ALBEMARLE CORP
Form DEF 14A
March 29, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.   )

Filed by the Registrant ☒ Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement
☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
☒ Definitive Proxy Statement
☐ Definitive Additional Materials
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ALBEMARLE CORPORATION

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Title of each class of securities to which transaction applies:

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that Albemarle Corporation s 2016 Annual Meeting (the Meeting) of Shareholders will be held at The Ritz Carlton, 201 East Trade Street, Charlotte, North Carolina 28202, on Tuesday, May 10, 2016, at 7:00 a.m., Eastern Time, for the following purposes:

1. To approve the non-binding advisory resolution approving the compensation of our named executive officers;
2. To elect the eleven nominees named in the accompanying Proxy Statement to the Board of Directors to serve for the ensuing year or until their successors are duly elected and qualified;
3. To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016; and
4. To conduct any other business which may properly come before the Meeting or any adjournments or postponements thereof.

Only shareholders of record at the close of business on Friday, March 11, 2016, are entitled to receive notice of and vote at the Meeting.

UNLESS YOU PROVIDE SPECIFIC INSTRUCTIONS AS TO HOW TO VOTE, BROKERS MAY NOT VOTE YOUR SHARES OF COMMON STOCK ON THE NON-BINDING ADVISORY RESOLUTION REGARDING THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS OR THE ELECTION OF DIRECTORS.

To ensure your vote is counted, you are requested to vote your shares promptly, regardless of whether you expect to attend the Meeting. Voting by the Internet or telephone is fast and convenient, and your vote is immediately tabulated. In addition, by using the Internet or telephone, you help reduce the Company s postage and proxy tabulation costs. If you are voting by Internet or telephone, please do not return the enclosed paper ballot. You may also vote by completing, signing, dating and returning the enclosed proxy in the postage-paid envelope provided.

If you are present at the Meeting, you may vote in person even if you already have voted your proxy by Internet, telephone or mail. Seating at the Meeting will be on a first-come, first-served basis.

By Order of the Board of Directors

Karen G. Narwold, Secretary

March 28, 2016

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PROXY STATEMENT SUMMARY

This summary highlights information contained elsewhere in this Proxy Statement. This summary does not contain all of the information that you should consider, and you should read the entire Proxy Statement carefully before voting. Page references are supplied to help you find further information in this Proxy Statement. In this Proxy Statement Summary and throughout the Proxy Statement, we, us, our, the Company and Albemarle refer to Albemarle Corporation, a Virginia corporation.

Notice and Access

We have elected to provide access to our proxy materials over the Internet under the U.S. Securities and Exchange Commission s notice and access rules. We are focused on improving the ways people connect with information, and believe that providing our proxy materials over the Internet increases the ability of our shareholders to connect with the information they need, while reducing the environmental impact of our Annual Meeting. If you want more information, please see the Questions and Answers about this Proxy Statement and the Meeting starting on page 65.

Voting Matters

The following table summarizes the proposals to be considered at the Annual Meeting and the Board s voting recommendation with respect to each proposal.

Proposal	Board Vote Recommendation
Non-Binding Advisory Vote to Approve the Compensation of our Named Executive Officers (Say-on-Pay)	**FOR**
Election of Directors	**FOR** each Nominee
Ratification of Appointment of Independent Registered Public Accounting Firm for Fiscal Year 2016	**FOR**

Governance

The Company believes that good governance is integral to achieving long-term shareholder value. We are committed to governance policies and practices that serve the interests of the Company and its shareholders. Our Board of Directors monitors developments in governance best practices to assure that it continues to meet its commitment to thoughtful and independent representation of shareholder interests. The following table summarizes certain corporate governance practices and certain facts about the Board of Directors:

10 of our 11 Director Nominees and all Incumbent Committee Members are	No Supermajority Voting Provisions	Stock Ownership Guidelines for Executives and Directors Higher

Independent		Than Peer Group
Annual Election of all Directors	Annual Say-on-Pay Advisory Votes	Policies Prohibiting Hedging, Short Sale and Pledging Company Stock
Separate CEO and Chairman; Independent Chairman	Board and Committee Authority to Retain Independent Advisors	Pay-for-Performance Philosophy
Active Shareholder Engagement	Regular Executive Sessions of Independent Directors	No Shareholder Rights Plan (Poison Pill)
Annual Board and Committee Evaluation Process	Risk Oversight by Full Board and Committees	Robust Code of Ethics
Resignation Policy for Directors Not Receiving Majority Approval	Longstanding Commitment to Sustainability and Corporate Responsibility	Compensation Recovery Policy (Clawback Policy)
Average Director Tenure of 5 Years	Average Director Age of 63	Median Director Age of 67

