

# Q1

INTERIM REPORT  
JANUARY - MARCH 2006



# Q1 Report for the period January 1 – March 31, 2006

(Figures in brackets (xx) correspond to the figures for the same period last year.)

## FINANCIAL HIGHLIGHTS

- Net sales for the period increased by 8 % to SEK 768 million (713).
- Net sales from the North American operations, accounting for approximately 63 % of the company's sales, increased by 10 % to SEK 487 million (441). Net sales in the European operation increased by 4 % to SEK 263 million (252).
- The period's operating profit improved by 83 % to SEK 42 million (23).
- The period's operating profit margin improved to 5.5 % from last year's 3.2 %.
- The profit after tax for the period was SEK 35 million (20).
- The earnings per share for the period was SEK 0.65 (0.37).
- Total capital expenditures for the period were SEK 35 million (69). Total depreciation and amortization was SEK 33 million (31).
- Cash flow from ongoing operations for the period was SEK -71 million (-50).

## OUTLOOK 2006

On the heels of a strong first quarter, we are raising our guidance for net sales growth to 10–15 % from 9–11 % previously presented and leaving our outlook for operating margin as percent of sales and return of capital employed unchanged.

- Net sales growth: 10–15 %.
- Operating profit margin as percent of sales: 6–7 %.
- Return of capital employed: 16–18 %.

SEK MILLION	Q 1: 2006	Q 1: 2005
Net sales	768	713
North America	487	441
Europe	263	252
Operating profit before other items affecting comparability	49	23
Operating profit	42	23
Profit after tax	35	20

# Q1 2006

## CEO Tony Sturru comments

“Pergo’s record first quarter operating results being reported today build on our dual themes of growth and profit improvement.

Net sales grew on a year-over-year basis by 8%. The strong sales momentum in North America during last year’s fourth quarter was maintained even though our major promotional and new product programs will be launched during the second and third quarters of 2006. Our European operation also solidly contributed to the group’s growth.

Operating profit and margin also improved significantly on a comparative basis. Excluding items affecting comparability, operating profit increased to SEK 49 million from SEK 23 million in first quarter 2005. The operating profit margin improved to 6.4% from last year’s 3.2%. On a reported basis, the operating profit was SEK 42 million versus SEK 23 million, or an 82.6% year-over-year increase. The operating profit margin was 5.5% versus 3.2%.

Higher than anticipated sales and improved product and overall business costs were the primary contributors to the improved results.

Assuming stable economic and market conditions, we continue to believe that Pergo has excellent growth and profit prospects. As previously stated, our sales growth will occur on a variable basis throughout the year and our reported first quarter sales results reflect that pattern.

We are encouraged by the reported results and appreciative of the support provided by our key business partners. This environment makes us believe we can deliver improved financial results and create greater long-term value.”



Tony Sturru  
CEO Pergo

# Sales and operating results

Net sales were SEK 768 million (713), a 8 % increase compared to previous year.

Net sales in North America reflecting promotional and new product launch timing decreased in local currency by 2 % compared to same period 2005. Net sales in the European operation increased by 2 % in local currency and net sales in Asia decreased by 4 % in local currency. The decrease in Asia was mainly due to a more competitive environment in China.

The operating profit for the period, excluding items affecting comparability was SEK 49 million, a significant improvement compared to the SEK 23 million the company achieved in Q1 2005.

The operating profit margin excluding items affecting comparability was 6.4 % versus 3.2 % achieved in Q1 2005.

Items affecting comparability were expenses relating to the stock option program of SEK 4 million and SEK 3 million for anticipated divestiture of the Korea subsidiary which will take place in the middle of 2006.

Currency effects had a favorable impact on total earnings of approximately SEK 4 million compared to previous year. North America was a positive SEK 5.5 million, while the impact on Europe was an unfavorable SEK 1.5 million.

## NORTH AMERICA

Net sales achieved in North America for the period were SEK 487 million (441).

Net sales in North America in local currency were considerably stronger than anticipated. While net sales decreased in local currency by 2 %, the decline was expected because of the year-over-year change in promotional and new product and program introduction calendars with our major accounts. As previously communicated, results in North America are considerably more variable and highly dependent on the timing of new product introductions and promotional periods.

