ALBEMARLE CORP
Form 10-Q
August 07, 2018
Table of Contents

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For Quarterly Period Ended June 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 (State or other jurisdiction of incorporation or organization)	54-1692118 (I.R.S. Employer Identification No.)
4350 CONGRESS STREET, SUITE 700 CHARLOTTE, NORTH CAROLINA	28209
(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 x 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 x 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	x	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 x
Number of shares of common stock, $.01 par value, outstanding as of July 31, 2018: 108,449,763

Table of Contents

ALBEMARLE CORPORATION
INDEX – FORM 10-Q

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	$853,874	$737,258	$1,675,503	$1,459,321
Cost of goods sold	542,518	465,297	1,059,168	932,404
Gross profit	311,356	271,961	616,335	526,917
Selling, general and administrative expenses	123,637	116,585	225,007	225,513
Research and development expenses	16,074	17,337	37,060	41,660
Gain on sale of business	(218,705)	—	(218,705)	—
Operating profit	390,350	138,039	572,973	259,744
Interest and financing expenses	(13,308)	(14,590)	(26,846)	(83,103)
Other expenses, net	(5,223)	(1,678)	(35,699)	(1,413)
Income before income taxes and equity in net income of unconsolidated investments	371,819	121,771	510,428	175,228
Income tax expense	80,102	23,130	100,463	35,101
Income before equity in net income of unconsolidated investments	291,717	98,641	409,965	140,127
Equity in net income of unconsolidated investments (net of tax)	18,969	15,048	39,646	36,219
Net income	310,686	113,689	449,611	176,346
Net income attributable to noncontrolling interests	(8,225)	(10,356)	(15,390)	(21,800)
Net income attributable to Albemarle Corporation	$302,461	$103,333	$434,221	$154,546
Basic earnings per share	$2.76	$0.93	$3.94	$1.39
Diluted earnings per share	$2.73	$0.92	$3.90	$1.37
Weighted-average common shares outstanding – basic	109,671	110,686	110,176	111,336
Weighted-average common shares outstanding – diluted	110,659	112,105	111,263	112,697
Cash dividends declared per share of common stock	$0.335	$0.32	$0.67	$0.64

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$310,686	$113,689	$449,611	$176,346
Other comprehensive (loss) income, net of tax:				
Foreign currency translation	(150,857)	64,069	(85,966)	143,124
Pension and postretirement benefits	23	16	26	9
Net investment hedge	22,989	(14,234)	8,568	(27,919)
Interest rate swap	642	529	1,284	1,058
Total other comprehensive (loss) income, net of tax	(127,203)	50,380	(76,088)	116,272
Comprehensive income	183,483	164,069	373,523	292,618
Comprehensive income attributable to noncontrolling interests	(7,962)	(10,588)	(15,313)	(22,493)
Comprehensive income attributable to Albemarle Corporation	$175,521	$153,481	$358,210	$270,125

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

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

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$908,144	$1,137,303
Trade accounts receivable, less allowance for doubtful accounts (2018 – $8,645; 2017 – $10,425)	571,032	534,326
Other accounts receivable	44,451	37,937
Inventories	665,522	592,781
Other current assets	93,921	136,064
Assets held for sale	—	39,152
Total current assets	2,283,070	2,477,563
Property, plant and equipment, at cost	4,375,335	4,124,335
Less accumulated depreciation and amortization	1,705,675	1,631,025
Net property, plant and equipment	2,669,660	2,493,310
Investments	519,518	534,064
Noncurrent assets held for sale	—	139,813
Other assets	75,108	74,164
Goodwill	1,585,500	1,610,355
Other intangibles, net of amortization	405,507	421,503
Total assets	$7,538,363	$7,750,772
Liabilities And Equity		
Current liabilities:		
Accounts payable	$460,442	$418,537
Accrued expenses	272,555	268,336
Current portion of long-term debt	208,681	422,012
Dividends payable	36,220	35,165
Liabilities held for sale	—	1,938
Income taxes payable	63,763	54,937
Total current liabilities	1,041,661	1,200,925
Long-term debt	1,406,724	1,415,360
Postretirement benefits	51,936	52,003
Pension benefits	281,421	294,611
Noncurrent liabilities held for sale	—	614
Other noncurrent liabilities	553,129	599,174
Deferred income taxes	366,212	370,389
Commitments and contingencies (Note 10)		
Equity:		
Albemarle Corporation shareholders’ equity:		
Common stock, $.01 par value, issued and outstanding – 108,441 in 2018 and 110,547 in 2017	1,084	1,105
Additional paid-in capital	1,609,526	1,863,949
Accumulated other comprehensive loss	(301,679)	(225,668)
Retained earnings	2,384,645	2,035,163

Total Albemarle Corporation shareholders’ equity	3,693,576	3,674,549
Noncontrolling interests	143,704	143,147
Total equity	3,837,280	3,817,696
Total liabilities and equity	$7,538,363	$7,750,772