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Compensation and Business Highlights

Consummated transformative acquisition of Rockwood Holdings, Inc., with synergy-related savings of $60 million achieved in 2015

Generated $521 million in adjusted free cash flow in 2015

Disposition of non-core Metal Sulfide and Minerals businesses, with proceeds reducing net debt to approximately $3.3 billion in February 2016

Actions taken that are expected to allow for the increase in our production capacity of lithium carbonate from 44,000 metric tons in 2015 to more than 70,000 metric tons by the end of the decade

Increased regular quarterly dividend by 5% to $0.29 per share

Pay strongly aligned with Company performance

86% of CEO target total direct compensation is incentive-based

CEO target incentive-based compensation has heavy emphasis on long-term incentives, which make up 81% of incentive-based compensation

CEO compensation over a three-year period shows a strong correlation between realizable pay and total shareholder return relative to our peer group

Compensation incentives aligned with strategic value creation goals of achieving Rockwood synergies, growing adjusted EBITDA and generating free cash flow

Extensive outreach to shareholders in 2015 so as to understand and address issues of importance

COMPENSATION DISCUSSION AND ANALYSIS

The following pages of our proxy statement describe Albemarle s executive compensation program and the compensation decisions made by the Executive Compensation Committee (for purposes of this Compensation Discussion and Analysis Section, the Committee) for our named executive officers listed below.

NEO	Title
Luther C. Kissam IV	President and Chief Executive Officer
Scott A. Tozier	Senior Vice President, Chief Financial Officer
Karen G. Narwold	Senior Vice President, General Counsel, Corporate and Government Affairs, Corporate Secretary
Matthew K. Juneau	Senior Vice President, Corporate Strategy & Investor Relations
Susan M. Kelliher	Senior Vice President, Human Resources

EXECUTIVE SUMMARY

Compensation Program Highlights

Long-Term Awards Based on Relative Total Shareholder Return[1] (TSR)

Focused Peer Group of similarly-sized companies

Long Performance Period for our Long-Term Incentive Plan (LTIP) of three years, in line with peer group companies

Performance Metrics Aligned with our peer group and our long-term goals

Our Strategic Focus: Consistent Growth and Free Cash Flow Generation

The successful acquisition of Rockwood in 2015 marked a significant milestone for our Company, positioning us as one of the world s premier specialty chemicals companies. This transaction has created a platform of businesses with leading global positions and attractive growth prospects that we believe positions us to deliver consistent, predictable earnings growth for our shareholders and generate superior cash flow.

Our Value Creation Strategy

Seamless, effective integration of Rockwood acquisition that achieves our synergy targets

Aligning Our Incentives With Our Strategy and Shareholder Interests

It is a priority to ensure that our executive compensation program is strongly aligned with shareholder interests and our business strategy. This means keeping the foundation of our program focused on performance-based pay that supports our strategy and the related metrics of TSR, Adjusted EBITDA and Adjusted Free Cash Flow, with a variable (at-risk) pay percentage higher than that of our peers.

Consistent adjusted EBITDA[2] growth

Strong adjusted free cash flow[3] generation to drive rapid deleveraging, investment in organic growth, return of capital to shareholders and bolt-on acquisitions in our core businesses

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[1] TSR is calculated by dividing the (a) the sum of the value of reinvested dividends paid during the performance period and the difference between the twenty-day average daily closing price of the Company s shares at the end and the beginning of the measurement period, by (b) the twenty-day average daily closing price of the Company s shares at the beginning of the performance period.

[2] Adjusted EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization, adjusted for special items.

[3] Adjusted Free Cash Flow is defined as Net Cash from Operations, adding back pension and post-retirement contributions and subtracting capital expenditures.