The high rate of sales was caused by continued strong growth in the home improvement channel, accelerating accessory sales, which grew by 8 % and the benefits of our new account initiatives and programs. These activities have reduced our business risk by lessening our dependence on a specific channel or customer.



Operating profit for North America was SEK 43 million (32) for the period. The operating profit margin was 9 % compared to 7 % in Q1 2005.

Lower product costs contributed to a five tenths of a percentage point improvement in gross margin. Lower freight costs, claims, in-store service fees and other fixed costs more than offset the increase in promotional and advertising expenses.

## EUROPE

Net sales for the period amounted to SEK 263 million (252). In local currency sales grew by 2 % compared to a 4 % decline in Q1 2005.

Continued success of new product launches, more aggressive advertising, and a more efficient sales organization were primary reasons for this positive change. Additional product launches will occur in Q2 of 2006 in Europe, which should contribute to the positive trend in sales growth.

The operating profit was SEK 23 million (11) for the period, a 109 % increase over prior year. Operating profit margin in Europe reached 9 % compared to 4 % Q1 2005. All regions in Europe contributed positively to the results.

The more than doubling of profit reflects the benefits of the European Restructuring Program, which was undertaken in 2005 to produce net savings of SEK 100 million in 2006. Efficiencies and lower costs have been realized across all functional areas.



## Intellectual property rights and significant disputes

Pergo remains firmly committed to protecting its intellectual property portfolio consisting of approximately 500 granted and pending patent applications against unlicensed third parties. Execution of Pergo's strategy to seek cooperation and grant licenses rather than resorting to litigation as the first option resulted in one license agreement and a reduction of the number of pending litigations during the first quarter of 2006.

Pergo entered into a license agreement in March 2006 with the Süddekor group relating to the Pergo patented LusterGuard and Titan X surface technology.

The arbitration between Pergo and HW Industries GmbH & Co. KG initiated during the first quarter 2005 was settled in March 2006. The parties have agreed not to disclose the specific terms of the settlement,

but have agreed to disclose that the net financial effect of the settlement will be an elimination of legal fees related to the dispute going forward.

The two disputes regarding glue-free joints in the US between Pergo and Välinge Innovation AB, Armstrong World Industries, Alloc Inc. and Berry Finance NV and vice versa are continuing.

The arbitration proceeding between Pergo and the bankrupt estate of Witex relating to a partnership agreement continues. A decision is expected in the middle of 2006.

## Working capital/capital employed

Working capital increased by SEK 135 million compared to year-end 2005. The increase is mainly attributable to a rise in current receivable of SEK 160 million. Inventories increased by SEK 54 million to support the forthcoming spring/summer sales campaigns. Liabilities increased by SEK 79 million as a result of the increased production activity.

Capital employed was SEK 1 579 million at the end of the period compared to SEK 1 187 million for the same period last year. During the first quarter capital employed increased by SEK 107 million (105) compared to year-end 2005.

## Financial position/cash flow

Cash flow from ongoing operations was SEK -71 million (-50) for the period.

At the end of the period, net cash, i.e. liquid funds less utilized credit facilities were SEK -317 million (-139).

At the end of Q1 total available funds were SEK 236 million. Total confirmed credit facilities were USD 71.5 million (equivalent to SEK 553 million).

## Tax

The income tax expense for the period was SEK 1 million. Deferred tax asset expected to be used has been decreased by SEK 1 million to SEK 97 million from the beginning of the year. The entire change is due to a weaker USD.



## Shareholders' equity

Shareholders' equity increased by 3 % and was SEK 1,178 million at end of Q1. The equity/assets ratio of 58 % is lower than at the beginning of the year (61 %), mainly due to the increase of working capital during the period.

## Personnel

At the end of the period, the Group had 657 (778) employees, of whom 336 (451) are in Europe, 273 (284) in North America and 48 (43) in Asia. In Europe, 27 individuals, who were given notice in 2005, will be leaving the company during the first half of 2006.

## Parent company

The parent company's operating loss for the period was SEK -17 million (-11) and the periods net loss amounted to SEK -9 million (-1).

