

ALBEMARLE CORP  
Form 10-Q  
August 08, 2017  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
 1934

For Quarterly Period Ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-12658

ALBEMARLE CORPORATION  
(Exact name of registrant as specified in its charter)

VIRGINIA 54-1692118  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

4350 CONGRESS STREET, SUITE 700 28209  
CHARLOTTE, NORTH CAROLINA  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code - (980) 299-5700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of common stock, \$.01 par value, outstanding as of July 31, 2017: 110,472,735



Table of ContentsALBEMARLE CORPORATION  
INDEX – FORM 10-Q

	Page Number(s)	
<b><u>PART I.</u></b>	<b><u>FINANCIAL INFORMATION</u></b>	
<b><u>Item 1.</u></b>	<b><u>Financial Statements (Unaudited)</u></b>	
	<u>Consolidated Statements of Income (Loss) - Three Months and Six Months Ended June 30, 2017 and 2016</u>	<u>3</u>
	<u>Consolidated Statements of Comprehensive Income (Loss) - Three Months and Six Months Ended June 30, 2017 and 2016</u>	<u>4</u>
	<u>Condensed Consolidated Balance Sheets - June 30, 2017 and December 31, 2016</u>	<u>5</u>
	<u>Consolidated Statements of Changes in Equity - Six Months Ended June 30, 2017 and 2016</u>	<u>6</u>
	<u>Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2017 and 2016</u>	<u>7</u>
	<u>Notes to the Condensed Consolidated Financial Statements</u>	8-25
<b><u>Item 2.</u></b>	<b><u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	25-44
<b><u>Item 3.</u></b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	<u>44</u>
<b><u>Item 4.</u></b>	<b><u>Controls and Procedures</u></b>	<u>44</u>
<b><u>PART II.</u></b>	<b><u>OTHER INFORMATION</u></b>	
<b><u>Item 1.</u></b>	<b><u>Legal Proceedings</u></b>	<u>45</u>
<b><u>Item 1A.</u></b>	<b><u>Risk Factors</u></b>	<u>45</u>
<b><u>Item 2.</u></b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<u>45</u>
<b><u>Item 6.</u></b>	<b><u>Exhibits</u></b>	<u>46</u>
<b><u>SIGNATURES</u></b>		<u>47</u>
<b>EXHIBITS</b>		

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited).

ALBEMARLE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net sales	\$737,258	\$669,327	\$1,459,321	\$1,326,538
Cost of goods sold	465,164	421,223	932,139	835,900
Gross profit	272,094	248,104	527,182	490,638
Selling, general and administrative expenses	115,686	86,055	223,687	168,686
Research and development expenses	17,337	20,500	41,660	40,372
Gain on sales of businesses, net	—	(974)	—	(122,298)
Acquisition and integration related costs	—	19,030	—	37,588
Operating profit	139,071	123,493	261,835	366,290
Interest and financing expenses	(14,590)	(15,800)	(83,103)	(30,914)
Other expenses, net	(2,710)	(2,297)	(3,504)	(2,250)
Income from continuing operations before income taxes and equity in net income of unconsolidated investments	121,771	105,396	175,228	333,126
Income tax expense	23,130	23,656	35,101	49,141
Income from continuing operations before equity in net income of unconsolidated investments	98,641	81,740	140,127	283,985
Equity in net income of unconsolidated investments (net of tax)	15,048	13,846	36,219	29,837
Net income from continuing operations	113,689	95,586	176,346	313,822
Loss from discontinued operations (net of tax)	—	(398,340)	—	(381,028)
Net income (loss)	113,689	(302,754)	176,346	(67,206)
Net income attributable to noncontrolling interests	(10,356)	(12,067)	(21,800)	(19,429)
Net income (loss) attributable to Albemarle Corporation	\$103,333	\$(314,821)	\$154,546	\$(86,635)
Basic earnings (loss) per share:				
Continuing operations	\$0.93	\$0.74	\$1.39	\$2.62
Discontinued operations	—	(3.54)	—	(3.39)
	\$0.93	\$(2.80)	\$1.39	\$(0.77)
Diluted earnings (loss) per share:				
Continuing operations	\$0.92	\$0.74	\$1.37	\$2.61
Discontinued operations	—	(3.52)	—	(3.38)
	\$0.92	\$(2.78)	\$1.37	\$(0.77)
Weighted-average common shares outstanding – basic	110,686	112,339	111,336	112,300
Weighted-average common shares outstanding – diluted	112,105	113,175	112,697	112,973
Cash dividends declared per share of common stock	\$0.32	\$0.305	\$0.64	\$0.61

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (In Thousands)  
 (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income (loss)	\$113,689	\$(302,754)	\$176,346	\$(67,206)
Other comprehensive income (loss), net of tax:				
Foreign currency translation	64,069	(51,193 )	143,124	47,713
Pension and postretirement benefits	16	419	9	420
Net investment hedge	(14,234 )	6,607	(27,919 )	(2,917 )
Interest rate swap	529	526	1,058	1,051
Total other comprehensive income (loss), net of tax	50,380	(43,641 )	116,272	46,267
Comprehensive income (loss)	164,069	(346,395 )	292,618	(20,939 )
Comprehensive income attributable to noncontrolling interests	(10,588 )	(12,219 )	(22,493 )	(19,864 )
Comprehensive income (loss) attributable to Albemarle Corporation	\$153,481	\$(358,614)	\$270,125	\$(40,803)
See accompanying Notes to the Condensed Consolidated Financial Statements.				

Table of ContentsALBEMARLE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

(Unaudited)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,006,945	\$ 2,269,756
Trade accounts receivable, less allowance for doubtful accounts (2017 – \$14,995; 2016 – \$15,312)	487,921	486,035
Other accounts receivable	51,306	41,985
Inventories	565,894	450,263
Other current assets	92,382	58,579
Total current assets	2,204,448	3,306,618
Property, plant and equipment, at cost	4,049,070	3,910,522
Less accumulated depreciation and amortization	1,632,241	1,550,382
Net property, plant and equipment	2,416,829	2,360,140
Investments	505,242	457,533
Other assets	161,240	142,320
Goodwill	1,586,450	1,540,032
Other intangibles, net of amortization	417,780	354,564
Total assets	\$ 7,291,989	\$ 8,161,207
Liabilities And Equity		
Current liabilities:		
Accounts payable	\$ 346,417	\$ 281,874
Accrued expenses	254,764	322,165
Current portion of long-term debt	307,109	247,544
Dividends payable	35,227	34,104
Income taxes payable	40,145	254,416
Total current liabilities	983,662	1,140,103
Long-term debt	1,421,468	2,121,718
Postretirement benefits	50,512	50,538
Pension benefits	306,886	298,695
Other noncurrent liabilities	203,106	194,810
Deferred income taxes	426,564	412,739
Commitments and contingencies (Note 11)		
Equity:		
Albemarle Corporation shareholders' equity:		
Common stock, \$.01 par value, issued and outstanding – 110,391 in 2017 and 112,524 in 2016	1,104	1,125
Additional paid-in capital	1,850,967	2,084,418
Accumulated other comprehensive loss	(296,833 )	(412,412 )
Retained earnings	2,205,592	2,121,931
Total Albemarle Corporation shareholders' equity	3,760,830	3,795,062
Noncontrolling interests	138,961	147,542
Total equity	3,899,791	3,942,604

Total liabilities and equity	\$7,291,989	\$8,161,207
------------------------------	-------------	-------------

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(Unaudited)

(In Thousands, Except Share Data)	Common Stock Shares	Additional Paid-in Amounts Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Albemarle Shareholders' Equity	Noncontrolling Interests	Total Equity	
Balance at January 1, 2017	112,523,790	\$1,125	\$2,084,418	\$(412,412)	\$2,121,931	\$3,795,062	\$147,542	\$3,942,604
Net income				154,546	154,546	21,800	176,346	
Other comprehensive income			115,579		115,579	693	116,272	
Cash dividends declared				(70,885 )	(70,885 )	(17,930 )	(88,815 )	
Stock-based compensation and other		8,216			8,216		8,216	
Exercise of stock options	62,399	1	3,336		3,337		3,337	
Shares repurchased	(2,341,083 )	(23 )	(249,977 )		(250,000 )		(250,000 )	
Issuance of common stock, net	235,005	2	(2 )		—		—	
Termination of Tianqi Lithium Corporation option agreement		13,144			13,144	(13,144 )	—	
Shares withheld for withholding taxes associated with common stock issuances	(88,984 )	(1 )	(8,168 )		(8,169 )		(8,169 )	
Balance at June 30, 2017	110,391,127	\$1,104	\$1,850,967	\$(296,833)	\$2,205,592	\$3,760,830	\$138,961	\$3,899,791
Balance at January 1, 2016	112,219,351	\$1,122	\$2,059,151	\$(421,288)	\$1,615,407	\$3,254,392	\$146,921	\$3,401,313
Net (loss) income				(86,635 )	(86,635 )	19,429	(67,206 )	
Other comprehensive income			45,832		45,832	435	46,267	



Edgar Filing: ALBEMARLE CORP - Form 10-Q

Cash dividends declared				(68,530 )	(68,530 )	(17,054 )	(85,584 )	
Stock-based compensation and other			8,560		8,560		8,560	
Exercise of stock options	93,719	1	4,939		4,940		4,940	
Tax benefit related to stock plans			38		38		38	
Issuance of common stock, net	113,235	1	(1 )		—		—	
Shares withheld for withholding taxes associated with common stock issuances	(35,367 )	—	(1,982 )		(1,982 )		(1,982 )	
Balance at June 30, 2016	112,390,938	\$1,124	\$2,070,705	\$(375,456)	\$1,460,242	\$3,156,615	\$149,731	\$3,306,346

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of ContentsALBEMARLE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2017	2016
Cash and cash equivalents at beginning of year	\$2,269,756	\$213,734
Cash flows from operating activities:		
Net income (loss)	176,346	(67,206 )
Adjustments to reconcile net income (loss) to cash flows from operating activities:		
Depreciation and amortization	94,192	128,505
Gain on acquisition	(7,433 )	—
Gain on sales of businesses, net	—	(122,298 )
Stock-based compensation	9,492	8,733
Equity in net income of unconsolidated investments (net of tax)	(36,219 )	(30,861 )
Dividends received from unconsolidated investments and nonmarketable securities	8,454	31,522
Pension and postretirement (benefit) expense	(7 )	3,390
Pension and postretirement contributions	(6,288 )	(9,524 )
Unrealized gain on investments in marketable securities	(1,553 )	(10 )
Loss on early extinguishment of debt	52,801	—
Deferred income taxes	(3,204 )	414,736
Working capital changes	(353,138 )	(108,016 )
Other, net	12,102	3,878
Net cash (used in) provided by operating activities	(54,455 )	252,849
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(39,525 )	—
Cash payments related to acquisitions and other	—	(81,988 )
Capital expenditures	(97,765 )	(99,509 )
Cash proceeds from divestitures, net	6,857	310,599
Sales of marketable securities, net	208	969
Repayments from joint ventures	1,250	—
Net cash (used in) provided by investing activities	(128,975 )	130,071
Cash flows from financing activities:		
Repayments of long-term debt	(751,209 )	(382,162 )
Other borrowings, net	58,886	67,865
Fees related to early extinguishment of debt	(46,959 )	—
Dividends paid to shareholders	(69,762 )	(66,791 )
Dividends paid to noncontrolling interests	(17,930 )	(17,052 )
Repurchases of common stock	(250,000 )	—
Proceeds from exercise of stock options	3,337	4,939
Withholding taxes paid on stock-based compensation award distributions	(8,169 )	(1,982 )
Net cash used in financing activities	(1,081,806 )	(395,183 )
Net effect of foreign exchange on cash and cash equivalents	2,425	(7,810 )
Decrease in cash and cash equivalents	(1,262,811 )	(20,073 )
Cash and cash equivalents at end of period	\$1,006,945	\$193,661

See accompanying Notes to the Condensed Consolidated Financial Statements.



Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

NOTE 1—Basis of Presentation:

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Albemarle Corporation and our wholly-owned, majority-owned and controlled subsidiaries (collectively, “Albemarle,” “we,” “us,” “our” or “the Company”) contain all adjustments necessary for a fair statement, in all material respects, of our condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016, our consolidated statements of income (loss) and consolidated statements of comprehensive income (loss) for the three-month and six-month periods ended June 30, 2017 and 2016 and our consolidated statements of changes in equity and condensed consolidated statements of cash flows for the six-month periods ended June 30, 2017 and 2016. Income tax expense for the six-month period ended June 30, 2017 includes expense of \$5.1 million due to an adjustment in the Company's deferred tax liabilities for basis differences in Chilean fixed assets related to the three-month period ended September 30, 2016. The Company does not believe this adjustment is material to the consolidated financial statements for the six-month period ended June 30, 2017, the three- or nine-month periods ended September 30, 2016, or the year ended December 31, 2016. All other adjustments are of a normal and recurring nature. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the Securities and Exchange Commission (“SEC”) on February 28, 2017. The December 31, 2016 condensed consolidated balance sheet data herein was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles (“GAAP”) in the United States (“U.S.”). The results of operations for the three-month and six-month periods ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made to the accompanying condensed consolidated financial statements and the notes thereto to conform to the current presentation. In addition, for the three-month and six-month periods ended June 30, 2017, the Company began reporting its acquisition and integration related costs and restructuring and other costs in Cost of goods sold, Selling, general and administrative expenses and Research and development expenses. See Note 2, “Acquisitions,” and Note 12, “Segment Information,” for further details. As described further in Note 3, “Divestitures,” on December 14, 2016, the Company closed the sale of its Chemetal Surface Treatment business to BASF SE. Financial results of this business have been presented as discontinued operations in the consolidated statements of income (loss) and excluded from segment results for the three-month and six-month periods ended June 30, 2016.

NOTE 2—Acquisitions:

On December 31, 2016, we completed the acquisition of all equity interests in the lithium hydroxide and lithium carbonate conversion business of Jiangxi Jiangli New Materials Science and Technology Co. Ltd. (“Jiangli New Materials”) for a cash purchase price of approximately \$145 million. This includes manufacturing assets located in both Jiangxi and Sichuan, China focused on the production of battery-grade lithium carbonate and lithium hydroxide. This acquisition will enable us to supply premium lithium salts to an expanded global customer base while solidifying our leading position in the lithium industry.

The aggregate purchase price was allocated to the major categories of assets and liabilities acquired based upon their estimated fair values as of December 31, 2016, which were based, in part, upon outside preliminary appraisals for certain assets. The preliminary estimated fair values of the assets and liabilities acquired were primarily related to Property, plant and equipment of \$29.0 million, Other intangibles of \$32.0 million and Deferred tax liabilities of \$3.7 million. In addition, the estimated fair value of net working capital acquired was \$6.2 million, however, an equal liability was recorded in Accrued expenses, as it will be repaid to the previous owners of the acquired business. The excess of the purchase price over the preliminary estimated fair value of the net assets acquired was approximately \$87.7 million and was recorded as goodwill. The allocation of the purchase price to the assets acquired and liabilities assumed, including the residual amount allocated to goodwill, is based upon preliminary information and is subject to change within the measurement period (up to one year from the acquisition date) as additional information concerning

final asset and liability valuations is obtained. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the property, plant and equipment, other intangible assets, deferred income taxes, as well as various working capital accounts. The fair values of the assets acquired and liabilities assumed are based on management's preliminary estimates and assumptions, as well as other information compiled by management, including valuations that utilize customary valuation procedures and techniques. While the Company believes that such preliminary estimates provide a reasonable basis for estimating the fair value of assets acquired and liabilities assumed, it will evaluate any necessary information prior to finalization of the amounts. During the measurement period, the Company will adjust assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in revised estimated values of those assets or liabilities as of that date.

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

During the six-month period ended June 30, 2017, the Company purchased inventory with a fair value of \$37.0 million in connection with the Jiangli New Materials acquisition, \$11.8 million and \$31.2 million of which was paid for the during the three-month and six-month periods ended June 30, 2017, respectively. The fair value included the markup of the underlying book value of \$23.0 million. The inventory markup is being expensed over the estimated remaining selling period, with \$11.9 million and \$22.5 million recorded in the three-month and six-month periods ended June 30, 2017, respectively.

Goodwill arising from this acquisition consists largely of the anticipated synergies and economies of scale from the combined assets and the overall strategic importance of the acquired assets to Albemarle. The goodwill attributable to the acquisition will not be amortizable or deductible for tax purposes. The weighted-average amortization periods for the other intangible assets acquired are 20 years for patents and technology, 18 years for customer lists and relationships and 3 years for other. The weighted-average amortization period for all definite-lived intangible assets acquired is 17 years.

On February 1, 2017, the Company acquired the remaining 50% interest in the Sales de Magnesio Ltda. (“Salmag”) joint venture in Chile from SQM Salar S.A. for approximately \$8.3 million, net of cash acquired. In connection with the acquisition, the Company recorded a gain of \$7.4 million, calculated based on the difference between the purchase price and the book value of the investment in Other expenses, net on the consolidated statements of income (loss) for the six-month period ended June 30, 2017. The calculation of the gain and the fair values of the assets acquired and liabilities assumed are based on management’s preliminary estimates and assumptions. While the Company believes that such preliminary estimates provide a reasonable basis for estimating the fair value of assets acquired and liabilities assumed, it will evaluate any necessary information prior to finalization of the amounts.