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

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

(In Thousands, Except Share Data)	Common Stock Shares	Common Stock Amounts	Additional Paid-in 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					434,221	434,221	15,390	449,611
Other comprehensive loss				(76,011)		(76,011)	(77)	(76,088)
Cash dividends declared					(73,540)	(73,540)	(14,756)	(88,296)
Cumulative adjustment from adoption of income tax standard update (Note 18)					(11,199)	(11,199)		(11,199)
Stock-based compensation and other			10,728			10,728		10,728
Exercise of stock options	28,966	—	1,288			1,288		1,288
Shares repurchased	(2,354,133)	(24)	(249,976)			(250,000)		(250,000)
Issuance of common stock, net	357,927	4	(4)			—		—
Shares withheld for withholding taxes associated with common stock issuances	(138,071)	(1)	(16,459)			(16,460)		(16,460)
Balance at June 30, 2018	108,441,363	$1,084	$1,609,526	$(301,679)	$2,384,645	$3,693,576	$143,704	$3,837,280
Balance at January 1, 2017	112,523,790	$1,125	$2,084,418	$(412,412)	$2,121,931	$3,795,062	$147,542	$3,942,604
Net income					154,546	154,546	21,800	176,346
Other comprehensive income				115,579		115,579	693	116,272

Cash dividends declared					(70,885)	(70,885)	(17,930)	(88,815)
Stock-based compensation and other			8,216			8,216		8,216
Exercise of stock options	62,399	1	3,336			3,337		3,337
Shares repurchased	(2,341,083)	(23)	(249,977)			(250,000)		(250,000)
Issuance of common stock, net	235,005	2	(2)			—		—
Termination of Tianqi Lithium Corporation option agreement			13,144			13,144	(13,144)	—
Shares withheld for withholding taxes associated with common stock issuances	(88,984)	(1)	(8,168)			(8,169)		(8,169)
Balance at June 30, 2017	110,391,127	$1,104	$1,850,967	$(296,833)	$2,205,592	$3,760,830	$138,961	$3,899,791

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash and cash equivalents at beginning of year	$1,137,303	$2,269,756
Cash flows from operating activities:		
Net income	449,611	176,346
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	100,804	94,192
Gain on acquisition	—	(7,433)
Gain on sale of business	(218,705)	—
Stock-based compensation	8,076	9,492
Equity in net income of unconsolidated investments (net of tax)	(39,646)	(36,219)
Dividends received from unconsolidated investments and nonmarketable securities	30,045	8,454
Pension and postretirement benefit	(1,793)	(7)
Pension and postretirement contributions	(7,089)	(6,288)
Unrealized gain on investments in marketable securities	(625)	(1,553)
Loss on early extinguishment of debt	—	52,801
Deferred income taxes	30,708	(3,204)
Working capital changes	(91,189)	(353,138)
Other, net	(36,340)	12,102
Net cash provided by (used in) operating activities	223,857	(54,455)
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(7,643)	(39,525)
Capital expenditures	(280,945)	(97,765)
Cash proceeds from divestitures, net	416,711	6,857
Sales of marketable securities, net	(439)	208
Repayments from joint ventures	—	1,250
Investments in equity and other corporate investments	(1,979)	—
Net cash provided by (used in) investing activities	125,705	(128,975)
Cash flows from financing activities:		
Repayments of long-term debt	—	(751,209)
Other (repayments) borrowings, net	(211,833)	58,886
Fees related to early extinguishment of debt	—	(46,959)
Dividends paid to shareholders	(72,484)	(69,762)
Dividends paid to noncontrolling interests	(7,378)	(17,930)
Repurchases of common stock	(250,000)	(250,000)
Proceeds from exercise of stock options	1,288	3,337
Withholding taxes paid on stock-based compensation award distributions	(16,460)	(8,169)
Net cash used in financing activities	(556,867)	(1,081,806)
Net effect of foreign exchange on cash and cash equivalents	(21,854)	2,425
Decrease in cash and cash equivalents	(229,159)	(1,262,811)
Cash and cash equivalents at end of period	$908,144	$1,006,945

See accompanying Notes to the Condensed Consolidated Financial Statements.

NOTE 1—Basis of Presentation:

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Albemarle Corporation and our wholly-owned, majority-owned and controlled subsidiaries (collectively, "Albemarle," "we," "us," "our" or "the Company") contain all adjustments necessary for a fair statement, in all material respects, of our condensed consolidated balance sheets as of June 30, 2018 and December 31, 2017, our consolidated statements of income and consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017 and our consolidated statements of changes in equity and condensed consolidated statements of cash flows for the six-month periods ended June 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 six-month periods ended June 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 18, "Recently Issued Accounting Pronouncements," for additional information.

Included in Trade accounts receivable at June 30, 2018 is approximately $558.9 million arising from contracts with customers. The remaining balance of Trade accounts receivable at June 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, 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.

