices, the suit charges that Faus misappropriated Pergo's designs and breached their contractual obligations to Pergo regarding sales of Pergo's premium product *PERGO® Prodigy™* to The Home Depot.

A suit for patent infringement is also ongoing in the US against Unilin Beheer B.V. relating to Pergo's use of the *Smartlock®* joint.

On September 15, the Court of Appeal for Skåne and Blekinge, Sweden, ruled in favor of Pergo against Välinge Innovation AB (formerly Välinge Aluminium AB) and rejected Välinge's claim for damages. Following this ruling, the legal processes in Sweden between Pergo and Välinge have been decided in favor of Pergo.

The company's costs for the above-mentioned disputes are expensed as incurred against operating earnings.

The license agreement with the Kaindl Group (Kaindl, Kronospan and Kronotex) continues to generate a steady flow of revenues.

### **Essential disputes**

An arbitration procedure is ongoing between Pergo and the bankruptcy estate of Witex relating to the mutual claims that arose between the two parties in connection with a partnership agreement.

The company's costs for the above-mentioned dispute are expensed as incurred against operating earnings.

### **Working capital/capital employed**

At the end of the period, working capital amounted to SEK 466 M, an increase of SEK 199 M since year-end 2003 and of SEK 108 M compared with mid-year. The increase during the quarter is largely attributable to the inventory build-up in North America in conjunction with The Home Depot campaign. Capital employed amounted to SEK 1,081 M, compared with

SEK 1,197 M at year-end 2003. The decline was due mainly to the first-quarter write-downs of fixed assets by SEK 140 M, in conjunction with the restructuring of the European product supply.

### **Financial position/cash flow**

Cash flow from current operations was a negative SEK 118 M during the nine-month period and a negative SEK 97 M during the third quarter, due mainly to the inventory build-up in North America. Investments in fixed assets amounted to SEK 105 M, whereof SEK 22 M during the third quarter. At September 30, liquid funds amounted to SEK 49 M and utilized credit facilities to SEK 118 M. Accordingly, net cash amounted to a negative SEK 69 M.

A long-term financing program amounting to USD 71.5 M, corresponding to about SEK 540 M, was secured at the beginning of the third quarter.

### **Taxes**

After taking into account the restructuring costs, no tax effect needs to be reported for the nine-month period. Deferred tax claims expected to be used within the foreseeable future amount to SEK 89 M, compared with SEK 93 M at the beginning of the year. A tax repayment of SEK 4 M was received during the year.

### **Shareholders' equity**

Shareholders' equity at the end of the period amounted to SEK 959 M, resulting in an equity/assets ratio of 58%. This is a decline of 13 percentage points since year-end 2003 and was attributable to non-comparable items during the first quarter.

Pergo entered into a stock swap agreement in 2001 to offset any social costs that could arise from Pergo's employee options program. The option program expired at August 31, 2004 and, consequently, the aforementioned stock swap agreement was discontinued. A valuation of the agreement was carried out on an ongoing basis and the effects were offset directly against shareholders' equity. During the lifetime of the agreement, SEK 4 M has been charged against shareholders' equity.

### **Personnel**

At the end of the quarter, the Group had 777 employees, of whom 450 were in Europe and 284 in North America, compared with 795 employees at year-end 2003. The decline is a consequence of that the previously announced notices of termination in Sweden, as a result of the restructuring program, are beginning to take effect.

### **Parent Company**

The Parent Company's operating loss for the nine-month period amounted to SEK 44 M (loss: 50) and the net loss of the period was SEK 13 M (loss: 2).

At the end of the period, the Parent Company had nine employees (Group management and central staff functions). Liquid funds amounted to SEK 6 M (42) at September 30, 2004 and liabilities to credit institutions amounted to SEK 118 M (15). No investments have been made in fixed assets during the year.

### **Extraordinary General Meeting**

Pergo held an Extraordinary General Meeting on August 19, 2004. The company's Board of Directors was expanded from six to nine members through the election of Fredrik Gradin, Karl Stenström and Jan Söderberg.