Acquisition and integration related costs for the three-month and six-month periods ended June 30, 2017 of \$1.8 million and \$10.7 million were included in Cost of goods sold, respectively, and \$4.7 million and \$10.1 million were included in Selling, general and administrative expenses, respectively, on our consolidated statements of income (loss). These acquisition and integration related costs relate to various significant projects, including the Jiangli New Materials acquisition, which contains unusual compensation related costs negotiated specifically as a result of this acquisition that are outside of the Company’s normal compensation arrangements. Included in Acquisition and integration related costs on our consolidated statements of income (loss) for the three-month and six-month periods ended June 30, 2016 were \$18.4 million and \$36.1 million, respectively, of integration costs resulting from the acquisition of Rockwood Holdings, Inc. (mainly consisting of professional services fees, costs to achieve synergies, relocation costs, and other integration costs) and \$0.6 million and \$1.5 million, respectively, of costs in connection with other significant projects.

NOTE 3—Divestitures:

Discontinued Operations

On June 17, 2016, we entered into a definitive agreement to sell the Chemetall Surface Treatment business to BASF SE. On December 14, 2016, the Company closed the sale of this business and received proceeds of approximately \$3.1 billion, net of purchase price adjustments. During the second quarter of 2017, we received a final working capital settlement of \$6.9 million related to the sale of this business. The sale of the Chemetall Surface Treatment business, a separate reportable segment, qualified for discontinued operations treatment because it represented a strategic shift that will have a major effect on the Company’s operations and financial results. As a result, the Company accounted for this business as discontinued operations in the consolidated statements of income (loss) and excluded the business from segment results for the three-month and six-month periods ended June 30, 2016. The Company stopped recording depreciation and amortization expense on assets of the Chemetall Surface Treatment business as of the date this business qualified for discontinued operations treatment, in the second quarter of 2016.



Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

The major components of Loss from discontinued operations (net of tax) for the three-month and six-month periods ended June 30, 2016 were as follows (in thousands):

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Net sales	\$218,355	\$426,542
Cost of goods sold	120,448	233,771
Operating expenses, net	69,595	132,448
Interest and financing expenses <sup>(a)</sup>	9,911	20,048
Other income, net	(832	) (1,770
Income before income taxes	19,233	42,045
Income tax expense <sup>(b)</sup>	417,573	423,073
Loss from discontinued operations (net of tax)	\$(398,340)	\$(381,028)

(a) Interest and financing expenses included the allocation of interest expense not directly attributable to other operations as well as interest expense related to debt to be assumed by the buyer. The allocation of interest expense to discontinued operations was based on the ratio of net assets held for sale to the sum of total net assets plus consolidated debt.

(b) Income tax expense for the three-month and six-month periods ended June 30, 2016 includes a discrete non-cash charge of \$381.5 million due to a change in the Company's assertion over book and tax basis differences related to a U.S. entity being sold, as well as a discrete non-cash charge of \$35.2 million related to a change in the Company's assertion over reinvestment of foreign undistributed earnings.

Depreciation and amortization and capital expenditures from discontinued operations for the six-month period ended June 30, 2016 were as follows (in thousands):

	Six Months Ended June 30, 2016
Depreciation and amortization	\$35,194
Capital expenditures	\$10,371
Other Divestitures	

On November 5, 2015, the Company signed a definitive agreement to sell its Tribotecc metal sulfides business to Treibacher Industrie AG. Included in the transaction were sites in Vienna and Arnoldstein, Austria, and Tribotecc's proprietary sulfide synthesis process. On January 4, 2016, the Company closed the sale of this business, effective for the first day of business in 2016. We received net proceeds of approximately \$137 million and recorded a gain of \$11.5 million before income taxes in 2016 related to the sale of this business.

On December 16, 2015, the Company signed a definitive agreement to sell its minerals-based flame retardants and specialty chemicals business to Huber Engineered Materials, a division of J.M. Huber Corporation. The transaction included Albemarle's Martinswerk GmbH subsidiary and manufacturing facility located in Bergheim, Germany, and Albemarle's 50% ownership interest in Magnifin Magnesiaprodukte GmbH, a joint-venture with Radex Heraklith Industriebeteiligung AG at Breitenau, Austria. On February 1, 2016, the Company closed the sale of these businesses. We received net proceeds of approximately \$187 million and recorded a gain of \$112.3 million before income taxes in



2016 related to the sale of these businesses.

Also included in Gain on sales of businesses, net, for the six-month period ended June 30, 2016 was a loss of \$1.5 million on the sale of our wafer reclaim business.

These businesses did not qualify for discontinued operations treatment because the Company's management did not consider their sale as representing a strategic shift that had or will have a major effect on the Company's operations and financial results.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

## NOTE 4—Goodwill and Other Intangibles:

The following table summarizes the changes in goodwill by reportable segment for the six months ended June 30, 2017 (in thousands):

	Lithium and Advanced Materials	Bromine Specialties	Refining Solutions	All Other	Total
Balance at December 31, 2016	\$1,348,261	\$ 20,319	\$ 164,866	\$ 6,586	\$ 1,540,032
Acquisitions <sup>(a)</sup>	(22,071 )	—	—	—	(22,071 )
Foreign currency translation adjustments and other	54,468	—	14,021	—	68,489
Balance at June 30, 2017	\$ 1,380,658	\$ 20,319	\$ 178,887	\$ 6,586	\$ 1,586,450

Primarily represents preliminary purchase price adjustments related to the preliminary appraisal of intangible assets (a) during the measurement period for the Jiangli New Materials acquisition. See Note 2, “Acquisitions,” for additional information.

The following table summarizes the changes in other intangibles and related accumulated amortization for the six months ended June 30, 2017 (in thousands):

	Customer Lists and Relationships	Trade Names and Trademarks <sup>(a)</sup>	Patents and Technology	Other	Total
<b>Gross Asset Value</b>					
Balance at December 31, 2016	\$ 387,893	\$ 16,514	\$ 38,434	\$ 18,844	\$ 461,685
Acquisitions <sup>(b)</sup>	1,717	—	25,555	19,917	47,189
Foreign currency translation adjustments and other	21,044	649	1,956	5,013	28,662
Balance at June 30, 2017	\$ 410,654	\$ 17,163	\$ 65,945	\$ 43,774	\$ 537,536
<b>Accumulated Amortization</b>					
Balance at December 31, 2016	\$ (49,165 )	\$ (7,952 )	\$ (31,683 )	\$ (18,321 )	\$ (107,121 )
Amortization	(9,716 )	—	(830 )	(1,043 )	(11,589 )
Foreign currency translation adjustments and other	(2,594 )	(213 )	(1,288 )	3,049	(1,046 )
Balance at June 30, 2017	\$ (61,475 )	\$ (8,165 )	\$ (33,801 )	\$ (16,315 )	\$ (119,756 )
Net Book Value at December 31, 2016	\$ 338,728	\$ 8,562	\$ 6,751	\$ 523	\$ 354,564
Net Book Value at June 30, 2017	\$ 349,179	\$ 8,998	\$ 32,144	\$ 27,459	\$ 417,780

(a) Balances as of June 30, 2017 and December 31, 2016 include only indefinite-lived intangible assets.

(b) Represents preliminary purchase price adjustments for the Jiangli New Materials acquisition and the acquisition of the remaining equity interest in Salmag. See Note 2, “Acquisitions,” for additional information.

## NOTE 5—Foreign Exchange:

Foreign exchange transaction and revaluation losses were \$0.8 million and \$5.7 million for the three-month and six-month periods ended June 30, 2017, respectively, and \$3.3 million and \$3.4 million for the three-month and six-month periods ended June 30, 2016, respectively, and were included in Other expenses, net, in our consolidated statements of income (loss), with the unrealized portion included in Other, net, in our condensed consolidated statements of cash flows.

## NOTE 6—Income Taxes:

The effective income tax rate for the three-month and six-month periods ended June 30, 2017 was 19.0% and 20.0%, respectively, compared to 22.4% and 14.8% for the three-month and six-month periods ended June 30, 2016, respectively. The Company's effective income tax rate fluctuates based on, among other factors, its level and location of income. The difference between the U.S. federal statutory income tax rate and our effective income tax rate for the 2017 and 2016 periods was

11

---

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

primarily due to the impact of earnings from outside the U.S., and is mainly attributable to our share of the income of our Jordan Bromine Company Limited ("JBC") joint venture, a Free Zones company under the laws of the Hashemite Kingdom of Jordan. In addition, Income tax expense for the six-month period ended June 30, 2017 included foreign rate changes of \$13.1 million and a \$5.1 million out-of-period adjustment as described in Note 1, "Basis of Presentation," partially offset by a \$9.8 million benefit from the release of valuation allowances due to a foreign restructuring plan that was initiated during the quarter and a \$4.7 million reduction from the tax effects of share-based compensation awards. Our effective tax rate for the six-month period ended June 30, 2016 was driven down by a variety of factors, primarily low tax gains from the sale of the minerals-based flame retardant business, as well as a favorable mix of earnings in lower tax jurisdictions.

## NOTE 7—Earnings Per Share:

Basic and diluted earnings per share from continuing operations for the three-month and six-month periods ended June 30, 2017 and 2016 are calculated as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Basic earnings per share from continuing operations				
Numerator:				
Net income from continuing operations	\$113,689	\$95,586	\$176,346	\$313,822
Net income from continuing operations attributable to noncontrolling interests	(10,356 )	(12,067 )	(21,800 )	(19,429 )
Net income from continuing operations attributable to Albemarle Corporation	\$103,333	\$83,519	\$154,546	\$294,393
Denominator:				
Weighted-average common shares for basic earnings per share	110,686	112,339	111,336	112,300
Basic earnings per share from continuing operations	\$0.93	\$0.74	\$1.39	\$2.62
Diluted earnings per share from continuing operations				
Numerator:				
Net income from continuing operations	\$113,689	\$95,586	\$176,346	\$313,822
Net income from continuing operations attributable to noncontrolling interests	(10,356 )	(12,067 )	(21,800 )	(19,429 )
Net income from continuing operations attributable to Albemarle Corporation	\$103,333	\$83,519	\$154,546	\$294,393
Denominator:				
Weighted-average common shares for basic earnings per share	110,686	112,339	111,336	112,300
Incremental shares under stock compensation plans	1,419	836	1,361	673
Weighted-average common shares for diluted earnings per share	112,105	113,175	112,697	112,973
Diluted earnings per share from continuing operations	\$0.92	\$0.74	\$1.37	\$2.61

On February 23, 2017, the Company increased the regular quarterly dividend by 5% to \$0.32 per share. On May 11, 2017, the Company declared a cash dividend of \$0.32 per share, which is payable on July 3, 2017 to shareholders of record at the close of business as of June 15, 2017. On July 10, 2017, the Company declared a cash dividend of \$0.32 per share, which is payable on October 2, 2017 to shareholders of record at the close of business as of September 15, 2017.

Under our existing Board authorized share repurchase program, the Company entered into an accelerated share repurchase (“ASR”) agreement with a financial institution on March 1, 2017. Under the ASR agreement, in March 2017, the Company paid \$250 million from available cash on hand and received and retired an initial delivery of 1,948,178 shares of our common stock. Under the terms of the ASR agreement, on June 16, 2017, the transaction was completed and we received and retired a final settlement of 392,905 shares, calculated based on the daily Rule 10b-18 volume-weighted average prices of the Company’s common stock over the term of the ASR agreement, less an agreed discount. The Company determined that the ASR agreement met the criteria to be accounted for as a forward contract indexed to its stock and was therefore treated as an equity instrument. In total we received and retired 2,341,083 shares under this agreement, which reduced the Company’s weighted average shares outstanding for purposes of calculating basic and diluted earnings per share for the three-month and six-month periods ended June 30, 2017.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

No more than 15,000,000 shares can be repurchased under the Company's authorized share repurchase program. As of June 30, 2017, there were 12,658,917 remaining shares available for repurchase under the Company's authorized share repurchase program.

## NOTE 8—Inventories:

The following table provides a breakdown of inventories at June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Finished goods <sup>(a)</sup>	\$385,798	\$ 289,102
Raw materials and work in process <sup>(b)</sup>	126,364	109,706
Stores, supplies and other	53,732	51,455
Total inventories	\$565,894	\$ 450,263

(a) Increase primarily due to the Jiangli New Materials acquisition and the build up of inventory at several Lithium and Advanced Materials segment locations.

(b) Included \$53.7 million and \$47.1 million at June 30, 2017 and December 31, 2016, respectively, of work in process related to the Lithium product category.

## NOTE 9—Investments:

The Company holds a 49% equity interest in Windfield Holdings Pty. Ltd. ("Windfield"), where the ownership parties share risks and benefits disproportionate to their voting interests. As a result, the Company considers Windfield to be a variable interest entity ("VIE"), however this investment is not consolidated as it is not the primary beneficiary. The carrying amount of our 49% equity interest in Windfield, which is our most significant VIE, was \$332.6 million and \$288.6 million at June 30, 2017 and December 31, 2016, respectively. The Company's aggregate net investment in all other entities which it considers to be VIE's for which the Company is not the primary beneficiary was \$8.1 million and \$8.8 million at June 30, 2017 and December 31, 2016, respectively. Our unconsolidated VIE's are reported in Investments on the condensed consolidated balance sheets. The Company does not guarantee debt for, or have other financial support obligations to, these entities, and its maximum exposure to loss in connection with its continuing involvement with these entities is limited to the carrying value of the investments.

As part of the original Windfield joint venture agreement, Tianqi Lithium Corporation ("Tianqi") was granted an option to purchase from 20% to 30% of the equity interests in Rockwood Lithium GmbH, a wholly-owned German subsidiary of Albemarle, and its subsidiaries. In February 2017, Albemarle and Tianqi terminated the option agreement, and as a result, we will retain 100% of the ownership interest in Rockwood Lithium GmbH and its subsidiaries. Following the termination of the option agreement, the \$13.1 million fair value of the option agreement originally recorded in Noncontrolling interests was reversed and recorded as an adjustment to Additional paid-in capital.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

## NOTE 10—Long-Term Debt:

Long-term debt at June 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
1.875% Senior notes, net of unamortized discount and debt issuance costs of \$4,278 at June 30, 2017 and \$7,823 at December 31, 2016	\$441,151	\$719,617
3.00% Senior notes, net of unamortized discount and debt issuance costs of \$1,286 at December 31, 2016	—	248,714
4.15% Senior notes, net of unamortized discount and debt issuance costs of \$3,615 at June 30, 2017 and \$3,859 at December 31, 2016	421,385	421,141
4.50% Senior notes, net of unamortized discount and debt issuance costs of \$1,041 at June 30, 2017 and \$2,380 at December 31, 2016	174,174	347,620
5.45% Senior notes, net of unamortized discount and debt issuance costs of \$4,236 at June 30, 2017 and \$4,313 at December 31, 2016	345,764	345,687
Commercial paper notes	307,000	247,503
Variable-rate foreign bank loans	38,742	38,939
Other	361	41
Total long-term debt	1,728,577	2,369,262
Less amounts due within one year	307,109	247,544
Long-term debt, less current portion	\$1,421,468	\$2,121,718

In the first quarter of 2017, using a portion of the proceeds from the sale of the Chemetall Surface Treatment business, we repaid the 3.00% Senior notes in full, €307.0 million of the 1.875% Senior notes and \$174.7 million of the 4.50% Senior notes, as well as related tender premiums of \$45.2 million. As a result, Interest and financing expenses on the consolidated statements of income (loss) includes a loss on early extinguishment of debt of \$52.8 million for the six-month period ended June 30, 2017, representing the tender premiums, fees, unamortized discounts and unamortized deferred financings costs from the redemption of these senior notes.

Current portion of long-term debt at June 30, 2017 consisted primarily of commercial paper notes with a weighted-average interest rate of approximately 1.71% and a weighted-average maturity of 28 days.

The carrying value of our 1.875% Euro-denominated senior notes has been designated as an effective hedge of our net investment in certain foreign subsidiaries where the Euro serves as the functional currency, and gains or losses on the revaluation of these senior notes to our reporting currency are recorded in accumulated other comprehensive loss.

During the three-month and six-month periods ended June 30, 2017, losses of \$14.2 million and \$27.9 million (net of income taxes), respectively, and during the three-month and six-month periods ended June 30, 2016, gains (losses) of \$6.6 million and (\$2.9) million (net of income taxes), respectively, were recorded in accumulated other comprehensive loss in connection with the revaluation of these senior notes to our reporting currency.

## NOTE 11—Commitments and Contingencies:

## Environmental

We had the following activity in our recorded environmental liabilities for the six months ended June 30, 2017, as follows (in thousands):

Beginning balance at December 31, 2016	\$34,919
Expenditures	(894 )
Accretion of discount	370
Foreign currency translation adjustments and other	1,643
Ending balance at June 30, 2017	36,038

Edgar Filing: ALBEMARLE CORP - Form 10-Q

Less amounts reported in Accrued expenses 2,390  
Amounts reported in Other noncurrent liabilities \$33,648

Environmental remediation liabilities included discounted liabilities of \$24.5 million and \$22.8 million at June 30, 2017 and December 31, 2016, respectively, discounted at rates with a weighted-average of 3.6%, with the undiscounted amount

14

---



Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

totaling \$63.6 million and \$61.1 million at June 30, 2017 and December 31, 2016, respectively. For certain locations where the Company is operating groundwater monitoring and/or remediation systems, prior owners or insurers have assumed all or most of the responsibility.

The amounts recorded represent our future remediation and other anticipated environmental liabilities. These liabilities typically arise during the normal course of our operational and environmental management activities or at the time of acquisition of the site, and are based on internal analysis as well as input from outside consultants. As evaluations proceed at each relevant site, changes in risk assessment practices, remediation techniques and regulatory requirements can occur, therefore such liability estimates may be adjusted accordingly. The timing and duration of remediation activities at these sites will be determined when evaluations are completed. Although it is difficult to quantify the potential financial impact of these remediation liabilities, management estimates (based on the latest available information) that there is a reasonable possibility that future environmental remediation costs associated with our past operations, in excess of amounts already recorded, could be up to approximately \$18 million before income taxes.