Shareholder Alignment: In May 2015, the Company held our annual shareholder advisory vote to approve the compensation paid to our named executive officers in 2014, which resulted in approximately 66% of the votes cast approving such compensation. The Committee considered the results of the advisory vote in reviewing our executive compensation program with Pearl Meyer (PM), its outside independent compensation consulting firm. In light of this vote, and in consultation with PM, in the fall of 2015 we engaged with many of our largest institutional shareholders. The main objective and sole agenda item for such meetings was to better understand their specific concerns on governance and executive compensation, and to provide us with a basis for further evaluation of our practices in these areas. We also asked for investor feedback on our current compensation program design and practices, as well as on some of the changes we were considering for 2016 based on the recommendations of PM. This initiative was led by a group of senior officers of the Company, acting on behalf, and at the request, of the Committee. We reached out to shareholders representing 63% of our outstanding shares, and had follow-up calls with shareholders representing 32% of our outstanding shares. This extensive outreach reflects our commitment to understand and address key issues of importance to our shareholders.

Many of our shareholders have different methodologies and processes for evaluating compensation programs, however, a number of common themes emerged, which included the simplification and re-prioritization of our compensation disclosure, as well as specific compensation-related suggestions described in the table that follows under the caption Shareholder Feedback.

In considering shareholder comments, evolving business needs and PM s recommendations, and in furtherance of our desire to continue to link executive pay to performance, for fiscal 2016 the Committee made several changes to our executive compensation program. These changes are highlighted below.

Shareholder Feedback	**Changes to our Executive Compensation Program**
Peer Group	
We previously used the Dow Jones Chemical Index Companies as our peer group. We used this index in order to have a consistent, recognizable peer group.	We recognized that the largest and smallest companies in the index were not representative of our Company s size. Accordingly, we decided to use a smaller peer group with an individual member revenue size, as well as a revenue median, that is more representative of our revenue size.
Although we focused on the median within the Dow Jones Chemical Index, which was comparable to our revenue size, our shareholders criticized us for including in our peer group companies much larger in size.	We now intend to use this new peer group to benchmark our compensation programs.
The shareholders we spoke with support using a peer group that is more closely aligned with our revenue size.	

Shareholder Feedback	Changes to our Executive Compensation Program
Annual Incentive Plan (AIP)	
We intend to use the following plan metrics and weighting: Adjusted EBITDA (60%), Adjusted Free Cash Flow (30%) and Stewardship (10%).	We intend to align threshold and maximum financial performance to the range used by our new peer group.
The shareholders we spoke with not only support our plan metrics and weighting, they also support the alignment of the related performance range and caps on compensation with those of our peers.	Threshold financial performance for 2016 is defined as 90% of target and we do not pay bonuses if threshold financial performance is not surpassed. Maximum financial performance for 2016 is set as 110% of target and bonuses are capped at a maximum of 200% of target level bonuses.
Long-Term Incentive Plan (LTIP)	
The shareholders we spoke with generally support a change in LTIP mix to include time vesting Restricted Stock Units (RSUs) and changes in vesting to more closely conform to the terms of our new peer group.	We intend to change the LTIP mix of Performance Share Units (PSUs), Stock Options and RSUs to better align with our new peer group and to increase the retention impact of the LTIP program while maintaining a focus on rewards based on performance.
The shareholders we spoke with generally did not support the Special One-Time Working Capital LTIP Award we granted in 2014. They do not support special equity grants, but are more supportive of modest, special cash programs to achieve well-defined goals.	**LTIP Mix**

Year	PSUs	Stock Options	RSUs
2015	60%	40%	
2016	50%	25%	25%

The shareholders we spoke with support the continued use of TSR as a performance metric.	With the change in LTIP mix, we are also aligning the length of our vesting period more closely with, while still exceeding, that of our peer group, thereby providing a stronger retention mechanism.

LTIP Vesting

Year	PSUs	Stock Options	RSUs

2015	50% vesting at the end of each of years 3 and 4	Ratably in equal thirds on the 3rd, 4th and 5th anniversary of the grant	N/A
2016	50% vesting at the end of each of years 3 and 4	Cliff vesting after 3 years	50% vesting at the end of each of years 3 and 4

Shareholder Feedback	Changes to our Executive Compensation Program
	No special equity grants have been made since 2014. We do not anticipate making special equity grants in future years. We did enact a modest special cash grant program in 2015 targeted to achieving important synergies related to the integration of our Rockwood acquisition. (See the description of the Synergy Bonus Plan below.) Our CEO will not participate in this plan. Our PSUs are based on relative TSR, and we expect them to continue to be based on relative TSR in the future. In line with our peer group, we continue to use performance at the 25th percentile of relative TSR as our threshold, and performance at the 75th percentile of relative TSR as our maximum. Similar to our peer group, threshold performance results in a payout opportunity of 25%, and performance at the maximum level results in a payout opportunity of 200%.