### **Nomination Committee**

The following persons have been appointed members of the nomination committee for the next Annual General Meeting: Fredrik Gradin, Explorer Group Inc., Roger Buehler, Laxey Partners Ltd., Peter Rudman, Nordea Funds, Peter Rönström, Lannebo Funds, Petter Odhnoff, Second AP Fund and Bertil Villard, Board Chairman. These persons represent 45.7% of the shares in Pergo.

Trelleborg, October 22, 2004

Board of Directors

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*The interim report was prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR20, Interim Reports.*

*The Company applies accounting practices that are unchanged compared with the most recent annual report, with the addition of the Swedish Financial Accounting Standards Council's recommendation RR29, which took effect on January 1, 2004 and had no material effect on the values reported. The report has not been examined by the Company's auditors.*

*Future reporting dates:*

*Year-end report 2004 – February 14, 2005*

*Annual General Meeting 2005– April 18, 2005*

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Income statement <sup>1)</sup> MSEK	July-September		January - September		Most recent 12 months	Full year 2003
	2004	2003	2004	2003		
Net Sales	681	723	2,098	2,067	2,830	2,799
Cost of goods sold	-512	-560	-1,825	-1,609	-2,403	-2,187
<b>Gross profit</b>	<b>169</b>	<b>163</b>	<b>273</b>	<b>458</b>	<b>427</b>	<b>612</b>
Selling, administrative and R&D costs	-161	-151	-494	-474	-655	-635
Other operating income and costs	7	6	14	20	16	22
Result from participation in associated companies	0	0	0	-145	0	-145
<b>Operating profit/loss</b>	<b>15</b>	<b>18</b>	<b>-207</b>	<b>-141</b>	<b>-212</b>	<b>-146</b>
Net financial items	-1	2	-1	4	0	5
<b>Profit/loss before taxes</b>	<b>14</b>	<b>20</b>	<b>-208</b>	<b>-137</b>	<b>-212</b>	<b>-141</b>
Taxes	0	-3	0	1	-29	-28
Minority share in net profit	0	0	-1	0	-1	0
<b>Net profit/loss for the period</b>	<b>14</b>	<b>17</b>	<b>-209</b>	<b>-136</b>	<b>-242</b>	<b>-169</b>
Depreciation and write-downs for the period	-21	-23	-205	-201	-251	-247
Earnings per share, SEK	0.27	0.33	-3.90	-2.53	-4.51	-3.15
Average number of shares	53,569,685	53,569,685	53,569,685	53,569,685	53,569,685	53,569,685

<sup>1)</sup> Items that were reported on a separate line as non-comparable items during previous year have been reclassified in accordance with the Annual report for 2003.

Net sales MSEK	July-September		January – September		Most recent 12 months	Full year 2003
	2004	2003	2004	2003		
North America	400	455	1,256	1,266	1,718	1,728
Europe	250	238	750	716	983	949
Other <sup>1)</sup>	31	30	92	85	129	122
<b>Total</b>	<b>681</b>	<b>723</b>	<b>2,098</b>	<b>2,067</b>	<b>2,830</b>	<b>2,799</b>

Operating profit/loss MSEK	July-September		January – September		Most recent 12 months	Full year 2003
	2004	2003	2004	2003		
North America	3	37	47	69	118	140
Europe	16	10	41	32 <sup>2)</sup>	49	40 <sup>2)</sup>
Other <sup>1)</sup>	-4	-29	-295	-242	-379	-326
<b>Total</b>	<b>15</b>	<b>18</b>	<b>-207</b>	<b>-141</b>	<b>-212</b>	<b>-146</b>

<sup>1)</sup> Other contains Other markets, Supply, Intellectual property, Overhead and during 2003 result from participation in associated companies.

<sup>2)</sup> Including the non-recurring recovery of an accounts receivable of SEK 4 M that had previously been written down.