We believe that any sum we may be required to pay in connection with environmental remediation matters in excess of the amounts recorded would likely occur over a period of time and would likely not have a material adverse effect upon our results of operations, financial condition or cash flows on a consolidated annual basis although any such sum could have a material adverse impact on our results of operations, financial condition or cash flows in a particular quarterly reporting period.

Litigation

We are involved from time to time in legal proceedings of types regarded as common in our business, including administrative or judicial proceedings seeking remediation under environmental laws, such as the federal Comprehensive Environmental Response, Compensation and Liability Act, commonly known as CERCLA or Superfund, products liability, breach of contract liability and premises liability litigation. Where appropriate, we may establish financial reserves for such proceedings. We also maintain insurance to mitigate certain of such risks. Costs for legal services are generally expensed as incurred.

Indemnities

We are indemnified by third parties in connection with certain matters related to acquired and divested businesses. Although we believe that the financial condition of those parties who may have indemnification obligations to the Company is generally sound, in the event the Company seeks indemnity under any of these agreements or through other means, there can be no assurance that any party who may have obligations to indemnify us will adhere to their obligations and we may have to resort to legal action to enforce our rights under the indemnities.

The Company may be subject to indemnity claims relating to properties or businesses it divested, including properties or businesses of acquired businesses that were divested prior to the completion of the acquisition. In the opinion of management, and based upon information currently available, the ultimate resolution of any indemnification obligations owed to the Company or by the Company is not expected to have a material effect on the Company's financial condition, results of operations or cash flows. The Company had approximately \$42.8 million and \$38.2 million at June 30, 2017 and December 31, 2016, respectively, recorded in Other noncurrent liabilities related to the indemnification of certain income and non-income tax liabilities associated with the Chemetall Surface Treatment entities sold.

Other

We have contracts with certain of our customers, which serve as guarantees on product delivery and performance according to customer specifications that can cover both shipments on an individual basis as well as blanket coverage of multiple shipments under certain customer supply contracts. The financial coverage provided by these guarantees is typically based on a percentage of net sales value.

NOTE 12—Segment Information:

Our three reportable segments include Lithium and Advanced Materials, Bromine Specialties and Refining Solutions. Each segment has a dedicated team of sales, research and development, process engineering, manufacturing and sourcing, and business strategy personnel and has full accountability for improving execution through greater asset and market focus, agility and responsiveness. This structure aligns with the markets and customers we serve through each of the segments. The structure also facilitates the continued standardization of business processes across the organization, and is consistent with the manner in which information is presently used internally by the Company's chief operating decision maker to evaluate performance and

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

make resource allocation decisions. Summarized financial information concerning our reportable segments is shown in the following tables.

The “All Other” category comprises operating segments that did not fit into any of our core businesses. During the first quarter of 2016, we completed the sales of the metal sulfides business and the minerals-based flame retardants and specialty chemicals businesses. For additional information about these businesses, see Note 3, “Divestitures.” Following the sales of these businesses, the “All Other” category includes only the fine chemistry services business.

The Corporate category is not considered to be a segment and includes corporate-related items not allocated to the operating segments. Pension and OPEB service cost (which represents the benefits earned by active employees during the period) and amortization of prior service cost or benefit are allocated to the reportable segments, All Other, and Corporate, whereas the remaining components of pension and OPEB benefits cost or credit (“Non-operating pension and OPEB items”) are included in Corporate. Segment data includes intersegment transfers of raw materials at cost and allocations for certain corporate costs.

The Company’s chief operating decision maker uses earnings before interest, taxes, depreciation and amortization, as adjusted on a consistent basis for certain non-recurring or unusual items such as acquisition and integration related costs, utilization of inventory markup, gains or losses on sales of businesses, restructuring charges, facility divestiture charges, non-operating pension and OPEB items and other significant non-recurring items (“adjusted EBITDA”), in a balanced manner and on a segment basis to assess the ongoing performance of the Company’s business segments and to allocate resources. In addition, management uses adjusted EBITDA for business planning purposes and as a significant component in the calculation of performance-based compensation for management and other employees. The Company has reported adjusted EBITDA because management believes it provides transparency to investors and enables period-to-period comparability of financial performance. Adjusted EBITDA is a financial measure that is not required by, or presented in accordance with, U.S. GAAP. Adjusted EBITDA should not be considered as an alternative to Net income (loss) attributable to Albemarle Corporation, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP, or any other financial measure reported in accordance with U.S. GAAP.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(In thousands)			
Net sales:				
Lithium and Advanced Materials	\$317,859	\$233,353	\$602,234	\$449,526
Bromine Specialties	203,945	206,863	423,136	403,416
Refining Solutions	184,217	178,012	369,629	348,591
All Other	30,704	50,626	63,123	122,715
Corporate	533	473	1,199	2,290
Total net sales	\$737,258	\$669,327	\$1,459,321	\$1,326,538
Adjusted EBITDA:				
Lithium and Advanced Materials	\$132,549	\$82,668	\$252,571	\$169,142
Bromine Specialties	62,075	66,562	130,563	128,170
Refining Solutions	50,078	61,586	99,657	116,660
All Other	2,444	876	7,600	9,340
Corporate	(28,205 )	(21,221 )	(60,074 )	(40,808 )
Total adjusted EBITDA	\$218,941	\$190,471	\$430,317	\$382,504



Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

See below for a reconciliation of adjusted EBITDA, the non-GAAP financial measure, from Net income (loss) attributable to Albemarle Corporation, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP (in thousands):

	Lithium and Advanced Materials	Bromine Specialties	Refining Solutions	Reportable Segments Total	All Other	Corporate	Consolidated Total
Three months ended June 30, 2017							
Net income (loss) attributable to Albemarle Corporation	\$95,350	\$ 51,739	\$ 40,463	\$ 187,552	\$ 152	\$(84,371 )	\$ 103,333
Depreciation and amortization	25,278	10,336	9,615	45,229	2,292	1,601	49,122
Utilization of inventory markup <sup>(a)</sup>	11,921	—	—	11,921	—	—	11,921
Restructuring and other, net <sup>(b)</sup>	—	—	—	—	—	4,235	4,235
Acquisition and integration related costs <sup>(c)</sup>	—	—	—	—	—	6,479	6,479
Interest and financing expenses	—	—	—	—	—	14,590	14,590
Income tax expense	—	—	—	—	—	23,130	23,130
Non-operating pension and OPEB items	—	—	—	—	—	(1,053 )	(1,053 )
Multiemployer plan shortfall contributions <sup>(d)</sup>	—	—	—	—	—	4,940	4,940
Other <sup>(e)</sup>	—	—	—	—	—	2,244	2,244
Adjusted EBITDA	\$ 132,549	\$ 62,075	\$ 50,078	\$ 244,702	\$ 2,444	\$(28,205 )	\$ 218,941
Three months ended June 30, 2016							
Net income (loss) attributable to Albemarle Corporation	\$56,880	\$ 56,747	\$ 52,472	\$ 166,099	\$(1,503 )	\$(479,417 )	\$(314,821 )
Depreciation and amortization	25,788	9,815	9,114	44,717	3,353	1,635	49,705
Gain on sales of businesses <sup>(f)</sup>	—	—	—	—	(974 )	—	(974 )
Acquisition and integration related costs <sup>(c)</sup>	—	—	—	—	—	19,030	19,030
Interest and financing expenses	—	—	—	—	—	15,800	15,800
Income tax expense	—	—	—	—	—	23,656	23,656
Loss from discontinued operations (net of tax)	—	—	—	—	—	398,340	398,340
Non-operating pension and OPEB items	—	—	—	—	—	(265 )	(265 )
Adjusted EBITDA	\$ 82,668	\$ 66,562	\$ 61,586	\$ 210,816	\$ 876	\$(21,221 )	\$ 190,471
Six months ended June 30, 2017							
Net income (loss) attributable to Albemarle Corporation	\$ 189,456	\$ 110,433	\$ 80,937	\$ 380,826	\$ 3,398	\$(229,678 )	\$ 154,546
Depreciation and amortization	48,021	20,130	18,720	86,871	4,202	3,119	94,192
Utilization of inventory markup <sup>(a)</sup>	22,527	—	—	22,527	—	—	22,527
Restructuring and other <sup>(b)</sup>	—	—	—	—	—	17,141	17,141
Gain on acquisition <sup>(g)</sup>	(7,433 )	—	—	(7,433 )	—	—	(7,433 )

Edgar Filing: ALBEMARLE CORP - Form 10-Q

Acquisition and integration related costs <sup>(c)</sup>	—	—	—	—	—	20,760	20,760
Interest and financing expenses <sup>(h)</sup>	—	—	—	—	—	83,103	83,103
Income tax expense	—	—	—	—	—	35,101	35,101
Non-operating pension and OPEB items	—	—	—	—	—	(2,116 )	(2,116 )
Multiemployer plan shortfall contributions <sup>(d)</sup>	—	—	—	—	—	4,940	4,940
Other <sup>(e)</sup>	—	—	—	—	—	7,556	7,556
Adjusted EBITDA	\$252,571	\$130,563	\$99,657	\$482,791	\$7,600	\$(60,074 )	\$430,317
Six months ended June 30, 2016							
Net income (loss) attributable to Albemarle Corporation	\$120,207	\$108,600	\$98,786	\$327,593	\$129,206	\$(543,434)	\$(86,635 )
Depreciation and amortization	48,935	19,570	17,874	86,379	3,965	2,970	93,314
(Gain) loss on sales of businesses, net <sup>(f)</sup>	—	—	—	—	—	(123,831 )	1,533 (122,298 )
Acquisition and integration related costs <sup>(c)</sup>	—	—	—	—	—	37,588	37,588
Interest and financing expenses	—	—	—	—	—	30,914	30,914
Income tax expense	—	—	—	—	—	49,141	49,141

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Loss from discontinued operations (net of tax)	—	—	—	—	—	381,028	381,028
Non-operating pension and OPEB items	—	—	—	—	—	(548 )	(548 )
Adjusted EBITDA	\$169,142	\$128,170	\$116,660	\$413,972	\$9,340	\$(40,808)	\$382,504

In connection with the acquisition of Jiangli New Materials, the Company valued inventory purchased from Jiangli New Materials at fair value, which resulted in a markup of the underlying net book value of the inventory totaling (a) approximately \$23.0 million. The inventory markup is being expensed over the estimated remaining selling period. For the three-month and six-month periods ended June 30, 2017, \$11.9 million and \$22.5 million, respectively, was included in Cost of goods sold related to the utilization of the inventory markup.

During 2017, we initiated action to reduce costs in each of our reportable segments at several locations, primarily at our Lithium sites in Germany. Based on the restructuring plans, we have recorded expenses of \$4.2 million in Selling, general and administrative expenses for the three-month period ended June 30, 2017 and \$2.9 million in (b) Cost of goods sold, \$8.4 million in Selling, general and administrative expenses and \$5.8 million in Research and development expenses for the six-month period ended June 30, 2017, primarily related to expected severance payments. The unpaid balance is recorded in Accrued expenses at June 30, 2017, with the expectation that the majority of these plans will be completed by the end of 2017.

(c) See Note 2, “Acquisitions,” for additional information.

(d) Included shortfall contributions for our multiemployer plan financial improvement plan. See Note 13, “Pension Plans and Other Postretirement Benefits,” for additional information.

Included amounts for the three-month and six-month periods ended June 30, 2017 recorded in (1) Selling, general and administrative expenses related to a reversal of an accrual recorded as part of purchase accounting from a previous acquisition of \$1.0 million; and (2) Other expenses, net related to final settlement claims associated with (e) the previous disposal of a business of \$2.0 million and the revision of tax indemnification expenses of \$1.2 million primarily related to a competent authority agreement for a previously disposed business. Also included in Other expenses, net for the six-month period ended June 30, 2017 are \$3.2 million of asset retirement obligation charges related to the revision of an estimate at a site formerly owned by Albemarle and a loss of \$2.1 million associated with the previous disposal of a business.

(f) See Note 3, “Divestitures,” for additional information.

(g) Gain recorded in Other expenses, net related to the acquisition of the remaining 50% interest in Salmag. See Note 2, “Acquisitions,” for additional information.

(h) Included in Interest and financing expenses is a loss on early extinguishment of debt of \$52.8 million. See Note 10, “Long-term Debt,” for additional information.

## NOTE 13—Pension Plans and Other Postretirement Benefits:

The components of pension and postretirement benefits cost (credit) from continuing operations for the three-month and six-month periods ended June 30, 2017 and 2016 were as follows (in thousands):

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
Pension Benefits Cost (Credit):				
Service cost	\$1,020	\$1,233	\$2,023	\$2,281
Interest cost	8,320	9,498	16,608	18,863
Expected return on assets	(9,931 )	(10,337)	(19,839)	(20,509)

Edgar Filing: ALBEMARLE CORP - Form 10-Q

Actuarial gain	—	—	—	(50 )
Amortization of prior service benefit	46	440	73	468
Total net pension benefits (credit) cost	\$(545 )	\$834	\$(1,135)	\$1,053
Postretirement Benefits Cost (Credit):				
Service cost	\$30	\$28	\$61	\$57
Interest cost	585	621	1,170	1,242
Expected return on assets	(27 )	(47 )	(55 )	(94 )
Amortization of prior service benefit	(24 )	(24 )	(48 )	(48 )
Total net postretirement benefits cost	\$564	\$578	\$1,128	\$1,157
Total net pension and postretirement benefits cost (credit) <sup>(a)</sup>	\$19	\$1,412	\$(7 )	\$2,210

For the three-month and six-month periods ended June 30, 2016, \$0.6 million and \$1.2 million, respectively, of net (a) pension and postretirement benefits cost are included in Loss from discontinued operations (net of tax) in the consolidated statements of income (loss). See Note 3, "Divestitures," for additional information.



Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

During the three-month and six-month periods ended June 30, 2017, we made contributions of \$2.7 million and \$5.1 million, respectively, to our qualified and nonqualified pension plans for continuing operations. During the three-month and six-month periods ended June 30, 2016, we made contributions of \$3.6 million and \$6.0 million, respectively, to our qualified and nonqualified pension plans for continuing operations. Contributions to discontinued operations qualified and nonqualified pension plans were \$0.9 million and \$1.9 million, respectively, for the three-month and six-month periods ended June 30, 2016.

We paid \$0.7 million and \$1.2 million in premiums to the U.S. postretirement benefit plan during the three-month and six-month periods ended June 30, 2017, respectively. During the three-month and six-month periods ended June 30, 2016, we paid \$0.8 million and \$1.6 million, respectively, in premiums to the U.S. postretirement benefit plan.

**Multiemployer Plan**

Our normal contributions to the Pensionskasse Dynamit Nobel Versicherungsverein auf Gegenseitigkeit, Troisdorf (“DN Pensionskasse”) multiemployer plan for continuing operations were approximately \$0.3 million and \$0.5 million during the three-month and six-month periods ended June 30, 2017, respectively. During the three-month and six-month periods ended June 30, 2016, we made contributions of approximately \$0.3 million and \$0.6 million, respectively, to the DN Pensionskasse multiemployer plan for continuing operations. Contributions for discontinued operations were approximately \$0.2 million and \$0.4 million during the three-month and six-month periods ended June 30, 2016, respectively.

Effective July 1, 2016, the DN Pensionskasse is subject to a financial improvement plan which expires on December 31, 2022, with the final contribution in the second quarter of 2023. This financial improvement plan calls for increased capital reserves to avoid future underfunding risk. During the three-month and six-month periods ended June 30, 2017, we made contributions for our employees covered under this plan of approximately \$2.0 million, recorded in Selling, general and administrative expenses, as a result of this financial improvement plan. In addition, during the three-month and six-month periods ended June 30, 2017, we made contributions relating to this financial improvement plan to indemnify previously divested businesses of approximately \$2.9 million, recorded in Other expenses, net.

**NOTE 14—Fair Value of Financial Instruments:**

In assessing the fair value of financial instruments, we use methods and assumptions that are based on market conditions and other risk factors existing at the time of assessment. Fair value information for our financial instruments is as follows:

**Long-Term Debt**—the fair values of our senior notes are estimated using Level 1 inputs and account for the difference between the recorded amount and fair value of our long-term debt. The carrying value of our remaining long-term debt reported in the accompanying condensed consolidated balance sheets approximates fair value as substantially all of such debt bears interest based on prevailing variable market rates currently available in the countries in which we have borrowings.

June 30, 2017		December 31, 2016	
Recorded Amount	Fair Value	Recorded Amount	Fair Value
(In thousands)			

Long-term debt \$1,736,973 \$1,845,514 \$2,381,370 \$2,472,813

**Foreign Currency Forward Contracts**—we enter into foreign currency forward contracts in connection with our risk management strategies in an attempt to minimize the financial impact of changes in foreign currency exchange rates. These derivative financial instruments are used to manage risk and are not used for trading or other speculative purposes. The fair values of our foreign currency forward contracts are estimated based on current settlement values. At June 30, 2017 and December 31, 2016, we had outstanding foreign currency forward contracts with notional values totaling \$298.8 million and \$251.6 million, respectively. Our foreign currency forward contracts outstanding at June 30, 2017 and December 31, 2016 were not designated as hedging instruments under Accounting Standards

Codification (“ASC”) 815, Derivatives and Hedging. At June 30, 2017, \$0.4 million was included in Other accounts receivable associated with the fair value of our foreign currency forward contracts, and at December 31, 2016, \$0.2 million was included in Accrued expenses associated with the fair value of our foreign currency forward contracts. Gains and losses on foreign currency forward contracts are recognized in Other expenses, net; further, fluctuations in the value of these contracts are generally expected to be offset by changes in the value of the underlying exposures being hedged, which are also reported in Other expenses, net. For the three-month and six-month periods ended June 30, 2017, we recognized gains of \$3.7 million and \$8.2 million, respectively, in Other expenses, net, in our consolidated statements of income (loss) related to the change in fair value of our foreign currency forward contracts. For the three-month and six-month periods ended

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

June 30, 2016, we recognized losses of \$10.7 million and \$4.9 million, respectively, in Other expenses, net, in our consolidated statements of income (loss) related to the change in the fair value of our foreign currency forward contracts. Also, for the six-month periods ended June 30, 2017 and 2016, we recorded (gains) losses of (\$8.2) million and \$4.9 million, respectively, related to the change in the fair value of our foreign currency forward contracts, and net cash receipts (settlements) of \$7.7 million and (\$4.8) million, respectively, in Other, net, in our condensed consolidated statements of cash flows.

