

Quadrant holds its ground in an unstable environment

Overall, Quadrant looks back on a stable financial year during which positive and negative effects balanced each other out. In terms of sales, the year was characterized by varying regional developments. While the downturn in the North American economy was counterbalanced by continued expansion in Europe and Asia, Quadrant's activities in the automobile industry decreased to about one-sixth of total sales. Nevertheless, Quadrant's net profit for 2007 was the highest in its history. At year-end, the investment in the Quadrant EPP Japan Ltd. joint venture was increased to 80 %, thus further strengthening Quadrant's market position in this important market.

Consolidated results

Stable sales in a worldwide economy becoming more fragmented

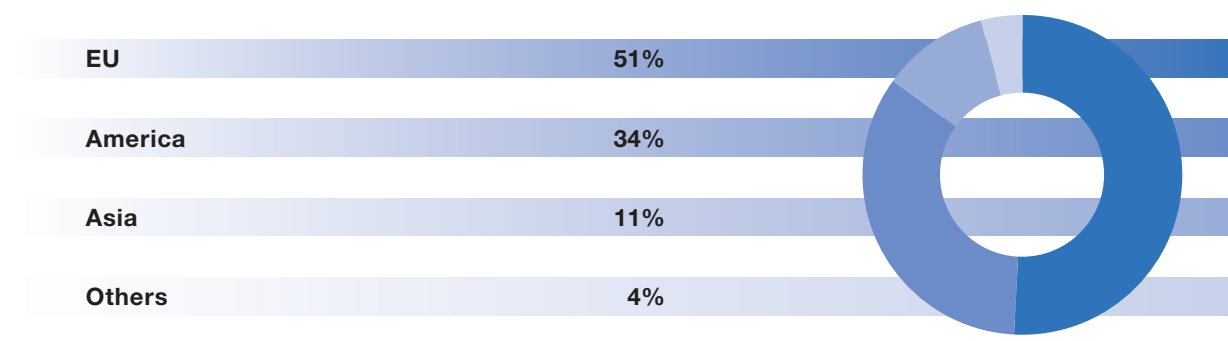
Quadrant reports net sales of CHF 811.8 million (2006: CHF 804.3 million) for the 2007 financial year, again surpassing the previous year's result. The growth of 1 % is due to the first-time consolidation of Nylamid S. A. de C. V. in Mexico, for which Quadrant increased its shareholding from 35 % to 80 % during the year under review. Exchange differences for the major currencies generally remained insignificant. The sales share generated with customers in the automobile industry again decreased and in 2007 amounted to

17 % (2006: 20 %). As in previous years, the remaining sales were spread across numerous customers in the capital goods industry.

The High-Performance Plastics Division (QEPP/QCMS) reported net sales of CHF 663.9 million (2006: CHF 646.3 million). The 3 % growth is due essentially to the success in European and Asian markets, which more than set off the North-American economic weakness.

The Quadrant Engineering Plastic Products business (QEPP) continued to expand despite the clearly weaker economic environment. Activities in Asia represented the best development as they proved resistant to the increasing economic insecurity. In Europe, the positive development was slightly reduced owing to the normal learning curve following the introduction of the new ERP system during the second half-year. The two new materials and applications introduced in the two previous years proved successful on the market and represent an additional hedge against a possibly further weakening economic environment. As expected, in 2007 the significantly smaller injection molding business (QCMS) recovered from the weak growth experienced the two previous years and experienced pleasing sales growth at both locations, in Belgium and Hungary. New, technically demanding product developments were introduced successfully and ensured an upturn in both the normal and clean-room production.

Sales by market region



Net sales of the Plastic Composites/Cable Protection Systems Division (QPC/QCPS) in 2007 amounted to CHF 147.9 million (2006: CHF 158.0 million), representing a decrease of 6%. The decrease was not unexpected and is due to continued weak demand for plastic composite products in the automobile industry.

Quadrant Plastic Composites (QPC) again had to contend with subdued development in the automobile supplier industry, and consequently decided to abandon the weakest profit contributors. Simultaneously, the development interaction with leading automobile manufacturers, which was strengthened the previous year, was further intensified. Due to the project lead times common in the automobile industry, a positive effect on sales development can realistically only be expected in two to three years' time. Efforts to gain a foothold in the non-automotive sectors showed initial results: the sandwich plate for concrete shuttering systems met with great interest. First sales are expected for as early as 2008. The development of the Cable Protection Systems business (QCPS), which focuses on the Swiss market, was positive and maintained the outstanding result reported the previous year despite a downturn in the field of civil engineering.