Strategic Alignment. Consistent with our value creation strategy, a substantial portion of our compensation is conditioned on the achievement of our goals of growing Adjusted EBITDA and generating Adjusted Free Cash Flow, as described above. In addition, on May 4, 2015, the Committee established targets for a special cash incentive program (the Synergy Bonus Plan and related Synergy Bonuses) for the achievement of at least $100 million in annual cost synergies related to the integration of our acquisition of Rockwood during fiscal year 2016 that are also determined to be recurring at the end of 2016. The maximum aggregate amount of the Synergy Bonuses payable to all participants is $7 million. Our CEO, Luther Kissam, is not eligible to participate in the Synergy Bonus Plan. See What is the purpose and what are the key features of the Synergy Bonus Plan on page 19 below.

Pay for Performance: 2015 Compensation Outcomes

For 2015 compensation, our executive compensation program resulted in rewards consistent with our business achievements and the contributions of our named executive officers.

Specifically, AIP awards were based on a Company performance score of 100.3% (with payouts ranging from 85%-148% of target based on individual performance modifiers). This was the result of a shortfall in our Adjusted EBITDA for the year, above target Adjusted Free Cash Flow and above target performance with respect to stewardship goals.

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CEO Pay At-A-Glance: Realizable Pay Relative Degree of Alignment

The amounts reported in the Summary Compensation Table for each of our named executive officers include the estimated values of LTIP awards at the time of grant based on applicable rules. The Committee believes that these values reflect a pay opportunity that is commensurate with median levels among our peer group. It is also important to the Committee that 50% or more of the value associated with LTIP awards is based on relative peer group performance in such a way that realizable values are reflective of the Company's performance.

An important measure that the Committee utilizes to assess whether the value associated with LTIP awards is based on relative peer group performance is Realizable Pay Relative Degree of Alignment ("RPRDA"). This measure addresses the question: Is realizable pay commensurate with the performance achieved by shareholders, relative to our peer group?

The measure compares the percentile ranks of the Company's three-year realizable pay and three -year TSR performance, relative to the peer group. The RPRDA is equal to the difference between the ranks: the combined performance rank minus the combined pay rank.

Realizable pay captures the following elements of compensation for the three-year period:

- Base salary in the year it is earned;
- Annual incentive compensation paid in the year it is earned; and
- "In-the-money" value of outstanding equity awards, calculated based on stock price at year-end 2015 rather than the grant date fair value. The use of an end-of-year stock price directly correlates the value of an executive's equity with the return our shareholders receive from investing in our common stock over the same period.

The following chart shows Mr. Kissam's RPRDA (calculated based on compensation data that is available for fiscal years 2012-2014). It shows:

- Our three-year TSR at the 28th percentile of the peer group;
- Mr. Kissam's realizable pay at the 29th percentile of the peer group; and
- RPRDA of -1%, demonstrating a high degree of alignment between realizable pay and TSR over the three-year period.

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THE EXECUTIVE COMPENSATION PROGRAM IN DETAIL

What are our compensation principles?

The Committee designs and oversees the Company s compensation policies and approves compensation for our CEO and our other named executive officers. Our overarching goal is to create executive compensation plans that incent and are aligned with the creation of sustained shareholder value. To accomplish this, our plans are designed to:

Support our Business Strategy We align our programs with business strategies focused on long-term growth and sustained shareholder value. Our plans provide incentive to our executives to overcome challenges and exceed our Company goals.

Pay for Performance We ensure that a large portion of our executive pay is dependent upon the achievement of specific corporate, business unit and individual performance goals. We pay higher compensation when goals are exceeded and lower compensation when goals are not met.

Pay Competitively We set target compensation to be at or around the market median relative to the companies that make up our peer group.

What are our compensation objectives?

In designing our compensation plans, our objectives are to:

Drive superior business and financial performance we build programs that provide incentive to our named executive officers to achieve or exceed goals.

Attract, retain and motivate the right people in the right job we reward our named executive officers who perform at a high level.

Align our named executive officers interests with the long-term interests of our shareholders by building the opportunity for significant ownership of Company stock into our pay programs.

Focus on the long-term our LTIP is focused on multi-year results.

Create balanced program elements that discourage excessive risk-taking.

As noted in the Executive Summary, we applied these principles and objectives in 2015 to change our 2016 programs to best fit with our business strategy, align with our peer group and respond to shareholder feedback.