The counterparties to our foreign currency forward contracts are major financial institutions with which we generally have other financial relationships. We are exposed to credit loss in the event of nonperformance by these counterparties. However, we do not anticipate nonperformance by the counterparties.

## NOTE 15—Fair Value Measurement:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The inputs used to measure fair value are classified into the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities

Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for Level 2 identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability

Level 3 Unobservable inputs for the asset or liability

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Transfers between levels of the fair value hierarchy are deemed to have occurred on the date of the event or change in circumstance that caused the transfer. There were no transfers between Levels 1 and 2 during the six-month period ended June 30, 2017. The following tables set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Investments under executive deferred compensation plan <sup>(a)</sup>	\$23,432	\$ 23,432	\$ —	\$ —
Private equity securities <sup>(b)</sup>	\$35	\$ 35	\$ —	\$ —
Private equity securities measured at net asset value <sup>(b)(c)</sup>	\$5,489	\$ —	\$ —	\$ —
Foreign currency forward contracts <sup>(d)</sup>	\$370	\$ —	\$ 370	\$ —

## Liabilities:

	December 31, 2016	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)	Unobservable Inputs (Level 3)
Liabilities:				
Obligations under executive deferred compensation plan <sup>(a)</sup>	\$23,432	\$ 23,432	\$ —	\$ —

## Assets:

Investments under executive deferred compensation plan <sup>(a)</sup>	\$ 22,037	\$ 22,037	\$ —	\$ —
---	-----------	-----------	------	------

Edgar Filing: ALBEMARLE CORP - Form 10-Q

Private equity securities <sup>(b)</sup>	\$ 35	\$ 35	\$ —	\$ —
Private equity securities measured at net asset value <sup>(b)(c)</sup>	\$ 5,498	\$ —	\$ —	\$ —
<b>Liabilities:</b>				
Obligations under executive deferred compensation plan <sup>(a)</sup>	\$ 22,037	\$ 22,037	\$ —	\$ —
Foreign currency forward contracts <sup>(d)</sup>	\$ 182	\$ —	\$ 182	\$ —

20

---

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

(a) We maintain an Executive Deferred Compensation Plan (“EDCP”) that was adopted in 2001 and subsequently amended. The purpose of the EDCP is to provide current tax planning opportunities as well as supplemental funds upon the retirement or death of certain of our employees. The EDCP is intended to aid in attracting and retaining employees of exceptional ability by providing them with these benefits. We also maintain a Benefit Protection Trust (the “Trust”) that was created to provide a source of funds to assist in meeting the obligations of the EDCP, subject to the claims of our creditors in the event of our insolvency. Assets of the Trust are consolidated in accordance with authoritative guidance. The assets of the Trust consist primarily of mutual fund investments (which are accounted for as trading securities and are marked-to-market on a monthly basis through the consolidated statements of income (loss)) and cash and cash equivalents. As such, these assets and obligations are classified within Level 1.

(b) Primarily consists of private equity securities classified as available-for-sale and are reported in Investments in the condensed consolidated balance sheets. The changes in fair value are reported in Other expenses, net, in our consolidated statements of income (loss).

(c) Holdings in certain private equity securities are measured at fair value using the net asset value per share (or its equivalent) practical expedient and have not been categorized in the fair value hierarchy.

(d) As a result of our global operating and financing activities, we are exposed to market risks from changes in foreign currency exchange rates, which may adversely affect our operating results and financial position. When deemed appropriate, we minimize our risks from foreign currency exchange rate fluctuations through the use of foreign currency forward contracts. Unless otherwise noted, these derivative financial instruments are not designated as hedging instruments under ASC 815, Derivatives and Hedging. The foreign currency forward contracts are valued using broker quotations or market transactions in either the listed or over-the-counter markets. As such, these derivative instruments are classified within Level 2.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

## NOTE 16—Accumulated Other Comprehensive (Loss) Income:

The components and activity in Accumulated other comprehensive (loss) income (net of deferred income taxes) consisted of the following during the periods indicated below (in thousands):

	Foreign Currency Translation	Pension and Postretirement Benefits <sup>(a)</sup>	Net Investment Hedge	Interest Rate Swap <sup>(b)</sup>	Total
Three months ended June 30, 2017					
Balance at March 31, 2017	\$(405,527)	\$ 69	\$ 74,693	\$(16,216)	\$(346,981)
Other comprehensive income (loss) before reclassifications	64,069	—	(14,234 )	—	49,835
Amounts reclassified from accumulated other comprehensive loss	—	16	—	529	545
Other comprehensive income (loss), net of tax	64,069	16	(14,234 )	529	50,380
Other comprehensive income attributable to noncontrolling interests	(232 )	—	—	—	(232 )
Balance at June 30, 2017	\$(341,690)	\$ 85	\$ 60,459	\$(15,687)	\$(296,833)
Three months ended June 30, 2016					
Balance at March 31, 2016	\$(365,291)	\$( 757 )	\$ 52,721	\$(18,336)	\$(331,663)
Other comprehensive (loss) income before reclassifications	(51,193 )	—	6,607	—	(44,586 )
Amounts reclassified from accumulated other comprehensive loss	—	419	—	526	945
Other comprehensive (loss) income, net of tax	(51,193 )	419	6,607	526	(43,641 )
Other comprehensive income attributable to noncontrolling interests	(152 )	—	—	—	(152 )
Balance at June 30, 2016	\$(416,636)	\$( 338 )	\$ 59,328	\$(17,810)	\$(375,456)
Six months ended June 30, 2017					
Balance at December 31, 2016	\$(484,121)	\$ 76	\$ 88,378	\$(16,745)	\$(412,412)
Other comprehensive income (loss) before reclassifications	143,124	—	(27,919 )	—	115,205
Amounts reclassified from accumulated other comprehensive loss	—	9	—	1,058	1,067
Other comprehensive income (loss), net of tax	143,124	9	(27,919 )	1,058	116,272
Other comprehensive income attributable to noncontrolling interests	(693 )	—	—	—	(693 )
Balance at June 30, 2017	\$(341,690)	\$ 85	\$ 60,459	\$(15,687)	\$(296,833)
Six months ended June 30, 2016					
Balance at December 31, 2015	\$(463,914)	\$( 758 )	\$ 62,245	\$(18,861)	\$(421,288)
Other comprehensive income (loss) before reclassifications	47,713	—	(2,917 )	—	44,796
Amounts reclassified from accumulated other comprehensive loss	—	420	—	1,051	1,471
Other comprehensive income (loss), net of tax	47,713	420	(2,917 )	1,051	46,267
Other comprehensive income attributable to noncontrolling interests	(435 )	—	—	—	(435 )
Balance at June 30, 2016	\$(416,636)	\$( 338 )	\$ 59,328	\$(17,810)	\$(375,456)

- The pre-tax portion of amounts reclassified from accumulated other comprehensive loss consists of amortization of
- (a) prior service benefit, which is a component of pension and postretirement benefits cost (credit). See Note 13, “Pension Plans and Other Postretirement Benefits.”
  - (b) The pre-tax portion of amounts reclassified from accumulated other comprehensive loss is included in interest expense.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

The amount of income tax benefit (expense) allocated to each component of Other comprehensive income (loss) for the three-month and six-month periods ended June 30, 2017 and 2016 is provided in the following tables (in thousands):

	Three Months Ended June 30, 2017				2016			
	Foreign Currency Translation	Pension and Postretirement Benefits	Net Investment Hedge	Interest Rate Swap	Foreign Currency Translation	Pension and Postretirement Benefits	Net Investment Hedge	Interest Rate Swap
Other comprehensive income (loss), before tax	\$64,069	\$ 16	\$(22,446 )	\$834	\$(50,738)	\$ 422	\$ 10,490	\$834
Income tax benefit (expense)	—	—	8,212	(305 )	(455 )	(3 )	(3,883 )	(308 )
Other comprehensive income (loss), net of tax	\$64,069	\$ 16	\$(14,234 )	\$529	\$(51,193)	\$ 419	\$ 6,607	\$526

	Six Months Ended June 30, 2017				2016			
	Foreign Currency Translation	Pension and Postretirement Benefits	Net Investment Hedge	Interest Rate Swap	Foreign Currency Translation	Pension and Postretirement Benefits	Net Investment Hedge	Interest Rate Swap
Other comprehensive income (loss), before tax	\$144,210	\$ 10	\$(44,026 )	\$1,668	\$48,539	\$ 426	\$(4,631 )	\$1,668
Income tax (expense) benefit	(1,086 )	(1 )	16,107	(610 )	(826 )	(6 )	1,714	(617 )
Other comprehensive income (loss), net of tax	\$143,124	\$ 9	\$(27,919 )	\$1,058	\$47,713	\$ 420	\$(2,917 )	\$1,051

## NOTE 17—Related Party Transactions:

Our condensed consolidated financial statements include sales to and purchases from unconsolidated affiliates in the ordinary course of business as follows (in thousands):

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	2017	2016	2017	2016
Sales to unconsolidated affiliates	\$9,255	\$8,231	\$16,444	\$14,405
Purchases from unconsolidated affiliates	55,949	27,160	96,519	62,781

## NOTE 18—Recently Issued Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board (“FASB”) issued accounting guidance designed to enhance comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The core principle of the guidance is that revenue recognized from a transaction or event that arises from a contract with a customer should reflect the consideration to which an entity expects to be entitled in exchange for goods or services provided. To achieve that core principle the new guidance sets forth a five-step revenue recognition model that will need to be applied consistently to all contracts with customers, except those that are within the scope of other topics in the ASC. Also required are new disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. The new disclosures include



qualitative and quantitative information about contracts with customers, significant judgments made in applying the revenue guidance, and assets recognized related to the costs to obtain or fulfill a contract. In March 2016 and April 2016, the FASB issued amendments to this new guidance that provides clarification about principal versus agent considerations, identification of performance obligations and accounting for the licensing of intellectual property. In May 2016, the FASB issued an amendment to the guidance that provides clarification about collectibility, noncash consideration, presentation of sales tax, and transition. In December 2016, the FASB issued an amendment to the guidance that provides narrow-scope improvements and practical expedient regarding collectibility, presentation of sales tax collected from customers, non-cash considerations, contract modifications at transition, completed contracts at transition and other technical corrections. These new requirements become effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption is permitted for annual and interim reporting periods beginning after December 15, 2016. We expect to adopt the new standard in the first quarter of 2018 using the modified retrospective method. We have made significant progress in evaluating our existing contracts and accounting policies to determine the impact this standard will have on the condensed consolidated financial statements and related disclosures. In addition, we are in the process of implementing appropriate

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

changes to the business processes and controls to support recognition and disclosure under the new standard, as well as continuing to assess the new disclosures that will be required in the first quarter of 2018, following the adoption of this new standard.

In July 2015, the FASB issued accounting guidance that requires inventory to be measured at the lower of cost and net realizable value. The scope of this guidance excludes inventory measured using the last-in first-out method or the retail inventory method. This new requirement became effective on January 1, 2017 and did not have a significant impact on our condensed consolidated financial statements.

In February 2016, the FASB issued accounting guidance that requires assets and liabilities arising from leases to be recorded on the balance sheet. Additional disclosures are required regarding the amount, timing, and uncertainty of cash flows from leases. This new guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is to be applied using a modified retrospective approach. Early adoption is permitted. The impact of this new requirement on our financial statements is being assessed and is not yet known.

In March 2016, the FASB issued accounting guidance that simplifies several aspects of the accounting for share-based payment awards. Among other things, this guidance requires all tax effects related to share-based payment awards to be recognized as income tax expense or benefit on the income statement, thus eliminating all additional paid-in capital pools. An entity should recognize excess tax benefits regardless of whether the benefit reduces income taxes payable in the current period. For interim reporting purposes, excess tax benefits and tax deficiencies should be accounted for as discrete items in the reporting period in which they occur. Additionally, this new guidance requires all tax related cash flows resulting from share-based payments to be presented as an operating activity on the statement of cash flows rather than as a financing activity. This guidance became effective on January 1, 2017. The impact of recognizing excess tax benefits in the income statement resulted in a \$0.6 million and \$4.7 million reduction in Income tax expense for the three-month and six-month periods ended June 30, 2017, respectively. The remaining aspects of adopting this guidance did not have a material impact on our condensed consolidated financial statements.

In August 2016, the FASB issued accounting guidance which clarifies the proper presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The new guidance addresses cash flow issues including, but not limited to, debt prepayment or debt extinguishment costs and distributions received from equity method investments. As allowed by the provisions of this new guidance, we early-adopted this new guidance in the first quarter of 2017. The adoption of this new guidance did not have a significant impact on our condensed consolidated financial statements.

In November 2016, the FASB issued accounting guidance that requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning and end of period total amounts shown on the statement of cash flows. This guidance will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and is to be applied on a retrospective basis. Early adoption is permitted. We do not expect this guidance to have a significant impact on our financial statements.

In January 2017, the FASB issued accounting guidance to clarify the definition of a business for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and is to be applied on a prospective basis. Early adoption is permitted. We currently do not expect this guidance to have a significant impact on our financial statements.

In January 2017, the FASB issued accounting guidance to simplify the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a reporting unit to calculate the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit has been acquired in a business combination. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain unchanged. Entities will continue to have the option to perform a qualitative

assessment to determine if a quantitative impairment test is necessary. This guidance will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is to be applied on a prospective basis. Early adoption is permitted for goodwill impairment tests performed after January 1, 2017. We do not expect this guidance to have a significant impact on our financial statements.

In March 2017, the FASB issued accounting guidance that changes the presentation of net periodic pension and postretirement benefit cost ("net benefit cost") in the income statement. This new guidance requires service cost to be presented as part of operating income (expense) and all other components of net benefit cost are to be shown outside of operations. This

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

guidance will be effective for periods beginning after December 15, 2017, including interim periods within those fiscal years, and is to be applied on a retrospective basis. Early adoption is permitted as of the beginning of an annual period for which an entity's financial statements have not been issued or made available for issuance. We do not expect this guidance to have a significant impact on our financial statements.

In May 2017, the FASB issued accounting guidance to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. This new guidance will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and is to be applied on a prospective basis. Early adoption is permitted. We currently do not expect this guidance to have a significant impact on our financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-looking Statements

Some of the information presented in this Quarterly Report on Form 10-Q, including the documents incorporated by reference, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on our current expectations, which are in turn based on assumptions that we believe are reasonable based on our current knowledge of our business and operations. We have used words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "would," "will" and various other words and similar expressions to identify such forward-looking statements.

These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. Therefore, there can be no assurance that our actual results will not differ materially from the results and expectations expressed or implied in the forward-looking statements. Factors that could cause actual results to differ materially include, without limitation:

- changes in economic and business conditions;
- changes in financial and operating performance of our major customers and industries and markets served by us;
- the timing of orders received from customers;
- the gain or loss of significant customers;
- competition from other manufacturers;
- changes in the demand for our products or the end-user markets in which our products are sold;
- limitations or prohibitions on the manufacture and sale of our products;
- availability of raw materials;
- increases in the cost of raw materials and energy, and our ability to pass through such increases;
- changes in our markets in general;
- fluctuations in foreign currencies;
- changes in laws and government regulation impacting our operations or our products;
- the occurrence of regulatory proceedings, claims or litigation;
- the occurrence of cyber-security breaches, terrorist attacks, industrial accidents, natural disasters or climate change;
- hazards associated with chemicals manufacturing;
- the inability to maintain current levels of product or premises liability insurance or the denial of such coverage;
- political unrest affecting the global economy, including adverse effects from terrorism or hostilities;
- political instability affecting our manufacturing operations or joint ventures;
- changes in accounting standards;
- the inability to achieve results from our global manufacturing cost reduction initiatives as well as our ongoing continuous improvement and rationalization programs;
- changes in the jurisdictional mix of our earnings and changes in tax laws and rates;



## Table of Contents

changes in monetary policies, inflation or interest rates that may impact our ability to raise capital or increase our cost of funds, impact the performance of our pension fund investments and increase our pension expense and funding obligations;

• volatility and uncertainties in the debt and equity markets;

• technology or intellectual property infringement, including cyber-security breaches, and other innovation risks;

• decisions we may make in the future;

• the ability to successfully execute, operate and integrate acquisitions and divestitures; and

• the other factors detailed from time to time in the reports we file with the SEC.

We assume no obligation to provide revisions to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws. The following discussion should be read together with our condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q.

The following is a discussion and analysis of results of operations for the three-month and six-month periods ended June 30, 2017 and 2016. A discussion of consolidated financial condition and sources of additional capital is included under a separate heading “Financial Condition and Liquidity” on page 40.

### Overview

We are a leading global developer, manufacturer and marketer of highly-engineered specialty chemicals that meet customer needs across an exceptionally diverse range of end markets. The end markets we serve include the petroleum refining, consumer electronics, energy storage, construction, automotive, lubricants, pharmaceuticals, crop protection, food safety and custom chemistry services. We believe that our commercial and geographic diversity, technical expertise, innovative capability, flexible, low-cost global manufacturing base, experienced management team and strategic focus on our core base technologies will enable us to maintain leading market positions in those areas of the specialty chemicals industry in which we operate.