Operating results

In 2007, the gross margin remained stable despite burgeoning inflationary tendencies – a renewed sign of Quadrant's sound market position in its market segments. Personnel expenses and operating expenses remained stable. This pleasing development was supported by the ongoing optimization of operating processes for production and logistics in the QPC Division. The group's Ebitda (profit from operations before interest, taxes, depreciation and amortization of goodwill) amounted to CHF 98.4 million (2006: CHF 94.7 million), representing an Ebitda margin growth from 11.8% reported the previous year to 12.1% in the year under review. While Ebitda for the QEPP/QCMS Division grew only slightly faster than sales, the optimization measures introduced in QPC implied that the Ebitda for the QPC/QCPS Division increased significantly. Owing to slightly lower amortization, the growth of the operating result on the Ebita level (profit from operations before interest, taxes and amortization of goodwill) was clearly higher.

The rising interest level was set off against the reduction of the interest margin agreed on with the syndicating banks in 2007. As currency gains balanced currency losses, net financial income remained at the

QEPP application example

Success through global cooperation

An internationally leading supplier of sewage treatment plants was awarded the significant contract to develop and build a communal sewage treatment plant for a large city in China. This was a large step for the company which involved risks, but the successful completion of the project would significantly increase its reputation. For customs reasons, the complete shipment had to be delivered to the construction site by the end of 2007, and delays were subject to a contract penalty of 20%. In search of an ideal partner for the completion of the contract, the manufacturer of the sewage plants contacted Quadrant. Owing to its broadly based resources and reliable delivery performance, Quadrant was awarded the contract to supply customer-specific Nylatron® sprockets and TIVAR® parts made of UHMW-PE. Another crucial factor in awarding the contract was that Quadrant operates several production plants in Pennsylvania, USA, which is

also the home state of the customer. In addition to the American plants, Quadrant's cast polyamide production plant in The Netherlands was to be used.

Within a period of four months, Quadrant employees in The Netherlands constructed a two-cavity casting tool, developed a finish machining process and produced 1,800 sprockets weighing more than 6 kg each. Machining of the cast parts was carried out in The Netherlands and Germany. On the other side of the Atlantic, at Quadrant's location in Indiana, USA, thousands of wear-and-tear parts made of TIVAR® were produced in a special size and subsequently machined.

For Quadrant, the successful completion of this very time-critical contract meant a new dimension of global cooperation. Although Quadrant has always promoted global cooperation amongst its locations,

never before have so many Quadrant production plants cooperated on the completion of one single contract. Numerous American and European specialists in more than three Quadrant locations worked together to produce the materials and parts. The machining involved staff from a further two plants on two continents. And once the parts were produced, it was the turn of the packaging specialists in our US logistics center. The cooperation was supported by the recently implemented global ERP system, which supports project management and project tracking and monitors the production and materials supply processes. All Quadrant parts arrived on the construction site in China on time before the end of 2007. Global cooperation, intelligent use of resources and a broad line of products were the key ingredients in bringing success to this project.

previous year's level. In 2007, the undiluted net profit per share of Quadrant Group rose by 5 % to CHF 15.07. The Quadrant Group reports consolidated net profit of CHF 39.6 million for 2007, the highest in its eleven-year history.

Due to the postponement of supplier payments of CHF 8.8 million to the first week in January 2007, the operating cash flow and free cash flow were adjusted for 2006 (deduction) and 2007 (addition). The adjusted operating cash flow for 2006 grew by 6 % from CHF 63.3 million (CHF 72.1 million before adjustment) to CHF 67.1 million. This represents an adjustment of free cash flow of CHF 45.2 million (CHF 36.4 million before adjustment), or about 5.6 % of net sales. This growth of 56 % is faster than sales development and underlines the Quadrant Group's liquidity orientation, which is also expressed in the group's large investment flexibility. The investment volume for 2007 amounted to CHF 22.8 million (2006: CHF 35.5 million).

The equity ratio of 42.8 % (2006: 37.3 %) demonstrates the Quadrant Group's sound financing. Shareholders' equity as at 31 December 2007 covers goodwill to 167 % (2006: 143 %). As planned, net debt was reduced in 2007 to about 47 % (2006: 65 %) of the stated shareholders' equity (gearing).

Holding company results

Quadrant AG closed the 2007 financial year with a net profit of CHF 1.4 million (2006: CHF 10.1 million). The reduction is due essentially to the reduced income from investment in the Quadrant Plastic Composites Division. Nevertheless, shareholders' equity continued to rise to CHF 172.0 million (2006: CHF 161.6 million), corresponding to a very sound equity ratio of 76.6 % (2006: 71.8 %).

Other important information relating to the consolidated financial statements and the holding company's financial statements is provided in detail in the financial report.