How do we align our compensation principles and objectives with good governance practices and pay for performance?

Below is a list of things that we do and don t do in order to ensure that our program reflects good governance practices and pay for performance.

What We Do

ü *We make performance-based compensation a significant component* of each named executive officer s total compensation, with the proportion of compensation allocated to performance-based compensation increasing with the level of responsibility.

ü *We balance short-term and long-term compensation,* which discourages short-term risk-taking at the expense of long-term results.

ü *We employ longer than median vesting periods in our annual LTIP grants*, which encourage executive retention and a long-term perspective.

ü *We require meaningful stock ownership* for our named executive officers at levels that are above the median practice in our industry and that increase with the level of responsibility.

ü *The Committee uses an independent executive compensation consultant* who reports directly to the Committee.

ü *We have a clawback policy* for the recovery of performance-based compensation in the event of named executive officer misconduct related to our financial results.

What We Don t Do

X *No excessive perquisites* are provided to any named executive officer. We limit our perquisites to items that help put our named executive officers in the best position to perform their job or that are directly associated with performing their job, and limit the amounts to only what is necessary to meet those objectives.

X *No hedging, short sale or pledging transactions in our stock* by our named executive officers is permitted.

X *No stock option re-pricings without shareholder approval or discounted stock options* are permitted under our equity plan.

X *No excise tax gross-ups for change of control payments* are provided to any employee. In early 2015, we eliminated the last of these grandfathered gross-ups from our program.

What are the components of our executive compensation program?

We provide our named executive officers with the following components of compensation:

Annual	Annual base salary and annual cash incentive opportunities.
Long-Term	LTIP awards comprised of a combination of RSUs, PSUs and stock options.
Benefits	Various health and welfare benefits, including health and life insurance, retirement benefits and savings plan.
Post-Termination Benefits	Severance and change in control benefits.

For each named executive officer, the Committee reviews and approves annually each component of compensation and the resulting total compensation. The Committee generally compares the individual components of compensation and total compensation to the median of comparable companies that the Committee selects. In setting the compensation for each named executive officer, the Committee also considers other factors, including the scope and complexity of their position, their level of performance, their skills and experience and their contribution to the overall success of the Company. As a result, we do not set compensation for our named executive officers in a manner designed to achieve a formulaic relationship with the median of selected benchmark companies.

How do we assure that our compensation program keeps our named executive officers focused on long-term success?

We assure that our compensation programs keep our named executive officers focused on the long-term success of our Company by making a substantial portion of their long-term pay subject to the achievement of specific performance measures, by requiring them to hold a significant amount of Company stock during the term of their employment, and by granting stock-based awards with multi-year vesting periods.

The performance period covered by our PSU grants is three years, with the vesting of any award earned occurring in two equal tranches the first tranche after the end of the third year of the performance period and the second tranche on the following January 1st. RSUs typically have a minimum vesting period of three years. Our stock option grants have a longer-than market practice five-year vesting period, ratably vesting in equal thirds on the third, fourth and fifth anniversaries of the grant date. These awards reinforce the focus of our named executive officers on the long-term success of the Company by aligning their personal financial success with that of our shareholders.

Also, our PSUs are earned based on relative TSR as compared to our reference group of comparable companies. The Committee chose this measure to provide an even stronger linkage between the rewards for our leaders and the returns experienced by our shareholders, and also because this measure was thought to be well aligned with the longer three-year performance period.

Stock Ownership Guidelines

To align the interests of executives with our shareholders, the Company also has stock ownership guidelines that require the retention of shares of our common stock (Common Stock). Our holding requirements are expressed as both a Fixed Number of Shares guideline and a Multiple of Base Salary guideline for each named executive officer. In order to satisfy the ownership requirement, each named executive officer must meet the lesser of the two guidelines.

Named executive officers are given five years to meet the holding requirements. The Committee periodically reviews the holdings of our named executive officers. As of March 28, 2016, each named executive officer either met the required guideline or was still within the five-year window before they are required to meet the guideline. Based on a 2015 review of proxy disclosures, our ownership guidelines are higher than the median ownership requirement for chief executive officers (a median of 5 x base salary) and chief financial officers (a median of 3 x base salary) disclosed by the companies that comprise our peers. The following table depicts the ownership guideline that each of our named executive officers must meet.