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 to W.R. Grace & Co., with the sale closing on April 3, 2018. We received net cash proceeds of approximately $416.7 million and have recorded a gain of $218.7 million before income taxes in the second quarter of 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 sale of the polyolefin catalysts business and components 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 second quarter of 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 six months ended June 30, 2018 (in thousands):

	Lithium	Bromine Specialties	Catalysts	All Other	Total
Balance at December 31, 2017[(a)(b)]	$ 1,389,089	$ 20,319	$ 194,361	$ 6,586	$ 1,610,355
Foreign currency translation adjustments and other	(19,677)	—	(5,178)	—	(24,855)
Balance at June 30, 2018	$ 1,369,412	$ 20,319	$ 189,183	$ 6,586	$ 1,585,500

(a) The December 31, 2017 balances have been recast to reflect a change in segments. See Note 11, "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 six months ended June 30, 2018 (in thousands):

	Customer Lists and Relationships	Trade Names and Trademarks[(a)]	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	(5,157)	(200)	(4,902)	6,980	(3,279)
Balance at June 30, 2018	$ 434,155	$ 18,781	$ 56,716	$44,236	$553,888
Accumulated Amortization					
Balance at December 31, 2017	$ (74,704)	$ (8,295)	$ (35,203)	$(17,462)	$(135,664)
Amortization	(11,896)	—	(738)	(1,788)	(14,422)
Foreign currency translation adjustments and other	1,194	69	1,020	(578)	1,705
Balance at June 30, 2018	$ (85,406)	$ (8,226)	$ (34,921)	$(19,828)	$(148,381)
Net Book Value at December 31, 2017[(b)]	$ 364,608	$ 10,686	$ 26,415	$19,794	$421,503
Net Book Value at June 30, 2018	$ 348,749	$ 10,555	$ 21,795	$24,408	$405,507

(a) Balances as of June 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—Foreign Exchange:
Foreign exchange transaction and revaluation losses were $1.2 million and $4.4 million for the three-month and six-month periods ended June 30, 2018, respectively, and $0.8 million and $5.7 million for the three-month and six-month periods ended June 30, 2017, respectively, and were included in Other expenses, net, in our consolidated statements of income, with the unrealized portion included in Other, net, in our condensed consolidated statements of cash flows.

NOTE 5—Income Taxes:
The effective income tax rate for the three-month and six-month periods ended June 30, 2018 was 21.5% and 19.7%, respectively, compared to 19.0% and 20.0% for the three-month and six-month periods ended June 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 six-month periods ended June 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 and six-month period ended June 30, 2018 included discrete tax adjustments of $42.0 million for the disposition of the polyolefin catalysts and components portion of our PCS business as described in Note 2, “Divestitures,” and $8.5 million for a valuation allowance recorded due to a foreign restructuring plan, partially offset by an $8.0 million benefit for tax accounting method changes. In addition, Income tax expense for the six-month period ended June 30, 2018 included a $6.5 million benefit for adjustments related to the accounting for the U.S. Tax Cuts and Jobs Act (“TCJA”) as noted below and $7.2 million in excess tax benefits realized from stock-based compensation arrangements. The difference between the U.S. federal statutory income tax rate of 35% and our effective income tax rate for the three-month and six-month periods ended June 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. In addition, Income tax expense for the six-month period ended June 30, 2017 included foreign rate changes of $13.1 million and a $5.1 million out-of-period

adjustment due to changes in our deferred tax liabilities for basis differences in Chilean fixed assets, partially offset by a $9.8 million benefit from the release of valuation allowances due to a foreign restructuring plan that was initiated during the quarter and a $4.7 million reduction from the tax effects of share-based compensation awards.

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 six-month period ended June 30, 2018 reflects a discrete tax benefit of $2.8 million related to an adjustment of our estimate of the one-time transition tax and a discrete tax benefit of $3.7 million related to other provisions of the TCJA. In addition, the effective income tax rate for the three-month and six-month periods ended June 30, 2018, includes a $3.1 million and $6.1 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.

NOTE 6—Earnings Per Share:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Basic earnings per share				
Numerator:				
Net income attributable to Albemarle Corporation	$302,461	$103,333	$434,221	$154,546
Denominator:				
Weighted-average common shares for basic earnings per share	109,671	110,686	110,176	111,336
Basic earnings per share	$2.76	$0.93	$3.94	$1.39
Diluted earnings per share				
Numerator:				
Net income attributable to Albemarle Corporation	$302,461	$103,333	$434,221	$154,546
Denominator:				
Weighted-average common shares for basic earnings per share	109,671	110,686	110,176	111,336
Incremental shares under stock compensation plans	988	1,419	1,087	1,361
Weighted-average common shares for diluted earnings per share	110,659	112,105	111,263	112,697
Diluted earnings per share	$2.73	$0.92	$3.90	$1.37

On February 23, 2018, the Company increased the regular quarterly dividend by 5% to $0.335 per share. On May 8, 2018, the Company declared a cash dividend of $0.335 per share, which was paid on July 2, 2018 to shareholders of record at the close of business as of June 15, 2018. On July 26, 2018, the Company declared a cash dividend of $0.335 per share, which is payable on October 1, 2018 to shareholders of record at the close of business as of September 14, 2018.