Significant events

Integration of QEPP joint ventures

Quadrant strengthened its position in important markets in the year under review by integrating national companies previously managed as joint ventures. For instance, the 35 % shareholding in the Mexican joint venture, Nylamid S. A. de C. V., which was agreed on the previous year, was increased to 80 % with effect from 1 April 2007.

QCMS application example

Quadrant develops and produces airbag housings for the new Citroën C5

In close cooperation with the Spanish systems supplier TRW-Dalphimetal, Quadrant has developed the housing for the front airbags of the new Citroën C5. The three very different airbag housings were specially designed for the driver, front-passenger and knee airbags. All three housings are made of modified impact-resistant 40 % fiber-glass-reinforced polyamide 6. Airbags make increasing use of high-grade polymers as this material provides savings in weight and manufacturing cost.

In the development of airbag housings, various factors require special attention.

On the one hand, airbag activation depends on the design of the cockpit. For instance, the inclination angle of the wind-screen influences the airbag's direction of deployment. On the other hand, very strong forces act on the housing upon release of the airbag. Consequently, the design of the housing and the structural characteristics that serve to strengthen it are of great significance concerning its resistance to the extreme strain. Further, the construction of the housing and its choice of materials have to take into consideration the extremely broad range of exterior temperatures (+85 °C to -35 °C) in which the airbag's functioning has to be guaranteed.

Quadrant's many years of experience in safety components and safety systems becomes apparent in the development of airbag housings, making the company a sought-after development partner and manufacturer. Also, thanks to Quadrant's comprehensive knowledge, the development phase of the Citroën C5's airbag housing was significantly reduced. The production of the airbag housings by Quadrant in Tiel, Belgium, in a fully automatic 24-hour operation started in September 2007.

Furthermore, Quadrant acquired the 40 % shareholding owned by the minority shareholder in Quadrant EPP South Africa (Pty.) Ltd., which permitted the merger of the company with Quadrant PHS South Africa (Pty.) Ltd., of which Quadrant owns 80 %. Now, the South African standard activities of Quadrant Engineering Plastic Products are combined in a single company of which Quadrant owns 85 %. The operational merger of the locations of the two former companies will be completed by the end of 2008.

With effect from the year-end, Quadrant increased its investment in Quadrant EPP Japan Ltd. from 50 % to 80 % and, therefore, also took over management responsibility for the company.

QEPP Europe introduced new Enterprise Resource Planning (ERP) System

With effect from July 2007, all important companies in the Quadrant Engineering Plastic Products Group (QEPP) have completed the transition to the new uniform integrated Enterprise Resources Planning (ERP) System. After the introduction of the ERP System at QEPP North America in November 2005 followed by Poly Hi Solidur in July 2006, this was the third step in a multi-year project, but possibly also the most difficult one, owing to the different parameters in the various European countries. The project will be brought to a close with the introduction in Asia and South Africa by 2009. By then, the entire QEPP

Division will operate with a uniform system world-wide and will, therefore, further increase operational efficiency.

Introduction of a new product family at QPC: MultiQ™

Quadrant Plastic Composites (QPC) developed a new product family, MultiQ™, within the parameters of increased efforts to develop non-automobile related applications. MultiQ™ is not pressed or formed, but in connection with GMT or SymaLITE® it forms a powerful yet light sandwich panel which represents an important technical innovation. The material characteristics can easily be adjusted to customer needs through the combination of various GMT or SymaLITE® products.

The first application success of the innovative new material is a panel for concrete shuttering systems launched in 2007, which will go into serial production in 2008. MultiQ™ shuttering systems feature many advantages over the plywood systems used today: a longer life span, lower weight, better slip properties, no water absorption, smaller thermal coefficient of extension, higher surface quality, easier cleaning and repair, outstanding nail and screw capability, and recyclability. In addition to the concrete shuttering systems, QPC is currently busy developing new areas of application which should allow QPC to grow outside the automobile industry.

QPC application example

MultiQ™: A product development for high-performance concrete shuttering panels

Quadrant introduced an innovative development in summer 2007: MultiQ™. In a series of intensive tests, an internal development team developed a new materials concept based on two proven Quadrant materials. The core of the laminated-fiber sandwich consists of SymaLITE®, a non-woven material made of glass fiber and polypropylene fiber, while the two outside panels of the sandwich are made of high-strength, thin and UV-resistant GMTex® polypropylene reinforced with glass wool. The two panels are thermally fused to sandwich plates measuring a thickness between 9 and 25 mm. The surface of this new laminate is homogeneous, smooth and non-porous.

