

ALBEMARLE CORP  
Form 10-Q  
November 07, 2018  
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 September 30, 2018

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 October 31, 2018: 106,205,885



Table of ContentsALBEMARLE CORPORATION  
INDEX – FORM 10-Q

	Page Number(s)	
<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	
	<u>Consolidated Statements of Income - Three Months and Nine Months Ended September 30, 2018 and 2017</u>	<u>3</u>
	<u>Consolidated Statements of Comprehensive Income - Three Months and Nine Months Ended September 30, 2018 and 2017</u>	<u>4</u>
	<u>Condensed Consolidated Balance Sheets - September 30, 2018 and December 31, 2017</u>	<u>5</u>
	<u>Consolidated Statements of Changes in Equity - Nine Months Ended September 30, 2018 and 2017</u>	<u>6</u>
	<u>Condensed Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2018 and 2017</u>	<u>7</u>
	<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>8-27</u>
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27-45</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>45</u>
<u>PART II.</u>	<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>46</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>46</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>46</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>47</u>
	<u>SIGNATURES</u>	<u>48</u>
	<u>EXHIBITS</u>	

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited).

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net sales	\$777,748	\$754,866	\$2,453,251	\$2,214,187
Cost of goods sold	497,211	479,210	1,556,379	1,411,614
Gross profit	280,537	275,656	896,872	802,573
Selling, general and administrative expenses	100,167	106,471	325,174	331,984
Research and development expenses	16,610	21,763	53,670	63,423
Gain on sale of business	—	—	(218,705)	—
Operating profit	163,760	147,422	736,733	407,166
Interest and financing expenses	(12,988)	(15,792)	(39,834)	(98,895)
Other income (expenses), net	3,793	(1,986)	(31,906)	(3,399)
Income before income taxes and equity in net income of unconsolidated investments	154,565	129,644	664,993	304,872
Income tax expense	33,167	18,495	133,630	53,596
Income before equity in net income of unconsolidated investments	121,398	111,149	531,363	251,276
Equity in net income of unconsolidated investments (net of tax)	22,081	19,044	61,727	55,263
Net income	143,479	130,193	593,090	306,539
Net income attributable to noncontrolling interests	(13,734)	(11,523)	(29,124)	(33,323)
Net income attributable to Albemarle Corporation	\$129,745	\$118,670	\$563,966	\$273,216
Basic earnings per share	\$1.21	\$1.07	\$5.16	\$2.46
Diluted earnings per share	\$1.20	\$1.06	\$5.11	\$2.43
Weighted-average common shares outstanding – basic	107,315	110,476	109,223	111,049
Weighted-average common shares outstanding – diluted	108,302	111,975	110,276	112,456
Cash dividends declared per share of common stock	\$0.335	\$0.32	\$1.005	\$0.96

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of ContentsCORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income	\$143,479	\$130,193	\$593,090	\$306,539
Other comprehensive (loss) income, net of tax:				
Foreign currency translation	(9,549 )	56,179	(95,515 )	199,303
Pension and postretirement benefits	11	(7 )	37	2
Net investment hedge	(3,621 )	(9,681 )	4,947	(37,600 )
Interest rate swap	642	529	1,926	1,587
Total other comprehensive (loss) income, net of tax	(12,517 )	47,020	(88,605 )	163,292
Comprehensive income	130,962	177,213	504,485	469,831
Comprehensive income attributable to noncontrolling interests	(13,729 )	(11,653 )	(29,042 )	(34,146 )
Comprehensive income attributable to Albemarle Corporation	\$117,233	\$165,560	\$475,443	\$435,685

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In Thousands)  
 (Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$641,226	\$1,137,303
Trade accounts receivable, less allowance for doubtful accounts (2018 – \$6,300; 2017 – \$10,425)	550,788	534,326
Other accounts receivable	41,961	37,937
Inventories	727,381	592,781
Other current assets	98,221	136,064
Assets held for sale	—	39,152
Total current assets	2,059,577	2,477,563
Property, plant and equipment, at cost	4,571,779	4,124,335
Less accumulated depreciation and amortization	1,746,414	1,631,025
Net property, plant and equipment	2,825,365	2,493,310
Investments	535,292	534,064
Noncurrent assets held for sale	—	139,813
Other assets	78,054	74,164
Goodwill	1,590,906	1,610,355
Other intangibles, net of amortization	398,001	421,503
Total assets	\$7,487,195	\$7,750,772
Liabilities And Equity		
Current liabilities:		
Accounts payable	\$474,229	\$418,537
Accrued expenses	258,371	268,336
Current portion of long-term debt	286,188	422,012
Dividends payable	35,462	35,165
Liabilities held for sale	—	1,938
Income taxes payable	72,759	54,937
Total current liabilities	1,127,009	1,200,925
Long-term debt	1,411,605	1,415,360
Postretirement benefits	51,669	52,003
Pension benefits	278,682	294,611
Noncurrent liabilities held for sale	—	614
Other noncurrent liabilities	553,469	599,174
Deferred income taxes	378,484	370,389
Commitments and contingencies (Note 9)		
Equity:		
Albemarle Corporation shareholders' equity:		
Common stock, \$.01 par value, issued and outstanding – 106,187 in 2018 and 110,547 in 2017	1,062	1,105
Additional paid-in capital	1,363,262	1,863,949
Accumulated other comprehensive loss	(314,191)	(225,668)
Retained earnings	2,478,711	2,035,163

Edgar Filing: ALBEMARLE CORP - Form 10-Q

Total Albemarle Corporation shareholders' equity	3,528,844	3,674,549
Noncontrolling interests	157,433	143,147
Total equity	3,686,277	3,817,696
Total liabilities and equity	\$7,487,195	\$7,750,772

See accompanying Notes to the Condensed Consolidated Financial Statements.

5

---

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, 2018	110,546,674	\$ 1,105	\$ 1,863,949	\$(225,668)	\$ 2,035,163	\$ 3,674,549	\$ 143,147	\$ 3,817,696
Net income				563,966	563,966	29,124	593,090	
Other comprehensive loss				(88,523 )	(88,523 )	(82 )	(88,605 )	
Cash dividends declared				(109,219 )	(109,219 )	(14,756 )	(123,975 )	
Cumulative adjustment from adoption of income tax standard update (Note 17)				(11,199 )	(11,199 )		(11,199 )	
Stock-based compensation and other			14,015		14,015		14,015	
Exercise of stock options	71,649	1	2,301		2,302		2,302	
Shares repurchased	(4,665,618 )	(47 )	(499,953 )		(500,000 )		(500,000 )	
Issuance of common stock, net	378,006	4	(4 )		—		—	
Shares withheld for withholding taxes associated with common stock issuances	(144,208 )	(1 )	(17,046 )		(17,047 )		(17,047 )	
Balance at September 30, 2018	106,186,503	\$ 1,062	\$ 1,363,262	\$(314,191)	\$ 2,478,711	\$ 3,528,844	\$ 157,433	\$ 3,686,277
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				273,216	273,216	33,323	306,539	
Other comprehensive				162,469	162,469	823	163,292	



Edgar Filing: ALBEMARLE CORP - Form 10-Q

income									
Cash dividends declared				(106,243 )	(106,243 )	(27,791 )	(134,034 )		
Stock-based compensation and other			12,477		12,477		12,477		
Exercise of stock options	159,432	2	7,009		7,011		7,011		
Shares repurchased	(2,341,083 )	(23 )	(249,977 )		(250,000 )		(250,000 )		
Issuance of common stock, net	241,755	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	(89,057 )	(1 )	(8,316 )		(8,317 )		(8,317 )		
Balance at September 30, 2017	110,494,837	\$1,105	\$1,858,753	\$(249,943)	\$2,288,904	\$3,898,819	\$140,753	\$4,039,572	

See accompanying Notes to the Condensed Consolidated Financial Statements.

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

(In Thousands)

(Unaudited)

	Nine Months Ended	
	September 30,	
	2018	2017
Cash and cash equivalents at beginning of year	\$1,137,303	\$2,269,756
Cash flows from operating activities:		
Net income	593,090	306,539
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	150,511	144,087
Gain on acquisition	—	(6,025 )
Gain on sale of business	(218,705 )	—
Stock-based compensation	11,785	15,595
Equity in net income of unconsolidated investments (net of tax)	(61,727 )	(55,263 )
Dividends received from unconsolidated investments and nonmarketable securities	32,794	11,900
Pension and postretirement (benefit) expense	(2,708 )	67
Pension and postretirement contributions	(11,068 )	(9,607 )
Unrealized gain on investments in marketable securities	(1,615 )	(2,007 )
Loss on early extinguishment of debt	—	52,801
Deferred income taxes	43,400	4,677
Working capital changes	(131,813 )	(398,913 )
Other, net	(27,003 )	10,993
Net cash provided by operating activities	376,941	74,844
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(11,403 )	(45,406 )
Capital expenditures	(471,675 )	(187,519 )
Cash proceeds from divestitures, net	413,479	6,857
(Investments in) sales of marketable securities, net	(761 )	450
Repayments from joint ventures	—	1,250
Investments in equity and other corporate investments	(5,346 )	—
Net cash used in investing activities	(75,706 )	(224,368 )
Cash flows from financing activities:		
Repayments of long-term debt	—	(753,209 )
Proceeds from borrowings of long-term debt	—	27,000
Other (repayments) borrowings, net	(134,505 )	79,203
Fees related to early extinguishment of debt	—	(46,959 )
Dividends paid to shareholders	(108,922 )	(105,205 )
Dividends paid to noncontrolling interests	(14,756 )	(27,791 )
Repurchases of common stock	(500,000 )	(250,000 )
Proceeds from exercise of stock options	2,302	7,011
Withholding taxes paid on stock-based compensation award distributions	(17,047 )	(8,317 )
Net cash used in financing activities	(772,928 )	(1,078,267 )
Net effect of foreign exchange on cash and cash equivalents	(24,384 )	3,374
Decrease in cash and cash equivalents	(496,077 )	(1,224,417 )
Cash and cash equivalents at end of period	\$641,226	\$1,045,339

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 September 30, 2018 and December 31, 2017, our consolidated statements of income and consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2018 and 2017 and our consolidated statements of changes in equity and condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2018 and 2017. All 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, 2017, which was filed with the Securities and Exchange Commission (“SEC”) on February 28, 2018. The December 31, 2017 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 nine-month periods ended September 30, 2018 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.

Effective January 1, 2018, we adopted Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers” and all related amendments using the modified retrospective method. There was no material impact to our results of operations or financial position upon adoption, and no adjustment was made to Retained earnings in our consolidated balance sheets because such adjustment was determined to be immaterial. In addition, new presentation requirements, including separate disclosure of net sales from sources other than customers on our consolidated statements of income and separate disclosures of contract assets or liabilities on our consolidated balance sheets, generally did not have a material impact. However, business circumstances, including the nature of customer contracts, can change and as such, we are expanding processes and controls to recognize such changes, and as necessary, consider whether any of these currently immaterial items might differ in the future. See Note 17, “Recently Issued Accounting Pronouncements,” for additional information.

Included in Trade accounts receivable at September 30, 2018 is approximately \$538.4 million arising from contracts with customers. The remaining balance of Trade accounts receivable at September 30, 2018 primarily includes value-added taxes collected from customers on behalf of various taxing authorities. In addition, see below for a description of our updated revenue recognition accounting policy.

Revenue Recognition

Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services, and is recognized when performance obligations are satisfied under the terms of contracts with our customers. A performance obligation is deemed to be satisfied when control of the product or service is transferred to our customer. The transaction price of a contract, or the amount we expect to receive upon satisfaction of all performance obligations, is determined by reference to the contract’s terms and includes adjustments, if applicable, for any variable consideration, such as customer rebates, noncash consideration or consideration payable to the customer, although these adjustments are generally not material. Where a contract contains more than one distinct performance obligation, the transaction price is allocated to each performance obligation based on the standalone selling price of each performance obligation, although these situations do not occur frequently and are generally not built into our contracts. Any unsatisfied performance obligations are not material. Standalone selling prices are based on prices we charge to our customers, which in some cases is based on established market prices. Sales and other similar taxes collected from customers on behalf of third parties are excluded from revenue. Our payment terms are generally between 30 to 90 days, however, they vary by market factors, such as customer size, creditworthiness, geography and

competitive environment.

All of our revenue is derived from contracts with customers, and almost all of our contracts with customers contain one performance obligation for the transfer of goods where such performance obligation is satisfied at a point in time. Control of a product is deemed to be transferred to the customer upon shipment or delivery. Significant portions of our sales are sold free on board shipping point or on an equivalent basis, while delivery terms of other transactions are based upon specific contractual arrangements. Our standard terms of delivery are generally included in our contracts of sale, order confirmation documents and invoices, while the timing between shipment and delivery generally ranges between 1 and 45 days. Costs for shipping and handling activities, whether performed before or after the customer obtains control of the goods, are accounted for as fulfillment costs.

8

---

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

The Company currently utilizes the following practical expedients, as permitted by Accounting Standards Codification (“ASC”) 606, Revenue from Contracts with Customers:

• All sales and other pass-through taxes are excluded from contract value;

• In utilizing the modified retrospective transition method, no adjustment would be necessary for contracts that do not cross over a reporting year;

• We will not consider the possibility of a contract having a significant financing component (which would effectively attribute a portion of the sales price to interest income) unless, if at contract inception, the expected payment terms (from time of delivery or other relevant criterion) are more than one year;

• If our right to customer payment is directly related to the value of our completed performance, we recognize revenue consistent with the invoicing right; and

• We expense as incurred all costs of obtaining a contract incremental to any costs/compensation attributable to individual product sales/shipments for contracts where the amortization period for such costs would otherwise be one year or less.

Certain products we produce are made to our customer’s specifications where such products have no alternative use or would need significant rework costs in order to be sold to another customer. In management’s judgment, control of these arrangements is transferred to the customer at a point in time (upon shipment or delivery) and not over the time they are produced. Therefore revenue is recognized upon shipment or delivery of these products.

Costs incurred to obtain contracts with customers are not significant and are expensed immediately as the amortization period would be one year or less. When the Company incurs pre-production or other fulfillment costs in connection with an existing or specific anticipated contract and such costs are recoverable through margin or explicitly reimbursable, such costs are capitalized and amortized to Cost of goods sold on a systematic basis that is consistent with the pattern of transfer to the customer of the goods or services to which the asset relates, which is less than one year. We record bad debt expense in specific situations when we determine the customer is unable to meet its financial obligation.