Secular trends favorably impacting demand within the end markets that we serve combined with our diverse product portfolio, broad geographic presence and customer-focused solutions will continue to be key drivers to our future earnings growth. We continue to build upon our existing green solutions portfolio and our ongoing mission to provide innovative, yet commercially viable, clean energy products and services to the marketplace. We believe our disciplined cost reduction efforts and ongoing productivity improvements position us well to take advantage of strengthening economic conditions as they occur while softening the negative impact of the current challenging global economic environment.

### Second Quarter 2017

During the second quarter of 2017:

We completed our accelerated share repurchase (“ASR”) agreement, receiving and retiring a final settlement of 392,905 shares in June 2017. Under this agreement we received and retired a total of 2,341,083 shares during the six months ended June 30, 2017.

• Our board of directors declared a quarterly dividend of \$0.32 per share on May 11, 2017, which was paid on July 3, 2017 to shareholders of record at the close of business as of June 15, 2017.

• Our net sales for the quarter were \$737.3 million, up 10% from net sales of \$669.3 million in the second quarter of 2016. Net sales from our reportable segments for the quarter were \$706.0 million, an increase of 14% from net sales of \$618.2 million in the second quarter of 2016.

• Earnings per share were \$0.92 (on a diluted basis), an increase from second quarter 2016 results of \$0.74 per diluted share from continuing operations.

• Cash (used in) provided by operating activities was (\$137.0) million in the second quarter, a decrease from \$80.1 million in the second quarter 2016. Operating cash flows in the second quarter 2017 included the payment of federal and state taxes resulting from the sale of the Chemetall Surface Treatment business of approximately \$255 million.

### Outlook

The current global business environment presents a diverse set of opportunities and challenges in the markets we serve. In particular, the market for lithium battery and energy storage continues to accelerate, providing the

opportunity to continue to develop high quality and innovative products while managing the high cost of expanding capacity. The other markets we serve continue to present unique opportunities for value and growth as we have positioned ourselves to manage changing global conditions, such as slow and uneven global growth, currency exchange volatility, crude oil price fluctuation, a dynamic pricing environment and an ever-changing landscape in electronics, the continuous need for cutting edge catalysts and technology by our refinery customers and increasingly stringent environmental standards. Amidst these dynamics, we believe our business

## Table of Contents

fundamentals are sound and that we are strategically well-positioned as we remain focused on increasing sales volumes, optimizing and improving the value of our portfolio through pricing and product development, managing costs and delivering value to our customers and shareholders. We believe that our businesses remain positioned to capitalize on new business opportunities and long-term trends driving growth within our end markets and to respond quickly to improved economic conditions.

**Lithium and Advanced Materials:** We expect continued strong year over year growth for the remainder of 2017, led by strong underlying demand in battery-grade applications, increased lithium carbonate and hydroxide conversion capacity and price improvement in Lithium. PCS experienced weaker profitability in 2016 due to weakness in the curatives market and the bankruptcy filing of one of our customers which resulted in a \$10 million impact to Income from continuing operations before income taxes and adjusted EBITDA during the year. While we experienced further negative impacts from the bankruptcy filing in 2017, we expect PCS profitability to stabilize in 2017 due to productivity gains and increased volumes due to market demand, offset by unfavorable pricing due to excess supply. On a longer term basis, we believe that demand for lithium will continue to grow as new applications for lithium power continue to be developed and the adoption of plug-in hybrid electric vehicles and battery electric vehicles accelerates. In addition, we expect growth in PCS from growing global demand for plastics driven by rising standards of living and infrastructure spending, particularly in Asia and the Middle East.

**Bromine Specialties:** The Bromine Specialties performed well in the first half of 2017, with year over year adjusted EBITDA growth driven by strong fire safety and other derivative volume increases and productivity improvements. While encouraged by the first half of 2017 results, we are cautiously optimistic for the remainder of the year due to sustained low oil prices impacting our drilling fluids business and overall demand and supply economics in fire safety and other derivatives.

On a longer term basis, we continue to believe that improving global standards of living, widespread digitization, increasing demand for data management capacity and the potential for increasingly stringent fire safety regulations in developing markets are likely to drive continued demand for fire safety products. Absent an increase in regulatory pressure on offshore drilling, we would expect this business to follow a long-term growth trajectory once oil prices recover from recent levels as we expect that deep water drilling will continue to increase around the world. We are focused on profitably growing our globally competitive bromine and derivatives production network to serve all major bromine consuming products and markets. We believe the global supply/demand gap could tighten as demand for existing and possible new uses of bromine expands over time. The combination of solid, long-term business fundamentals, with our strong cost position, product innovations and effective management of raw material costs will enable us to manage our business through end market challenges and to capitalize on opportunities that are expected with favorable market trends in select end markets.

**Refining Solutions:** Following the downturn in 2015 (primarily caused by cash preservation measures from oil companies, triggered by oil price volatility), in 2016 we saw a significant increase in the number of “Hydro treating unit” catalyst change-outs and related catalyst demand. In addition to catalyst demand increase, we also saw a marked improvement in catalyst product mix year over year. Despite ongoing uncertainty of oil prices and the ensuing impact on crude slates used by refiners and resulting demand for catalysts, we expect sustained performance in our clean fuels technology business driven by refining change-outs and balanced product mix. We also expect solid performance from our Fluid Catalytic Cracking (“FCC”) division despite a number of scheduled maintenance shutdowns and plant turnarounds at refiners, which could dampen FCC demand in 2017. We also anticipate headwinds from rising input costs in 2017 following historically low prices in 2016.

On a longer term basis, we believe increased global demand for transportation fuels from a growing population and increasing mobility and the implementation of more stringent fuel quality requirements will drive growth in our Refining Solutions business. Delivering superior end-use performance continues to be the most effective way to create sustainable value in the refinery catalysts industry, and we believe our technologies continue to provide significant performance and financial benefits to refiners challenged to meet tighter regulations around the world, those managing new contaminants present in North America tight oil, and those in the Middle East and Asia seeking to use heavier feedstock while pushing for higher propylene yields. Longer term, we believe that the global crude supply will get heavier and more sour, a trend that bodes well for our catalysts portfolio. With superior technology and production



capacities, and expected growth in end market demand, we believe that Refining Solutions remains well-positioned for the future.

All Other: During the first quarter of 2016, we closed the previously announced sales of the metal sulfides business and the minerals-based flame retardants and specialty chemicals business. The cash generated from the sale of these businesses was used to reduce borrowings outstanding under the September 2015 Term Loan Agreement. In April 2016, we concluded that we would suspend efforts to sell the fine chemistry services business. This business will continue to be reported outside the Company's reportable segments. We expect the next few years to be a challenge for fine chemistry services due to a challenging agriculture industry environment, as well as customer order timing in pharmaceuticals.

Table of Contents

Corporate: We continue to focus on cash generation, working capital management and process efficiencies. We expect our global effective tax rate for 2017 to be approximately 18.3%; however, our rate will vary based on the locales in which income is actually earned and remains subject to potential volatility from changing legislation in the U.S. and other tax jurisdictions. We also anticipate the potential for increased periodic volatility in future effective tax rates from the continuing impact of the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-09, which was adopted in the first quarter of 2017.

In the first quarter of 2017, we increased our quarterly dividend rate to \$0.32 per share. During the six months ended June 30, 2017, we received and retired approximately 2.3 million shares of our common stock under our share repurchase program and the ASR agreement, and we may periodically repurchase shares in the future on an opportunistic basis as approved by our share repurchase program.

We remain committed to evaluating the merits of any opportunities that may arise for acquisitions or other business development activities that will complement our business footprint. Additional information regarding our products, markets and financial performance is provided at our website, [www.albemarle.com](http://www.albemarle.com). Our website is not a part of this document nor is it incorporated herein by reference.

Table of Contents

## Results of Operations

The following data and discussion provides an analysis of certain significant factors affecting our results of operations during the periods included in the accompanying consolidated statements of income (loss).

Second Quarter 2017 Compared to Second Quarter 2016

Selected Financial Data (Unaudited)

	Three Months Ended June 30,		Percentage Change	
	2017	2016	2017 vs. 2016	
	(In thousands, except percentages and per share amounts)			
NET SALES	\$ 737,258	\$ 669,327	10	%
Cost of goods sold	465,164	421,223	10	%
GROSS PROFIT	272,094	248,104	10	%
GROSS PROFIT MARGIN	36.9	% 37.1		%
Selling, general and administrative expenses	115,686	86,055	34	%
Research and development expenses	17,337	20,500	(15)	)%
Gain on sales of businesses	—	(974	)	(100) )%
Acquisition and integration related costs	—	19,030	(100)	)%
OPERATING PROFIT	139,071	123,493	13	%
OPERATING PROFIT MARGIN	18.9	% 18.5		%
Interest and financing expenses	(14,590	) (15,800	)	(8) )%
Other expenses, net	(2,710	) (2,297	)	18) %
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS	121,771	105,396	16	%
Income tax expense	23,130	23,656	(2)	)%
Effective tax rate	19.0	% 22.4		%
INCOME FROM CONTINUING OPERATIONS BEFORE EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS	98,641	81,740	21	%
Equity in net income of unconsolidated investments (net of tax)	15,048	13,846	9	%
NET INCOME FROM CONTINUING OPERATIONS	113,689	95,586	19	%
Loss from discontinued operations (net of tax)	—	(398,340	)	(100) )%
NET INCOME (LOSS)	113,689	(302,754	)	*
Net income attributable to noncontrolling interests	(10,356	) (12,067	)	(14) )%
NET INCOME (LOSS) ATTRIBUTABLE TO ALBEMARLE CORPORATION	\$ 103,333	\$ (314,821	)	*
NET INCOME FROM CONTINUING OPERATIONS AS A PERCENTAGE OF NET SALES	15.4	% 14.3		%
Basic earnings (loss) per share:				
Continuing operations	\$ 0.93	\$ 0.74	26	%
Discontinued operations	—	(3.54	)	(100) )%
	\$ 0.93	\$ (2.80	)	*
Diluted earnings (loss) per share:				
Continuing operations	\$ 0.92	\$ 0.74	24	%
Discontinued operations	—	(3.52	)	(100) )%
	\$ 0.92	\$ (2.78	)	*

\*Percentage calculation is not meaningful.



Table of Contents

## Net Sales

For the three-month period ended June 30, 2017, we recorded net sales of \$737.3 million, an increase of \$67.9 million, or 10%, compared to net sales of \$669.3 million for the three-month period ended June 30, 2016. Net sales increased due to \$48.7 million of higher volumes resulting from market demand and \$35.9 million of favorable price impacts, partially offset by \$3.8 million of unfavorable currency exchange impacts and \$12.9 million related to the divested minerals-based flame retardants and specialty chemicals business.

## Gross Profit

For the three-month period ended June 30, 2017, our gross profit increased \$24.0 million, or 10%, from the corresponding 2016 period. Included in Costs of goods sold for the three-month period ended June 30, 2017 are a \$11.9 million charge related to the markup of inventory purchased as part of the acquisition of the lithium hydroxide and lithium carbonate conversion business of Jiangxi Jiangli New Materials Science and Technology Co. Ltd. (“Jiangli New Materials”) and \$1.8 million of acquisition and integration related costs resulting from the Jiangli New Materials acquisition. In addition, gross profit decreased \$0.7 million related to the divested minerals-based flame retardants and specialty chemicals business. Excluding the impact of these items, gross profit increased by \$38.4 million, or 15%, due primarily to higher overall sales volumes and \$35.9 million in favorable price impacts. Overall, these factors contributed to a lower gross profit margin for the three-month period ended June 30, 2017 of 36.9%, down from 37.1% in the corresponding period in 2016. Excluding the impact of the charges noted above, gross profit margin was 38.8% for the three-month period ended June 30, 2017 as compared to 37.7% in the corresponding period in 2016.

## Selling, General and Administrative Expenses

For the three-month period ended June 30, 2017, our selling, general and administrative (“SG&A”) expenses increased \$29.6 million, or 34%, from the three-month period ended June 30, 2016. The three-month period ended June 30, 2017 includes \$4.7 million of acquisition and integration related costs, primarily resulting from the acquisition of Jiangli New Materials, \$4.2 million of restructuring costs related to several locations and \$2.0 million of multiemployer plan financial improvement plan shortfall contributions for our employees. Excluding the impact of these charges, SG&A increased \$18.7 million primarily due to increased compensation related costs, Lithium growth spending and professional fees. As a percentage of net sales, SG&A expenses were 15.7% for the three-month period ended June 30, 2017, compared to 12.9% for the corresponding period in 2016.

## Research and Development Expenses

For the three-month period ended June 30, 2017, our research and development (“R&D”) expenses decreased \$3.2 million, or 15%, from the three-month period ended June 30, 2016. As a percentage of net sales, R&D expenses were 2.4% and 3.1% for the three-month periods ended June 30, 2017 and 2016, respectively.

## Gain on Sales of Businesses

In the second quarter of 2016, we recorded an adjustment to the previously reported gain, before income taxes, of \$1.0 million related to the sale of the minerals-based flame retardants and specialty chemicals business that closed in 2016.

## Acquisition and Integration Related Costs

The three-month period ended June 30, 2016 included \$18.4 million of integration costs resulting from the acquisition of Rockwood Holdings, Inc. (mainly consisting of professional services, costs to achieve synergies, relocation costs, and other integration costs) and \$0.6 million of costs in connection with other significant projects. Acquisition and integration related costs for the three-month period ended June 30, 2017 are reported in Cost of goods sold and SG&A, as noted above.

## Interest and Financing Expenses

Interest and financing expenses for the three-month period ended June 30, 2017 decreased \$1.2 million to \$14.6 million from the corresponding 2016 period, due mainly to the repayment of the 3.00% Senior notes in full, €307.0 million of the 1.875% Senior notes and \$174.7 million of the 4.50% Senior notes in the first quarter of 2017.

## Other Expenses, Net

Other expenses, net, for the three-month period ended June 30, 2017 was \$2.7 million compared to \$2.3 million for the corresponding 2016 period. The change was primarily due to \$2.9 million of multiemployer plan financial improvement plan shortfall contributions to indemnify previously divested businesses, final settlement claims associated with the previous disposal of a business of \$2.0 million and the revision of tax indemnification expenses of

\$1.2 million primarily related to a competent authority agreement for a previously disposed business, partially offset by a decrease in foreign exchange losses of \$2.6 million and increased interest income.

30

---

Table of Contents

## Income Tax Expense

The effective income tax rate for the second quarter of 2017 was 19.0% compared to 22.4% for the second quarter of 2016. Our effective income tax rate differs from the U.S. Federal statutory income tax rates in the comparative periods primarily due to the impact of earnings from outside the U.S, and is mainly attributable to our share of the income of our Jordan Bromine Company Limited (“JBC”) joint venture, a Free Zones company under the laws of the Hashemite Kingdom of Jordan. The decrease in the effective tax rate for the three-month period ended June 30, 2017 compared to the same period last year, was driven by a variety of factors, primarily stemming from the \$7.6 million discrete tax expense in 2016 related to a change in the Company’s assertion over book and tax basis differences.

## Equity in Net Income of Unconsolidated Investments

Equity in net income of unconsolidated investments was \$15.0 million for the three-month period ended June 30, 2017 compared to \$13.8 million in the same period last year. This increase of \$1.2 million was primarily due to higher equity income reported by our Lithium and Advanced Materials segment joint venture Windfield Holdings Pty. Ltd. resulting from higher sales volumes.

## Loss from Discontinued Operations

The three-month period ended June 30, 2016 loss from discontinued operations, after income taxes, of \$398.3 million included a non-recurring, non-cash tax charge of \$416.7 million related to the change in the Company’s assertion over book and tax basis differences for certain entities included in the sale of the Chemetall Surface Treatment business.

## Net Income Attributable to Noncontrolling Interests

For the three-month period ended June 30, 2017, net income attributable to noncontrolling interests was \$10.4 million compared to \$12.1 million in the same period last year. This decrease of \$1.7 million was due primarily to a decrease in consolidated income related to our Jordanian joint venture from lower sales volumes in the quarter.

## Net Income (Loss) Attributable to Albemarle Corporation

Net income (loss) attributable to Albemarle Corporation increased to \$103.3 million in the three-month period ended June 30, 2017, from (\$314.8) million in the three-month period ended June 30, 2016. The three-month period ended June 30, 2016 included a non-recurring, non-cash tax charge of \$416.7 million related to the decision to sell the Chemetall Surface Treatment business. Excluding this charge, net income (loss) attributable to Albemarle increased by \$1.4 million. The increase is primarily due to the increase in gross profit from higher overall sales volumes and favorable price impacts and a lower effective tax rate, partially offset by an increase in selling, general and administrative expenses and income before taxes from discontinued operations in 2016.

## Other Comprehensive Income (Loss), Net of Tax

Total other comprehensive income (loss), after income taxes, was \$50.4 million for the three-month period ended June 30, 2017 compared to (\$43.6) million for the corresponding period in 2016. The majority of these amounts are the result of translating our foreign subsidiary financial statements from their local currencies to U.S. Dollars. In the 2017 period, other comprehensive income from foreign currency translation adjustments was \$64.1 million, mainly as a result of favorable movements in the European Union Euro of approximately \$67 million and the Chinese Renminbi of approximately \$4 million, partially offset by unfavorable movements in the Brazilian Real of approximately \$3 million and the Korean Won of approximately \$3 million. Also included in total other comprehensive income for the 2017 period is a loss of \$14.2 million in connection with the revaluation of our Euro-based 1.875% Senior notes which have been designated as a hedge of our net investment in foreign operations. In the 2016 period, other comprehensive loss from foreign currency translation adjustments was \$51.2 million, mainly as a result of unfavorable movements in the European Union Euro of approximately \$37 million and the British Pound Sterling of approximately \$15 million, partially offset by a favorable variance in the Brazilian Real of approximately \$9 million. Also included in total other comprehensive loss for the 2016 period is income of \$6.6 million in connection with the revaluation of our Euro-based 1.875% Senior notes which have been designated as a hedge of our net investment in foreign operations.