Under our existing Board authorized share repurchase program, the Company entered into an accelerated share repurchase ("ASR") agreement with a financial institution on May 11, 2018. Under the ASR agreement, in the second quarter of 2018, the Company paid $250 million from available cash on hand and received and retired 2,354,133 shares of our common stock with a fair market value of $230 million, which reduced the Company's weighted average shares outstanding for purposes of calculating basic and diluted earnings per share for the three-month and six-month periods ended June 30, 2018. The total number of shares to ultimately be delivered under the ASR agreement will be determined upon completion of the ASR agreement, which will be by the end of the third 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. The Company has determined that the ASR agreement meets the criteria to be accounted for as a forward contract indexed to its stock and is therefore being treated as an equity instrument. Although the 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.

No more than 15,000,000 shares can be repurchased under the Company’s authorized share repurchase program. As of June 30, 2018, there were 10,304,784 remaining shares available for repurchase under the Company’s authorized share repurchase program due to shares previously repurchased under this program to date.

Table of Contents
ALBEMARLE CORPORATION AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

NOTE 7—Inventories:
The following table provides a breakdown of inventories at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Finished goods[(a)]	$452,958	$ 404,239
Raw materials and work in process[(b)]	156,723	132,891
Stores, supplies and other	55,841	55,651
Total[(c)]	$665,522	$ 592,781

(a) Increase primarily due to the build up of inventory in our Lithium segment resulting from increased sales, and the timing of net sales expected in the second half of our Catalysts segment.

(b) Increase primarily due to higher forecasted production levels in the third quarter from our Catalysts segment. Included $67.0 million and $59.6 million at June 30, 2018 and December 31, 2017, respectively, of work in process related to the Lithium product category.

(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 8—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 $341.7 million and $355.2 million at June 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 $8.4 million and $8.7 million at June 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 9—Long-Term Debt:
Long-term debt at June 30, 2018 and December 31, 2017 consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
1.875% Senior notes, net of unamortized discount and debt issuance costs of $3,389 at June 30, 2018 and $3,971 at December 31, 2017	$452,958	$463,575
4.15% Senior notes, net of unamortized discount and debt issuance costs of $3,128 at June 30, 2018 and $3,372 at December 31, 2017	421,872	421,628
4.50% Senior notes, net of unamortized discount and debt issuance costs of $740 at June 30, 2018 and $891 at December 31, 2017	174,475	174,325
5.45% Senior notes, net of unamortized discount and debt issuance costs of $4,082 at June 30, 2018 and $4,159 at December 31, 2017	345,918	345,841
Commercial paper notes	208,000	421,321
Variable-rate foreign bank loans	7,256	5,298
Other	4,926	5,384
Total long-term debt	1,615,405	1,837,372
Less amounts due within one year	208,681	422,012
Long-term debt, less current portion	$1,406,724	$1,415,360

Current portion of long-term debt at June 30, 2018 consisted primarily of commercial paper notes with a weighted-average interest rate of approximately 2.44% and a weighted-average maturity of 37 days. During the first six months of 2018, we repaid a net amount of $213.3 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 June 30, 2018. There were no borrowings outstanding under the 2018 Credit Agreement as of June 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 six-month periods ended June 30, 2018, gains of $23.0 million and $8.6 million (net of income taxes), respectively, and during the three-month and six-month periods ended June 30, 2017, losses of $14.2 million and $27.9 million (net of income taxes), respectively, were recorded in accumulated other comprehensive loss in connection with the revaluation of these senior notes to our reporting currency.

NOTE 10—Commitments and Contingencies:
Environmental
We had the following activity in our recorded environmental liabilities for the six months ended June 30, 2018, as follows (in thousands):

Beginning balance at December 31, 2017	$39,808
Expenditures	(3,219)
Accretion of discount	449
Additions and changes in estimates	16,236

Foreign currency translation adjustments	(590)
Ending balance at June 30, 2018	52,684
Less amounts reported in Accrued expenses	4,981
Amounts reported in Other noncurrent liabilities	$47,703

Environmental remediation liabilities included discounted liabilities of $42.8 million and $28.1 million at June 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 $84.7 million and $68.2 million at June 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. In July 2018, the court denied our motion to set aside the judgment. As a result, we have recorded an estimated accrual of $17.6 million in Other expenses, net during the six months ended June 30, 2018 and are currently evaluating our appeal options. In addition, during the second quarter of 2018, we recorded an estimated charge of $10.4 million in Other expenses, net

resulting from a proposed settlement in a legal matter related to guarantees from a previously disposed business. Both matters are included in Accrued liabilities as of the balance sheet date.