Name	Guideline (lesser of)
Luther C. Kissam IV	150,000 shares or 8 X base salary
Scott A. Tozier	40,000 shares or 5 X base salary
Karen G. Narwold	25,000 shares or 3 X base salary
Matthew K. Juneau	25,000 shares or 3 X base salary
Susan M. Kelliher	25,000 shares or 3 X base salary

In addition, to further align our executives with the interests of our shareholders, our insider trading policy provides for purchases and sales of our stock by named executive officers only during the 30-day period beginning on the third trading day following an earnings announcement (the day of the announcement constituting the first day) and only after being cleared to trade by our General Counsel or her designee, or in accordance with a previously existing Rule 10b5-1 trading plan that meets applicable SEC requirements. Further, the Company s insider trading policy prohibits, among other things, Directors, officers and employees from hedging, short selling or pledging the Company s shares.

How is competitiveness established?

The Committee structures executive compensation so that target total cash compensation and LTIP compensation opportunities are competitive with comparable positions within comparable firms.

In the past the Committee chose to use the Dow Jones Chemical Index companies as a consistent and recognizable peer group, in part because the composition of the index is determined by an independent third-party rather than by the Committee or by Company management. Although we focused on the mean of this peer group in making our compensation decisions, which was comparable to our revenue size, we recognized that the largest and smallest companies in the index were not representative of our revenue size.

Based on shareholder feedback, we now use industry and revenue as our two main indicators for determining our peers. We believe that using a smaller, industry-specific group of similarly sized companies is appropriate because it provides us with the best comparisons for competitive compensation offered by publicly held companies with similar business challenges and the type of leadership talent needed to achieve success over the long-term.

Our selected Peer Group (the Peer Group) consists of 18 chemical companies within the Dow Jones Chemical Index that were similarly sized as Albemarle. (If a company in the Peer Group has its common stock delisted or no longer exists as a separate entity, such company will be excluded from the Peer Group for purposes of determining performance for the remaining performance period.)

The Peer Group had median 2015 revenue of $3.82 billion, which positioned Albemarle near the median of the Peer Group. The Peer Group consisted of the following companies:

A. Schulman Inc.
Ashland Inc.
Cabot Corporation
Cytec Industries Inc.
Eastman Chemical Company
FMC Corporation
Olin Corporation
PPG Industries, Inc.
RPM International Inc.

Celanese Corporation
C.F. Industries Holdings, Inc.
Chemtura Corporation
H. B. Fuller Company
Huntsman Corporation
NewMarket Corporation
The Mosaic Company
Sigma-Aldrich Corporation
W.R. Grace & Co.

In setting base salaries, target total cash compensation and target total direct compensation, the Committee generally focuses on the median of data from the Peer Group. The Committee also relies on supplementary survey information from nationally recognized compensation surveys.

How is compensation established for our named executive officers?

The Committee does not rely exclusively on the Peer Group data or survey data in establishing target levels of compensation. The Committee also does not employ a rigid or formulaic process to set pay levels, but does utilize the Peer Group data and survey data as one of many tools to assist the Committee. In setting compensation levels, the Committee considers the following factors:

- The competitive data (Peer Group and other survey data), focusing on the median data as a starting point;
- Each named executive officer s performance;
- Each named executive officer s scope of responsibility and impact on the Company s performance;
- Internal equity a named executive officer s compensation relative to his or her peers, direct reports and supervisors; and
- The CEO s recommendations for his direct reports.

Each of our named executive officers performance is evaluated in light of our overall financial performance (as described in greater detail below) and non-financial performance goals and strategic objectives approved by the Committee and the Board of Directors. For 2015 and 2016, as in past years, the Committee structured a compensation package for our named executive officers comprised of base salary and benefits coupled with annual and long-term incentives, which we believe provides an appropriate mix of financial security, risk and reward.

What were base salaries for 2015 and how were they determined?

Base salary provides our named executive officers with a basic level of financial security and supports the Committee s objectives in attracting and retaining top talent. Base salaries for our named executive officers other than the CEO are recommended by our CEO and are reviewed and approved by the Committee. Base salary for our CEO is recommended and approved by the Committee.