<b>Balance sheet MSEK</b>	<b>Sept 30, 2004</b>	<b>Sept 30, 2003</b>	<b>Dec 31, 2003</b>
Intangible fixed assets	4	6	5
Tangible fixed assets	560	694	658
Financial fixed assets	90	122	93
Inventories	434	294	301
Current receivables	515	530	444
Cash and bank balances	49	91	178
<b>Total assets</b>	<b>1,652</b>	<b>1,737</b>	<b>1,679</b>
Shareholders' equity	959	1,195	1,169
Minority interest	3	2	2
Provisions <sup>1)</sup>	109	33	31
Long-term liabilities	118	41	23
Current liabilities	463	466	454
<b>Total shareholders' equity and liabilities</b>	<b>1,652</b>	<b>1,737</b>	<b>1,679</b>

<sup>1)</sup> Provisions relating to the restructuring reserves amounted to SEK 26 M at year-end 2003. During the first quarter this year another provision, amounting to SEK 110 M, was made for the planned concentration of the production to Trelleborg. SEK 27 M has been dissolved corresponding to actual costs.

<b>Cash flow statement MSEK</b>	<b>January – September</b>		<b>Full year</b>
	<b>2004</b>	<b>2003</b>	<b>2003</b>
<b>Ongoing operations</b>			
Profit/loss after financial items	-208	-137	-141
Adjustment for items not included in cash flow			
- Depreciation	65	70	94
- Provisions	78	-13	-14
- Result from participation in associated companies	0	14	14
- Write-down of shares in associated companies	0	131	131
- Write-down of fixed asset	140	0	22
Tax paid	-2	11	17
<b>Cash flow from ongoing operations before change in working capital</b>	<b>73</b>	<b>76</b>	<b>123</b>
<b>Cash flow from change in working capital</b>			
Change in inventories	-133	3	-4
Change in current receivables	-77	-66	-13
Change in current liabilities	11	-66	-79
Other, including exchange rate differences	8	-9	35
<b>Cash flow from ongoing operations</b>	<b>-118</b>	<b>-62</b>	<b>62</b>
<b>Investment operations</b>			
Acquisition of tangible fixed assets	-105	-29	-50
Sale of tangible fixed assets	0	0	1
<b>Cash flow from investment operations</b>	<b>-105</b>	<b>-29</b>	<b>-49</b>
<b>Financing operations</b>			
Loan raised	93	9	0
Amortization of debt	0	0	-8
<b>Cash flow from financing operations</b>	<b>93</b>	<b>9</b>	<b>-8</b>
<b>Cash flow during the period</b>	<b>-130</b>	<b>-82</b>	<b>5</b>
Cash and bank, beginning of year	178	172	172
Exchange rate differences in liquid assets	1	1	1
<b>Cash and bank, end of period</b>	<b>49</b>	<b>91</b>	<b>178</b>

Shareholders' equity MSEK	September 2004				September 2003	Full year 2003
	Share capital	Restricted reserves	Unrestricted Reserves	Total	Total	Total
At beginning of period	536	349	284	1,169	1,328	1,328
Stock-swap provision			1	1	-1	-1
Transfer between restricted reserves and unrestricted reserves		4	-4	0	0	0
Translation difference		2	-4	-2	4	11
Net profit/loss for the period			-209	-209	-136	-169
<b>At end of period</b>	<b>536</b>	<b>355</b>	<b>68</b>	<b>959</b>	<b>1,195</b>	<b>1,169</b>

