

2011

THE EXTRA MILE.

Quaker Chemical  
Corporation  
Annual Report

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

### Dear Shareholders, Customers and Associates:

I'm pleased to report that 2011 was another record year for Quaker. Our revenues, earnings and EBITDA all grew by double-digit percentages despite a challenging environment. At the same time, we delivered strong returns to our shareholders and are well positioned for continued growth.

Our 26% revenue growth was bolstered by acquisitions and demand increases in our core markets and across regions, as we achieved good market share gains. Even excluding acquisitions, product volumes reached record levels in 2011. These positive results were achieved despite our raw material costs rising more than \$40 million and an increasingly uncertain global economic environment, especially in Europe, China and Brazil.

I believe our ability to manage through these challenges is a result of our associates diligently implementing our customer-focused business model in the work they do every day. We go well beyond the usual supplier/customer transactional model to create deeper, more meaningful relationships. Staying close to our customers allows us to gain greater insight into their issues and demonstrate tangible value that improves their bottom line. Our model continues to differentiate Quaker from its competition—now more than ever before—as several competitors have reduced their service levels in the field.

Our business model also resonates with investors. The stock market continued its volatile performance in 2011, yet our average share price of \$37 was higher than any other year

in our history. We increased our quarterly dividend to \$0.24 per share in 2011, continuing our record of paying dividends every year since becoming a public company in 1972. This marked the 35th time we have raised our dividend over the past 40 years.

**More Business in More Markets.** While I'm proud of our progress to date, I recognize there is much more to do. Our goal is to become a larger company—with more than \$1 billion in revenues. The strategies we are executing to help us reach this milestone with profitable growth include:

- > Gaining a greater share of our customers' businesses by expanding into areas adjacent to our current primary metals markets by selling more existing products and adding new product technologies to our portfolio;
- > Focusing on specific growth areas within metalworking to build critical mass and gain market share;
- > Increasing our footprint and resources in the emerging economies by adding people and new capacity to meet growing demand; and
- > Acquiring complementary businesses to help us achieve our goals—in our core markets or in adjacent markets that add new technologies to our current portfolio.

**Acquiring Minds.** Since mid-2010, we have completed four strategic acquisitions that provide complementary product-line opportunities and allow us to leverage our global platform.



Our acquisition of D.A. Stuart's U.S. aluminum hot rolling oil business in July 2010 made us a leading player in the U.S. aluminum hot rolling oil market. We now serve some of the largest reversing mills, single and multi-stand tandem finishing mills, and combination mill systems in the nation. In addition, this acquisition has opened new opportunities to sell other Quaker products to these customers. In 2011, we successfully grew this business beyond North America, gaining new customers in Europe and the Middle East, and securing additional trials in Europe and China.

We entered the specialty grease market with the December 31, 2010 acquisition of Summit Lubricants, Inc., a North American manufacturer and distributor of specialty greases and lubricants. Over the course of 2011, we completed an expansion of the Summit Lubricants production facility in Batavia, New York, hired new chemists, developed a global expansion plan for this business, and we are working on new technology for new markets. One innovation, already in use at several U.S. steel mills

and coal mines, is a fire-resistant, biodegradable grease that offers both safety and environmental advantages. We are the first company in the world to offer this type of product.

In July 2011, we bought the remaining interest in our Mexican joint venture, gaining 100% ownership of Tecnuquimia Mexicana, S.A. de C.V. As large multinational companies continue to invest in Mexico, including many of our automotive and steel customers, we are well positioned to serve their needs and capture the above-average growth forecast for this market over the next several years.

In October 2011, we acquired G.W. Smith & Sons, Inc., a leading North American innovator in the die cast lubricant industry for more than 70 years. This complementary product line extends our offerings to existing customers, both domestically and globally, and provides opportunities for cross-selling Quaker metalworking products to G.W. Smith & Sons' customers.

While these acquisitions are relatively modest in transaction size, we expect them to create considerable value for our business and for our shareholders. We continue to look for acquisition targets that align with our strategy. The strength of our balance sheet provides the ability to do so. In fact, in May 2011, we completed a successful \$51 million equity offering. In addition to paying down debt, it provides the financial flexibility to make strategic acquisitions such as the two we completed in 2011—and to make strategic investments as they arise in the future.

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

**More Value for Customers.** Quaker has become a leader and supplier of choice in multiple industries and geographic regions because of our singular focus on creating more value for our customers. We do this with a combination of the right products, extensive application expertise, and knowledge sharing across our global footprint. We have deep expertise in the industries we serve and the equipment our customers use. And we know how to make their operations run better, cleaner, faster and safer.

I have been on Quaker's front lines, and I have experienced firsthand how much our customers rely on our ability to understand and resolve the issues they face. Our products and services help them improve productivity, achieve energy savings, address environmental issues, and increase their product quality. By partnering with Quaker, they can reduce their overall costs and become more competitive—a crucial benefit during turbulent times.

The closer we get to our customers, often embedding ourselves at their sites, the more we can spot potential problems and opportunities and recommend specific ways to improve their processes. We become integral to their operations, and we succeed only when they succeed.

**At the Heart of Quaker.** I feel fortunate to lead an organization that sets itself apart by the quality of its people. Our associates are energized and show their dedication day after day. Going the extra mile has become second nature; it is ingrained in our culture and our reputation.

Our associates are at the heart of all we do. They are constantly working toward driving performance—for our customers *and* our business. I truly believe they are the reason Quaker has become a supplier of choice for our customers and an attractive investment for shareholders.

During the past year, we hired nearly 100 associates around the world to support our growth. Through our four recent acquisitions, we also gained more than 200 talented people. Today, Quaker has more than 1,600 associates worldwide, and we continue to invest in and develop our people to help grow the organization. Everyone works together, sharing knowledge and ideas to help our customers, and this sense of purpose underlies the low turnover and strong ties we enjoy. I am very proud to work with such a dedicated group of people.

I anticipate another strong year for Quaker in 2012, with solid growth from our strategic initiatives in markets around the world. While the outlook for Europe and certain emerging markets remains uncertain, our position as a globally diverse company should give us strength. Although we still could see some near-term raw material cost pressure and economic uncertainty, we have proven our ability to manage through these challenges and deliver positive results. I expect all this and more in the year ahead.

The only thing better than setting records is breaking them. We did that in 2010. And again in 2011. Our goal is to continue this trend for the years to come.



**Michael F. Barry**

Chairman of the Board, Chief Executive Officer  
and President