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

15

no assurance that any party who may have obligations to indemnify us will adhere to their obligations and we may have to resort to legal action to enforce our rights under the indemnities.

The Company may be subject to indemnity claims relating to properties or businesses it divested, including properties or businesses of acquired businesses that were divested prior to the completion of the acquisition. In the opinion of management, and based upon information currently available, the ultimate resolution of any indemnification obligations owed to the Company or by the Company is not expected to have a material effect on the Company's financial condition, results of operations or cash flows. The Company had approximately $25.1 million and $42.7 million at June 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 11—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.

ALBEMARLE CORPORATION AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Net sales:				
Lithium	$317,563	$243,821	$615,595	$460,050
Bromine Specialties	220,514	203,945	446,153	423,136
Catalysts	284,966	258,255	545,683	511,813
All Other	30,748	30,704	67,913	63,123
Corporate	83	533	159	1,199
Total net sales	$853,874	$737,258	$1,675,503	$1,459,321
Adjusted EBITDA:				
Lithium	$141,617	$115,200	$272,631	$215,052
Bromine Specialties	69,367	62,075	139,336	130,563
Catalysts	75,102	67,427	142,932	137,176
All Other	(101)	2,444	3,761	7,600
Corporate	(27,423)	(28,205)	(51,380)	(60,074)
Total adjusted EBITDA	$258,562	$218,941	$507,280	$430,317

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 June 30, 2018							
Net income (loss) attributable to Albemarle Corporation	$117,292	$ 59,673	$280,887	$457,852	$(2,079)	$(153,312)	$ 302,461
Depreciation and amortization	24,325	9,694	12,920	46,939	1,978	1,557	50,474
Gain on sale of business[(a)]	—	—	(218,705)	(218,705)	—	—	(218,705)
Acquisition and integration related costs[(b)]	—	—	—	—	—	6,510	6,510
Interest and financing expenses	—	—	—	—	—	13,308	13,308
Income tax expense	—	—	—	—	—	80,102	80,102
Non-operating pension and OPEB items	—	—	—	—	—	(2,204)	(2,204)
Legal accrual[(c)]	—	—	—	—	—	10,416	10,416
Albemarle Foundation contribution[(d)]	—	—	—	—	—	15,000	15,000
Other[(e)]	—	—	—	—	—	1,200	1,200
Adjusted EBITDA	$141,617	$ 69,367	$75,102	$286,086	$(101)	$(27,423)	$ 258,562
Three months ended June 30, 2017							
Net income (loss) attributable to Albemarle Corporation	$81,819	$ 51,739	$53,994	$187,552	$152	$(84,371)	$ 103,333
Depreciation and amortization	21,460	10,336	13,433	45,229	2,292	1,601	49,122

Utilization of inventory markup[f]	11,921	—	—	11,921	—	—	11,921
Restructuring and other[g]	—	—	—	—	—	4,235	4,235
Acquisition and integration related costs[b]	—	—	—	—	—	6,479	6,479
Interest and financing expenses	—	—	—	—	—	14,590	14,590
Income tax expense	—	—	—	—	—	23,130	23,130
Non-operating pension and OPEB items	—	—	—	—	—	(1,053)	(1,053)
Multiemployer plan shortfall contributions[h]	—	—	—	—	—	4,940	4,940
Other[i]	—	—	—	—	—	2,244	2,244
Adjusted EBITDA	$115,200	$ 62,075	$67,427	$244,702	$2,444	$(28,205)	$ 218,941

Table of Contents
ALBEMARLE CORPORATION AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Six months ended June 30, 2018							
Net income (loss) attributable to Albemarle Corporation	$225,626	$119,209	$336,547	$681,382	$(319)	$(246,842)	$434,221
Depreciation and amortization	48,390	20,127	25,090	93,607	4,080	3,117	100,804
Gain on sale of business[(a)]	—	—	(218,705)	(218,705)	—	—	(218,705)
Acquisition and integration related costs[(b)]	—	—	—	—	—	8,712	8,712
Interest and financing expenses	—	—	—	—	—	26,846	26,846
Income tax expense	—	—	—	—	—	100,463	100,463
Non-operating pension and OPEB items	—	—	—	—	—	(4,401)	(4,401)
Legal accrual[(c)]	—	—	—	—	—	28,044	28,044
Albemarle Foundation contribution[(d)]	—	—	—	—	—	15,000	15,000
Other[(e)]	(1,385)	—	—	(1,385)	—	17,681	16,296
Adjusted EBITDA	$272,631	$139,336	$142,932	$554,899	$3,761	$(51,380)	$507,280
Six months ended June 30, 2017							
Net income (loss) attributable to Albemarle Corporation	$159,433	$110,433	$110,960	$380,826	$3,398	$(229,678)	$154,546
Depreciation and amortization	40,525	20,130	26,216	86,871	4,202	3,119	94,192
Utilization of inventory markup[(f)]	22,527	—	—	22,527	—	—	22,527
Restructuring and other[(g)]	—	—	—	—	—	17,141	17,141
Gain on acquisition[(j)]	(7,433)	—	—	(7,433)	—	—	(7,433)
Acquisition and integration related costs[(b)]	—	—	—	—	—	20,760	20,760
Interest and financing expenses[(k)]	—	—	—	—	—	83,103	83,103
Income tax expense	—	—	—	—	—	35,101	35,101
Non-operating pension and OPEB items	—	—	—	—	—	(2,116)	(2,116)
Multiemployer plan shortfall contributions[(h)]	—	—	—	—	—	4,940	4,940
Other[(i)]	—	—	—	—	—	7,556	7,556
Adjusted EBITDA	$215,052	$130,563	$137,176	$482,791	$7,600	$(60,074)	$430,317