## IFRS and accounting principles

Pergo complies with the International Financial Reporting Standards (IFRS) as from January 1, 2005.

The interim report has been drawn up according to IAS 34, "Interim Financial Reporting".

## Pergo's shares

The company's shares are quoted on the Stockholm stock exchange O-list. The total number of shares in the company at the close of the period was 53,569,685.

The highest closing price for a Pergo share during the period was SEK 52.75 and the lowest price was SEK 43.00. Closing price end of the period was SEK 51.00.

Trelleborg, Sweden, April 26, 2006

Board of Directors

The consolidated financial statements of the Group are prepared in accordance with IFRS.

This interim report has been prepared in accordance with IAS34.

*This interim report has not been reviewed by the company's auditors.*



# Income statement

SEK MILLION	JANUARY – MARCH		MOST RECENT	FULL YEAR
	2006	2005	12 MONTHS	2005
Net Sales	768	713	3,070	3,015
Cost of goods sold	-564	-537	-2,317	-2,290
<b>Gross profit</b>	<b>204</b>	<b>176</b>	<b>753</b>	<b>725</b>
Selling, administrative and R&D costs	-160	-160	-705	-705
Other operating income and costs	-2	7	145	154
<b>Operating profit</b>	<b>42</b>	<b>23</b>	<b>193</b>	<b>174</b>
Net financial items	-6	-2	-17	-13
<b>Profit after financial items</b>	<b>36</b>	<b>21</b>	<b>176</b>	<b>161</b>
Taxes	-1	-1	5	5
<b>Net profit for the period</b>	<b>35</b>	<b>20</b>	<b>181</b>	<b>166</b>
Depreciation and write-downs for the period	-33	-31	-132	-130
Minority share in net profit	0	0	-1	-1
Earnings per share, SEK	0.65	0.37	3.35	3.07
Average number of shares outstanding	53,569,685	53,569,685	53,569,685	53,569,685

## Net sales<sup>1)</sup>

SEK MILLION	JANUARY – MARCH		MOST RECENT	FULL YEAR
	2006	2005	12 MONTHS	2005
North America	487	441	1,893	1,847
Europe	263	252	1,075	1,064
Other <sup>2)</sup>	18	20	102	104
<b>Total</b>	<b>768</b>	<b>713</b>	<b>3,070</b>	<b>3,015</b>

## Operating profit/loss<sup>1)</sup>

SEK MILLION	JANUARY – MARCH		MOST RECENT	FULL YEAR
	2006	2005	12 MONTHS	2005
North America	43	32	113	102
Europe	23	11	63	51
Other <sup>2)</sup>	-24	-20	17	21
<b>Total</b>	<b>42</b>	<b>23</b>	<b>193</b>	<b>174</b>
Non-comparable items <sup>3)</sup>	7	-	-86	-93
<b>Operating profit before restructuring and other items affecting comparability</b>	<b>49</b>	<b>23</b>	<b>107</b>	<b>81</b>

1) Starting 2005 the reporting by segment has been adjusted in accordance with the current organization. This means that the European and North American product supply are included in respective geographic areas. Furthermore the South American sales are included in the North American region. The comparative figures have been adjusted accordingly.

2) Other contains Asia, Intellectual property and Overhead. Settlement of civil litigation matters amounting to SEK 104 million are including in the operating profit for full year 2005.

3) Non-comparable items

North America	-	-	-	-
Europe				
Restructuring costs net	-	-	-5	-5
Other				
Restructuring costs net	3	-	14	11
Legal settlements	-	-	-104	-104
Stock option program	4	-	9	5
<b>Total</b>	<b>7</b>	<b>-</b>	<b>-86</b>	<b>-93</b>

# Balance sheet

SEK MILLION	MARCH 31, 2006	MARCH 31, 2005	DECEMBER 31, 2005
Intangible fixed assets	1	3	2
Tangible fixed assets	803	649	812
Financial fixed assets	153	88	155
Inventories	362	402	314
Current receivables	648	519	492
Cash and bank balances	82	47	94
<b>Total assets</b>	<b>2,049</b>	<b>1,708</b>	<b>1,869</b>
Shareholders' equity	1,178	1,000	1,148
Provisions <sup>1)</sup>	19	66	26
Long-term liabilities	334	133	322
Current liabilities	518	509	373
<b>Total shareholders' equity and liabilities</b>	<b>2,049</b>	<b>1,708</b>	<b>1,869</b>

1) Provisions relating to the restructuring reserves, which amounted to SEK 26 million at year-end 2005, have been dissolved by SEK 10 million. During the period provisions has increased by SEK 3 million. All of the remaining provision are estimated to be utilized during 2006.