**Segment Information Overview.** We have identified three reportable segments according to the nature and economic characteristics of our products as well as the manner in which the information is used internally by the Company’s chief operating decision maker to evaluate performance and make resource allocation decisions. Our reportable

business segments consist of: (1) Lithium and Advanced Materials, (2) Bromine Specialties and (3) Refining Solutions.

Summarized financial information concerning our reportable segments is shown in the following tables. The “All Other” category includes only fine chemistry business, that does not fit into any of our core businesses.



Table of Contents

The Corporate category is not considered to be a segment and includes corporate-related items not allocated to the reportable segments. Pension and OPEB service cost (which represents the benefits earned by active employees during the period) and amortization of prior service cost or benefit are allocated to the segments, All Other, and Corporate, whereas the remaining components of pension and OPEB benefits cost or credit (“Non-operating pension and OPEB items”) are included in Corporate. Segment data includes intersegment transfers of raw materials at cost and allocations for certain corporate costs.

The Company’s chief operating decision maker uses earnings before interest, taxes, depreciation and amortization, as adjusted on a consistent basis for certain non-recurring or unusual items such as acquisition and integration related costs, utilization of inventory markup, gains or losses on sales of businesses, restructuring charges, facility divestiture charges, non-operating pension and OPEB items and other significant non-recurring items (“adjusted EBITDA”), in a balanced manner and on a segment basis to assess the ongoing performance of the Company’s business segments and to allocate resources. In addition, management uses adjusted EBITDA for business planning purposes and as a significant component in the calculation of performance-based compensation for management and other employees. The Company has reported adjusted EBITDA because management believes it provides transparency to investors and enables period-to-period comparability of financial performance. Adjusted EBITDA is a financial measure that is not required by, or presented in accordance with, U.S. GAAP. Adjusted EBITDA should not be considered as an alternative to Net income (loss) attributable to Albemarle Corporation, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP, or any other financial measure reported in accordance with U.S. GAAP.

	Three Months Ended June 30,				Percentage		
	2017	%	2016	%	Change 2017 vs. 2016		
	(In thousands, except percentages)						
Net sales:							
Lithium and Advanced Materials	\$317,859	43.1 %	\$233,353	34.9 %	36	%	
Bromine Specialties	203,945	27.7 %	206,863	30.9 %	(1)	)%	
Refining Solutions	184,217	25.0 %	178,012	26.6 %	3	%	
All Other	30,704	4.2 %	50,626	7.6 %	(39)	)%	
Corporate	533	— %	473	— %	13	%	
Total net sales	\$737,258	100.0 %	\$669,327	100.0 %	10	%	
Adjusted EBITDA:							
Lithium and Advanced Materials	\$132,549	60.5 %	\$82,668	43.4 %	60	%	
Bromine Specialties	62,075	28.4 %	66,562	34.9 %	(7)	)%	
Refining Solutions	50,078	22.9 %	61,586	32.3 %	(19)	)%	
All Other	2,444	1.1 %	876	0.5 %	179	%	
Corporate	(28,205 )	(12.9)%	(21,221 )	(11.1)%	33	%	
Total adjusted EBITDA	\$218,941	100.0 %	\$190,471	100.0 %	15	%	

Table of Contents

See below for a reconciliation of adjusted EBITDA, the non-GAAP financial measure, from Net income (loss) attributable to Albemarle Corporation, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP, (in thousands):

	Lithium and Advanced Materials	Bromine Specialties	Refining Solutions	Reportable Segments Total	All Other	Corporate	Consolidated Total
Three months ended June 30, 2017							
Net income (loss) attributable to Albemarle Corporation	\$ 95,350	\$ 51,739	\$ 40,463	\$ 187,552	\$ 152	\$(84,371 )	\$ 103,333
Depreciation and amortization	25,278	10,336	9,615	45,229	2,292	1,601	49,122
Utilization of inventory markup <sup>(a)</sup>	11,921	—	—	11,921	—	—	11,921
Restructuring and other <sup>(b)</sup>	—	—	—	—	—	4,235	4,235
Acquisition and integration related costs <sup>(c)</sup>	—	—	—	—	—	6,479	6,479
Interest and financing expenses	—	—	—	—	—	14,590	14,590
Income tax expense	—	—	—	—	—	23,130	23,130
Non-operating pension and OPEB items	—	—	—	—	—	(1,053 )	(1,053 )
Multiemployer plan shortfall contributions <sup>(d)</sup>	—	—	—	—	—	4,940	4,940
Other <sup>(e)</sup>	—	—	—	—	—	2,244	2,244
Adjusted EBITDA	\$ 132,549	\$ 62,075	\$ 50,078	\$ 244,702	\$ 2,444	\$(28,205 )	\$ 218,941
Three months ended June 30, 2016							
Net income (loss) attributable to Albemarle Corporation	\$ 56,880	\$ 56,747	\$ 52,472	\$ 166,099	\$(1,503 )	\$(479,417 )	\$(314,821 )
Depreciation and amortization	25,788	9,815	9,114	44,717	3,353	1,635	49,705
Gain on sales of businesses <sup>(f)</sup>	—	—	—	—	(974 )	—	(974 )
Acquisition and integration related costs <sup>(g)</sup>	—	—	—	—	—	19,030	19,030
Interest and financing expenses	—	—	—	—	—	15,800	15,800
Income tax expense	—	—	—	—	—	23,656	23,656
Loss from discontinued operations (net of tax)	—	—	—	—	—	398,340	398,340
Non-operating pension and OPEB items	—	—	—	—	—	(265 )	(265 )
Adjusted EBITDA	\$ 82,668	\$ 66,562	\$ 61,586	\$ 210,816	\$ 876	\$(21,221 )	\$ 190,471

In connection with the acquisition of Jiangli New Materials, the Company valued inventory purchased from Jiangli New Materials at fair value, which resulted in a markup of the underlying net book value of the inventory totaling (a) approximately \$23.0 million. The inventory markup is being expensed over the estimated remaining selling period. For the three-month period ended June 30, 2017, \$11.9 million was included in Cost of goods sold related to the utilization of the inventory markup.

(b) During 2017, we initiated actions to reduce costs at several locations. Based on these restructuring plans, we have recorded expenses of \$4.2 million in Selling, general and administrative expenses in the three-month period ended June 30, 2017, related to restructuring costs. The unpaid balance is recorded in Accrued expenses at June 30, 2017, with the expectation that the majority of these plan will be completed by the end of 2017.

(c) Acquisition and integration related costs of \$1.8 million and \$4.7 million were included in Cost of goods sold and Selling, general and administrative expenses, respectively, for the three-month period ended June 30, 2017, related

to various significant projects, including the Jiangli New Materials acquisition, which contains unusual compensation related costs negotiated specifically as a result of this acquisition that are outside of the Company's normal compensation arrangements.

(d) Included in Selling, general and administrative expenses is \$2.0 million for additional capital reserve contributions to a multiemployer plan, which is subject to a financial improvement plan. In addition, additional capital reserve contributions for this multiemployer plan of \$2.9 million, included in Other expenses, net, have been made to indemnify previously divested businesses.

(e) Included amounts recorded in (1) Selling, general and administrative expenses related to a reversal of an accrual recorded as part of purchase accounting from a previous acquisition of \$1.0 million; and (2) Other expenses, net related to final settlement claims associated with the previous disposal of a business of \$2.0 million and the revision of tax indemnification expenses of \$1.2 million primarily related to a competent authority agreement for a previously disposed business.

(f) See "Gain on Sales of Businesses" on page 30 for a description of these items.

(g) See "Acquisition and Integration Related Costs" on page 30 for a description of these items.

#### Lithium and Advanced Materials

Lithium and Advanced Materials segment net sales for the three-month period ended June 30, 2017 were \$317.9 million, up \$84.5 million, or 36%, in comparison to the same period in 2016. The increase was primarily driven by \$39.2 million of favorable Lithium sales volumes, largely from battery grade applications, due to market demand and \$48.7 million of favorable

Table of Contents

Lithium price impacts due primarily to price increases in our battery grade lithium carbonate and hydroxide applications. This is partially offset by \$1.6 million of unfavorable PCS volumes and price impacts primarily due to weakness in the organometallics product family and the bankruptcy filing of one of our customers, as well as \$1.8 million of unfavorable currency translation impacts. Adjusted EBITDA for Lithium and Advanced Materials was up 60%, or \$49.9 million, to \$132.5 million for the three-month period ended June 30, 2017, compared to the same period in 2016, primarily due to higher overall sales volumes and favorable pricing, partially offset by \$1.7 million of unfavorable currency translation impacts.

**Bromine Specialties**

Bromine Specialties segment net sales for the three-month period ended June 30, 2017 were \$203.9 million, down \$2.9 million, or 1%, in comparison to the same period in 2016. The decrease was driven mainly by \$2.1 million of unfavorable pricing impacts and \$0.6 million of unfavorable currency translation impacts. Adjusted EBITDA for Bromine Specialties was down 7%, or \$4.5 million, to \$62.1 million for the three-month period ended June 30, 2017, compared to the same period in 2016, primarily due to lower volume and pricing, unfavorable product mix and higher variable and fixed costs.

**Refining Solutions**

Refining Solutions segment net sales for the three-month period ended June 30, 2017 were \$184.2 million, an increase of \$6.2 million, or 3%, compared to the three-month period ended June 30, 2016. This increase was primarily due to \$10.9 million of higher volumes from market conditions, partially offset by \$3.3 million unfavorable price impacts due to customer and product mix and \$1.4 million of unfavorable currency exchange impacts. Refining Solutions adjusted EBITDA decreased 19%, or \$11.5 million, to \$50.1 million for the three-month period ended June 30, 2017 in comparison to the corresponding period of 2016. This decrease was primarily due to unfavorable mix impacts and higher costs.

**All Other**

All Other net sales for the three-month period ended June 30, 2017 were \$30.7 million, a decrease of \$19.9 million, or 39%, compared to the three-month period ended June 30, 2016. This decrease was primarily due to the impact of the sale of the minerals-based flame retardants and specialty chemicals business of \$12.9 million, as well as unfavorable fine chemistry services pricing impacts due to a contract formula change which did not impact earnings and lower sales volumes from fine chemistry services. All Other adjusted EBITDA was up 179%, or \$1.6 million, for the three-month period ended June 30, 2017 in comparison to the corresponding period of 2016. Excluding the impact of the sale of the minerals-based flame retardants and specialty chemicals business of \$0.6 million, All Other adjusted EBITDA increased by \$2.2 million due to lower variable and fixed costs for fine chemistry services.

**Corporate**

Corporate adjusted EBITDA was a loss of \$28.2 million for the three-month period ended June 30, 2017, compared to a loss of \$21.2 million for the corresponding period of 2016. The change was primarily due to increased compensation costs and professional fees, partially offset by \$2.5 million of favorable currency exchange impacts.

Table of ContentsSix Months 2017 Compared to Six Months 2016  
Selected Financial Data (Unaudited)

	Six Months Ended June 30,		Percentage Change	
	2017	2016	2017 vs. 2016	
	(In thousands, except percentages and per share amounts)			
NET SALES	\$1,459,321	\$1,326,538	10	%
Cost of goods sold	932,139	835,900	12	%
GROSS PROFIT	527,182	490,638	7	%
GROSS PROFIT MARGIN	36.1	% 37.0		%
Selling, general and administrative expenses	223,687	168,686	33	%
Research and development expenses	41,660	40,372	3	%
Gain on sales of businesses, net	—	(122,298)	(100)	)%
Acquisition and integration related costs	—	37,588	(100)	)%
OPERATING PROFIT	261,835	366,290	(29)	)%
OPERATING PROFIT MARGIN	17.9	% 27.6		%
Interest and financing expenses	(83,103)	(30,914)	169	%
Other expenses, net	(3,504)	(2,250)	56	%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS	175,228	333,126	(47)	)%
Income tax expense	35,101	49,141	(29)	)%
Effective tax rate	20.0	% 14.8		%
INCOME FROM CONTINUING OPERATIONS BEFORE EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS	140,127	283,985	(51)	)%
Equity in net income of unconsolidated investments (net of tax)	36,219	29,837	21	%
NET INCOME FROM CONTINUING OPERATIONS	176,346	313,822	(44)	)%
Loss from discontinued operations (net of tax)	—	(381,028)	(100)	)%
NET INCOME (LOSS)	176,346	(67,206)	*	
Net income attributable to noncontrolling interests	(21,800)	(19,429)	12	%
NET INCOME (LOSS) ATTRIBUTABLE TO ALBEMARLE CORPORATION	\$154,546	\$(86,635)	*	
NET INCOME FROM CONTINUING OPERATIONS AS A PERCENTAGE OF NET SALES	12.1	% 23.7		%
Basic earnings (loss) per share:				
Continuing operations	\$1.39	\$2.62	(47)	)%
Discontinued operations	—	(3.39)	(100)	)%
	\$1.39	\$(0.77)	*	
Diluted earnings (loss) per share:				
Continuing operations	\$1.37	\$2.61	(48)	)%
Discontinued operations	—	(3.38)	(100)	)%
	\$1.37	\$(0.77)	*	

\*Percentage calculation is not meaningful.

## Net Sales

For the six-month period ended June 30, 2017, we recorded net sales of \$1.46 billion, an increase of \$132.8 million, or 10%, compared to net sales of \$1.33 billion for the six-month period ended June 30, 2016. Net sales increased due to \$134.7 million of higher volumes resulting from market demand and \$44.7 million of favorable price impacts,

partially offset by \$7.6 million of unfavorable currency exchange impacts and \$39.0 million related to the divested minerals-based flame retardants and specialty chemicals business.

Table of Contents**Gross Profit**

For the six-month period ended June 30, 2017, our gross profit increased \$36.5 million, or 7%, from the corresponding 2016 period. Included in Costs of goods sold for the six-month period ended June 30, 2017 are: (1) a \$22.5 million charge related to the markup of inventory purchased as part of the acquisition of the lithium hydroxide and lithium carbonate conversion business of Jiangli New Materials; (2) \$10.7 million of acquisition and integration related costs resulting from the Jiangli New Materials acquisition; and (3) restructuring costs of \$2.9 million related to a plan to reduce costs at several locations. In addition, gross profit decreased \$2.3 million related to the divested minerals-based flame retardants and specialty chemicals business. Excluding the impact of these items, gross profit increased by \$74.9 million, or 15%, due primarily to higher overall sales volumes and \$44.7 million in favorable price impacts. Overall, these factors contributed to a lower gross profit margin for the six-month period ended June 30, 2017 of 36.1%, down from 37.0% in the corresponding period in 2016. Excluding the impact of the charges noted above, gross profit margin was 38.6% for the six-month period ended June 30, 2017 as compared to 37.9% in the corresponding period in 2016.

**Selling, General and Administrative Expenses**

For the six-month period ended June 30, 2017, our SG&A expenses increased \$55.0 million, or 33%, from the six-month period ended June 30, 2016. The six-month period ended June 30, 2017 includes \$10.1 million of acquisition and integration related costs, primarily resulting from the acquisition of Jiangli New Materials, \$8.4 million of restructuring costs related to several locations, primarily our Lithium sites in Germany and \$2.0 million of multiemployer plan financial improvement plan shortfall contributions for our employees. Excluding the impact of these charges, SG&A increased \$34.5 million primarily due to increased compensation related costs, Lithium growth spending and professional fees. As a percentage of net sales, SG&A expenses were 15.3% for the six-month period ended June 30, 2017, compared to 12.7% for the corresponding period in 2016.

**Research and Development**

For the six-month period ended June 30, 2017, our R&D expenses increased \$1.3 million, or 3%, from the six-month period ended June 30, 2016. Included in R&D expenses for the six-month period ended June 30, 2017 are \$5.8 million of restructuring costs related to our Lithium sites in Germany. As a percentage of net sales, R&D expenses were 2.9% and 3.0% for the six-month periods ended June 30, 2017 and 2016, respectively.

**Gain on Sales of Businesses, Net**

The six-month period ended June 30, 2016 includes gains before income taxes of \$11.5 million and \$112.3 million related to the sale of the metal sulfides business and the minerals-based flame retardants and specialty chemicals business, respectively, which closed in the first quarter of 2016. In addition, Gain on sales of businesses, net, for the six-month period ended June 30, 2016 includes a loss of \$1.5 million on the sale of our wafer reclaim business.

**Acquisition and Integration Related Costs**

The six-month period ended June 30, 2016 included \$36.1 million of integration costs resulting from the acquisition of Rockwood Holdings, Inc. (mainly consisting of professional services, costs to achieve synergies, relocation costs, and other integration costs) and \$1.5 million of costs in connection with other significant projects. Acquisition and integration related costs for the six-month period ended June 30, 2017 are reported in Cost of goods sold and SG&A, as noted above.

**Interest and Financing Expenses**

Interest and financing expenses for the six-month period ended June 30, 2017 increased \$52.2 million to \$83.1 million from the corresponding 2016 period, due mainly to a loss on early extinguishment of debt of \$52.8 million related to the tender premiums, fees, unamortized discounts and unamortized deferred financings costs from the repayment of the 3.00% Senior notes in full, €307.0 million of the 1.875% Senior notes and \$174.7 million of the 4.50% Senior notes.