NOTE 2—Divestitures:

On December 14, 2017, the Company signed a definitive agreement to sell the polyolefin catalysts and components portion of its Performance Catalyst Solutions (“PCS”) business (“Polyolefin Catalysts Divestiture”) to W.R. Grace & Co., with the sale closing on April 3, 2018. We received net cash proceeds of approximately \$413.5 million and have recorded a gain of \$218.7 million before income taxes during the nine months ended September 30, 2018 related to the sale of this business. The transaction includes Albemarle’s Product Development Center located in Baton Rouge, Louisiana, and operations at its Yeosu, South Korea site. The sale does not include the Company’s organometallics or curatives portion of its PCS business. The Polyolefin Catalysts Divestiture reflects the Company’s commitment to investing in the future growth of its high priority businesses and returning capital to shareholders.

In the fourth quarter of 2017, we determined that the assets held for sale criteria in accordance with ASC 360, Property, Plant and Equipment, were met for this business. As such, the assets and liabilities of this business were included in Assets held for sale and Liabilities held for sale, respectively, in the consolidated balance sheet as of December 31, 2017.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

The carrying amounts of the major classes of assets and liabilities that were classified as held for sale at December 31, 2017, are as follows (in thousands):

	December 31, 2017
Assets	
Current assets	\$39,152
Net, property, plant and equipment	121,759
Goodwill	14,422
Other intangibles, net of amortization	3,632
Assets held for sale	\$178,965
Liabilities	
Current liabilities	\$1,938
Noncurrent liabilities	614
Liabilities held for sale	\$2,552

The results of operations of the business classified as held for sale is included in the consolidated statements of income. This business did not qualify for discontinued operations treatment because the Company's management does not consider the sale as representing a strategic shift that had or will have a major effect on the Company's operations and financial results.

In addition, during the nine months ended September 30, 2017, we received the final working capital settlement of \$6.9 million related to the sale of the Chemetall Surface Treatment business to BASF SE, which closed on December 14, 2016.

## NOTE 3—Goodwill and Other Intangibles:

The following table summarizes the changes in goodwill by reportable segment for the nine months ended September 30, 2018 (in thousands):

	Lithium	Bromine Specialties	Catalysts	All Other	Total
Balance at December 31, 2017 <sup>(a)(b)</sup>	\$1,389,089	\$20,319	\$194,361	\$6,586	\$1,610,355
Foreign currency translation adjustments and other	(15,766)	—	(3,683)	—	(19,449)
Balance at September 30, 2018	\$1,373,323	\$20,319	\$190,678	\$6,586	\$1,590,906

(a) The December 31, 2017 balances have been recast to reflect a change in segments. See Note 10, "Segment Information," for additional information.

(b) As of December 31, 2017, \$14.4 million of Goodwill was classified as Assets held for sale in the condensed consolidated balance sheets. See Note 2, "Divestitures," for additional information.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

The following table summarizes the changes in other intangibles and related accumulated amortization for the nine months ended September 30, 2018 (in thousands):

	Customer Lists and Relationships	Trade Names and Trademarks <sup>(a)</sup>	Patents and Technology	Other	Total
Gross Asset Value					
Balance at December 31, 2017	\$ 439,312	\$ 18,981	\$ 61,618	\$ 37,256	\$ 557,167
Foreign currency translation adjustments and other	(4,653 )	(284 )	(5,335 )	6,579	(3,693 )
Balance at September 30, 2018	\$ 434,659	\$ 18,697	\$ 56,283	\$ 43,835	\$ 553,474
Accumulated Amortization					
Balance at December 31, 2017	\$ (74,704 )	\$ (8,295 )	\$ (35,203 )	\$ (17,462 )	\$ (135,664 )
Amortization	(17,682 )	—	(1,100 )	(2,464 )	(21,246 )
Foreign currency translation adjustments and other	1,003	41	919	(526 )	1,437
Balance at September 30, 2018	\$ (91,383 )	\$ (8,254 )	\$ (35,384 )	\$ (20,452 )	\$ (155,473 )
Net Book Value at December 31, 2017 <sup>(b)</sup>	\$ 364,608	\$ 10,686	\$ 26,415	\$ 19,794	\$ 421,503
Net Book Value at September 30, 2018	\$ 343,276	\$ 10,443	\$ 20,899	\$ 23,383	\$ 398,001

(a) Balances as of September 30, 2018 and December 31, 2017 include only indefinite-lived intangible assets.

(b) As of December 31, 2017, \$3.6 million of Other intangibles, net of amortization were classified as Assets held for sale in the condensed consolidated balance sheets. See Note 2, “Divestitures,” for additional information.

## NOTE 4—Income Taxes:

The effective income tax rate for the three-month and nine-month periods ended September 30, 2018 was 21.5% and 20.1%, respectively, compared to 14.3% and 17.6% for the three-month and nine-month periods ended September 30, 2017, 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 of 21% and our effective income tax rate for the three-month and nine-month periods ended September 30, 2018 was impacted by a variety of factors, primarily stemming from the location in which income was earned. Income tax expense for the three-month period ended September 30, 2018 includes discrete tax expenses of \$1.9 million from stock-based compensation arrangements and \$1.7 million related to the accounting for the U.S. Tax Cuts and Jobs Act (“TCJA”) as noted below, partially offset by discrete tax benefits of \$2.0 million from foreign accrual to return adjustments and \$1.2 million from the release of foreign valuation allowances. Income tax expense for the nine-month period ended September 30, 2018 includes discrete tax expenses of \$42.0 million for the Polyolefin Catalysts Divestiture as described in Note 2, “Divestitures,” and \$7.3 million for adjustments to foreign valuation allowances, partially offset by discrete tax benefits of \$8.0 million for tax accounting method changes, \$4.8 million for adjustments related to the accounting for the TCJA as noted below, \$5.4 million from stock-based compensation arrangements and \$2.0 million from foreign accrual to return adjustments.

The difference between the U.S. federal statutory income tax rate of 35% and our effective income tax rate for the three-month and nine-month periods ended September 30, 2017 was 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. Income tax expense for the nine-month period ended September 30, 2017 included discrete tax expenses from foreign rate changes of \$14.8 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 discrete tax benefits of \$10.8 million from the release of valuation allowances due to a foreign restructuring plan that was initiated during the second quarter of 2017 and \$6.9 million from stock-based compensation arrangements.



In connection with the TCJA, we recorded a provisional amount of income tax expense of \$429.2 million related to the one-time transition tax and income tax benefit of \$62.3 million related to the remeasurement of deferred tax balances for the year ended December 31, 2017. In accordance with SEC Staff Accounting Bulletin (“SAB”) 118, the effects of the TCJA may be adjusted within a one-year measurement period from the enactment date for the items that were previously reported as provisional, or where a provisional estimate could not be made. The income tax provision for the nine-month period ended September 30, 2018 reflects a discrete tax benefit of \$2.8 million related to an adjustment of our estimate of the one-time

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

transition tax and a discrete tax benefit of \$2.0 million related to other provisions of the TCJA. In addition, the effective income tax rate for the three-month and nine-month periods ended September 30, 2018, includes a \$1.1 million and \$7.2 million, respectively, net tax expense, primarily related to global intangible low-taxed income enacted by the TCJA. For the global intangible low-taxed income provisions of the TCJA, we have not yet elected an accounting policy with respect to either recognizing deferred taxes for basis differences expected to impact global intangible low-taxed income, or to record such as period costs if and when incurred. We also continue to evaluate our indefinite reinvestment assertion as a result of the TCJA. We will continue to assess forthcoming guidance and accounting interpretations on the effects of the TCJA and expect to finalize our analysis within the measurement period in accordance with the SEC guidance.

During the nine months ended September 30, 2018, the Company's uncertain tax positions did not materially change, however, it is reasonably possible the positions could increase within the next 12 months due to ongoing tax audits in Germany.

## NOTE 5—Earnings Per Share:

Basic and diluted earnings per share for the three-month and nine-month periods ended September 30, 2018 and 2017 are calculated as follows (in thousands, except per share amounts):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Basic earnings per share				
Numerator:				
Net income attributable to Albemarle Corporation	\$129,745	\$118,670	\$563,966	\$273,216
Denominator:				
Weighted-average common shares for basic earnings per share	107,315	110,476	109,223	111,049
Basic earnings per share	\$1.21	\$1.07	\$5.16	\$2.46
Diluted earnings per share				
Numerator:				
Net income attributable to Albemarle Corporation	\$129,745	\$118,670	\$563,966	\$273,216
Denominator:				
Weighted-average common shares for basic earnings per share	107,315	110,476	109,223	111,049
Incremental shares under stock compensation plans	987	1,499	1,053	1,407
Weighted-average common shares for diluted earnings per share	108,302	111,975	110,276	112,456
Diluted earnings per share	\$1.20	\$1.06	\$5.11	\$2.43

On February 23, 2018, the Company increased the regular quarterly dividend by 5% to \$0.335 per share. On July 26, 2018, the Company declared a cash dividend of \$0.335 per share, which was paid on October 1, 2018 to shareholders of record at the close of business as of September 14, 2018. On October 30, 2018, the Company declared a cash dividend of \$0.335 per share, which is payable on January 2, 2019 to shareholders of record at the close of business as of December 14, 2018.

Under our existing Board authorized share repurchase program, during 2018, the Company entered into two separate accelerated share repurchase (“ASR”) agreements with financial institutions. Under each ASR agreement, the Company paid \$250 million from available cash on hand. Under the terms of the first ASR agreement, which was completed on September 28, 2018, the Company received and retired a total of 2,680,704 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. Under the terms of the second ASR agreement, the Company received and retired an initial delivery

of 1,984,914 shares of our common stock with a fair market value of \$200 million. 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. The total number of shares to ultimately be delivered under this ASR agreement will be determined upon completion of the second ASR agreement, which is expected to be by the end of the fourth quarter of 2018, and will generally be based on the daily Rule 10b-18 volume-weighted average prices of the Company's common stock over the term of the second ASR agreement, less an agreed discount. Although the second ASR agreement can be settled, at the Company's option, in cash or in shares of common stock, the Company intends to settle in shares of common stock. In total, through September 30, 2018, we received and retired 4,665,618 shares under these agreements, which reduced the Company's weighted average shares outstanding for purposes of calculating basic and diluted earnings per share for the three-month and nine-month periods ended September 30, 2018.

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 September 30, 2018, there were 7,993,299 remaining shares available for repurchase under the Company's authorized share repurchase program due to shares previously repurchased under this program to date.

## NOTE 6—Inventories:

The following table provides a breakdown of inventories at September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Finished goods <sup>(a)</sup>	\$ 503,970	\$ 404,239
Raw materials and work in process <sup>(b)</sup>	165,874	132,891
Stores, supplies and other	57,537	55,651
Total <sup>(c)</sup>	\$ 727,381	\$ 592,781

(a) Increase primarily due to the build-up of inventory in our Lithium and Catalysts segments resulting from higher forecasted sales.

Increase primarily due to higher forecasted production levels in the fourth quarter from our Catalysts segment.

(b) Included \$68.9 million and \$59.6 million at September 30, 2018 and December 31, 2017, respectively, of work in process related to lithium brine.

(c) As of December 31, 2017, \$24.7 million of Inventories were classified as Assets held for sale in the condensed consolidated balance sheets. See Note 2, "Divestitures," for additional information.

## NOTE 7—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 the Company is not the primary beneficiary. The carrying amount of our 49% equity interest in Windfield, which is our most significant VIE, was \$350.3 million and \$355.2 million at September 30, 2018 and December 31, 2017, respectively. The Company's aggregate net investment in all other entities which it considers to be VIEs for which the Company is not the primary beneficiary was \$8.0 million and \$8.7 million at September 30, 2018 and December 31, 2017, respectively. Our unconsolidated VIEs 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 its 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 retained 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 8—Long-Term Debt:

Long-term debt at September 30, 2018 and December 31, 2017 consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
1.875% Senior notes, net of unamortized discount and debt issuance costs of \$3,173 at September 30, 2018 and \$3,971 at December 31, 2017	\$457,909	\$463,575
4.15% Senior notes, net of unamortized discount and debt issuance costs of \$3,006 at September 30, 2018 and \$3,372 at December 31, 2017	421,994	421,628
4.50% Senior notes, net of unamortized discount and debt issuance costs of \$664 at September 30, 2018 and \$891 at December 31, 2017	174,551	174,325
5.45% Senior notes, net of unamortized discount and debt issuance costs of \$4,043 at September 30, 2018 and \$4,159 at December 31, 2017	345,957	345,841
Commercial paper notes	285,500	421,321
Variable-rate foreign bank loans	7,080	5,298
Other	4,802	5,384
Total long-term debt	1,697,793	1,837,372
Less amounts due within one year	286,188	422,012
Long-term debt, less current portion	\$1,411,605	\$1,415,360

Current portion of long-term debt at September 30, 2018 consisted primarily of commercial paper notes with a weighted-average interest rate of approximately 2.39% and a weighted-average maturity of 31 days. During the first nine months of 2018, we repaid a net amount of \$135.8 million of commercial paper notes using cash on hand. On June 21, 2018, we entered into a revolving, unsecured credit agreement (“2018 Credit Agreement”) to replace our revolving, unsecured credit agreement dated as of February 7, 2014, as amended. The 2018 Credit Agreement currently provides for borrowings of up to \$1.0 billion and matures on June 21, 2023. Borrowings under the 2018 Credit Agreement bear interest at variable rates based on an average London inter-bank offered rate (“LIBOR”) for deposits in the relevant currency plus an applicable margin which ranges from 0.910% to 1.500%, 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 1.125% as of September 30, 2018. There were no borrowings outstanding under the 2018 Credit Agreement as of September 30, 2018.

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 nine-month periods ended September 30, 2018, (losses) gains of (\$3.6) million and \$4.9 million (net of income taxes), respectively, and during the three-month and nine-month periods ended September 30, 2017, losses of \$9.7 million and \$37.6 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 9—Commitments and Contingencies:

## Environmental

We had the following activity in our recorded environmental liabilities for the nine months ended September 30, 2018, as follows (in thousands):

Beginning balance at December 31, 2017	\$39,808
Expenditures	(3,564 )
Accretion of discount	669
Additions and changes in estimates	16,236

Edgar Filing: ALBEMARLE CORP - Form 10-Q

Foreign currency translation adjustments	(346 )
Ending balance at September 30, 2018	52,803
Less amounts reported in Accrued expenses	5,012
Amounts reported in Other noncurrent liabilities	\$47,791

14

---

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Environmental remediation liabilities included discounted liabilities of \$42.8 million and \$28.1 million at September 30, 2018 and December 31, 2017, respectively, discounted at rates with a weighted-average of 3.7% and 3.6%, respectively, with the undiscounted amount totaling \$85.0 million and \$68.2 million at September 30, 2018 and December 31, 2017, 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, could be an additional \$10 million to \$25 million before income taxes, in excess of amounts already recorded.