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

(b) Included amounts for the three-month and six-month periods ended June 30, 2018 recorded in (1) Cost of goods sold of $1.0 million and $1.9 million, respectively; and (2) Selling, general and administrative expenses of $5.5 million and $6.8 million, respectively, relating to various significant projects. Included amounts for the three-month and six-month periods ended June 30, 2017 recorded in (1) Cost of goods sold of $1.8 million and $10.7 million, respectively; and (2) Selling, general and administrative expenses of $4.7 million and $10.1 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 expenses, net. See Note 10, "Commitments and Contingencies," for additional information.

(d) Included in Selling, general and administrative expenses is a charitable contribution, using a portion of the proceeds received from the sale of the polyolefin catalysts and components portion of the PCS business, 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 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.

(e) Included amounts for the three months ended June 30, 2018 recorded in:

Other expenses, net - $1.2 million related to the revision of previously recorded expenses of disposed businesses.

Included amounts for the six months ended June 30, 2018 recorded in:

Cost of goods sold - $1.1 million for the write-off of fixed assets related to a major capacity expansion in our Jordanian joint venture.

Selling, general and administrative expenses - $1.4 million gain related to a refund from Chilean authorities due to an overpayment made in a prior year.

Other expenses, net - $15.6 million of environmental charges related to a site formerly owned by Albemarle and $1.0 million related to the revision of previously recorded expenses of disposed businesses.

(f) 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 approximately $23.1 million. The inventory markup was expensed over the estimated remaining selling period. For the three-month and six-month periods ended June 30, 2017, $11.9 million and $22.5 million, respectively, was included in Cost of goods sold related to the utilization of the inventory markup.

(g) During 2017, we initiated action to reduce costs in each of our reportable segments at several locations, primarily at our Lithium sites in Germany. Based on the restructuring plans, we have recorded expenses of $4.2 million in Selling, general and administrative expenses for the three-month period ended June 30, 2017 and $2.9 million in Cost of goods sold, $8.4 million in Selling, general and administrative expenses and $5.8 million in Research and development expenses for the six-month period ended June 30, 2017, primarily related to expected severance payments. The unpaid balance is recorded in Accrued expenses at June 30, 2018, with the expectation that the majority of these plans will be completed by the end of 2018.

(h) Included shortfall contributions for our multiemployer plan financial improvement plan. See Note 12, "Pension Plans and Other Postretirement Benefits," for additional information.

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

(j) 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.

(k) 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, 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.

NOTE 12—Pension Plans and Other Postretirement Benefits:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Pension Benefits Cost (Credit):				
Service cost	$1,259	$1,020	$2,527	$2,023
Interest cost	8,016	8,320	16,043	16,608
Expected return on assets	(10,760)	(9,931)	(21,524)	(19,839)
Amortization of prior service benefit	24	46	46	73
Total net pension benefits credit	$(1,461)	$(545)	$(2,908)	$(1,135)
Postretirement Benefits Cost (Credit):				
Service cost	$30	$30	$59	$61
Interest cost	542	585	1,084	1,170
Expected return on assets	(2)	(27)	(4)	(55)
Amortization of prior service benefit	(12)	(24)	(24)	(48)
Total net postretirement benefits cost	$558	$564	$1,115	$1,128
Total net pension and postretirement benefits (credit) cost	$(903)	$19	$(1,793)	$(7)

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 $0.3 million in Cost of goods sold, respectively, and $0.9 million and $1.8 million in Selling, general and administrative expenses, respectively, with an offsetting increase of $1.0 million and $2.1 million in Other expenses, net, respectively, for the three-month and six-month periods ended June 30, 2017. There was no impact to Net income attributable to Albemarle Corporation.

During the three-month and six-month periods ended June 30, 2018, we made contributions of $2.8 million and $5.9 million, respectively, to our qualified and nonqualified pension plans. During the three-month and six-month periods ended June 30, 2017, we made contributions of $2.7 million and $5.1 million, respectively, to our qualified and nonqualified pension plans.