**Other Expenses, Net**

Other expenses, net, for the six-month period ended June 30, 2017 was \$3.5 million compared to \$2.3 million for the corresponding 2016 period. The change was primarily due to \$3.2 million of asset retirement obligation charges related to the revision of an estimate at a site formerly owned by Albemarle, \$2.9 million of multiemployer plan financial improvement plan shortfall contributions to indemnify previously divested businesses, an increase in foreign

exchange losses of \$2.2 million, a loss of \$2.1 million associated with the previous disposal of a business, final settlement claims associated with the previous disposal of a business of \$2.0 million and the revision of tax indemnification expenses of \$1.2 million primarily related to a competent authority agreement for a previously disposed business, partially offset by a \$7.4 million gain related to the acquisition of the remaining 50% interest of an equity investment in 2017 and increased interest income.



Table of Contents

## Income Tax Expense

The effective income tax rate for the first six months of 2017 was 20.0% compared to 14.8% for the first six months of 2016. Our effective income tax rate differs from the U.S. Federal statutory income tax rates in the comparative periods primarily due to the impact of earnings from outside the U.S, and is mainly attributable to our share of the income of our Jordan Bromine Company Limited (“JBC”) joint venture, a Free Zones company under the laws of the Hashemite Kingdom of Jordan. In addition, Income tax expense for the six-month period ended June 30, 2017 included foreign rate changes of \$13.1 million and a \$5.1 million out-of-period adjustment due to changes in our deferred tax liabilities for basis differences in Chilean fixed assets, partially offset by a \$9.8 million benefit from the release of valuation allowances due to a foreign restructuring plan that was initiated during the quarter and a \$4.7 million benefit from excess tax benefits realized from stock-based compensation arrangements. Our effective tax rate for the six-month period ended June 30, 2016 was driven down by a variety of factors, primarily low tax gains from the sale of the metal sulfides business and the minerals-based flame retardant and specialty chemicals business, as well as a favorable mix of earnings in lower tax jurisdictions.

## Equity in Net Income of Unconsolidated Investments

Equity in net income of unconsolidated investments was \$36.2 million for the six-month period ended June 30, 2017 compared to \$29.8 million in the same period last year. This increase of \$6.4 million was primarily due to higher equity income reported by our Lithium and Advanced Materials segment joint venture Windfield Holdings Pty. Ltd. resulting from higher sales volumes.

## Loss from Discontinued Operations

The six-month period ended June 30, 2016 loss from discontinued operations, after income taxes, of \$381.0 million included a non-recurring, non-cash tax charge of \$416.7 million related to the change in the Company’s assertion over book and tax basis differences for certain entities included in the sale of the Chemetall Surface Treatment business, partially offset by higher earnings and lower interest expense.

## Net Income Attributable to Noncontrolling Interests

For the six-month period ended June 30, 2017, net income attributable to noncontrolling interests was \$21.8 million compared to \$19.4 million in the same period last year. This increase of \$2.4 million was due primarily to an increase in consolidated income related to our Jordanian joint venture from higher sales volumes.

## Net Income (Loss) Attributable to Albemarle Corporation

Net income (loss) attributable to Albemarle Corporation increased to \$154.5 million in the six-month period ended June 30, 2017, from (\$86.6) million in the six-month period ended June 30, 2016. The six-month period ended June 30, 2016 included a non-recurring, non-cash tax charge of \$416.7 million related to the decision to sell the Chemetall Surface Treatment business and a \$122.3 million gain on sales of businesses, while the six-month period ended June 30, 2017 included a \$52.8 million loss on early extinguishment of debt and \$17.1 million of restructuring and other costs. Excluding these items, net income (loss) attributable to Albemarle increased by \$16.6 million. The increase is primarily due to the increase in gross profit from higher overall sales volumes and favorable price impacts, and lower acquisition and integration related costs, partially offset by an increase in selling, general and administrative expenses and income before taxes from discontinued operations in 2016.

## Other Comprehensive Income, Net of Tax

Total other comprehensive income, after income taxes, was \$116.3 million for the six-month period ended June 30, 2017 compared to \$46.3 million for the corresponding period in 2016. The majority of these amounts are the result of translating our foreign subsidiary financial statements from their local currencies to U.S. Dollars. In the 2017 period, other comprehensive income from foreign currency translation adjustments was \$143.1 million, mainly as a result of favorable movements in the European Union Euro of approximately \$124 million, the Korean Won of approximately \$8 million, the Chinese Renminbi of approximately \$5 million and a net favorable variance in various other currencies totaling approximately \$6 million (each approximately \$3 million or less). Also included in total other comprehensive income for the 2017 period is a loss of \$27.9 million in connection with the revaluation of our Euro-based 1.875% Senior notes which have been designated as a hedge of our net investment in foreign operations. In the 2016 period, other comprehensive income from foreign currency translation adjustments was \$47.7 million, mainly as a result of favorable movements in the European Union Euro of approximately \$47 million and the Brazilian Real of

approximately \$8 million, partially offset by an unfavorable variance in the British Pound Sterling of approximately \$6 million. Also included in total other comprehensive income for the 2016 period is a loss of \$2.9 million in connection with the revaluation of our Euro-based 1.875% Senior notes which have been designated as a hedge of our net investment in foreign operations.

Table of Contents

Segment Information Overview. Summarized financial information concerning our reportable segments is shown in the following tables. The “All Other” category comprises operating segments that did not fit into any of our core businesses. During the first quarter of 2016, we completed the sales of the metal sulfides business and the minerals-based flame retardants and specialty chemicals businesses. For additional information about these businesses, see Note 3, “Divestitures.” Following the sales of these businesses, the “All Other” category includes only the fine chemistry services business.

	Six Months Ended June 30,				Percentage Change	
	2017	%	2016	%	2017 vs. 2016	
	(In thousands, except percentages)					
Net sales:						
Lithium and Advanced Materials	\$602,234	41.3 %	\$449,526	33.9 %	34	%
Bromine Specialties	423,136	29.0 %	403,416	30.4 %	5	%
Refining Solutions	369,629	25.3 %	348,591	26.3 %	6	%
All Other	63,123	4.3 %	122,715	9.3 %	(49)	%
Corporate	1,199	0.1 %	2,290	0.1 %	(48)	%
Total net sales	\$1,459,321	100.0 %	\$1,326,538	100.0 %	10	%
Adjusted EBITDA:						
Lithium and Advanced Materials	\$252,571	58.7 %	\$169,142	44.3 %	49	%
Bromine Specialties	130,563	30.3 %	128,170	33.5 %	2	%
Refining Solutions	99,657	23.2 %	116,660	30.5 %	(15)	%
All Other	7,600	1.8 %	9,340	2.4 %	(19)	%
Corporate	(60,074)	(14.0)%	(40,808)	(10.7)%	47	%
Total adjusted EBITDA	\$430,317	100.0 %	\$382,504	100.0 %	13	%

Table of Contents

See below for a reconciliation of adjusted EBITDA, the non-GAAP financial measure, from Net income (loss) attributable to Albemarle Corporation, the most directly comparable financial measure calculated and reported in accordance with U.S. GAAP, (in thousands):

	Lithium and Advanced Materials	Bromine Specialties	Refining Solutions	Reportable Segments Total	All Other	Corporate	Consolidated Total
Six months ended June 30, 2017							
Net income (loss) attributable to Albemarle Corporation	\$ 189,456	\$ 110,433	\$ 80,937	\$ 380,826	\$ 3,398	\$(229,678)	\$ 154,546
Depreciation and amortization	48,021	20,130	18,720	86,871	4,202	3,119	94,192
Utilization of inventory markup <sup>(a)</sup>	22,527	—	—	22,527	—	—	22,527
Restructuring and other <sup>(b)</sup>	—	—	—	—	—	17,141	17,141
Gain on acquisition <sup>(c)</sup>	(7,433 )	—	—	(7,433 )	—	—	(7,433 )
Acquisition and integration related costs <sup>(d)</sup>	—	—	—	—	—	20,760	20,760
Interest and financing expenses <sup>(e)</sup>	—	—	—	—	—	83,103	83,103
Income tax expense	—	—	—	—	—	35,101	35,101
Non-operating pension and OPEB items	—	—	—	—	—	(2,116 )	(2,116 )
Multiemployer plan shortfall contributions <sup>(f)</sup>	—	—	—	—	—	4,940	4,940
Other <sup>(g)</sup>	—	—	—	—	—	7,556	7,556
Adjusted EBITDA	\$ 252,571	\$ 130,563	\$ 99,657	\$ 482,791	\$ 7,600	\$(60,074 )	\$ 430,317
Six months ended June 30, 2016							
Net income (loss) attributable to Albemarle Corporation	\$ 120,207	\$ 108,600	\$ 98,786	\$ 327,593	\$ 129,206	\$(543,434)	\$( 86,635 )
Depreciation and amortization	48,935	19,570	17,874	86,379	3,965	2,970	93,314
(Gain) loss on sales of businesses, net <sup>(h)</sup>	—	—	—	—	(123,831 )	1,533	(122,298 )
Acquisition and integration related costs <sup>(i)</sup>	—	—	—	—	—	37,588	37,588
Interest and financing expenses	—	—	—	—	—	30,914	30,914
Income tax expense	—	—	—	—	—	49,141	49,141
Loss from discontinued operations (net of tax)	—	—	—	—	—	381,028	381,028
Non-operating pension and OPEB items	—	—	—	—	—	(548 )	(548 )
Adjusted EBITDA	\$ 169,142	\$ 128,170	\$ 116,660	\$ 413,972	\$ 9,340	\$(40,808 )	\$ 382,504

In connection with the acquisition of Jiangli New Materials, the Company valued inventory purchased from Jiangli New Materials at fair value, which resulted in a markup of the underlying net book value of the inventory totaling (a) approximately \$23.0 million. The inventory markup is being expensed over the estimated remaining selling period. For the six-month period ended June 30, 2017, \$22.5 million was included in Cost of goods sold related to the utilization of the inventory markup.

During 2017, we initiated action to reduce costs in each of our reportable segments at several locations, primarily at our Lithium sites in Germany. Based on the restructuring plans, we have recorded expenses of \$2.9 million in (b) Cost of goods sold, \$8.4 million in Selling, general and administrative expenses and \$5.8 million in Research and development expenses, primarily related to restructuring costs. The unpaid balance is recorded in Accrued expenses at June 30, 2017, with the expectation that the majority of this plan will be completed by the end of 2017.

- (c) Gain recorded in Other expenses, net related to the acquisition of the remaining 50% interest in Salmag. See Item 1 Financial Statements - Note 2, "Acquisitions," for additional information.

Acquisition and integration related costs of \$10.7 million and \$10.1 million were included in Cost of goods sold and Selling, general and administrative expenses, respectively, for the six-month period ended June 30, 2017

- (d) primarily resulting from the Jiangli New Materials acquisition, including unusual compensation related costs negotiated specifically as a result of this acquisition that are outside the Company's normal compensation arrangements.

- (e) Included in Interest and financing expenses is a loss of early extinguishment of debt of \$52.8 million. See Item 1 Financial Statements - Note 10, "Long-term Debt," for additional information.

Included in Selling, general and administrative expenses is \$2.0 million for additional capital reserve contributions to a multiemployer plan, which is subject to a financial improvement plan. In addition, additional capital reserve

- (f) contributions for this multiemployer plan of \$2.9 million, included in Other expenses, net, have been made to indemnify previously divested businesses.

Included amounts recorded in (1) Selling, general and administrative expenses related to a reversal of an accrual recorded as part of purchase accounting from a previous acquisition of \$1.0 million; and (2) Other expenses, net

- (g) related to final settlement claims associated with the previous disposal of a business of \$2.0 million, the revision of tax indemnification expenses of \$1.2 million primarily related to a competent authority agreement for a previously disposed business, asset retirement obligation charges related to the revision of an

## Table of Contents

estimate at a site formerly owned by Albemarle of \$3.2 million and a loss associated with the previous disposal of a business of \$2.1 million.

(h) See “Gain on Sales of Businesses, Net” on page 36 for a description of these items.

(i) See “Acquisition and Integration Related Costs” on page 36 for a description of these items.

### Lithium and Advanced Materials

Lithium and Advanced Materials segment net sales for the six-month period ended June 30, 2017 were \$602.2 million, up \$152.7 million, or 34%, in comparison to the same period in 2016. The increase was primarily driven by \$92.2 million of favorable Lithium sales volumes, largely from battery grade applications, due to market demand and \$77.8 million of favorable Lithium price impacts due primarily to price increases in our battery grade lithium carbonate and hydroxide applications. This is partially offset by \$13.3 million of unfavorable PCS volumes and price impacts primarily due to weakness in the organometallics product family and the bankruptcy filing of one of our customers. Adjusted EBITDA for Lithium and Advanced Materials was up 49%, or \$83.4 million, to \$252.6 million for the six-month period ended June 30, 2017, compared to the same period in 2016, primarily due to higher overall sales volumes and favorable pricing, partially offset by \$3.3 million of unfavorable currency translation impacts.

### Bromine Specialties

Bromine Specialties segment net sales for the six-month period ended June 30, 2017 were \$423.1 million, up \$19.7 million, or 5%, in comparison to the same period in 2016. The increase was driven mainly by \$26.0 million of higher sales volumes due to market demand, partially offset by \$5.6 million of unfavorable pricing and \$0.7 million of unfavorable currency translation impacts. Adjusted EBITDA for Bromine Specialties was up 2%, or \$2.4 million, to \$130.6 million for the six-month period ended June 30, 2017, compared to the same period in 2016, primarily due to higher overall sales volumes, partially offset by unfavorable pricing and higher variable and fixed costs.

### Refining Solutions

Refining Solutions segment net sales for the six-month period ended June 30, 2017 were \$369.6 million, an increase of \$21.0 million, or 6%, compared to the six-month period ended June 30, 2016. This increase was primarily due to \$31.0 million of higher volumes from market conditions, partially offset by \$7.0 million unfavorable price impacts due to customer and product mix and \$2.9 million of unfavorable currency exchange impacts. Refining Solutions adjusted EBITDA decreased 15%, or \$17.0 million, to \$99.7 million for the six-month period ended June 30, 2017 in comparison to the corresponding period of 2016. This decrease was primarily due to unfavorable mix impacts and higher costs, partially offset by \$1.1 million of favorable currency translation impacts.

### All Other

All Other net sales for the six-month period ended June 30, 2017 were \$63.1 million, a decrease of \$59.6 million, or 49%, compared to the six-month period ended June 30, 2016. This decrease was primarily due to the impact of the sale of the minerals-based flame retardants and specialty chemicals business of \$39.0 million, as well as the unfavorable fine chemistry services pricing impacts due to a contract formula change which did not impact earnings and lower sales volumes for fine chemistry services. All Other adjusted EBITDA was down 19%, or \$1.7 million, for the six-month period ended June 30, 2017 in comparison to the corresponding period of 2016. Excluding the impact of the sale of the minerals-based flame retardants and specialty chemicals business of \$2.7 million, All Other adjusted EBITDA increased by \$1.0 million due to lower variable and fixed costs for fine chemistry services.

### Corporate

Corporate adjusted EBITDA was a loss of \$60.1 million for the six-month period ended June 30, 2017, compared to a loss of \$40.8 million for the corresponding period of 2016. The change was primarily due to increased compensation costs, professional fees and \$2.2 million of unfavorable currency impacts.

### Financial Condition and Liquidity

Overview

The principal uses of cash in our business generally have been capital investments, funding working capital, acquisitions and repayment of debt. We also make contributions to our defined benefit pension plans, pay dividends to our shareholders and

40

---

## Table of Contents

repurchase shares of our common stock. Historically, cash to fund the needs of our business has been principally provided by cash from operations, debt financing and equity issuances.

We are continually focused on working capital efficiency particularly in the areas of accounts receivable and inventory. We anticipate that cash on hand, cash provided by operating activities and long-term borrowings will be sufficient to pay our operating expenses, satisfy debt service obligations, fund capital expenditures and other investing activities, fund pension contributions and pay dividends for the foreseeable future.

### Cash Flow

During the first six months of 2017, cash on hand, cash provided by operations and net borrowings of \$58.9 million funded \$751.2 million of debt repayments, a \$250.0 million accelerated share repurchase program, \$97.8 million of capital expenditures for plant, machinery and equipment, and dividends to shareholders of \$69.8 million. Our operations used \$54.5 million of cash flows during the first six months of 2017, as compared to providing an inflow of \$252.8 million for the first six months of 2016. Our cash from operations in 2017 included an outflow from working capital changes of \$353.1 million, primarily due to the payment of federal and state taxes during the second quarter of 2017, approximately \$255 million of which resulted from the sale of the Chemetall Surface Treatment business in 2016. Overall, our cash and cash equivalents decreased by approximately \$1.26 billion to \$1.01 billion at June 30, 2017, down from \$2.27 billion at December 31, 2016.

During the six-month period ended June 30, 2017, using a portion of the proceeds from the sale of the Chemetall Surface Treatment business, we repaid the 3.00% Senior notes in full, €307.0 million of the 1.875% Senior notes and \$174.7 million of the 4.50% Senior notes, as well as related tender premiums of \$45.2 million.

Under our existing Board authorized share repurchase program, the Company entered into an ASR agreement with a financial institution on March 1, 2017. Under the ASR agreement, in March 2017, the Company paid \$250 million from available cash on hand and received and retired an initial delivery of 1,948,178 shares of our common stock. Under the terms of the ASR agreement, on June 16, 2017, the transaction was completed and we received a final settlement of 392,905 shares, calculated based on the daily Rule 10b-18 volume-weighted average prices of the Company's common stock over the term of the ASR agreement, less an agreed discount. In total we received and retired 2,341,083 shares under this agreement, which reduced the Company's weighted average shares outstanding for purposes of calculating basic and diluted earnings per share for the three-month and six-month periods ended June 30, 2017. As of June 30, 2017, there were 12,658,917 remaining shares available for repurchase under the Company's authorized share repurchase program.