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.

Following receipt of information regarding potential improper payments being made by third party sales representatives of our Refining Solutions business, within our Catalysts segment, we promptly retained outside counsel and forensic accountants to investigate potential violations of the Company's Code of Conduct, the Foreign Corrupt Practices Act and other potentially applicable laws. Based on this internal investigation, we have voluntarily self-reported potential issues relating to the use of third party sales representatives in our Refining Solutions business, within our Catalysts segment, to the U.S. Department of Justice ("DOJ") and SEC, and are cooperating with the DOJ and SEC in their review of these matters. In connection with our internal investigation, we have implemented, and are continuing to implement, appropriate remedial measures.

At this time, we are unable to predict the duration, scope, result or related costs associated with any investigations by the DOJ or SEC. We also are unable to predict what, if any, action may be taken by the DOJ or SEC or what penalties or remedial actions they may seek. Any determination that our operations or activities are not in compliance with existing laws or regulations, however, could result in the imposition of fines, penalties, disgorgement, equitable relief or other losses. We do not believe, however, that any fines, penalties, disgorgement, equitable relief or other losses would have a material adverse effect on our financial condition or liquidity.

In the first quarter of 2018, a jury rendered a verdict against Albemarle in a legal matter related to certain business concluded under a 2014 sales agreement for products that Albemarle no longer manufactures. As a result, we have recorded a charge of \$16.2 million in Other income (expenses), net during the nine months ended September 30, 2018. In addition, in 2018, we recorded a charge of \$10.8 million in Other income (expenses), net resulting from a settlement of a legal matter related to guarantees from a previously disposed business. Both matters have been

resolved and paid during the three months ended September 30, 2018.

**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.



Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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 \$27.0 million and \$42.7 million at September 30, 2018 and December 31, 2017, 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 10—Segment Information:

In the first quarter of 2018, the PCS product category merged with our former Refining Solutions reportable segment to form a global business focused on catalysts. As a result, our three reportable segments include: (1) Lithium; (2) Bromine Specialties; and (3) Catalysts. 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 business 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 make resource allocation decisions.

Summarized financial information concerning our reportable segments is shown in the following tables. Results for 2017 have been recast to reflect the change in segments noted above.

The "All Other" category includes only the fine chemistry services business that does not fit into any of our core businesses.

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 adjusted EBITDA (as defined below) to assess the ongoing performance of the Company's business segments and to allocate resources. The Company defines adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, as adjusted on a consistent basis for certain non-recurring or unusual items in a balanced manner and on a segment basis. These non-recurring or unusual items may include 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. 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 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.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	(In thousands)			
Net sales:				
Lithium	\$270,928	\$269,238	\$886,523	\$729,288
Bromine Specialties	232,616	212,923	678,769	636,059
Catalysts	251,139	244,594	796,822	756,407
All Other	23,065	28,021	90,978	91,144
Corporate	—	90	159	1,289
Total net sales	\$777,748	\$754,866	\$2,453,251	\$2,214,187

## Adjusted EBITDA:

Lithium	\$113,629	\$112,944	\$386,260	\$327,996
Bromine Specialties	78,585	63,936	217,921	194,499
Catalysts	62,602	60,394	205,534	197,570
All Other	3,968	306	7,729	7,906
Corporate	(23,702 )	(28,197 )	(75,082 )	(88,271 )
Total adjusted EBITDA	\$235,082	\$209,383	\$742,362	\$639,700

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

	Lithium	Bromine Specialties	Catalysts	Reportable Segments Total	All Other	Corporate	Consolidated Total
Three months ended September 30, 2018							
Net income (loss) attributable to Albemarle Corporation	\$90,313	\$67,967	\$50,491	\$208,771	\$1,978	\$(81,004)	\$129,745
Depreciation and amortization	23,370	10,618	12,111	46,099	1,990	1,618	49,707
Restructuring and other <sup>(a)</sup>	—	—	—	—	—	3,724	3,724
Acquisition and integration related costs <sup>(b)</sup>	—	—	—	—	—	4,305	4,305
Interest and financing expenses	—	—	—	—	—	12,988	12,988
Income tax expense	—	—	—	—	—	33,167	33,167
Non-operating pension and OPEB items	—	—	—	—	—	(2,195 )	(2,195 )
Legal accrual <sup>(c)</sup>	—	—	—	—	—	(1,017 )	(1,017 )
Other <sup>(d)</sup>	(54 )	—	—	(54 )	—	4,712	4,658
Adjusted EBITDA	\$113,629	\$78,585	\$62,602	\$254,816	\$3,968	\$(23,702)	\$235,082
Three months ended September 30, 2017							
Net income (loss) attributable to Albemarle Corporation	\$89,745	\$53,760	\$47,846	\$191,351	\$(1,776)	\$(70,905)	\$118,670
Depreciation and amortization	22,316	10,176	13,798	46,290	2,082	1,523	49,895

Edgar Filing: ALBEMARLE CORP - Form 10-Q

Utilization of inventory markup <sup>(e)</sup>	568	—	—	568	—	—	568
Adjustment to gain on acquisition <sup>(f)</sup>	1,408	—	—	1,408	—	—	1,408
Acquisition and integration related costs <sup>(b)</sup>	—	—	—	—	—	5,635	5,635
Interest and financing expenses	—	—	—	—	—	15,792	15,792
Income tax expense	—	—	—	—	—	18,495	18,495
Non-operating pension and OPEB items	—	—	—	—	—	(1,028 )	(1,028 )
Multiemployer plan shortfall contributions <sup>(g)</sup>	—	—	—	—	—	1,646	1,646
Other <sup>(h)</sup>	(1,093 )	—	(1,250 )	(2,343 )	—	645	(1,698 )
Adjusted EBITDA	\$ 112,944	\$ 63,936	\$ 60,394	\$ 237,274	\$ 306	\$(28,197)	\$ 209,383
Nine months ended September 30, 2018							

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Net income (loss) attributable to Albemarle Corporation	\$315,939	\$187,176	\$387,038	\$890,153	\$1,659	\$(327,846)	\$563,966
Depreciation and amortization	71,760	30,745	37,201	139,706	6,070	4,735	150,511
Restructuring and other <sup>(a)</sup>	—	—	—	—	—	3,724	3,724
Gain on sale of business <sup>(i)</sup>	—	—	(218,705 )	(218,705 )	—	—	(218,705 )
Acquisition and integration related costs <sup>(b)</sup>	—	—	—	—	—	13,016	13,016
Interest and financing expenses	—	—	—	—	—	39,834	39,834
Income tax expense	—	—	—	—	—	133,630	133,630
Non-operating pension and OPEB items	—	—	—	—	—	(6,596 )	(6,596 )
Legal accrual <sup>(c)</sup>	—	—	—	—	—	27,027	27,027
Albemarle Foundation contribution <sup>(j)</sup>	—	—	—	—	—	15,000	15,000
Other <sup>(d)</sup>	(1,439 )	—	—	(1,439 )	—	22,394	20,955
Adjusted EBITDA	\$386,260	\$217,921	\$205,534	\$809,715	\$7,729	\$(75,082 )	\$742,362
Nine months ended September 30, 2017							
Net income (loss) attributable to Albemarle Corporation	\$249,178	\$164,193	\$158,806	\$572,177	\$1,622	\$(300,583)	\$273,216
Depreciation and amortization	62,841	30,306	40,014	133,161	6,284	4,642	144,087
Utilization of inventory markup <sup>(e)</sup>	23,095	—	—	23,095	—	—	23,095
Restructuring and other <sup>(k)</sup>	—	—	—	—	—	17,141	17,141
Gain on acquisition <sup>(f)</sup>	(6,025 )	—	—	(6,025 )	—	—	(6,025 )
Acquisition and integration related costs <sup>(b)</sup>	—	—	—	—	—	26,395	26,395
Interest and financing expenses <sup>(l)</sup>	—	—	—	—	—	98,895	98,895
Income tax expense	—	—	—	—	—	53,596	53,596
Non-operating pension and OPEB items	—	—	—	—	—	(3,144 )	(3,144 )
Multiemployer plan shortfall contributions <sup>(g)</sup>	—	—	—	—	—	6,586	6,586
Other <sup>(h)</sup>	(1,093 )	—	(1,250 )	(2,343 )	—	8,201	5,858
Adjusted EBITDA	\$327,996	\$194,499	\$197,570	\$720,065	\$7,906	\$(88,271 )	\$639,700

Expected severance payments as part of a business reorganization plan, recorded in Selling, general and (a) administrative expenses. The unpaid balance is recorded in Accrued expenses at September 30, 2018, and is expected to be paid out by the end of 2018.

Included amounts for the three-month and nine-month periods ended September 30, 2018 recorded in (1) Cost of goods sold of \$0.9 million and \$2.9 million, respectively; and (2) Selling, general and administrative expenses of \$3.4 million and \$10.2 million, respectively, relating to various significant projects. Included amounts for the three-month and nine-month periods ended September 30, 2017 recorded in (1) Cost of goods sold of \$1.8 million (b) and \$12.5 million, respectively; and (2) Selling, general and administrative expenses of \$3.8 million and \$13.9 million, respectively, relating to various significant projects, including the Jiangxi Jiangli New Materials Science and Technology Co. Ltd. (“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.

(c) Included in Other income (expenses), net. See Note 9, “Commitments and Contingencies,” for additional information.

(d) Included amounts for the three months ended September 30, 2018 recorded in:

Cost of goods sold - \$3.8 million for the write-off of fixed assets related to a major capacity expansion in our Jordanian joint venture.

Selling, general and administrative expenses - \$0.1 million gain related to a refund from Chilean authorities due to an overpayment made in a prior year, partially offset by a \$1.2 million contribution, using a portion of the proceeds received from the Polyolefin Catalysts Divestiture, to schools in the state of Louisiana for qualified tuition purposes. This contribution is significant in size and is intended to provide long-term benefits for families in the Louisiana community.

Other income (expenses), net - \$0.2 million gain related to the revision of previously recorded expenses of disposed businesses.

Included amounts for the nine months ended September 30, 2018 recorded in:

Cost of goods sold - \$4.9 million for the write-off of fixed assets related to a major capacity expansion in our Jordanian joint venture.

Selling, general and administrative expenses - \$1.5 million gain related to a refund from Chilean authorities due to an overpayment made in a prior year, partially offset by a \$1.2 million contribution, using a portion of the proceeds received from Polyolefin Catalysts Divestiture, to schools in the state of Louisiana for qualified tuition purposes. This contribution is significant in size and is intended to provide long-term benefits for families in the Louisiana community.

Other income (expenses), net - \$15.6 million of environmental charges related to a site formerly owned by Albemarle and \$0.8 million related to the revision of previously recorded expenses of disposed businesses.

In connection with the acquisition of Jiangli New Materials, the Company valued inventory purchased from Jiangli (e)New Materials at fair value, which resulted in a markup of the underlying net book value of the inventory totaling approximately \$23.1 million. The inventory

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

markup was expensed over the estimated remaining selling period. For the three-month and nine-month periods ended September 30, 2017, \$0.6 million and \$23.1 million, respectively, was included in Cost of goods sold related to the utilization of the inventory markup.

(f) Gain recorded in Other income (expenses), net related to the acquisition of the remaining 50% interest in the Sales de Magnesio Ltda. joint venture in Chile.

(g) Included shortfall contributions for our multiemployer plan financial improvement plan. See Note 11, "Pension Plans and Other Postretirement Benefits," for additional information.

(h) Included amounts for the three-month period ended September 30, 2017 recorded in:

Cost of goods sold - \$1.3 million reversal of deferred income related to an abandoned project at an unconsolidated investment.

Other income (expenses), net - \$1.1 million related to a reversal of a liability associated with the previous disposal of a property, partially offset by the revision of tax indemnification expenses of \$0.7 million primarily related to the filing of tax returns for a previously disposed business.

Included amounts for the nine-month period ended September 30, 2017 recorded in:

Cost of goods sold - \$1.3 million reversal of deferred income related to an abandoned project at an unconsolidated investment.

Selling, general and administrative expenses - \$1.0 million related to a reversal of an accrual recorded as part of purchase accounting from a previous acquisition.

Other income (expenses), net - \$3.2 million of asset retirement obligation charges related to the revision of an estimate at a site formerly owned by Albemarle, losses of \$4.1 million associated with the previous disposal of businesses and the revision of tax indemnification expenses of \$1.9 million primarily related to the filing of tax returns and a competent authority agreement for a previously disposed business. This is partially offset by \$1.1 million related to a reversal of a liability associated with the previous disposal of a property.

(i) See Note 2, "Divestitures," for additional information.

Included in Selling, general and administrative expenses is a charitable contribution, using a portion of the proceeds received from the Polyolefin Catalysts Divestiture, to the Albemarle Foundation, a non-profit organization that sponsors grants, health and social projects, educational initiatives, disaster relief, matching gift programs,

(j) scholarships and other charitable initiatives in locations where our employees live and operate. This contribution is in addition to the normal annual contribution made to the Albemarle Foundation by the Company, and is significant in size and nature in that it is intended to provide more long-term benefits in the communities where we live and operate.

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

(k) Cost of goods sold, \$8.4 million in Selling, general and administrative expenses and \$5.8 million in Research and development expenses for the nine-month period ended September 30, 2017, primarily related to expected severance payments. The unpaid balance is recorded in Accrued expenses at September 30, 2018, with the expectation that the majority of these plans will be completed by the end of 2018.