# Cash flow statement

SEK MILLION	JANUARY – MARCH 2006	2005	FULL YEAR 2005
<b>Ongoing operations</b>			
Profit after financial items	36	21	161
Adjustment for items not included in cash flow			
- Depreciation	33	31	130
- Provisions	-7	-17	-57
- Reversed write-down of fixed asset	-	-	-22
- Gains on sale of fixed assets	0	0	-15
- Cost for the stock option program	4	-	5
Tax paid	-2	-1	-4
<b>Cash flow from ongoing operations before change in working capital</b>	<b>64</b>	<b>34</b>	<b>198</b>
<b>Cash flow from change in working capital</b>			
Change in inventories	-54	22	137
Change in receivables <sup>1)</sup>	-160	-127	-129
Change in liabilities	79	21	-77
<b>Cash flow from ongoing operations</b>	<b>-71</b>	<b>-50</b>	<b>129</b>
<b>Investment operations</b>			
Acquisition of tangible assets	-35	-68	-262
Sale of tangible fixed assets	0	0	15
<b>Cash flow from investment operations</b>	<b>-35</b>	<b>-68</b>	<b>-247</b>
<b>Financing operations</b>			
Amortization	0	0	0
Loan raised	95	71	105
<b>Cash flow from financing operations</b>	<b>95</b>	<b>71</b>	<b>105</b>
<b>Cash flow during the period</b>	<b>-11</b>	<b>-47</b>	<b>-13</b>
Cash and bank, beginning of period	94	91	92
Exchange rate differences in liquid assets	-1	3	15
<b>Cash and bank, end of period</b>	<b>82</b>	<b>47</b>	<b>94</b>

1) SEK -104 million of change in current receivables 2005 are due to settlement of civil litigation matters.

Starting Q4 2005 cash flow statements are shown without currency translation differences. The comparative quarter Q1 2005 has been adjusted in accordance with this change.



# Shareholders' equity

	MARCH 2006					MARCH 2005	FULL YEAR 2005
	Attributable to equity holders of the parent			Minority- interest	Total equity	Total equity	Total equity
SEK MILLION	Share capital	Other reserves	Retained earnings				
Opening balance	536	367	241	4	1,148	985	985
Cash flow hedges, after tax		-3			-3		
Translation difference		-9	3		-6	-5	-8
Net profit for the period			35	0	35	20	166
Share-based payments <sup>1)</sup>			4		4		5
<b>Closing balance</b>	<b>536</b>	<b>355</b>	<b>283</b>	<b>4</b>	<b>1,178</b>	<b>1,000</b>	<b>1,148</b>

1) In accordance with IFRS2, Share-based payments, the cost for the stock option program of SEK 4.0 (5.1) million has fully burdened the operating profit but only affected equity by SEK -0.5 (-0.3) million.

## Key figures

SEK MILLION	JANUARY – MARCH 2006	2005	MOST RECENT 12 MONTHS	FULL YEAR 2005
Sales growth, %	7.7	-4.4	11.8	8.5
<b>Margins, %</b>				
Gross margin	26.5	24.7	24.5	24
Operating margin	5.4	3.2	6.3	5.8
<b>Return on capital, %</b>				
Return on capital employed	-	-	15.0	14.5
Return on equity	-	-	17.1	16.3
<b>Capital structure</b>				
Capital employed end of period,	1,579	1,187	1,579	1,472
Average capital employed,	1,479	1,115	1,352	1,264
Net cash, <sup>1)</sup>	-317	-139	-317	-228
Net debt/equity ratio, %	26.9	13.9	26.9	20
Interest-coverage ratio, times	5.5	9.0	7.1	7.9
Equity/assets ratio, %	58	59	58	61
<b>Data per share</b>				
Average number of shares	53,569,685	53,569,685	53,569,685	53,569,685
Earnings per share, SEK	0.65	0.37	3.35	3.07
Earnings per share after fully diluted, SEK	0.63	-	-	2.92
Number of shares outstanding at the end of the period	53,569,685	53,569,685	53,569,685	53,569,685
Equity per share, SEK	22.00	18.68	22.00	21.44
Share price at end of the period, SEK	51.00	26.20	51.00	44.00
Share price/equity per share, ratio	232	141	232	205