The pilot customer for this system was a leading international supplier of shuttering and scaffolding systems to whom the

new material provided considerable system advantages. The MultiQ™ panels are mounted in an aluminum or steel frame and are used on construction sites as ceiling boarding. They are considered the new generation of shuttering panels owing to their unique product characteristics: scratch-resistant surface, 100 % dimensional stability, a material that can be processed like wood, easy to repair and resistant to moisture and decay. Owing to its insensitivity to moisture and other environmental influences, MultiQ™ enjoys a life span of two or three times that of conventional timber plates, giving it a distinct price advantage. At the end of their useful life, the thermoplastic panels can be fully recycled.

MultiQ™ was able to fully satisfy the high requirements of the pilot customer and

was included in the product portfolio for ceiling boards. However, the sandwich panels also have applications in other areas of the construction industry, and they are of great interest to industries that implement large-surface light-weight construction materials connecting longevity with high load efficiency. The new MultiQ™ product line works as an add-on system: the material composition and thickness of the laminated fiber sandwich provide many variations and allow Quadrant to cater to the individual needs of customers and industries. At Materialica, the German trade fair, this innovative material was granted the "Design + Technology Award 2007" in the materials category.

Outlook

The beginning of the 2008 financial year is characterized by insecurities triggered by the credit crisis in the USA. The drastic interest rate reductions introduced by the US Federal Reserve Bank testify to the fear of weakening growth that could lead to a recession in North America. Signs of a possible economic slowdown have been recognized in Europe since the last quarter of 2007. It is as yet unsure whether the important Asian markets will be able to elude the results of an economic downturn in Europe and North America.

During the last recession of 2002/2003, Quadrant Engineering Plastic Products (QEPP) proved to be relatively resistant to economic fluctuations owing to the broad diversification of its markets. The largest risks are seen in a contraction of margins resulting from inflationary tendencies that may be triggered by both raw material prices and the labor market. However, assuming an orderly economic environment in 2008, Quadrant expects moderate growth in local currencies and stable profit margins for its QEPP Division. The injection molding activities (QCMS) are expected to continue the positive trend experienced the previous year.

The Plastic Composites business (QPC) will continue to focus on applications and original equipment manufacturers (OEM) in the automobile industry permitting a sufficiently high operating result while at the same time reducing dependency on that industry. The long-term elimination of the current growth weakness is expected to take effect only from 2009/2010 due to the usual project lead times. Positive effects could result from the higher environmental awareness seen in North America as it could cause the automobile manufacturers there to introduce further weight reductions. With regard to the cable protection activities (QCPS), the development is expected to follow the growth of the Swiss civil engineering market.

Considering the economic insecurities, Quadrant overall expects organic growth in local currencies to remain moderate. Even if inflationary tendencies could slightly weaken operating margins, the Ebitda margin will remain around the percentage range reported for 2006 and 2007. No large investments are envisaged for 2008 and the capital expenditure volume will remain within the parameters of amortization. Free cash flow will consequently continue at the level seen over the past years. The amortization of the syndicated bank loan planned for 2008 amounts to CHF 28.0 million.

QCPS application example

Symalit® cable protection pipes withstand tough endurance test

In June 2007, Brugg Cables AG of Switzerland established a 400 kV high-tension extra-high voltage test facility at the well-known Italian test institute Centro Elettrotecnico Sperimentale in Milan. This test facility was set up in accordance with extreme, internationally accepted test conditions for the duration of one year and include extreme temperature changes up to 90 °C with an exposure nearly twice the usual power supply voltage. The aim of the facility is to test the long-term functionality of test cables and Symalit® DIL-force™ cable protection pipes under rare, extreme conditions.

Extreme situations may occur in everyday life, posing tremendous challenges to network operators, especially when the

damage is material. Products which have withstood extreme conditions in a test environment for a period of one year offer additional security to network operators. A further advantage is represented by the fact that damaged cables in cable ducts can be exchanged or repaired easily without opening the ground. This is of particular significance in urban situations and can represent large cost and resource savings.

This is the first time that Symalit® cable protection pipe systems have been subjected to a long-term test in accordance with international test guidelines. Two thirds of the test phase have already been successfully completed and the Symalit® cable protection pipes have delivered

optimal performance. Due to the great strain that the cables are subjected to, the cable protection pipes as well as the bends and electric welding sleeves are being tested under more extreme conditions than experienced in normal operations. Following completion of the project in the summer of 2008, the cables and cable protection pipes will be subjected to a subsequent test, and their characteristics will be recorded in a final report. This report will be of great interest to Quadrant as it may provide important findings for further product development processes. Brugg Cables AG expects the Symalit® DIL-force™ cable protection pipe system to provide after-sales cost savings.