During the first quarter of 2017, 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,

(l) included in Interest and financing expenses is a loss on early extinguishment of debt of \$52.8 million, representing the tender premiums, fees, unamortized discounts and unamortized deferred financing costs from the redemption of these senior notes.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

## NOTE 11—Pension Plans and Other Postretirement Benefits:

The components of pension and postretirement benefits cost (credit) for the three-month and nine-month periods ended September 30, 2018 and 2017 were as follows (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Pension Benefits Cost (Credit):				
Service cost	\$1,238	\$1,067	\$3,765	\$3,090
Interest cost	7,967	8,375	24,010	24,983
Expected return on assets	(10,703)	(9,960)	(32,227)	(29,799)
Amortization of prior service benefit	25	29	71	102
Total net pension benefits credit	\$(1,473)	\$(489)	\$(4,381)	\$(1,624)
Postretirement Benefits Cost (Credit):				
Service cost	\$29	\$30	\$88	\$91
Interest cost	542	585	1,626	1,755
Expected return on assets	(1)	(28)	(5)	(83)
Amortization of prior service benefit	(12)	(24)	(36)	(72)
Total net postretirement benefits cost	\$558	\$563	\$1,673	\$1,691
Total net pension and postretirement benefits (credit) cost	\$(915)	\$74	\$(2,708)	\$67

As a result of the adoption of new accounting guidance effective January 1, 2018, on a retrospective basis, all components of net benefit cost (credit), other than service cost, are to be shown outside of operations on the consolidated statements of income. We recast these components of net benefit cost (credit), which resulted in a reduction of \$0.1 million and \$0.4 million in Cost of goods sold, respectively, and \$0.9 million and \$2.7 million in Selling, general and administrative expenses, respectively, with an offsetting increase of \$1.0 million and \$3.1 million in Other income (expenses), net, respectively, for the three-month and nine-month periods ended September 30, 2017. There was no impact to Net income attributable to Albemarle Corporation.

During the three-month and nine-month periods ended September 30, 2018, we made contributions of \$3.1 million and \$9.0 million, respectively, to our qualified and nonqualified pension plans. During the three-month and nine-month periods ended September 30, 2017, we made contributions of \$2.6 million and \$7.7 million, respectively, to our qualified and nonqualified pension plans.

We paid \$0.8 million and \$2.0 million in premiums to the U.S. postretirement benefit plan during the three-month and nine-month periods ended September 30, 2018, respectively. During the three-month and nine-month periods ended September 30, 2017, we paid \$0.7 million and \$1.9 million, respectively, in premiums to the U.S. postretirement benefit plan.

**Multiemployer Plan**

Effective July 1, 2016, the Pensionskasse Dynamit Nobel Versicherungsverein auf Gegenseitigkeit, Troisdorf multiemployer plan 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 nine-month period ended September 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 nine-month periods ended September 30, 2017, we made contributions relating to this financial improvement plan to indemnify previously divested businesses of approximately \$1.6 million and \$4.6 million, respectively, recorded in Other income (expenses), net. There were no contributions made under the financial improvement plan during the three-month and nine-month periods ended September 30, 2018.



NOTE 12—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:

20

---

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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.

September 30, 2018		December 31, 2017	
Recorded Amount	Fair Value	Recorded Amount	Fair Value

(In thousands)

Long-term debt \$1,704,894 \$1,744,139 \$1,845,309 \$1,949,638

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 September 30, 2018 and December 31, 2017, we had outstanding foreign currency forward contracts with notional values totaling \$531.0 million and \$357.4 million, respectively, hedging our exposure to various currencies including the Euro and Chinese Renminbi. Our foreign currency forward contracts outstanding at September 30, 2018 and December 31, 2017 were not designated as hedging instruments under ASC 815, Derivatives and Hedging. The following table summarizes the fair value of our foreign currency forward contracts included in the condensed consolidated balance sheets as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Foreign currency forward contracts - Other accounts receivable	\$ 142	\$ —
Foreign currency forward contracts - Accrued expenses	\$ —	\$ 4,954

Gains and losses on foreign currency forward contracts are recognized in Other income (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 income (expenses), net. The following table summarizes these net (losses) gains recognized in our consolidated statements of income during the three-month and nine-month periods ended September 30, 2018 and 2017 (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Foreign currency forward contracts (losses) gains	\$(203)	\$803	\$(13,034)	\$9,010

In addition, for the nine-month periods ended September 30, 2018 and 2017, we recorded losses (gains) of \$13.0 million and (\$9.0) million, respectively, related to the change in the fair value of our foreign currency forward contracts, and net cash (settlements) receipts of (\$18.1) million and \$8.9 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.



Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

## NOTE 13—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. The following tables set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	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>	\$ 27,871	\$ 27,871	\$ —	\$ —
Private equity securities <sup>(b)</sup>	\$ 31	\$ 31	\$ —	\$ —
Private equity securities measured at net asset value <sup>(b)(c)</sup>	\$ 7,194	\$ —	\$ —	\$ —
Foreign currency forward contracts <sup>(d)</sup>	\$ 142	\$ —	\$ 142	\$ —

## Liabilities:

	December 31, 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)
Obligations under executive deferred compensation plan <sup>(a)</sup>	\$ 27,871	\$ 27,871	\$ —	\$ —

## Assets:

Investments under executive deferred compensation plan <sup>(a)</sup>	\$ 25,494	\$ 25,494	\$ —	\$ —
Private equity securities <sup>(b)</sup>	\$ 38	\$ 38	\$ —	\$ —
Private equity securities measured at net asset value <sup>(b)(c)</sup>	\$ 5,121	\$ —	\$ —	\$ —

## Liabilities:

Obligations under executive deferred compensation plan <sup>(a)</sup>	\$ 25,494	\$ 25,494	\$ —	\$ —
Foreign currency forward contracts <sup>(d)</sup>	\$ 4,954	\$ —	\$ 4,954	\$ —

(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) and cash and cash equivalents. As such, these assets and obligations are classified within Level 1.

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

(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.

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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 (d)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.

## NOTE 14—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 September 30, 2018					
Balance at June 30, 2018	\$(343,458)	\$ 5	\$ 55,119	\$(13,345)	\$(301,679)
Other comprehensive loss before reclassifications	(9,549 )	—	(3,621 )	—	(13,170 )
Amounts reclassified from accumulated other comprehensive loss	—	11	—	642	653
Other comprehensive (loss) income, net of tax	(9,549 )	11	(3,621 )	642	(12,517 )
Other comprehensive loss attributable to noncontrolling interests	5	—	—	—	5
Balance at September 30, 2018	\$(353,002)	\$ 16	\$ 51,498	\$(12,703)	\$(314,191)
Three months ended September 30, 2017					
Balance at June 30, 2017	\$(341,690)	\$ 85	\$ 60,459	\$(15,687)	\$(296,833)
Other comprehensive income (loss) before reclassifications	56,179	—	(9,681 )	—	46,498
Amounts reclassified from accumulated other comprehensive loss	—	(7 )	—	529	522
Other comprehensive income (loss), net of tax	56,179	(7 )	(9,681 )	529	47,020
Other comprehensive income attributable to noncontrolling interests	(130 )	—	—	—	(130 )
Balance at September 30, 2017	\$(285,641)	\$ 78	\$ 50,778	\$(15,158)	\$(249,943)
Nine months ended September 30, 2018					
Balance at December 31, 2017	\$(257,569)	\$ (21 )	\$ 46,551	\$(14,629)	\$(225,668)
Other comprehensive (loss) income before reclassifications	(95,515 )	—	4,947	—	(90,568 )
Amounts reclassified from accumulated other comprehensive loss	—	37	—	1,926	1,963
Other comprehensive (loss) income, net of tax	(95,515 )	37	4,947	1,926	(88,605 )
Other comprehensive loss attributable to noncontrolling interests	82	—	—	—	82
Balance at September 30, 2018	\$(353,002)	\$ 16	\$ 51,498	\$(12,703)	\$(314,191)
Nine months ended September 30, 2017					
Balance at December 31, 2016	\$(484,121)	\$ 76	\$ 88,378	\$(16,745)	\$(412,412)
	199,303	—	(37,600 )	—	161,703

Edgar Filing: ALBEMARLE CORP - Form 10-Q

Other comprehensive income (loss) before reclassifications					
Amounts reclassified from accumulated other comprehensive loss	—	2	—	1,587	1,589
Other comprehensive income (loss), net of tax	199,303	2	(37,600 )	1,587	163,292
Other comprehensive income attributable to noncontrolling interests	(823 )	—	—	—	(823 )
Balance at September 30, 2017	\$(285,641 )	\$ 78	\$ 50,778	\$(15,158)	\$(249,943)

23

---

Table of Contents

## ALBEMARLE CORPORATION AND SUBSIDIARIES

## Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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 credit. See Note 11, "Pension Plans and Other Postretirement Benefits."

(b) The pre-tax portion of amounts reclassified from accumulated other comprehensive loss is included in interest expense.

The amount of income tax benefit (expense) allocated to each component of Other comprehensive (loss) income for the three-month and nine-month periods ended September 30, 2018 and 2017 is provided in the following tables (in thousands):

	Three Months Ended September 30, 2018				2017			
	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 (loss) income, before tax	\$ (9,550 )	\$ 13	\$ (4,704 )	\$ 834	\$ 56,156	\$ —	\$ (15,266 )	\$ 834
Income tax benefit (expense)	1	(2 )	1,083	(192 )	23	(7 )	5,585	(305 )
Other comprehensive (loss) income, net of tax	\$ (9,549 )	\$ 11	\$ (3,621 )	\$ 642	\$ 56,179	\$ (7 )	\$ (9,681 )	\$ 529

	Nine Months Ended September 30, 2018				2017			
	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 (loss) income, before tax	\$ (95,517 )	\$ 43	\$ 6,426	\$ 2,502	\$ 200,366	\$ 10	\$ (59,292 )	\$ 2,502
Income tax benefit (expense)	2	(6 )	(1,479 )	(576 )	(1,063 )	(8 )	21,692	(915 )
Other comprehensive (loss) income, net of tax	\$ (95,515 )	\$ 37	\$ 4,947	\$ 1,926	\$ 199,303	\$ 2	\$ (37,600 )	\$ 1,587

## NOTE 15—Related Party Transactions:

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	2018	2017	2018	2017
Sales to unconsolidated affiliates	\$4,970	\$7,309	\$20,608	\$23,753
Purchases from unconsolidated affiliates <sup>(a)</sup>	\$60,136	\$51,983	\$186,111	\$148,502

(a) Purchases from unconsolidated affiliates primarily relate to purchases from our Windfield joint venture.

Our condensed consolidated balance sheets include accounts receivable due from and payable to unconsolidated affiliates in the ordinary course of business as follows (in thousands):



Edgar Filing: ALBEMARLE CORP - Form 10-Q

	September 30, 2018	December 31, 2017
Receivables from unconsolidated affiliates	\$ 2,734	\$ 2,406
Payables to unconsolidated affiliates	\$ 54,227	\$ 55,801

NOTE 16—Supplemental Cash Flow Information:

Supplemental information related to the condensed consolidated statements of cash flows is as follows (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Supplemental non-cash disclosure related to investing activities:		
Capital expenditures included in Accounts payable	\$ 107,385	\$ 53,421

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Other, net within Cash flows from operating activities on the consolidated statements of cash flows for the nine months ended September 30, 2018 included \$33.9 million representing the reclassification of the current portion of the one-time transition tax resulting from the enactment of the TCJA, from Other noncurrent liabilities to Income taxes payable within current liabilities.

NOTE 17—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. During 2016, the FASB issued amendments to this new guidance that provides clarification, technical corrections and practical expedients. Topics of potential relevance to the Company include principal versus agent considerations, collectability, presentation of sales tax from customers, contract modifications at transition and accounting transition. These new requirements became effective on January 1, 2018 and did not have a material impact on our condensed consolidated financial statements. We adopted the new standard using the modified retrospective method. We have implemented appropriate changes to the business processes, controls and control activities to support recognition, presentation and disclosure under the new standard for the first quarter of 2018, however, we have not made any significant changes to our existing systems as a result of this new standard.

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. In July 2018, the FASB issued an amendment which would allow entities to initially apply this new standard at the adoption date and recognize a cumulative effect adjustment to the the opening balance of retained earnings. The Company expects to adopt this standard on January 1, 2019 using this transition method. We have made significant progress in evaluating our existing lease contracts and accounting policies to determine the impact this standard will have on the condensed consolidated financial statements and related disclosures. The implementation of this standard will result in the addition of right-of-use assets and lease liabilities on our balance sheet, however, we have not determined the materiality at this time. We have made the decision to adopt several practical expedients as allowed by this new standard, such as the short-term lease exemption and the relief package. We continue to assess the remaining practical expedients. In addition, we are implementing new software to support the adoption of this new standard, as well as continuing to review the impact on our current business processes. We continue to make progress on implementing changes to controls that support recognition and disclosure under this new standard.

In October 2016, the FASB issued accounting guidance that eliminated the deferral of tax effects of intra-entity asset transfers other than inventory. As a result, the tax expense from the intercompany sale of assets, other than inventory, and associated changes to deferred taxes will be recognized when the sale occurs even though the pre-tax effects of the transaction have not been recognized as they are eliminated in consolidation. This guidance was effective using the modified retrospective method as of January 1, 2018, which resulted in a \$11.2 million cumulative adjustment to decrease Retained earnings and is not reflected in periods prior to this date.

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 became effective on January 1, 2018 and did not 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 became effective on January 1, 2018 and did not 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

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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 guidance became effective on January 1, 2018 and did not have a significant impact on our financial statements. The prior year consolidated statements of income have been recast to conform to the current presentation required by this guidance. See Note 11, “Pension Plans and Other Postretirement Benefits,” for additional details.

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 became effective on January 1, 2018 and did not have a significant impact on our financial statements.

In August 2017, the FASB issued accounting guidance to better align an entity’s risk management activities with hedge accounting, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. This guidance will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. 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 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 February 2018, the FASB issued accounting guidance that will give companies the option to reclassify stranded tax effects caused by the TCJA from accumulated other comprehensive income to retained earnings. This new guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Entities will have the option to apply this guidance retrospectively or to record the reclassification as of the beginning of the period of adoption. We are currently assessing the impact of this new guidance on our financial statements. In March 2018, the FASB issued additional guidance pursuant to the issuance of SAB 118, that provides clarification for a company’s ability to comply with the accounting requirements for the income tax effects of the TCJA in the period of enactment, effective immediately. SAB 118 allows disclosure that timely determination of some or all of the income tax effects from the TCJA are incomplete by the due date of the financial statements and if possible to provide a reasonable estimate. We have accounted for the tax effects of the TCJA under the guidance of SAB 118, on a provisional basis. Our accounting for certain income tax effects is incomplete, but we have determined reasonable estimates for those effects and have recorded provisional amounts in our condensed consolidated financial statements.

In August 2018, the FASB issued accounting guidance that, among other things, eliminates certain disclosure requirements for fair value measurements. Under the new guidance, entities will no longer be required to disclose (a) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and (b) the policy for timing of transfers between levels of the fair value hierarchy. As allowed by its provisions, we early-adopted this new guidance in the third quarter of 2018. The adoption of this new guidance did not have a significant impact on our condensed consolidated financial statements.