Executive Officer	**2014 Year-End Base Salary**	**2015 Increase in Annual Base Salary**	**2015 Annual Base Salary**
Luther C. Kissam IV	$ 800,000	$ 40,000	$ 840,000

President and CEO			
Scott A. Tozier Senior Vice President, CFO	$ 485,000	$ 20,000	$ 505,000
Karen G. Narwold Senior Vice President, General Counsel, Corporate and Government Affairs, Corporate Secretary	$ 420,000	$ 20,000	$ 440,000
Matthew K. Juneau Senior Vice President, Corporate Strategy and Investor Relations	$ 385,000	$ 15,000	$ 400,000
Susan M. Kelliher Senior Vice President, Human Resources	$ 376,000	$ 19,000	$ 395,000

As described above, the 2015 base salaries for each of the named executive officers were determined by the Committee in recognition of the responsibilities of their positions and their contributions to the success of the Company. Salary increases went into effect on April 1, 2015. The Committee believes that each named executive officer s salary was reasonable and appropriate. Mr. Kissam s base salary was increased to bring him closer to, but still well below, the competitive market median base salary of approximately $1,000,000.

What are base salaries for 2016?

The Committee reviewed and approved base salary increases for some of our named executive officers in February 2016. Such salary increases will go into effect on April 1, 2016. The annual 2016 base salaries for Mr. Kissam, Mr. Tozier, Ms. Narwold, Mr. Juneau and Ms. Kelliher will be $882,000, $505,000, $460,000, $415,000 and $395,000, respectively. Mr. Kissam s base salary was increased to bring him closer to the competitive market median base salary. The Committee will continue their primary emphasis on aligning Mr. Kissam s pay with our pay-for-performance philosophy and with shareholders interests through the use of annual and long-term incentives.

What was the purpose and what were the key features of the 2015 AIP?

The purpose of the AIP is to provide both an incentive to achieve, and a reward for achieving, the annual goals and objectives of the Company. Each year, management proposes, and the Committee evaluates and finalizes, the goals and objectives which are subsequently approved by the Board of Directors, ensuring that we are rewarding participants for achieving levels of performance that management has identified and the Board of Directors has agreed are critical to creating and sustaining long-term shareholder value.

Key features of the 2015 AIP included the following:

- A primary emphasis on sustained Company financial performance as measured by such metrics as Adjusted EBITDA and Adjusted Free Cash Flow;
- A quantitative assessment of our strategic achievements in areas of stewardship (safety and environmental responsibility); and
- The recognition of individual achievements, leadership and the overall contribution of participants by making the award subject to an individual performance modifier (which can result in either an increase or a reduction in the award earned).

For 2015, the Committee established the following Company performance measures for the AIP:

Metrics	**Weight**
Adjusted EBITDA	60%
Adjusted free cash flow	30%
Stewardship	10%
Total	**100%**

Why did the Committee choose these performance metrics?

The Committee chose these performance metrics to align the AIP with the Company s 2015 goals and objectives as established by management and the Board of Directors. The Committee chose the relative weights of the performance measures based on the Committee s desire to emphasize financial results while maintaining an appropriate focus on non-financial objectives.

Adjusted EBITDA and adjusted free cash flow were chosen by the Committee for use in the 2015 AIP because they were considered the key measures of financial performance in the Company s 2015 annual operating plan.

The level of Adjusted EBITDA aligned with the Target payout level was the 2015 operating plan amount, and represented significant growth (after adjustment for the acquired business) over 2014 Adjusted EBITDA.

The Committee s focus on Adjusted Free Cash Flow was aligned with the Company s objectives of generating cash for debt reduction and growth and the reduction of our investment in working capital to levels that were better than industry average performance.

Superior level objectives for both of these goals were set at levels that were believed to be realizable, but only as the result of exceptional performance.

Stewardship metrics were included in the AIP goal set because they are critical to the Company s license to operate and consistent with our values. We believe that these objectives were challenging, as the Committee set quantitative Target and Superior levels of performance for each of these metrics at levels that required year over year quantitative improvement, with no payout earned for any one individual Stewardship metric, if Target performance for that metric was not achieved.

The Committee may take into account extraordinary, unusual or infrequently occurring events or significant corporate transactions in deciding to adjust the results used to determine whether or not the AIP objectives have been met. The Committee retains the right to exercise discretion in determining the final level of the awards paid in order to ensure that the AIP remains consistent with its stated objectives.

What are the individual performance modifiers?

At the beginning of 2015, individual objectives were set for each of the named executive officers. Individual performance was evaluated after the end of the year by comparing actual performance to these pre-established leadership objectives. Individual accomplishments not contemplated in the setting of the pre-established objectives were also considered. The Committee assessed the performance of the CEO, and the CEO conducted a similar assessment for the other named executive officers that was presented to and reviewed by the Committee.

