

2012

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A Message from Michael F. Barry, Chairman, Chief Executive Officer and President

DEAR SHAREHOLDERS, CUSTOMERS AND ASSOCIATES:

2012 marked another strong year for Quaker. We delivered record financial and operating results and made significant progress against our strategic growth initiatives. Record performance was achieved in:

- > *Revenues, Net Income and EBITDA:* We outperformed 2011, even against continued headwinds in global markets.
- > *Operating Cash Flow:* We generated a net operating cash flow of \$62.9 million—representing an increase of approximately \$43.2 million over 2011.
- > *Shareholder Returns:* We outpaced the major stock indices, yielding a 41% return to our shareholders.

Revenues grew 4% as we captured greater share in our core markets and benefited from the five acquisitions made over 24 months. Compared to 2011, net income was up 3%, gross profit increased by 7% and gross margin improved to 34%. These gains are particularly noteworthy in light of weaker economies in Europe, Brazil, China and India and the negative impact of weaker foreign exchange rates.

Our diversified approach—across industries and geographies—continues to prove its value, providing stability and growth opportunities that offset the changing dynamics in global markets. Throughout the year, we retained and expanded existing business with customers, regained key business with prior customers, and continued to secure new business around the world. Most notably, we won business in 12 of the 15 new steel mills commissioned in 2012.

Our average stock price of \$44.45 during 2012 was the highest of any year in our history, well above the average price of \$37.52 in 2011—which itself was a record. At year-end 2012, Quaker shares closed at an all-time high of \$53.86, and, the very next week, our

stock price surpassed that high point. To further our commitment to our shareholders, we raised our quarterly dividend to \$0.245 per share earlier in the year. This is the 36th time we increased our dividend in the 41 years that we have been a public company.

In 2012, *Forbes* named Quaker Chemical one of 100 Best Small Companies in America, based on earnings growth, sales growth and return on equity. Our goal is to become a much larger company. With our strategic growth initiatives and implementation plans in place, we're on track to become a \$1 billion company.

ADDITIVE STRENGTHS. We are industry leaders selling to growing markets, steel and automotive among others, while continuing to expand our market share and our business with existing or prior customers. In addition to this organic growth, the acquisition of complementary businesses and technologies is an important component of our growth strategy. We've been able to capitalize on a number of "right fit" opportunities across international markets. Between July 2010 and July 2012, we made five acquisitions through which we gained new capabilities and access to new markets. While the integration of these acquisitions into our core businesses is not yet complete, we are already seeing the results of their contributions.

We gained new portfolio-expanding technologies, including:

- > Metal surface treatment products
- > Lubricants for die casting aluminum and metal alloys
- > Hot rolling oils for aluminum
- > Specialty grease products

In addition, we gained entry into new markets and have been able to leverage cross-selling opportunities in regions around the world. In Mexico, we acquired the remaining equity interest in our affiliate to strengthen our position in that fast-growing region.



Going forward, our strong balance sheet and cash position give us the flexibility to act quickly on future acquisition opportunities as they arise.

INVEST AND GROW. At Quaker, we continue to invest in our business at a time when many in our industry are cutting back. More important, we have the capacity to invest confidently in growth initiatives while, at the same time, continuing to improve financial results.

Much of our work focuses on advancing the technologies and processes our customers use, thinking beyond individual customers to the broader industries we serve. We recognize that manufacturers are challenged to become more efficient in their operations, reduce costs and solve problems with urgency. They need to capture every opportunity and competitive advantage, whether it's moving quickly into new geographic markets or incorporating

innovation in materials. These are all areas where Quaker makes a difference—achieving measurable results for our customers.

Quaker's strategy in primary metals—to gain a greater share of our customers' business—is advancing. We expanded into areas adjacent to our core business inside customer plants, sold more of our existing products, and gained new sales by delivering new technologies and solutions. In 2012, we increased business with major global customers in Russia, Italy, Spain and the Middle East, first supplying aluminum hot rolling oils and now providing hydraulic fluids.

In metalworking—a complex and highly segmented market—Quaker serves a wide range of customers through its products and processes. Our strategy is to build a greater critical mass and market share in two segments that offer strong growth—engines & transmissions and tube & pipe. We are making progress against this strategy. In engines & transmissions, our technologies with economical and ecological benefits are helping us gain ground in Europe; and in tube & pipe, we added new business in North America and China in 2012.

We continue to build presence and capacity in regions where economic growth is high or increasing. This includes ambitious growth plans in China and India, where we are building new manufacturing facilities.

For the first time, we are building a pilot plant—with small-scale steel rolling and process capabilities—adjacent to our existing R&D facility in China. With this innovative investment, we will have the ability to run trials on products being developed in the lab—in real-life applications on our own equipment. As a result, we gain the advantage of speed in development, the launch of better products and faster time to market.

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ORGANIZATIONAL MUSCLE. Customers partner with Quaker based on the strength of our products and our people. Our associates deliver a customer-intimate approach, acting as catalysts for improving our customers' businesses, each and every day.

During 2012, we unveiled a new brand identity to emphasize our competitive advantage: formulating products and service solutions for our customers through innovation, expertise and the experience of our people. Our new tagline, *It's what's inside that counts,*[™] refers to what's inside our people—something we call "heart"—and also to our products inside our customers' businesses.

We have strengthened our organization by adding talent in key areas, gaining expert knowledge and know-how in specific industries and geographies. In fact, in 2012, we increased the number of associates worldwide by 37% compared to 2009. These associates join a dedicated workforce who, together, make it possible for us to thrive today and prepare for becoming a much larger company in the years ahead.

People truly matter at Quaker, more so than our facilities and capital equipment. We succeed because of who we are. And as we bring new people and new ideas into the company, we value all that they add. In fact, we have confirmed a new Quaker core value—Diversity and Inclusion—to emphasize the importance of remaining open to different perspectives and the unique contributions of every person.

SPECIAL THANKS. I'd like to extend thanks to Ed Delattre, who has decided to retire at the end of his current term as a Director, following nearly 30 years of meritorious service on the Board. His significant contributions and dedicated service over the years have been truly valued and we wish him the best in his retirement. I am also pleased to note that Mark A. Douglas, President, Agricultural Products Group, FMC Corporation, joined the Board in January 2013. He brings to the Board extensive global operating experience in the chemical industry, as well as expertise in managing and growing businesses in worldwide markets. We welcome Mark and look forward to his advice and counsel.

A special thanks goes to our 1,700-plus associates worldwide without whom we would not be the company we are today. They create tangible value for Quaker and our customers every day. They live our culture—getting close to customers, executing well on our tightly focused business strategy and creating new opportunities. I sleep better at night knowing that, as long as we have our people, we can effectively navigate any market challenges and capture future success for Quaker.

Quaker enters 2013 with the momentum and the confidence to create even greater growth. With the hard work and dedication of Quaker associates worldwide, we have met high expectations and set many new records. We are committed to giving our best to continue this trend in the years ahead.

Best regards,



Michael F. Barry

Chairman of the Board, Chief Executive Officer and President