In August 2018, the FASB issued accounting guidance that, among other things, eliminates certain disclosure requirements for defined benefit pension and other postretirement benefit plans. Under the new guidance, entities will

no longer be required to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. As allowed by its provisions, we early-adopted this new guidance in the third quarter of 2018. The adoption of this new guidance does not amend interim disclosure requirements and will not have a significant impact on our consolidated financial statements for the year ended December 31, 2018.

In August 2018, the FASB issued accounting guidance that requires implementation costs incurred in a cloud computing arrangement that is a service contract to be capitalized. Entities will be required to recognize the capitalized implementation costs to expense over the noncancellable term of the cloud computing arrangement. This new guidance will be effective for

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We are currently assessing the impact this guidance will have 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. 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 from the outlook expressed or implied in any forward-looking statement include, without limitation, information related to:

- 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 to our customers;
- 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 actions, 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;
- 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 through 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.



## Table of Contents

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 our results of operations for the three-month and nine-month periods ended September 30, 2018 and 2017. A discussion of our consolidated financial condition and sources of additional capital is included under a separate heading “Financial Condition and Liquidity” on page 41.

### Overview

We are a leading global developer, manufacturer and marketer of highly-engineered specialty chemicals that are designed to meet our customers’ needs across a diverse range of end markets. The end markets we serve include energy storage, petroleum refining, consumer electronics, construction, automotive, lubricants, pharmaceuticals, crop protection 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 of 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, among other factors, position us well to take advantage of strengthening economic conditions as they occur, while softening the negative impact of a challenging global economic environment.

### Third Quarter 2018

During the third quarter of 2018:

We completed our May 2018 accelerated share repurchase (“ASR”) agreement, receiving and retiring a final settlement of 326,571 shares in September 2018. Under this agreement we received and retired a total of 2,680,704 shares during the nine months ended September 30, 2018. In addition, we entered into a separate \$250 million ASR agreement in August 2018, receiving and retiring an initial delivery of 1,984,914 shares of our common stock pursuant to the terms of the second ASR agreement and our share repurchase program. This second ASR agreement is expected to be completed by the end of the fourth quarter of 2018.

- Our board of directors declared a quarterly dividend of \$0.335 per share on July 26, 2018, which was paid on October 1, 2018 to shareholders of record at the close of business as of September 14, 2018.

Our net sales for the quarter were \$777.7 million, up 3% from net sales of \$754.9 million in the third quarter of 2017. Earnings per share were \$1.20 (on a diluted basis), an increase from third quarter 2017 results of \$1.06 per diluted share.

Cash provided by operating activities was \$153.1 million in the third quarter, an increase from \$129.3 million in the third quarter of 2017.

### Outlook

Effective January 1, 2018, the Performance Catalyst Solutions (“PCS”) product category merged with our former Refining Solutions reportable segment to form a global business focused on catalysts. As a result, our three reportable segments include Lithium, Bromine Specialties and Catalysts. 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. We expect this change to provide further clarity into the performance of each business.

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 various opportunities for value and growth as we have positioned ourselves to manage the impact on our business of changing global conditions, such as slow and uneven



global growth, currency exchange volatility, crude oil price fluctuation, a dynamic pricing environment, 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 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 primarily through pricing and product development, managing costs and delivering value to our customers and shareholders. We believe that our businesses remain

Table of Contents

well-positioned to capitalize on new business opportunities and long-term trends driving growth within our end markets and to respond quickly to changes in economic conditions in these markets.

**Lithium:** We expect continued strong year over year growth for the remainder of 2018 in Lithium, led by continued strong demand in battery-grade applications, price improvement and increased conversion capacity.

On a longer term basis, we believe that demand for lithium will continue to grow as new lithium applications advance and the use of plug-in hybrid electric vehicles and full battery electric vehicles increases. This demand for lithium is supported against a favorable backdrop of steadily declining lithium ion battery costs, increasing battery performance and an increasingly favorable global public policy toward acceptance of e-mobility/renewable energy usage. Our long-term outlook is also bolstered by our successful negotiation of long-term supply agreements with our key strategic customers, reflecting our standing as a preferred global lithium partner, highlighted by our scale, access to geographically diverse, low-cost resource base and long-term focus on execution.

**Bromine Specialties:** We expect to see continued growth in net sales and profitability in 2018, due to healthy demand and pricing for our flame retardants and other derivatives. However, with sustained low oil prices, we expect stable, albeit low, drilling completion fluid demand throughout the year. While it is possible oil prices could continue to rebound some in 2018, the short-term impact will be to increase raw material costs. Offshore well completions lag oil pricing, so any benefit in completion fluid volumes would likely extend into 2019.

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.

**Catalysts:** We expected to see continued headwinds from rising raw material costs in both our Clean Fuels Technologies (“CFT”) and Fluid Catalytic Cracking (“FCC”) businesses, similar to 2017.

On a longer term basis, we believe increased global demand for transportation fuels, new refinery start-ups and ongoing adoption of cleaner fuels will be the primary drivers of growth in our Catalysts business. We believe delivering superior end-use performance continues to be the most effective way to create sustainable value in the refinery catalysts industry. We believe our technologies continue to provide significant performance and financial benefits to refiners challenged to meet tighter regulations around the world, including 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 Catalysts remains well-positioned for the future. In PCS, we expect growth in our organometallic business due to growing global demand for plastics driven by rising standards of living and infrastructure spending.

On April 3, 2018, we completed the sale of the polyolefin catalysts and components portion of the PCS business (“Polyolefin Catalysts Divestiture”) to W.R. Grace & Co. for net cash proceeds of approximately \$413.5 million.

**All Other:** The fine chemistry services business will continue to be reported outside the Company’s reportable segments as it does not fit in the Company’s core businesses. We expect the near future to be impacted by a challenging agriculture industry environment and the timing of customer orders in pharmaceuticals. We continue to work to reinvigorate the pipeline of new products and services to these markets.

**Corporate:** We continue to focus on cash generation, working capital management and process efficiencies. We expect our global effective tax rate for 2018 to be approximately 23.0%; 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.,

including the U.S. Tax Cuts and Jobs Act (“TCJA”), and other tax jurisdictions.

In the first quarter of 2018, we increased our quarterly dividend rate to \$0.335 per share. During the nine months ended September 30, 2018, we received and retired approximately 4.7 million shares of our common stock under our share repurchase program and ASR agreements. The total number of shares to ultimately be delivered under the August 2018 ASR agreement

Table of Contents

will be determined upon completion of this ASR agreement, which is expected to be by the end of the fourth quarter of 2018. Following the completion of this ASR agreement, 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.

## Results of Operations

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

Third Quarter 2018 Compared to Third Quarter 2017

Selected Financial Data (Unaudited)

	Three Months Ended September 30,		Percentage Change	
	2018	2017	2018 vs. 2017	
	(In thousands, except percentages and per share amounts)			
NET SALES	\$ 777,748	\$ 754,866	3	%
Cost of goods sold	497,211	479,210	4	%
GROSS PROFIT	280,537	275,656	2	%
GROSS PROFIT MARGIN	36.1	% 36.5		%
Selling, general and administrative expenses	100,167	106,471	(6)	)%
Research and development expenses	16,610	21,763	(24)	)%
OPERATING PROFIT	163,760	147,422	11	%
OPERATING PROFIT MARGIN	21.1	% 19.5		%
Interest and financing expenses	(12,988	) (15,792	) (18	)%
Other income (expenses), net	3,793	(1,986	) (291	)%
INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS	154,565	129,644	19	%
Income tax expense	33,167	18,495	79	%
Effective tax rate	21.5	% 14.3		%
INCOME BEFORE EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS	121,398	111,149	9	%
Equity in net income of unconsolidated investments (net of tax)	22,081	19,044	16	%
NET INCOME	143,479	130,193	10	%
Net income attributable to noncontrolling interests	(13,734	) (11,523	) 19	%
NET INCOME ATTRIBUTABLE TO ALBEMARLE CORPORATION	\$ 129,745	\$ 118,670	9	%
PERCENTAGE OF NET SALES	16.7	% 15.7		%
Basic earnings per share	\$ 1.21	\$ 1.07	13	%
Diluted earnings per share	\$ 1.20	\$ 1.06	13	%

## Net Sales

For the three-month period ended September 30, 2018, we recorded net sales of \$777.7 million, an increase of \$22.9 million, or 3%, compared to net sales of \$754.9 million for the three-month period ended September 30, 2017. Net sales increased across all three reportable segments due to \$38.4 million of favorable pricing impacts and \$31.4 million of higher volumes in Catalysts and Bromine Specialties. Partially offsetting this is \$14.0 million in lower Lithium volumes driven by the impact of unexpected shutdowns at three of our lithium sites and \$27.0 million related to the Polyolefin Catalysts Divestiture.

## Gross Profit

For the three-month period ended September 30, 2018, our gross profit increased \$4.9 million, or 2%, from the corresponding 2017 period. Gross profit in 2017 included \$10.4 million of gross profit related to the Polyolefin Catalysts

30

---

Table of Contents

Divestiture, \$11.4 million of unfavorable gross profit impact resulting from Hurricane Harvey, while we received a related partial insurance claim reimbursement of \$2.2 million in 2018. Gross profit in 2018 was impacted by \$3.8 million for the write-off of fixed assets related to a major capacity expansion in our Jordanian joint venture. Excluding the impact of these items, gross profit increased by \$5.5 million, or 2.0%, primarily due to \$38.4 million in favorable price impacts and higher volumes, more than offsetting higher material and production costs across all three reportable segments and higher royalty payments in Lithium. Overall, these factors contributed to a gross profit margin for the three-month period ended September 30, 2018 of 36.1%, down from 36.5% in the corresponding period in 2017.

**Selling, General and Administrative Expenses**

For the three-month period ended September 30, 2018, our selling, general and administrative (“SG&A”) expenses decreased \$6.3 million, or 6%, from the three-month period ended September 30, 2017. This decrease was primarily due to lower compensation related costs and professional fees. As a percentage of net sales, SG&A expenses were 12.9% for the three-month period ended September 30, 2018, compared to 14.1% for the corresponding period in 2017.

**Research and Development Expenses**

For the three-month period ended September 30, 2018, our research and development (“R&D”) expenses decreased \$5.2 million, or 24%, from the three-month period ended September 30, 2017 due to the timing of Lithium spend. As a percentage of net sales, R&D expenses were 2.1% and 2.9% for the three-month periods ended September 30, 2018 and 2017, respectively.

**Interest and Financing Expenses**

Interest and financing expenses for the three-month period ended September 30, 2018 decreased \$2.8 million to \$13.0 million from the corresponding 2017 period. This decrease is primarily due to the impact of higher capitalized interest from increased capital expenditures in 2018.

**Other Income (Expenses), Net**

Other income (expenses), net, for the three-month period ended September 30, 2018 was \$3.8 million compared to (\$2.0) million for the corresponding 2017 period. During the three-month period ended September 30, 2018, we recorded a \$2.1 million gain in the fair value of our investment in private equity securities and a net gain of \$1.0 million due to updating legal accruals related to products that Albemarle no longer manufactures and a previously disposed business. During the three-month period ended September 30, 2017, we recorded \$1.6 million of multiemployer plan financial improvement plan shortfall contributions to indemnify previously divested businesses, a \$1.4 million decrease adjustment to the gain recorded for the acquisition of the remaining 50% interest of an equity investment and \$1.1 million related to a reversal of a liability associated with the previous disposal of a property, partially offset by the revision of tax indemnification expenses of \$0.7 million primarily related to the filing of tax returns for a previously disposed business. The remaining change was primarily due to an increase in foreign exchange losses totaling \$3.5 million.

**Income Tax Expense**

The effective income tax rate for the third quarter of 2018 was 21.5% compared to 14.3% for the third quarter of 2017. The difference between the U.S. federal statutory income tax rate of 21% and our effective income tax rate for the three-months ended September 30, 2018 was impacted by a variety of factors, primarily stemming from the location in which income was earned. The difference between the U.S. federal statutory income tax rate of 35% and our effective income tax rate for the three months ended September 30, 2017 was 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 increase in the effective tax rate for the three-month period ended September 30, 2018 compared to the same period last year, was driven by a variety of factors, primarily stemming from a change in the geographic mix of earnings.

**Equity in Net Income of Unconsolidated Investments**

Equity in net income of unconsolidated investments was \$22.1 million for the three-month period ended September 30, 2018 compared to \$19.0 million in the same period last year. This increase of \$3.0 million was primarily due to an increase in equity income in our Lithium joint venture, Windfield Holdings Pty. Ltd.

**Net Income Attributable to Noncontrolling Interests**

For the three-month period ended September 30, 2018, net income attributable to noncontrolling interests was \$13.7 million compared to \$11.5 million in the same period last year. This increase of \$2.2 million was primarily due to an increase in consolidated income related to our JBC joint venture from higher sales volumes in the quarter.

Table of Contents

## Net Income Attributable to Albemarle Corporation

Net income attributable to Albemarle Corporation increased to \$129.7 million in the three-month period ended September 30, 2018, from \$118.7 million in the three-month period ended September 30, 2017. The increase is primarily due to favorable pricing impacts across all reportable segments, favorable volumes in the Bromine Specialties and Catalysts segments, as well as decreased Corporate spending, lower interest costs and the impact of Hurricane Harvey in 2017. This was partially offset by the income from the Polyolefin Catalysts Divestiture, a \$3.8 million for the write-off of fixed assets related to a major capacity expansion in our Jordanian joint venture, \$3.7 million of restructuring and other costs and a higher effective tax rate in 2018.

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

Total other comprehensive (loss) income, after income taxes, was (\$12.5) million for the three-month period ended September 30, 2018 compared to \$47.0 million for the corresponding period in 2017. The majority of this loss is the result of translating our foreign subsidiary financial statements from their local currencies to U.S. Dollars. In the 2018 period, other comprehensive loss from foreign currency translation adjustments was \$9.5 million, primarily as a result of unfavorable movements in the Chinese Renminbi of approximately \$11 million, the Brazilian Real of approximately \$3 million and a net unfavorable variance in various other currencies totaling approximately \$4 million, partially offset by favorable movements in the Euro of approximately \$8 million. Also included in total other comprehensive loss for the 2018 period is a loss of \$3.6 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. In the 2017 period, other comprehensive income from foreign currency translation adjustments was \$56.2 million, mainly as a result of favorable movements in the Euro of approximately \$50 million, the Brazilian Real of approximately \$4 million and the Chinese Renminbi of approximately \$4 million, partially offset by a net unfavorable variance in various other currencies totaling approximately \$2 million. Also included in total other comprehensive income for the 2017 period is a loss of \$9.7 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, (2) Bromine Specialties and (3) Catalysts.