We paid $0.7 million and $1.2 million in premiums to the U.S. postretirement benefit plan during both the three-month and six-month periods ended June 30, 2018 and 2017, respectively.

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 three-month and six-month periods ended June 30, 2017, we made contributions for our employees covered under this plan of approximately $2.0 million, recorded in Selling, general and administrative expenses, as a result of this financial improvement plan. In addition, during the three-month and six-month periods ended June 30, 2017, we made contributions relating to this financial improvement plan to indemnify previously divested businesses of approximately $2.9 million, recorded in Other expenses, net. There were no contributions made under the financial improvement plan during the three-month and six-month periods ended June 30, 2018.

NOTE 13—Fair Value of Financial Instruments:

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

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

	June 30, 2018		December 31, 2017	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
	(In thousands)			
Long-term debt	$1,622,762	$1,674,541	$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 June 30, 2018 and December 31, 2017, we had outstanding foreign currency forward contracts with notional values totaling $493.1 million and $357.4 million, respectively. Our foreign currency forward contracts outstanding at June 30, 2018 and December 31, 2017 were not designated as hedging instruments under ASC 815, Derivatives and Hedging. At June 30, 2018, $0.2 million was included in Other accounts receivable associated with the fair value of our foreign currency forward contracts, and at December 31, 2017, $5.0 million was included in Accrued expenses associated with the fair value of our foreign currency forward contracts.

Gains and losses on foreign currency forward contracts are recognized in Other expenses, net; further, fluctuations in the value of these contracts are generally expected to be offset by changes in the value of the underlying exposures being hedged, which are also reported in Other expenses, net. For the three-month and six-month periods ended June 30, 2018, we recognized losses of $17.6 million and $12.8 million, respectively, in Other expenses, net, in our consolidated statements of income related to the change in fair value of our foreign currency forward contracts. For the three-month and six-month periods ended June 30, 2017, we recognized gains of $3.7 million and $8.2 million, respectively, in Other expenses, net, in our consolidated statements of income related to the change in the fair value of our foreign currency forward contracts. Also, for the six-month periods ended June 30, 2018 and 2017, we recorded losses (gains) of $12.8 million and ($8.2) million, respectively, related to the change in the fair value of our foreign currency forward contracts, and net cash (settlements) receipts of ($18.0) million and $7.7 million, respectively, in Other, net, in our condensed consolidated statements of cash flows.

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

NOTE 14—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
Level 2	Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability
Level 3	Unobservable inputs for the asset or liability

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Transfers between levels of the fair value hierarchy are deemed to have occurred on the date of the event or change in circumstance that caused the transfer. There were no transfers between Levels 1 and 2 during the six-month period ended June 30, 2018. The following tables set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2018 and December 31, 2017 (in thousands):

	June 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[a]	$26,559	$ 26,559	$ —	$ —
Private equity securities[b]	$32	$ 32	$ —	$ —
Private equity securities measured at net asset value[b][c]	$5,117	$ —	$ —	$ —
Foreign currency forward contracts[d]	$247	$ —	$ 247	$ —
Liabilities:				
Obligations under executive deferred compensation plan[a]	$26,559	$ 26,559	$ —	$ —

	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)
Assets:				
Investments under executive deferred compensation plan[a]	$ 25,494	$ 25,494	$ —	$ —
Private equity securities[b]	$ 38	$ 38	$ —	$ —
Private equity securities measured at net asset value[b][c]	$ 5,121	$ —	$ —	$ —
Liabilities:				
Obligations under executive deferred compensation plan[a]	$ 25,494	$ 25,494	$ —	$ —
Foreign currency forward contracts[d]	$ 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.

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

21

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

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

Table of Contents
ALBEMARLE CORPORATION AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