Capital expenditures for the six-month period ended June 30, 2017 of \$97.8 million, were associated with property, plant and equipment additions. We expect our capital expenditures to approximate \$325 to \$375 million in 2017 for Lithium growth and capacity increases, productivity and continuity of operations projects. Of the total capital expenditures, our projects related to the continuity of operations is expected to remain in the range of 4-6% of net sales, similar to prior years.

Net current assets were \$1.22 billion and \$2.17 billion at June 30, 2017 and December 31, 2016, respectively, with the decrease being largely due to the reduction in cash used to repay a portion of the senior notes and to fund the accelerated share repurchase program during first quarter of 2017. Other changes in the components of net current assets are due to the timing of the sale of goods and other normal transactions leading up to the balance sheet dates and are not the result of any policy changes by the Company, and do not reflect any change in either the quality of our net current assets or our expectation of success in converting net working capital to cash in the normal course of business.

On February 23, 2017, we increased our quarterly dividend rate to \$0.32 per share, a 5% increase from the quarterly rate of \$0.305 per share paid in 2016.

At June 30, 2017 and December 31, 2016, our cash and cash equivalents included \$951.9 million and \$846.4 million, respectively, held by our foreign subsidiaries. The majority of these foreign cash balances are associated with earnings that we have asserted are indefinitely reinvested and which we plan to use to support our continued growth plans outside the U.S. through funding of capital expenditures, acquisitions, research, operating expenses or other similar cash needs of our foreign operations. From time to time, we repatriate cash associated with earnings from our foreign subsidiaries to the U.S. for normal operating needs through intercompany dividends, but only from subsidiaries whose



earnings we have not asserted to be indefinitely reinvested or whose earnings qualify as “previously taxed income” as defined by the Internal Revenue Code. During both the first six months of 2017 and 2016, we repatriated approximately \$5.3 million of cash as part of these foreign earnings cash repatriation activities.

While we continue to closely monitor our cash generation, working capital management and capital spending in light of continuing uncertainties in the global economy, we believe that we will continue to have the financial flexibility and capability to opportunistically fund future growth initiatives. Additionally, we anticipate that future capital spending including business

Table of Contents

acquisitions, share repurchases and other cash outlays should be financed primarily with cash flow provided by operations and cash on hand, with additional cash needed, if any, provided by borrowings. The amount and timing of any additional borrowings will depend on our specific cash requirements.

## Long-Term Debt

We currently have the following senior notes outstanding:

Issue Month/Year	Principal (in millions)	Interest Rate	Interest Payment Dates	Maturity Date
December 2014	€393.0	1.875%	December 8	December 8, 2021
November 2014	\$425.0	4.15%	June 1 December 1	December 1, 2024
November 2014	\$350.0	5.45%	June 1 December 1	December 1, 2044
December 2010	\$175.3	4.50%	June 15 December 15	December 15, 2020

Our senior notes are senior unsecured obligations and rank equally with all our other senior unsecured indebtedness from time to time outstanding. The senior notes are effectively subordinated to any of our existing or future secured indebtedness and to the existing and future indebtedness of our subsidiaries. As is customary for such long-term debt instruments, each senior note outstanding has terms that allow us to redeem the notes before its maturity, in whole at any time or in part from time to time, at a redemption price equal to the greater of (i) 100% of the principal amount of the senior notes to be redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis using the comparable government rate (as defined in the indentures governing the senior notes) plus between 25 and 40 basis points, depending on the note, plus, in each case, accrued interest thereon to the date of redemption. Holders may require us to purchase such notes at 101% upon a change of control triggering event, as defined in the indentures. The senior notes are subject to typical events of default, including bankruptcy and insolvency events, nonpayment and the acceleration of certain subsidiary indebtedness of \$40 million or more caused by a nonpayment default.

Our revolving, unsecured credit agreement dated as of February 7, 2014, as amended, (the “February 2014 Credit Agreement”) currently provides for borrowings of up to \$1.0 billion and matures on February 7, 2020. Borrowings bear interest at variable rates based on the LIBOR for deposits in the relevant currency plus an applicable margin which ranges from 1.000% to 1.700%, depending on the Company’s credit rating from Standard & Poor’s Ratings Services, Moody’s Investors Services and Fitch Ratings. The applicable margin on the facility was 1.300% as of June 30, 2017. There were no borrowings outstanding under the February 2014 Credit Agreement as of June 30, 2017.

Borrowings under the February 2014 Credit Agreement are conditioned upon compliance with the following covenants: (a) consolidated funded debt, as defined in the agreement, must be less than or equal to 3.50 times consolidated EBITDA, as defined in the agreement, which reflects adjustments for certain non-recurring or unusual items such as restructuring charges, facility divestiture charges and other significant non-recurring items (herein “consolidated adjusted EBITDA” or “adjusted EBITDA”) as of the end of any fiscal quarter; (b) with the exception of certain liens as specified in the agreement, liens may not attach to assets when the aggregate amount of all indebtedness secured by such liens plus unsecured subsidiary indebtedness, other than indebtedness incurred by our subsidiaries under the February 2014 Credit Agreement, would exceed 20% of consolidated net worth, as defined in the agreement; and (c) with the exception of certain indebtedness as specified in the agreement, subsidiary indebtedness may not exceed the difference between 20% of consolidated net worth, as defined in the agreement, and indebtedness secured by liens permitted under the agreement.

On May 29, 2013, we entered into agreements to initiate a commercial paper program on a private placement basis under which we may issue unsecured commercial paper notes (the “Commercial Paper Notes”) from time-to-time up to a maximum aggregate principal amount outstanding at any time of \$750.0 million. The proceeds from the issuance of the Commercial Paper Notes are expected to be used for general corporate purposes, including the repayment of other debt of the Company. Our February 2014 Credit Agreement is available to repay the Commercial Paper Notes, if necessary. Aggregate borrowings outstanding under the February 2014 Credit Agreement and the Commercial Paper Notes will not exceed the \$1.0 billion current maximum amount available under the February 2014 Credit Agreement. The Commercial Paper Notes will be sold at a discount from par, or alternatively, will be sold at par and bear interest

at rates that will vary based upon market conditions at the time of issuance. The maturities of the Commercial Paper Notes will vary but may not exceed 397 days from the date of issue. The definitive documents relating to the commercial paper program contain customary representations, warranties, default and indemnification provisions. At June 30, 2017, we had \$307.0 million of Commercial Paper Notes outstanding bearing a weighted-average interest rate of approximately 1.71% and a weighted-average maturity of 28 days. The Commercial Paper Notes are classified as Current portion of long-term debt in our condensed consolidated balance sheets at June 30, 2017 and December 31, 2016.

## Table of Contents

The non-current portion of our long-term debt amounted to \$1.42 billion at June 30, 2017, compared to \$2.12 billion at December 31, 2016. In addition, at June 30, 2017, we had the ability to borrow \$693.0 million under our commercial paper program and the February 2014 Credit Agreement, and \$222.5 million under other existing lines of credit, subject to various financial covenants under our February 2014 Credit Agreement. We have the ability and intent to refinance our borrowings under our other existing credit lines with borrowings under the February 2014 Credit Agreement, as applicable. Therefore, the amounts outstanding under those credit lines, if any, are classified as long-term debt. We believe that as of June 30, 2017, we were, and currently are, in compliance with all of our debt covenants.

### Off-Balance Sheet Arrangements

In the normal course of business with customers, vendors and others, we have entered into off-balance sheet arrangements, including bank guarantees and letters of credit, which totaled approximately \$56.8 million at June 30, 2017. None of these off-balance sheet arrangements has, or is likely to have, a material effect on our current or future financial condition, results of operations, liquidity or capital resources.

### Other Obligations

Total expected 2017 contributions to our domestic and foreign qualified and nonqualified pension plans, including our SERP, should approximate \$10 million. We may choose to make additional pension contributions in excess of this amount. We have made contributions of \$5.1 million to our domestic and foreign pension plans (both qualified and nonqualified) during the six-month period ended June 30, 2017.

The liability related to uncertain tax positions, including interest and penalties, recorded in Other noncurrent liabilities totaled \$24.3 million at June 30, 2017 and \$27.9 million at December 31, 2016. Related assets for corresponding offsetting benefits recorded in Other assets totaled \$13.8 million at June 30, 2017 and \$15.1 million at December 31, 2016. We cannot estimate the amounts of any cash payments associated with these liabilities for the remainder of 2017 or the next twelve months, and we are unable to estimate the timing of any such cash payments in the future at this time.

We are subject to federal, state, local and foreign requirements regulating the handling, manufacture and use of materials (some of which may be classified as hazardous or toxic by one or more regulatory agencies), the discharge of materials into the environment and the protection of the environment. To our knowledge, we are currently complying and expect to continue to comply in all material respects with applicable environmental laws, regulations, statutes and ordinances. Compliance with existing federal, state, local and foreign environmental protection laws is not expected to have a material effect on capital expenditures, earnings or our competitive position, but the costs associated with increased legal or regulatory requirements could have an adverse effect on our results.

Among other environmental requirements, we are subject to the federal Superfund law, and similar state laws, under which we may be designated as a potentially responsible party (“PRP”) and may be liable for a share of the costs associated with cleaning up various hazardous waste sites. Management believes that in cases in which we may have liability as a PRP, our liability for our share of cleanup is de minimis. Further, almost all such sites represent environmental issues that are quite mature and have been investigated, studied and in many cases settled. In de minimis situations, our policy generally is to negotiate a consent decree and to pay any apportioned settlement, enabling us to be effectively relieved of any further liability as a PRP, except for remote contingencies. In other than de minimis PRP matters, our records indicate that unresolved PRP exposures should be immaterial. We accrue and expense our proportionate share of PRP costs. Because management has been actively involved in evaluating environmental matters, we are able to conclude that the outstanding environmental liabilities for unresolved PRP sites should not have a material adverse effect upon our results of operations or financial condition.

### Liquidity Outlook

We anticipate that cash on hand, cash provided by operating activities and borrowings will be sufficient to pay our operating expenses, satisfy debt service obligations, fund any capital expenditures and share repurchases, make pension contributions and pay dividends for the foreseeable future. Our main focus over the next three years, in terms of uses of cash, will be investing in growth of the businesses and the return of value to shareholders. Additionally, we will continue to evaluate the merits of any opportunities that may arise for acquisitions of businesses or assets, which may require additional liquidity.

Our cash flows from operations may be negatively affected by adverse consequences to our customers and the markets in which we compete as a result of moderating global economic conditions and reduced capital availability. While we maintain business relationships with a diverse group of financial institutions, an adverse change in their credit standing could lead them to not honor their contractual credit commitments, decline funding under existing but uncommitted lines of credit, not renew their extensions of credit or not provide new financing. While the global corporate bond and bank loan markets remain strong, periods of elevated uncertainty related to global economic and/or geopolitical concerns may limit

## Table of Contents

efficient access to such markets for extended periods of time. If such concerns heighten, we may incur increased borrowing costs and reduced credit capacity as our various credit facilities mature. When the U.S. Federal Reserve or similar national reserve banks in other countries decide to tighten the monetary supply in response, for example, to improving economic conditions, we may incur increased borrowing costs as interest rates increase on our variable rate credit facilities, as our various credit facilities mature or as we refinance any maturing fixed rate debt obligations. Overall, with generally strong cash-generative businesses and no significant long-term debt maturities before 2020, we believe we have and will maintain a solid liquidity position.

We had cash and cash equivalents totaling \$1.01 billion as of June 30, 2017, of which \$951.9 million is held by our foreign subsidiaries. This cash represents an important source of our liquidity and is invested in short-term investments including time deposits and readily marketable securities with relatively short maturities. The cash held by our foreign subsidiaries is intended for use outside of the U.S. We anticipate that any needs for liquidity within the U.S. in excess of our cash held in the U.S. can be readily satisfied with borrowings under our existing U.S. credit facilities or our commercial paper program.

### Recent Accounting Pronouncements

For a description of recent accounting pronouncements, see Item 1 Financial Statements – Note 18, “Recently Issued Accounting Pronouncements.”

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes in our interest rate risk, foreign currency exchange rate exposure, marketable securities price risk or raw material price risk from the information we provided in our Annual Report on Form 10-K for the year ended December 31, 2016.

We had variable interest rate borrowings of \$345.7 million outstanding at June 30, 2017, bearing a weighted average interest rate of 1.67% and representing approximately 20% of our total outstanding debt. A hypothetical 10% change (approximately 17 basis points) in the interest rate applicable to these borrowings would change our annualized interest expense by approximately \$0.6 million as of June 30, 2017. We may enter into interest rate swaps, collars or similar instruments with the objective of reducing interest rate volatility relating to our borrowing costs.

Our financial instruments which are subject to foreign currency exchange risk consist of foreign currency forward contracts with an aggregate notional value of \$298.8 million and with a fair value representing a net asset position of \$0.4 million at June 30, 2017. Fluctuations in the value of these contracts are generally offset by the value of the underlying exposures being hedged. We conducted a sensitivity analysis on the fair value of our foreign currency hedge portfolio assuming an instantaneous 10% change in select foreign currency exchange rates from their levels as of June 30, 2017, with all other variables held constant. A 10% appreciation of the U.S. Dollar against foreign currencies that we hedge would result in an increase of approximately \$1.7 million in the fair value of our foreign currency forward contracts. A 10% depreciation of the U.S. Dollar against these foreign currencies would result in a decrease of approximately \$4.3 million in the fair value of our foreign currency forward contracts. The sensitivity of the fair value of our foreign currency hedge portfolio represents changes in fair values estimated based on market conditions as of June 30, 2017, without reflecting the effects of underlying anticipated transactions. When those anticipated transactions are realized, actual effects of changing foreign currency exchange rates could have a material impact on our earnings and cash flows in future periods.

### Item 4. Controls and Procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

No change in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the second quarter ended June 30, 2017 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings.

We are involved from time to time in legal proceedings of types regarded as common in our business, including administrative or judicial proceedings seeking remediation under environmental laws, such as Superfund, products liability, breach of contract liability and premises liability litigation. Where appropriate, we may establish financial reserves for such proceedings. We also maintain insurance to mitigate certain of such risks. Additional information with respect to this Item 1 is contained in Note 11 to the Notes to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

## Item 1A. Risk Factors.

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. The risk factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our results of operations and our financial condition. We do not believe that there have been any material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table summarizes our repurchases of equity securities for the three-month period ended June 30, 2017:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs <sup>(a)</sup>	Maximum Number of Shares that May Yet Be Repurchased Under the Plans or Programs
April 1, 2017 to April 30, 2017	—	\$—	—	13,051,822
May 1, 2017 to May 31, 2017	—	—	—	13,051,822
June 1, 2017 to June 30, 2017 <sup>(b)</sup>	392,905	106.79	392,905	12,658,917
Total	392,905	\$106.79	392,905	12,658,917

Our stock repurchase plan, which was authorized by our Board of Directors, became effective on October 25, 2000 and included ten million shares. Since then, the Company has regularly repurchased shares under the stock repurchase plan, resulting in the Board of Directors periodically authorizing additional shares for repurchase under the plan. On November 3, 2016, our Board of Directors authorized another increase in the number of shares, <sup>(a)</sup> pursuant to which the Company is now permitted to repurchase up to a maximum of fifteen million shares under the plan, including those shares previously authorized, but not yet repurchased. The stock repurchase plan will expire when we have repurchased all shares authorized for repurchase thereunder, unless the stock repurchase plan is earlier terminated by action of our Board of Directors or further shares are authorized for repurchase.

In the first quarter of 2017, we paid \$250 million under an ASR Agreement, receiving and retiring an initial delivery of 1,948,178 shares. Under the terms of the agreement, in June 2017 the ASR agreement was completed <sup>(b)</sup> and we received and retired a final settlement of 392,905 shares. The Average Price Paid Per Share was calculated using the daily Rule 10b-18 volume-weighted average prices of our common stock over the term of the ASR agreement, less an agreed discount. See Item 1 Financial Statements - Note 7, "Earnings Per Share," to the condensed consolidated financial statements included in this report.



Table of Contents

Item 6. Exhibits.

(a) Exhibits

3.1 Amended and Restated Articles of Incorporation of Albemarle Corporation [filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (No. 1-2658) filed on May 12, 2017, and incorporated herein by reference].

3.2 Amended and Restated Bylaws, effective May 12, 2017, of Albemarle Corporation [filed as Exhibit 3.2 to the Company's Current Report on Form 8-K (No. 1-2658) filed on May 12, 2017, and incorporated herein by reference].

10.1 Albemarle Corporation Compensation Recoupment and Forfeiture Policy effective July 10, 2017

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).

32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.

32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350.

101 Interactive Data File (Quarterly Report on Form 10-Q, for the quarterly period ended June 30, 2017, furnished in XBRL (eXtensible Business Reporting Language)).

Attached as Exhibit 101 to this report are the following documents formatted in XBRL: (i) the Consolidated Statements of Income (Loss) for the three and six months ended June 30, 2017 and 2016, (ii) the Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2017 and 2016, (iii) the Condensed Consolidated Balance Sheets at June 30, 2017 and December 31, 2016, (iv) the Consolidated Statements of Changes in Equity for the six months ended June 30, 2017 and 2016, (v) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 and (vi) the Notes to the Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALBEMARLE CORPORATION  
(Registrant)

Date: August 7, 2017 By: /S/ SCOTT A. TOZIER  
Scott A. Tozier  
Executive Vice President and Chief Financial Officer  
(principal financial officer)

47