Summarized financial information concerning our reportable segments is shown in the following tables. Results for 2017 have been recast to reflect the change in segments previously noted. The "All Other" category includes only the fine chemistry services business, that does not fit into any of our core businesses.

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 adjusted EBITDA (as defined below) to assess the ongoing performance of the Company's business segments and to allocate resources. The Company defines adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, as adjusted on a consistent basis for certain non-recurring or unusual items in a balanced manner and on a segment basis. These non-recurring or unusual items may include 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. 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 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.

Table of Contents

	Three Months Ended September 30,				Percentage Change	
	2018	%	2017	%	2018 vs. 2017	
(In thousands, except percentages)						
Net sales:						
Lithium	\$270,928	34.8 %	\$269,238	35.7 %	1	%
Bromine Specialties	232,616	29.9 %	212,923	28.2 %	9	%
Catalysts	251,139	32.3 %	244,594	32.4 %	3	%
All Other	23,065	3.0 %	28,021	3.7 %	(18)	%
Corporate	—	— %	90	— %	(100)	%
Total net sales	\$777,748	100.0 %	\$754,866	100.0 %	3	%
Adjusted EBITDA:						
Lithium	\$113,629	48.4 %	\$112,944	53.9 %	1	%
Bromine Specialties	78,585	33.4 %	63,936	30.5 %	23	%
Catalysts	62,602	26.6 %	60,394	28.9 %	4	%
All Other	3,968	1.7 %	306	0.2 %	*	
Corporate	(23,702 )	(10.1)%	(28,197 )	(13.5)%	(16)	%
Total adjusted EBITDA	\$235,082	100.0 %	\$209,383	100.0 %	12	%

\* Percentage calculation is not meaningful.

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

	Lithium	Bromine Specialties	Catalysts	Reportable Segments Total	All Other	Corporate	Consolidated Total
Three months ended September 30, 2018							
Net income (loss) attributable to Albemarle Corporation	\$90,313	\$ 67,967	\$50,491	\$208,771	\$1,978	\$(81,004)	\$ 129,745
Depreciation and amortization	23,370	10,618	12,111	46,099	1,990	1,618	49,707
Restructuring and other <sup>(a)</sup>	—	—	—	—	—	3,724	3,724
Acquisition and integration related costs <sup>(b)</sup>	—	—	—	—	—	4,305	4,305
Interest and financing expenses	—	—	—	—	—	12,988	12,988
Income tax expense	—	—	—	—	—	33,167	33,167
Non-operating pension and OPEB items	—	—	—	—	—	(2,195 )	(2,195 )
Legal accrual <sup>(c)</sup>	—	—	—	—	—	(1,017 )	(1,017 )
Other <sup>(d)</sup>	(54 )	—	—	(54 )	—	4,712	4,658
Adjusted EBITDA	\$113,629	\$ 78,585	\$62,602	\$254,816	\$3,968	\$(23,702)	\$ 235,082
Three months ended September 30, 2017							
Net income (loss) attributable to Albemarle Corporation	\$89,745	\$ 53,760	\$47,846	\$191,351	\$(1,776)	\$(70,905)	\$ 118,670
Depreciation and amortization	22,316	10,176	13,798	46,290	2,082	1,523	49,895
Utilization of inventory markup <sup>(e)</sup>	568	—	—	568	—	—	568
Adjustment to gain on acquisition <sup>(f)</sup>	1,408	—	—	1,408	—	—	1,408

Edgar Filing: ALBEMARLE CORP - Form 10-Q

Acquisition and integration related costs <sup>(b)</sup>	—	—	—	—	—	5,635	5,635
Interest and financing expenses	—	—	—	—	—	15,792	15,792
Income tax expense	—	—	—	—	—	18,495	18,495
Non-operating pension and OPEB items	—	—	—	—	—	(1,028 )	(1,028 )
Multiemployer plan shortfall contributions <sup>(g)</sup>	—	—	—	—	—	1,646	1,646
Other <sup>(h)</sup>	(1,093 )	—	(1,250 )	(2,343 )	—	645	(1,698 )
Adjusted EBITDA	\$ 112,944	\$ 63,936	\$ 60,394	\$ 237,274	\$ 306	\$(28,197)	\$ 209,383

Table of Contents

Expected severance payments as part of a business reorganization plan, recorded in Selling, general and (a) administrative expenses. The unpaid balance is recorded in Accrued expenses at September 30, 2018, and is expected to be paid out by the end of 2018.

Included amounts for the three-month periods ended September 30, 2018 and 2017 recorded in (1) Cost of goods (b) sold of \$0.9 million and \$1.8 million, respectively; and (2) Selling, general and administrative expenses of \$3.4 million and \$3.8 million, respectively, relating to various significant projects.

Included in Other income (expenses), net is a gain of \$1.4 million related to the revision of an accrual resulting from a jury rendered verdict against Albemarle related to certain business concluded under a 2014 sales agreement (c) for products that Albemarle no longer manufactures, partially offset by a \$0.4 million charge related to the revision of an accrual resulting from a settlement of a legal matter related to guarantees from a previously disposed business.

(d) Included amounts for the three months ended September 30, 2018 recorded in:

Cost of goods sold - \$3.8 million for the write-off of fixed assets related to a major capacity expansion in our Jordanian joint venture.

Selling, general and administrative expenses - \$0.1 million gain related to a refund from Chilean authorities due to an overpayment made in a prior year, partially offset by a \$1.2 million contribution, using a portion of the proceeds received from the Polyolefin Catalysts Divestiture, to schools in the state of Louisiana for qualified tuition purposes. This contribution is significant in size and is intended to provide long-term benefits for families in the Louisiana community.

Other income (expenses), net - \$0.2 million gain related to the revision of previously recorded expenses of disposed businesses.

In connection with the acquisition of Jiangxi Jiangli New Materials Science and Technology Co. Ltd. (“Jiangli New Materials”), the Company valued inventory purchased from Jiangli New Materials at fair value, which resulted in a (e) markup of the underlying net book value of the inventory totaling approximately \$23.1 million. The inventory markup was expensed over the estimated remaining selling period. For the three-month period ended September 30, 2017, \$0.6 million was included in Cost of goods sold related to the utilization of the inventory markup.

(f) Gain recorded in Other income (expenses), net related to the acquisition of the remaining 50% interest in the Sales de Magnesio Ltda. joint venture in Chile.

(g) Included in Other income (expenses), net, is \$1.6 million for additional capital reserve contributions to a multiemployer plan, which is subject to a financial improvement plan, to indemnify previously divested businesses.

(h) Included amounts for the three months ended September 30, 2017 recorded in:

Cost of goods sold - \$1.3 million reversal of deferred income related to an abandoned project at an unconsolidated investment.

Other income (expenses), net - \$1.1 million related to a reversal of a liability associated with the previous disposal of a property, partially offset by the revision of tax indemnification expenses of \$0.7 million primarily related to the filing of tax returns for a previously disposed business.

**Lithium**

Lithium segment net sales for the three-month period ended September 30, 2018 were \$270.9 million, up \$1.7 million, or 1%, compared to the corresponding period of 2017. The increase was primarily driven by \$16.2 million of favorable pricing due to strong demand, partially offset by \$14.0 million of lower volumes driven by the impact of unexpected shutdowns at three of our sites. Adjusted EBITDA for Lithium was up 1%, or \$0.7 million, to \$113.6 million for the three-month period ended September 30, 2018, compared to the corresponding period of 2017, primarily due to favorable pricing, partially offset by higher royalty payments and lower sales volumes.

**Bromine Specialties**

Bromine Specialties segment net sales for the three-month period ended September 30, 2018 were \$232.6 million, up \$19.7 million, or 9%, compared to the corresponding period of 2017. The increase was primarily driven by \$15.0 million in favorable pricing and \$4.8 million of higher volume due to continued strong demand in flame retardants, bromine and other derivatives. Adjusted EBITDA for Bromine Specialties was up 23%, or \$14.6 million, to \$78.6 million for the three-month period ended September 30, 2018, compared to the corresponding period of 2017. This

increase was primarily due to favorable pricing across most products and increased sales volumes, more than offsetting the impact of higher raw material pricing.

#### Catalysts

Catalysts segment net sales for the three-month period ended September 30, 2018 were \$251.1 million, an increase of \$6.5 million, or 3%, compared to the corresponding period of 2017. This increase was primarily due to sales volumes in CFT and FCC and \$7.1 million of favorable price impacts due to pass through of some higher raw material costs. Partially offsetting this was \$27.0 million related to the Polyolefin Catalysts Divestiture. Catalysts adjusted EBITDA increased 4%, or \$2.2 million, to \$62.6 million for the three-month period ended September 30, 2018 in comparison to the corresponding period of 2017. This increase was primarily due to higher volumes and favorable pricing more than offsetting higher raw material costs. The impact of the \$10.5 million adjusted EBITDA related to the Polyolefin Catalyst Divestiture was more than offset by the \$10.9 million year over year impact of Hurricane Harvey, which affected the Company in the third quarter of 2017. This includes a partial insurance claim reimbursement of \$2.2 million received in the third quarter of 2018.

Table of Contents

## All Other

All Other net sales for the three-month period ended September 30, 2018 were \$23.1 million, a decrease of \$5.0 million, or 18%, compared to the three-month period ended September 30, 2017. This decrease was primarily due to \$3.1 million of lower sales volumes and \$2.0 million of unfavorable price impacts for the fine chemistry services business. All Other adjusted EBITDA increased \$3.7 million for the three-month period ended September 30, 2018 in comparison to the corresponding period of 2017. This increase was primarily due to a \$2.1 million gain in the fair value of our investment in private equity securities and favorable impact of product mix, partially offset by unfavorable pricing for the fine chemistry services business.

## Corporate

Corporate adjusted EBITDA was a charge of \$23.7 million for the three-month period ended September 30, 2018, compared to a charge of \$28.2 million for the corresponding period of 2017. The change was primarily due to lower SG&A spend, which more than offset \$3.5 million of unfavorable currency translation.

## Nine Months 2018 Compared to Nine Months 2017

## Selected Financial Data (Unaudited)

	Nine Months Ended September 30,		Percentage Change 2018 vs 2017	
	2018	2017		
	(In thousands, except percentages and per share amounts)			
NET SALES	\$2,453,251	\$2,214,187	11	%
Cost of goods sold	1,556,379	1,411,614	10	%
GROSS PROFIT	896,872	802,573	12	%
GROSS PROFIT MARGIN	36.6	% 36.2		%
Selling, general and administrative expenses	325,174	331,984	(2)	)%
Research and development expenses	53,670	63,423	(15)	)%
Gain on sale of business	(218,705)	) —		*
OPERATING PROFIT	736,733	407,166	81	%
OPERATING PROFIT MARGIN	30.0	% 18.4		%
Interest and financing expenses	(39,834)	) (98,895)	(60)	)%
Other expenses, net	(31,906)	) (3,399)		*
INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS	664,993	304,872	118	%
Income tax expense	133,630	53,596	149	%
Effective tax rate	20.1	% 17.6		%
INCOME BEFORE EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS	531,363	251,276	111	%
Equity in net income of unconsolidated investments (net of tax)	61,727	55,263	12	%
NET INCOME	593,090	306,539	93	%
Net income attributable to noncontrolling interests	(29,124)	) (33,323)	(13)	)%
NET INCOME ATTRIBUTABLE TO ALBEMARLE CORPORATION	\$563,966	\$273,216	106	%
PERCENTAGE OF NET SALES	23.0	% 12.3		%
Basic earnings per share	\$5.16	\$2.46	110	%
Diluted earnings per share	\$5.11	\$2.43	110	%

\* Percentage calculation is not meaningful.

## Net Sales

For the nine-month period ended September 30, 2018, we recorded net sales of \$2.45 billion, an increase of \$239.1 million, or 11%, compared to net sales of \$2.21 billion for the nine-month period ended September 30, 2017. Net sales increased across all three reportable segments due to \$135.5 million of higher volumes, \$121.4 million of favorable

pricing

35

---

Table of Contents

impacts and \$34.9 million of favorable currency exchange. This was partially offset by \$52.7 million related to the Polyolefin Catalysts Divestiture.

**Gross Profit**

For the nine-month period ended September 30, 2018, our gross profit increased \$94.3 million, or 12%, from the corresponding 2017 period. Cost of goods sold for the nine-month period ended September 30, 2018 included a decrease of \$9.6 million in acquisition and integration related costs from various significant projects compared to the corresponding period in 2017. In addition, gross profit in 2017 included a \$23.1 million charge related to the markup of inventory purchased as part of the Jiangli New Materials acquisition, restructuring costs of \$2.9 million related to a plan to reduce costs at several locations and \$20.3 million of gross profit related to the Polyolefin Catalysts Divestiture. Gross profit in 2017 was unfavorably impacted by \$11.4 million as a result of Hurricane Harvey, while we received a related partial insurance claim reimbursement of \$4.2 million in 2018. Excluding the impact of these items, gross profit increased by \$63.1 million, or 7.5%, primarily due to \$121.4 million in favorable pricing impacts and higher volumes, more than offsetting higher material costs and royalty payments in Lithium. Overall, these factors contributed to a gross profit margin for the nine-month period ended September 30, 2018 of 36.6%, up from 36.2% in the corresponding period in 2017.

**Selling, General and Administrative Expenses**

For the nine-month period ended September 30, 2018, our SG&A expenses decreased \$6.8 million, or 2%, from the nine-month period ended September 30, 2017. SG&A for the nine-month period ended September 30, 2018 included \$16.2 million of charitable contributions beyond the Company's ordinary, recurring charitable contributions, a decrease in restructuring and other costs related to several locations of \$4.7 million and \$3.7 million less acquisition and integration related costs for various significant projects. The remaining decrease is primarily due to lower compensation related costs and professional fees. As a percentage of net sales, SG&A expenses were 13.3% for the nine-month period ended September 30, 2018, compared to 15.0% for the corresponding period in 2017.

**Research and Development Expenses**

For the nine-month period ended September 30, 2018, our R&D expenses decreased \$9.8 million, or 15%, from the nine-month period ended September 30, 2017. Included in R&D expenses for the nine-month period ended September 30, 2017 were \$5.8 million of restructuring costs related to our Lithium sites in Germany. As a percentage of net sales, R&D expenses were 2.2% and 2.9% for the nine-month periods ended September 30, 2018 and 2017, respectively.