NOTE 15—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[a]	Net Investment Hedge	Interest Rate Swap[b]	Total
Three months ended June 30, 2018					
Balance at March 31, 2018	$(192,864)	$ (18)	$ 32,130	$(13,987)	$(174,739)
Other comprehensive (loss) income before reclassifications	(150,857)	—	22,989	—	(127,868)
Amounts reclassified from accumulated other comprehensive loss	—	23	—	642	665
Other comprehensive (loss) income, net of tax	(150,857)	23	22,989	642	(127,203)
Other comprehensive loss attributable to noncontrolling interests	263	—	—	—	263
Balance at June 30, 2018	$(343,458)	$ 5	$ 55,119	$(13,345)	$(301,679)
Three months ended June 30, 2017					
Balance at March 31, 2017	$(405,527)	$ 69	$ 74,693	$(16,216)	$(346,981)
Other comprehensive income (loss) before reclassifications	64,069	—	(14,234)	—	49,835
Amounts reclassified from accumulated other comprehensive loss	—	16	—	529	545
Other comprehensive income (loss), net of tax	64,069	16	(14,234)	529	50,380
Other comprehensive income attributable to noncontrolling interests	(232)	—	—	—	(232)
Balance at June 30, 2017	$(341,690)	$ 85	$ 60,459	$(15,687)	$(296,833)
Six months ended June 30, 2018					
Balance at December 31, 2017	$(257,569)	$ (21)	$ 46,551	$(14,629)	$(225,668)
Other comprehensive (loss) income before reclassifications	(85,966)	—	8,568	—	(77,398)
Amounts reclassified from accumulated other comprehensive loss	—	26	—	1,284	1,310
Other comprehensive (loss) income, net of tax	(85,966)	26	8,568	1,284	(76,088)
Other comprehensive loss attributable to noncontrolling interests	77	—	—	—	77
Balance at June 30, 2018	$(343,458)	$ 5	$ 55,119	$(13,345)	$(301,679)
Six months ended June 30, 2017					
Balance at December 31, 2016	$(484,121)	$ 76	$ 88,378	$(16,745)	$(412,412)
Other comprehensive income (loss) before reclassifications	143,124	—	(27,919)	—	115,205
Amounts reclassified from accumulated other comprehensive loss	—	9	—	1,058	1,067
Other comprehensive income (loss), net of tax	143,124	9	(27,919)	1,058	116,272
Other comprehensive income attributable to noncontrolling interests	(693)	—	—	—	(693)
Balance at June 30, 2017	$(341,690)	$ 85	$ 60,459	$(15,687)	$(296,833)

(a) The pre-tax portion of amounts reclassified from accumulated other comprehensive loss consists of amortization of prior service benefit, which is a component of pension and postretirement benefits credit. See Note 12, “Pension Plans and Other Postretirement Benefits.”

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

ALBEMARLE CORPORATION AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

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

	Three Months Ended June 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	$(150,858)	$ 27	$ 29,864	$ 834	$ 64,069	$ 16	$ (22,446)	$ 834
Income tax benefit (expense)	1	(4)	(6,875)	(192)	—	—	8,212	(305)
Other comprehensive (loss) income, net of tax	$(150,857)	$ 23	$ 22,989	$ 642	$ 64,069	$ 16	$ (14,234)	$ 529

	Six Months Ended June 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	$(85,967)	$ 30	$ 11,130	$ 1,668	$ 144,210	$ 10	$ (44,026)	$ 1,668
Income tax benefit (expense)	1	(4)	(2,562)	(384)	(1,086)	(1)	16,107	(610)
Other comprehensive (loss) income, net of tax	$(85,966)	$ 26	$ 8,568	$ 1,284	$ 143,124	$ 9	$ (27,919)	$ 1,058

NOTE 16—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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Sales to unconsolidated affiliates	$ 11,033	$ 9,255	$ 15,638	$ 16,444
Purchases from unconsolidated affiliates	$ 57,059	$ 55,949	$ 125,975	$ 96,519

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):

	June 30, 2018	December 31, 2017
Receivable from related parties	$ 3,239	$ 2,406
Payable to related parties	$ 56,753	$ 55,801

NOTE 17—Supplemental Cash Flow Information:
Supplemental information related to the condensed consolidated statements of cash flows is as follows (in thousands):

	Six Months Ended June 30,	
	2018	2017
Supplemental non-cash disclosure related to investing activities:		
Capital expenditures included in Accounts payable	$95,080	$41,536

Other, net within Cash flows from operating activities on the consolidated statements of cash flows for the six months ended June 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.

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

NOTE 18—Recently Issued Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board ("FASB") issued accounting guidance designed to enhance comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The core principle of the guidance is that revenue recognized from a transaction or event that arises from a contract with a customer should reflect the consideration to which an entity expects to be entitled in exchange for goods or services provided. To achieve that core principle the new guidance sets forth a five-step revenue recognition model that will need to be applied consistently to all contracts with customers, except those that are within the scope of other topics in the ASC. Also required are new disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. The new disclosures include qualitative and quantitative information about contracts with customers, significant judgments made in applying the revenue guidance, and assets recognized related to the costs to obtain or fulfill a contract. 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 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. In addition, we are in the process of reviewing the impact of this standard on our current business processes and are making progress on implementing changes to and controls to 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 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 12, “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.

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 vari 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:

- 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;

Table of Contents

- 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 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 cyber-security breaches, and other innovation risks;
- decisions we may make in the future;
- the ability to successfully execute, operate and integrate acquisitions and divestitures; and
- the other factors detailed from time to time in the reports we file with the SEC.

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

The following is a discussion and analysis of our results of operations for the three-month and six-month periods ended June 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 the current challenging global economic environment.

Second Quarter 2018

During the second quarter of 2018:

- On April 3, 2018, we closed the sale of the polyolefin catalysts and components portion of the Performance Catalyst Solutions (“PCS”) business for net cash proceeds of approximately $416.7 million and recorded a gain of $218.7 million before income taxes related to the sale of this business.