1) Liquid funds less utilized credit facilities.

## Quarterly data

INCOME STATEMENT	QI	QIV	QIII	QII	QI	QIV	QIII	QII
SEK MILLION	2006	2005	2005	2005	2005	2004	2004	2004
Net Sales	768	816	769	717	713	682	681	671
Cost of goods sold	-564	-622	-587	-544	-537	-507	-512	-495
<b>Gross profit</b>	<b>204</b>	<b>194</b>	<b>182</b>	<b>173</b>	<b>176</b>	<b>175</b>	<b>169</b>	<b>176</b>
Selling, administrative and R&D costs	-160	-173	-184	-188	-160	-160	-161	-165
Other operating income and costs	-2	111	24	12	7	1	7	0
<b>Operating profit/loss</b>	<b>42</b>	<b>132</b>	<b>22</b>	<b>-3</b>	<b>23</b>	<b>16</b>	<b>15</b>	<b>11</b>
Net financial items	-6	-6	-3	-2	-2	-2	-1	-1
<b>Profit after financial items</b>	<b>36</b>	<b>126</b>	<b>19</b>	<b>-5</b>	<b>21</b>	<b>14</b>	<b>14</b>	<b>10</b>
Taxes	-1	7	-1	0	-1	-2	0	6
<b>Net profit/loss for the period</b>	<b>35</b>	<b>133</b>	<b>18</b>	<b>-5</b>	<b>20</b>	<b>12</b>	<b>14</b>	<b>16</b>
Depreciation and writedowns for the period	-33	-36	-31	-32	-31	-37	-37	-32
Minority share in net profit/loss	0	0	0	-1	0	0	0	-1
Earnings per share, SEK	0.65	2.47	0.34	-0.11	0.37	0.22	0.27	0.29
Average number of shares outstanding	53,569,685	53,569,685	53,569,685	53,569,685	53,569,685	53,569,685	53,569,685	53,569,685

## Net sales by geographic market

INCOME STATEMENT	QI	QIV	QIII	QII	QI	QIV	QIII	QII
SEK MILLION	2006	2005	2005	2005	2005	2004	2004	2004
North America	487	493	475	439	441	385	402	397
Europe	263	292	265	254	252	270	253	250
Asia	18	31	29	24	20	27	26	24
<b>Total</b>	<b>768</b>	<b>816</b>	<b>769</b>	<b>717</b>	<b>713</b>	<b>682</b>	<b>681</b>	<b>671</b>

## **THIS IS PERGO**

Pergo is a leading flooring company with leading market positions, particularly in Europe and the USA. Pergo's net sales in 2005 amounted to approximately SEK 3 billion and the number of employees is approximately 700. Pergo developed laminate flooring at the end of the 1970s and launched the product in Europe during the 1980s. The company initiated sales in the US in 1994 and on a smaller scale later in Asia in 1995 and Latin America in 1997. The company's products have been marketed under the PERGO® brand since 1989 and under the SimpleSolution brand since 2005. The company is listed on the Stockholm Stock Exchange's O-list. For further information about Pergo, please visit [www.pergo.com](http://www.pergo.com).



## **FUTURE REPORTS**

The annual report 2005 is available on Pergo's web site  
[www.pergo.com](http://www.pergo.com)

Annual General Meeting 2006 – April 26, 2006

Q2 report 2006 – second half of July, 2006

Q3 report 2006 – second half of October, 2006

Year-end report 2006 – second half of February 2007

## **PERGO AB (PUBL) CORPORATE COMMUNICATIONS**

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