**Gain on Sale of Business**

The nine-month period ended September 30, 2018 includes a gain before income taxes of \$218.7 million related to the Polyolefin Catalysts Divestiture, which closed in the second quarter of 2018.

**Interest and Financing Expenses**

Interest and financing expenses for the nine-month period ended September 30, 2018 decreased \$59.1 million to \$39.8 million from the corresponding 2017 period. This decrease was mainly due to a loss on early extinguishment of debt of \$52.8 million in 2017 relating to the tender premiums, fees, unamortized discounts and unamortized deferred financing 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. The remaining difference is primarily related to the impact of higher capitalized interest from increased capital expenditures during 2018.

**Other Expenses, Net**

Other expenses, net, for the nine-month period ended September 30, 2018 was \$31.9 million compared to \$3.4 million for the corresponding 2017 period. During the nine-month period ended September 30, 2018, we recorded \$27.0 million of legal accruals, related to products that Albemarle no longer manufactures and a previously disposed business and \$15.6 million related to environmental charges related to a site formerly owned by Albemarle, partially offset by a \$2.1 million gain in the fair value of our investment in private equity securities. During the nine-month period ended September 30, 2017, we recorded \$9.2 million of charges related to previously disposed properties or businesses, partially offset by a \$6.0 million gain related to the acquisition of the remaining 50% interest of an equity investment in 2017 and \$1.1 million related to the reversal of a liability associated with the previous disposal of a property. The remaining change was primarily due to a decrease in foreign exchange losses totaling \$2.2 million and



an increase in interest income.

**Income Tax Expense**

The effective income tax rate for the first nine months of 2018 was 20.1% compared to 17.6% for the first nine months of 2017. The difference between the U.S. federal statutory income tax rate of 21% and our effective income tax rate for the nine months ended September 30, 2018 was impacted by a variety of factors, primarily stemming from the location in which income is earned. The difference between the U.S. federal statutory income tax rate of 35% and our effective income tax rate for the

Table of Contents

nine months ended September 30, 2017 was primarily due to the impact of earnings from outside the U.S., and is mainly attributable to our share of the income of our JBC joint venture, a Free Zones company under the laws of the Hashemite Kingdom of Jordan. The increase in the effective tax rate for the nine-month period ended September 30, 2018 compared to the same period last year, was driven by a variety of factors, primarily stemming from a change in the geographic mix of earnings.

**Equity in Net Income of Unconsolidated Investments**

Equity in net income of unconsolidated investments was \$61.7 million for the nine-month period ended September 30, 2018 compared to \$55.3 million in the same period last year. This increase of \$6.5 million was primarily due to higher equity income reported by our Lithium joint venture, Windfield Holdings Pty. Ltd., partially offset by a decrease in equity income in our Catalysts segment.

**Net Income Attributable to Noncontrolling Interests**

For the nine-month period ended September 30, 2018, net income attributable to noncontrolling interests was \$29.1 million compared to \$33.3 million in the same period last year. This decrease of \$4.2 million was primarily due to a decrease in consolidated income related to our JBC joint venture from lower sales volumes related to the installation of additional production capacity in the current year.

**Net Income Attributable to Albemarle Corporation**

Net income attributable to Albemarle Corporation increased to \$564.0 million in the nine-month period ended September 30, 2018, from \$273.2 million in the nine-month period ended September 30, 2017. The increase is primarily due to the after-tax gain of \$176.6 million related to the Polyolefin Catalysts Divestiture, favorable pricing impacts and greater sales volumes in all reportable segments, a \$13.4 million decrease in restructuring and other costs and a \$13.4 million decrease in acquisition and integration costs in the nine-month period ended September 30, 2018. This increase also reflects a \$52.8 million loss on early extinguishment of debt related to the repayment of senior notes recorded in the corresponding period of 2017. This was partially offset by \$27.0 million of legal accruals related to products that Albemarle no longer manufactures and a previously disposed business, \$16.2 million of charitable contributions beyond the Company's ordinary, recurring charitable contributions, \$15.6 million related to environmental charges related to a site formerly owned by Albemarle recorded in the nine-month period ended September 30, 2018 and a \$6.0 million gain related to the acquisition of the remaining 50% interest of equity investment in the corresponding period of 2017.

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

Total other comprehensive (loss) income, net of tax, was (\$88.6) million for the nine-month period ended September 30, 2018 compared to \$163.3 million for the corresponding period in 2017. The majority of this loss is the result of translating our foreign subsidiary financial statements from their local currencies to U.S. Dollars. In the nine-month period ended September 30, 2018, other comprehensive loss from foreign currency translation adjustments was \$95.5 million, primarily as a result of unfavorable movements in the Euro of approximately \$55 million, the Brazilian Real of approximately \$15 million, the Chinese Renminbi of approximately \$15 million, the Korean Won of approximately \$4 million and a net unfavorable variance in various other currencies totaling approximately \$6 million. Also included in total other comprehensive loss for the 2018 period is income of \$4.9 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 corresponding 2017 period, other comprehensive income from foreign currency translation adjustments was \$199.3 million, primarily resulting from favorable movements in the Euro of approximately \$174 million, the Chinese Renminbi of approximately \$9 million, the Korean Won of approximately \$8 million, and a net favorable variance in various other currencies totaling approximately \$7 million (each approximately \$4 million or less). Also included in total other comprehensive income for the corresponding 2017 period is a loss of \$37.6 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.

Table of Contents

Segment Information Overview. Summarized financial information concerning our reportable segments is shown in the following tables. Results for 2017 have been recast to reflect the change in segments previously noted. The “All Other” category includes only the fine chemistry services business, that does not fit into any of our core businesses.

	Nine Months Ended September 30,				Percentage Change	
	2018	%	2017	%	2018 vs. 2017	
(In thousands, except percentages)						
Net sales:						
Lithium	\$886,523	36.1 %	\$729,288	32.9 %	22 %	
Bromine Specialties	678,769	27.7 %	636,059	28.7 %	7 %	
Catalysts	796,822	32.5 %	756,407	34.2 %	5 %	
All Other	90,978	3.7 %	91,144	4.1 %	— %	
Corporate	159	— %	1,289	0.1 %	(88 )%	
Total net sales	\$2,453,251	100.0 %	\$2,214,187	100.0 %	11 %	
Adjusted EBITDA:						
Lithium	\$386,260	52.0 %	\$327,996	51.3 %	18 %	
Bromine Specialties	217,921	29.4 %	194,499	30.4 %	12 %	
Catalysts	205,534	27.7 %	197,570	30.8 %	4 %	
All Other	7,729	1.0 %	7,906	1.3 %	(2 )%	
Corporate	(75,082 )	(10.1 )%	(88,271 )	(13.8 )%	(15 )%	
Total adjusted EBITDA	\$742,362	100.0 %	\$639,700	100.0 %	16 %	

Table of Contents

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

	Lithium	Bromine Specialties	Catalysts	Reportable Segments Total	All Other	Corporate	Consolidated Total
Nine Months Ended September 30, 2018							
Net income (loss) attributable to Albemarle Corporation	\$315,939	\$187,176	\$387,038	\$890,153	\$1,659	\$(327,846)	\$563,966
Depreciation and amortization	71,760	30,745	37,201	139,706	6,070	4,735	150,511
Restructuring and other <sup>(a)</sup>	—	—	—	—	—	3,724	3,724
Gain on sale of business <sup>(b)</sup>	—	—	(218,705)	(218,705)	—	—	(218,705)
Acquisition and integration related costs <sup>(c)</sup>	—	—	—	—	—	13,016	13,016
Interest and financing expenses	—	—	—	—	—	39,834	39,834
Income tax expense	—	—	—	—	—	133,630	133,630
Non-operating pension and OPEB items	—	—	—	—	—	(6,596)	(6,596)
Multiemployer plan shortfall contributions	—	—	—	—	—	—	—
Legal accrual <sup>(d)</sup>	—	—	—	—	—	27,027	27,027
Albemarle Foundation contribution <sup>(e)</sup>	—	—	—	—	—	15,000	15,000
Other <sup>(f)</sup>	(1,439)	—	—	(1,439)	—	22,394	20,955
Adjusted EBITDA	\$386,260	\$217,921	\$205,534	\$809,715	\$7,729	\$(75,082)	\$742,362
Nine Months Ended September 30, 2017							
Net income (loss) attributable to Albemarle Corporation	\$249,178	\$164,193	\$158,806	\$572,177	\$1,622	\$(300,583)	\$273,216
Depreciation and amortization	62,841	30,306	40,014	133,161	6,284	4,642	144,087
Utilization of inventory markup <sup>(g)</sup>	23,095	—	—	23,095	—	—	23,095
Restructuring and other <sup>(h)</sup>	—	—	—	—	—	17,141	17,141
Gain on acquisition <sup>(i)</sup>	(6,025)	—	—	(6,025)	—	—	(6,025)
Acquisition and integration related costs <sup>(c)</sup>	—	—	—	—	—	26,395	26,395
Interest and financing expenses <sup>(j)</sup>	—	—	—	—	—	98,895	98,895
Income tax expense	—	—	—	—	—	53,596	53,596
Non-operating pension and OPEB items	—	—	—	—	—	(3,144)	(3,144)
Multiemployer plan shortfall contributions <sup>(k)</sup>	—	—	—	—	—	6,586	6,586
Other <sup>(l)</sup>	(1,093)	—	(1,250)	(2,343)	—	8,201	5,858
Adjusted EBITDA	\$327,996	\$194,499	\$197,570	\$720,065	\$7,906	\$(88,271)	\$639,700

Expected severance payments as part of a business reorganization plan, recorded in Selling, general and (a) administrative expenses. The unpaid balance is recorded in Accrued expenses at September 30, 2018, and is expected to be paid out by the end of 2018.

(b) See "Gain on Sale of Business" on page 36 for a description of this gain.

(c) Included amounts for the nine-month periods ended September 30, 2018 and 2017 recorded in (1) Cost of goods sold of \$2.9 million and \$12.5 million, respectively; and (2) Selling, general and administrative expenses of \$10.2

million and \$13.9 million, respectively, relating to various significant projects.

(d) Included in Other expenses, net is a \$16.2 million accrual resulting from a jury rendered verdict against Albemarle related to certain business concluded under a 2014 sales agreement for products that Albemarle no longer manufactures and a \$10.8 million accrual resulting from a settlement of a legal matter related to guarantees from a previously disposed business.

(e) Included in Selling, general and administrative expenses is a charitable contribution, using a portion of the proceeds received from the Polyolefin Catalysts Divestiture, to the Albemarle Foundation, a non-profit organization that sponsors grants, health and social projects, educational initiatives, disaster relief, matching gift programs, scholarships and other charitable initiatives in locations where our employees live and operate. This contribution is in addition to the ordinary annual contribution made to the Albemarle Foundation by the Company, and is significant in size and nature in that it is intended to provide more long-term benefits in the communities where we live and operate.

(f) Included amounts for the nine months ended September 30, 2018 recorded in:

Cost of goods sold - \$4.9 million for the write-off of fixed assets related to a major capacity expansion in our Jordanian joint venture.

Selling, general and administrative expenses - \$1.5 million gain related to a refund from Chilean authorities due to an overpayment made in a prior year, partially offset by a \$1.2 million contribution, using a portion of the proceeds received from the Polyolefin Catalysts Divestiture, to schools in the state of Louisiana for qualified tuition purposes. This contribution is significant in size and is intended to provide long-term benefits for families in the Louisiana community.

Table of Contents

Other expenses, net - \$15.6 million of environmental charges related to a site formerly owned by Albemarle and \$0.8 million related to the revision of previously recorded expenses of disposed businesses.

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 (g) approximately \$23.1 million. The inventory markup was expensed over the estimated remaining selling period. For the nine-month period ended September 30, 2017, \$23.1 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 (h) 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 September 30, 2018, with the expectation that the majority of this plan will be completed by the end of 2018.

(i) Gain recorded in Other expenses, net related to the acquisition of the remaining 50% interest in the Sales de Magnesio Ltda. joint venture in Chile.

During the first quarter of 2017, 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, (j) included in Interest and financing expenses is a loss on early extinguishment of debt of \$52.8 million, representing the tender premiums, fees unamortized discounts and unamortized deferred financing costs from the redemption of these senior notes.

Included in Selling, general and administrative expenses is \$2.0 million for additional capital reserve contributions (k) to a multiemployer plan, which is subject to a financial improvement plan. In addition, additional capital reserve contributions for this multiemployer plan of \$4.6 million, included in Other expenses, net, have been made to indemnify previously divested businesses.

(l) Included amounts for the nine months ended September 30, 2017 recorded in:

Cost of goods sold - \$1.3 million reversal of deferred income related to an abandoned project at an unconsolidated investment.

Selling, general and administrative expenses - \$1.0 million related to a reversal of an accrual recorded as part of purchase accounting from a previous acquisition.

Other expenses, net - \$3.2 million of asset retirement obligation charges related to the revision of an estimate at a site formerly owned by Albemarle, losses of \$4.1 million associated with the previous disposal of a businesses and the revision of tax indemnification expenses of \$1.9 million primarily related to the filing of tax returns and a competent authority agreement for a previously disposed business. This is partially offset by \$1.1 million related to a reversal of a liability associated with the previous disposal of a property.

**Lithium**

Lithium segment net sales for the nine-month period ended September 30, 2018 were \$886.5 million, up \$157.2 million, or 22%, compared to the corresponding period of 2017. The increase was primarily driven by \$74.8 million of favorable pricing due to strong demand, which continues to drive investment in new capacity, \$64.3 million of higher sales volumes and \$18.4 million of favorable currency translation primarily driven by the weaker U.S. Dollar against the Euro. Adjusted EBITDA for Lithium was up 18%, or \$58.3 million, to \$386.3 million for the nine-month period ended September 30, 2018, compared to the corresponding period of 2017, primarily due to favorable pricing, higher sales volumes and \$2.6 million of favorable currency translation, partially offset by higher royalty payments.

**Bromine Specialties**

Bromine Specialties segment net sales for the nine-month period ended September 30, 2018 were \$678.8 million, up \$42.7 million, or 7%, compared to the corresponding period of 2017. The increase was driven mainly by \$32.1 million in favorable pricing in flame retardants, bromine and other derivatives due to continued strong demand, \$3.4 million in higher sales volumes and \$7.2 million of favorable currency translation driven by the weaker U.S. Dollar against the Euro. Adjusted EBITDA for Bromine Specialties was up 12%, or \$23.4 million, to \$217.9 million for the

nine-month period ended September 30, 2018, compared to the corresponding period of 2017. This increase was primarily due to favorable pricing across most products and \$6.3 million of favorable currency translation related to the Euro, more than offsetting the impact of higher freight, raw materials and production costs.