Key figures	July-September 2004 2003		January - September 2004 2003		Most recent 12 months	Full year 2003
Sales growth, %	-5.8	-0.2	1.5	-16.1	1.2	-12.4
<b>Margins, %</b>						
Gross margin	24.8	22.5	13.0	22.2	15.0	21.8
Operating margin	2.2	2.4	-9.9	-6.8	-7.5	-5.2
<b>Return on capital, %</b>						
Return on capital employed	-	-	-	-	-17.7	-10.1
Return on equity	-	-	-	-	-22.9	-13.6
<b>Capital structure</b>						
Average capital employed, MSEK	1,080	1,255	1,101	1,307	1,133	1,288
Net cash, MSEK <sup>1)</sup>	-69	49	-69	49	-69	153
Net debt/equity ratio, %	7	-	7	-	7	-
Interest-coverage ratio, times	6.5	20.2	-22.7	-17.4	-16.3	-11.9
Equity/assets ratio, %	58	69	58	69	58	70
<b>Data per share</b>						
Average number of shares	53,569,685	53,569,685	53,569,685	53,569,685	53,569,685	53,569,685
Earnings per share, SEK	0.27	0.33	-3.90	-2.53	-4.51	-3.15
Number of shares at end of the period	53,569,685	53,569,685	53,569,685	53,569,685	53,569,685	53,569,685
Equity per share, SEK	17.91	22.31	17.91	22.31	17.91	21.82
Share price at end of the period, SEK	20.30	13.00	20.30	13.00	20.30	16.20
Share price/equity per share, %	113	58	113	58	113	74

<sup>1)</sup> Liquid funds less utilized credit facilities



#### Quarterly data

Income statement <sup>1)</sup> MSEK	QIII 2004	QII 2004	QI 2004	QIV 2003	QIII 2003	QII 2003	QI 2003	QIV 2002
Net Sales	681	671	746	732	723	665	679	730
Cost of goods sold	-512	-495	-818	-578	-560	-527	-522	-570
<b>Gross profit</b>	<b>169</b>	<b>176</b>	<b>-72</b>	<b>154</b>	<b>163</b>	<b>138</b>	<b>157</b>	<b>160</b>
Selling, administrative and R&D costs	-161	-165	-168	-161	-151	-174	-149	-159
Other operating income and expenses	7	0	7	2	6	3	11	50
Result from participation in associated companies	0	0	0	0	0	-135	-10	-18
<b>Operating profit/loss</b>	<b>15</b>	<b>11</b>	<b>-233</b>	<b>-5</b>	<b>18</b>	<b>-168</b>	<b>9</b>	<b>33</b>
Net financial items	-1	-1	1	1	2	3	-1	0
<b>Profit/loss before taxes</b>	<b>14</b>	<b>10</b>	<b>-232</b>	<b>-4</b>	<b>20</b>	<b>-165</b>	<b>8</b>	<b>33</b>
Taxes	0	6	-6	-29	-3	6	-2	-17
Minority share in net profit/loss	0	-1	0	0	0	0	0	0
<b>Net profit/loss for the period</b>	<b>14</b>	<b>15</b>	<b>-238</b>	<b>-33</b>	<b>17</b>	<b>-159</b>	<b>6</b>	<b>16</b>
Depreciation and write-downs for the period	-21	-22	-162	-46	-23	-154	-24	-29
Earnings per share, SEK	0.27	0.29	-4.44	-0.62	0.33	-2.97	0.11	0.31
Average number of shares	53,569,685	53,569,685	53,569,685	53,569,685	53,569,685	53,569,685	53,569,685	53,569,685

<sup>1)</sup> Items that were reported on a separate line as non-comparable items during previous year have been reclassified in accordance with the Annual report for 2003.

#### Net sales by geographic market

North America	400	394	462	462	455	403	408	449
Europe	250	244	256	233	239	233	245	239
Asia	26	24	18	26	23	20	20	29
Latin America	2	3	2	2	2	2	2	7
Others	3	6	8	9	4	7	4	6
<b>Total</b>	<b>681</b>	<b>671</b>	<b>746</b>	<b>732</b>	<b>723</b>	<b>665</b>	<b>679</b>	<b>730</b>

#### This is Pergo

*Pergo is a laminate flooring company with leading market positions, particularly in Europe and the US. Net sales amounted to MSEK 2,799 (3,194) in full-year 2003 and the number of employees was 795 (784) as at December 31, 2003. Pergo developed laminate flooring at the end of the 1970s and launched the product in Europe during the 1980s. The company started sales in the US in 1994 and later, to a smaller degree, in Asia in and Latin America. The company's products have been marketed under the PERGO® brand name since 1989. The company is listed on the Stockholm Stock Exchange's O-list. For further information about Pergo, please visit our homepage [www.pergo.com](http://www.pergo.com).*