#### Catalysts

Catalysts segment net sales for the nine-month period ended September 30, 2018 were \$796.8 million, an increase of \$40.4 million, or 5%, compared to the corresponding period of 2017. This increase was primarily due to \$65.1 million of higher volumes, primarily related to FCC and PCS, \$18.7 million of favorable price impacts due to pass through of higher raw material costs and \$9.2 million of favorable currency translation primarily driven by the weaker U.S. Dollar against the Euro. Partially offsetting this was \$52.7 million related to the Polyolefin Catalysts Divestiture. Catalysts adjusted EBITDA increased 4%, or \$8.0 million, to \$205.5 million for the nine-month period ended September 30, 2018 in comparison to the corresponding period of 2017. This increase was primarily due to favorable price impact and higher volumes, partially offset by higher raw material costs. In addition, the nine-month period ended September 30, 2017 included a \$20.3 million adjusted EBITDA impact from the Polyolefin Catalyst Divestiture, which was partially offset by the \$12.9 million year over year impact of Hurricane Harvey, which affected the Company in the third quarter of 2017. This includes a partial insurance claim reimbursement of \$4.2 million received in the third quarter of 2018.

## Table of Contents

### All Other

All Other net sales for the nine-month period ended September 30, 2018 were \$91.0 million, a decrease of \$0.2 million compared to the nine-month period ended September 30, 2017. This decrease was primarily due to unfavorable pricing, partially offset by higher volumes for the fine chemistry services business. All Other adjusted EBITDA was down 2%, or \$0.2 million, for the nine-month period ended September 30, 2018 in comparison to the corresponding period of 2017, primarily due to unfavorable pricing impacts and product mix for the fine chemistry services business, partially offset by a \$2.1 million gain in the fair value of our investment in private equity securities.

### Corporate

Corporate adjusted EBITDA was a charge of \$75.1 million for the nine-month period ended September 30, 2018, compared to a charge of \$88.3 million for the corresponding period of 2017. The change was primarily due to lower SG&A spend related to compensation related costs and professional fees, partially offset by \$2.3 million of unfavorable currency translation.

## Financial Condition and Liquidity

### Overview

The principal uses of cash in our business generally have been capital investments and resource development costs, funding working capital and service of debt. We also make contributions to our defined benefit pension plans, pay dividends to our shareholders and 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, proceeds from divestitures and 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 nine months of 2018, cash on hand, cash provided by operations and \$413.5 million of net proceeds from divestitures funded \$135.8 million of commercial paper repayments, net of borrowings, \$500.0 million of accelerated share repurchase programs, \$471.7 million of capital expenditures for plant, machinery and equipment, and mining resource development, and dividends to shareholders of \$108.9 million. Our operations provided \$376.9 million of cash flows during the first nine months of 2018, as compared to \$74.8 million for the first nine months of 2017, with the increase primarily arising from the payment of approximately \$255 million in taxes related to the Chemetall divestiture in 2017. Our cash from operations in 2018 included an outflow from working capital changes of \$131.8 million, primarily due to the build-up of inventory in the Lithium and Catalysts reportable segments resulting from higher forecasted sales in the fourth quarter. Overall, our cash and cash equivalents decreased by approximately \$496.1 million to \$641.2 million at September 30, 2018 from \$1.14 billion at December 31, 2017.

Under our existing Board authorized share repurchase program, during 2018, the Company entered into two separate ASR agreements with financial institutions. Under each ASR agreement, the Company paid \$250 million from available cash on hand. Under the terms of the first ASR agreement, which was completed on September 28, 2018, the Company received and retired a total of 2,680,704 shares, calculated based on the daily Rule 10b-18 volume-weighted average prices of the Company's common stock over the term of this ASR agreement, less an agreed discount. Under the terms of the second ASR agreement, the Company received and retired an initial delivery of 1,984,914 shares of our common stock with a fair market value of \$200 million. The total number of shares to ultimately be delivered under the ASR agreement will be determined upon completion of the second ASR agreement, which is expected to be by the end of the fourth quarter of 2018, and will generally be 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, through September 30, 2018, we received and retired 4,665,618 shares under these agreements, which reduced the Company's weighted average shares outstanding for purposes of calculating basic and diluted earnings per share for the three-month and nine-month periods ended September 30, 2018. As of September 30, 2018, there were 7,993,299 remaining shares available for repurchase under the Company's authorized share repurchase program.



Capital expenditures for the nine-month period ended September 30, 2018 of \$471.7 million were associated with property, plant and equipment additions. We expect our capital expenditures to approximate \$800 to \$900 million in 2018 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.

Table of Contents

On April 3, 2018, the Company closed the Polyolefin Catalysts Divestiture to W.R. Grace & Co. for proceeds of approximately \$413.5 million in cash and recorded a gain of \$218.7 million before income taxes during the nine months ended September 30, 2018 related to the sale of this business. The transaction includes Albemarle's Product Development Center located in Baton Rouge, Louisiana, and operations at its Yeosu, South Korea site. The sale does not include the Company's organometallics or curatives portion of its PCS business. The Polyolefin Catalysts Divestiture reflects the Company's commitment to investing in the future growth of its high priority businesses and returning capital to shareholders.

Net current assets were \$932.6 million and \$1.28 billion at September 30, 2018 and December 31, 2017, respectively. The decrease is primarily due to the reduction in cash and cash equivalents to fund the ASR programs we entered into during 2018. Additional changes in the components of net current assets are primarily due to the timing of the sale of goods and other ordinary 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 ordinary course of business.

On February 23, 2018, we increased our quarterly dividend rate to \$0.335 per share, a 5% increase from the quarterly rate of \$0.32 per share paid in 2017.

At September 30, 2018 and December 31, 2017, our cash and cash equivalents included \$538.3 million and \$1.10 billion, 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 the first nine months of 2018 and 2017, we repatriated approximately \$621.8 million and \$7.5 million of cash, respectively, as part of these foreign earnings cash repatriation activities. A portion of the cash repatriations was used to repay a net amount of \$135.8 million of commercial paper during 2018. We continue to evaluate our indefinite reinvestment assertion as a result of the TCJA.

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 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.

## Table of Contents

On June 21, 2018, we entered into a revolving, unsecured credit agreement (“2018 Credit Agreement”) to replace our revolving, unsecured credit agreement dated as of February 7, 2014, as amended. The 2018 Credit Agreement currently provides for borrowings of up to \$1.0 billion and matures on June 21, 2023. Borrowings under the 2018 Credit Agreement bear interest at variable rates based on an average London inter-bank offered rate (“LIBOR”) for deposits in the relevant currency plus an applicable margin which ranges from 0.910% to 1.500%, 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 1.125% as of September 30, 2018. There were no borrowings outstanding under the 2018 Credit Agreement as of September 30, 2018.

Borrowings under the 2018 Credit Agreement are conditioned upon satisfaction of certain conditions precedent, including the absence of defaults. The Company is subject to one financial covenant, as well as customary affirmative and negative covenants. The financial covenant requires that the Company’s consolidated funded debt to consolidated EBITDA ratio (as such terms are defined in the 2018 Credit Agreement) to be less than or equal to 3.50:1.00, subject to adjustments in accordance with the terms of the 2018 Credit Agreement relating to a consummation of an acquisition where the consideration includes cash proceeds from issuance of funded debt in excess of \$500 million. The 2018 Credit Agreement also contains customary default provisions, including defaults for non-payment, breach of representations and warranties, insolvency, non-performance of covenants and cross-defaults to other material indebtedness. The occurrence of an event of default under the 2018 Credit Agreement could result in all loans and other obligations becoming immediately due and payable and the credit facility being terminated.

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 2018 Credit Agreement is available to repay the Commercial Paper Notes, if necessary. Aggregate borrowings outstanding under the 2018 Credit Agreement and the Commercial Paper Notes will not exceed the \$1.0 billion current maximum amount available under the 2018 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 September 30, 2018, we had \$285.5 million of Commercial Paper Notes outstanding bearing a weighted-average interest rate of approximately 2.39% and a weighted-average maturity of 31 days. During the first nine months of 2018, we repaid a net amount of \$135.8 million of commercial paper notes using cash on hand. The Commercial Paper Notes are classified as Current portion of long-term debt in our condensed consolidated balance sheets at September 30, 2018 and December 31, 2017. The non-current portion of our long-term debt amounted to \$1.41 billion at September 30, 2018, compared to \$1.42 billion at December 31, 2017. In addition, at September 30, 2018, we had the ability to borrow \$714.5 million under our commercial paper program and the 2018 Credit Agreement, and \$243.2 million under other existing lines of credit, subject to various financial covenants under our 2018 Credit Agreement. We have the ability and intent to refinance our borrowings under our other existing credit lines with borrowings under the 2018 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 September 30, 2018, we were, and currently are, in compliance with all of our long term debt covenants.

### Off-Balance Sheet Arrangements

In the ordinary 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 \$69.3 million at September 30, 2018. 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

There have been no significant changes in our contractual obligations from the information we provided in our Annual Report on Form 10-K for the year ended December 31, 2017.

Total expected 2018 contributions to our domestic and foreign qualified and nonqualified pension plans, including our SERP, should approximate \$13 million. We may choose to make additional pension contributions in excess of this amount. We have made contributions of \$9.0 million to our domestic and foreign pension plans (both qualified and nonqualified) during the nine-month period ended September 30, 2018.

The liability related to uncertain tax positions, including interest and penalties, recorded in Other noncurrent liabilities totaled \$22.2 million at September 30, 2018 and \$24.4 million at December 31, 2017. Related assets for corresponding offsetting benefits recorded in Other assets totaled \$12.2 million at September 30, 2018 and \$14.6 million at December 31,

## Table of Contents

2017. We cannot estimate the amounts of any cash payments associated with these liabilities for the remainder of 2018 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 in compliance, 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 and cash provided by operating activities, divestitures, including the Polyolefin Catalysts Divestiture, and borrowings will be sufficient to pay our operating expenses, satisfy debt service obligations, fund any capital expenditures and share repurchases, make acquisitions, 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 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, although these cost increases would be partially offset by increased income rates on portions of our cash deposits.

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.

Following receipt of information regarding potential improper payments being made by third party sales representatives of our Refining Solutions business, within our Catalysts segment, we promptly retained outside counsel and forensic accountants to investigate potential violations of the Company’s Code of Conduct, the Foreign Corrupt Practices Act and other potentially applicable laws. Based on this internal investigation, we have voluntarily self-reported potential issues relating to the use of third party sales representatives in our Refining Solutions business,

within our Catalysts segment, to the U.S. Department of Justice (“DOJ”) and SEC, and are cooperating with the DOJ and SEC in their review of these matters. In connection with our internal investigation, we have implemented, and are continuing to implement, appropriate remedial measures.

At this time, we are unable to predict the duration, scope, result or related costs associated with any investigations by the DOJ or SEC. We also are unable to predict what, if any, action may be taken by the DOJ or SEC or what penalties or remedial actions they may seek. Any determination that our operations or activities are not in compliance with existing laws or regulations, however, could result in the imposition of fines, penalties, disgorgement, equitable relief or other losses. We do not

## Table of Contents

believe, however, that any fines, penalties, disgorgement, equitable relief or other losses would have a material adverse effect on our financial condition or liquidity.

We had cash and cash equivalents totaling \$641.2 million at September 30, 2018, of which \$538.3 million is held by our foreign subsidiaries. This cash represents an important source of our liquidity and is invested in bank accounts or money market investments with no limitations on access. 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.

### Summary of Critical Accounting Policies and Estimates

Effective January 1, 2018, we adopted ASU 2014-09, “Revenue from Contracts with Customers.” As a result, we have updated our revenue recognition accounting policy, see Item 1 Financial Statements – Note 1, “Basis of Presentation,” for additional details. There have been no other significant changes in our critical accounting policies and estimates from the information we provided in our Annual Report on Form 10-K for the year ended December 31, 2017.

### Recent Accounting Pronouncements

For a description of recent accounting pronouncements, see Item 1 Financial Statements – Note 17, “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, 2017.

We had variable interest rate borrowings of \$292.6 million outstanding at September 30, 2018, bearing a weighted average interest rate of 2.34% and representing approximately 17% of our total outstanding debt. A hypothetical 10% change (approximately 23 basis points) in the interest rate applicable to these borrowings would change our annualized interest expense by approximately \$0.7 million as of September 30, 2018. 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 \$531.0 million and with a fair value representing a net asset position of \$0.1 million at September 30, 2018. 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 September 30, 2018, with all other variables held constant. A 10% appreciation of the U.S. Dollar against foreign currencies that we hedge would result in a decrease of approximately \$12.3 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 an increase of approximately \$10.3 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 September 30, 2018, 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 third quarter ended September 30, 2018 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

45

---

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 9 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, 2017 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, 2017.

## 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 September 30, 2018:

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
July 1, 2018 to July 31, 2018	—	\$ —	—	10,304,784
August 1, 2018 to August 31, 2018 <sup>(b)</sup>	1,984,914	100.76	1,984,914	8,319,870
September 1, 2018 to September 30, 2018 <sup>(c)</sup>	326,571	93.19	326,571	7,993,299
Total	2,311,485		2,311,485	

Our stock repurchase plan, which was authorized by our Board of Directors, permits the Company to repurchase up to a maximum of 15,000,000 shares. 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 third quarter of 2018, we paid \$250 million under the ASR agreement, receiving and retiring an initial delivery of 1,984,914 shares. This agreement is expected to be completed in the fourth quarter of 2018. The Average Price Paid Per Share was calculated using the closing price per share of our common stock the date the ASR agreement was signed. See Item 1 Financial Statements - Note 5, "Earnings Per Share," to the condensed consolidated financial statements included in this quarterly report.

In the second quarter of 2018, we paid \$250 million under the ASR agreement. Under the terms of the agreement, in September 2018 the ASR agreement was completed and we received and retired a final settlement of 326,751 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 5, "Earnings Per Share," to the condensed consolidated financial statements included in this quarterly report.



Table of Contents

Item 6. Exhibits.

(a) Exhibits

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 September 30, 2018, 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 for the three and nine months ended September 30, 2018 and 2017, (ii) the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017, (iii) the Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017, (iv) the Consolidated Statements of Changes in Equity for the nine months ended September 30, 2018 and 2017, (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017 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: November 7, 2018 By: /S/ SCOTT A. TOZIER  
Scott A. Tozier  
Executive Vice President and Chief Financial Officer  
(principal financial officer)