Performance goals typically include both leadership objectives and strategic business objectives. At the end of each fiscal year, an individual performance modifier is determined for each participant, and a judgment is then made as to the final bonus amount that takes into account both Company results and individual performance.

How did we perform against our AIP Metrics in 2015?

The following table summarizes the Threshold, Target and Superior objectives set by the Committee and actual results for the Adjusted EBITDA and Adjusted Free Cash Flow metrics for 2015. Adjusted EBITDA is defined as combined income of each business segment before interest and taxes less corporate expenses before special items (such as restructuring and other costs, related principally to reductions in force, divestitures, the write-off of assets and non-operating and pension OPEB items) for the calendar year. The Adjusted Free Cash Flow represents the cash flow from operations before special items and pension contributions. Performance at the Threshold level paid out 0%, performance at the Target level paid out 100% and performance at the Superior (maximum) level paid out 200%. We used linear interpolation to determine awards for performance between the identified points.

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2015 Annual Incentive Plan (AIP) Metrics

		Achievement Level				**Achievement**
AIP Metric	**Weight**	**Threshold**	**Target**	**Superior**	**2015 Results**	**Against Target**
Adjusted EBITDA	60%	$ 870 MM	$ 935 MM	$ 1,000 MM	$ 921 MM	47.4%
Adjusted Free Cash Flow	30%	$ 465 MM	$ 505 MM	$ 545 MM	$ 521 MM	41.8%
Stewardship	10%	Score based on 3 Quantitative Stewardship Metrics 1. Safety (4% weight) above target 2. Process Safety (3% weight) at superior 3. Environment (3% weight) below target				11.1%
						100.3%

The performance for the stewardship (safety and environmental responsibility) metric was determined by the Committee s quantitative assessment of the level of achievement for the three different stewardship objectives. For each of the three stewardship metrics, we have set a target and maximum performance level. Performance below target does not pay out. Safety was measured by comparing employee time lost due to work-related injury or illness to total employee hours worked; Process Safety was measured in terms of the number of our operational incidents over a pre-determined level of severity; and Environment was measured by the number of our environmental incidents over a pre-determined level of severity.

How much can the named executive officers earn?

Each of our named executive officers employed by the Company as of the date of the bonus payments can earn a bonus under the AIP targeted at a certain percentage of his or her base salary. For 2015, our named executive officers target bonus percentages were 110% (Mr. Kissam), 75% (Mr. Tozier) and 70% (Ms. Narwold, Mr. Juneau and Ms. Kelliher) of their base salary for achieving the Target performance levels for the AIP Company metrics. The Committee generally sets the Target bonus opportunity for each of our named executive officers near the median of the Peer Group proxy data and survey information. For Company performance at the Superior level, up to two times a Target level award may be earned before applying discretion for individual performance. For Company performance that does not reach Threshold level for any of the metrics, the named executive officers will not earn a bonus. For Company performance between Threshold, Target and Superior, earned bonuses will be interpolated. Individual performance can be used to modify the bonus amount up or down, subject to the maximum allowable levels under the Albemarle Corporation 2008 Incentive Plan, as amended and restated April 20, 2010 (the Plan) as described below.

The Plan is compliant with Internal Revenue Code (Code) Section 162(m) and therefore allows for the full tax deduction of the annual incentive payments. Under the Plan, the maximum annual incentive payments are set in the first quarter of the calendar year, and for 2015 were limited to three times the Target level bonuses of each named executive officer.

When making its determination of the actual award amount for a named executive officer, the Committee generally calculates the award by multiplying the named executive officer s base salary x the Target level bonus percentage x the Company performance score (up to 200%) x the individual performance modifier (generally up to 150%, although higher modifiers can be awarded to recognize outstanding individual achievement, subject to a maximum cash incentive amount for each individual).

What did our named executive officers earn in 2015 under the AIP?

The Committee reviewed the Company s 2015 performance, and determined that the potential awards for the named executive officers were funded at the maximum level due to the Company achieving the required level of 2015 Adjusted EBITDA consistent with the plan funding objectives set during the first quarter of the year in accordance with Code Section 162(m). After this determination was made, Mr. Kissam engaged the Committee in a further discussion of the Company s performance, and of each named executive officer s individual performance compared to their objectives. In light of the significant accomplishments by each named executive officer that were cited by Mr. Kissam to the Committee, it was recommended by Mr. Kissam, and approved by the Committee, that the individual performance modifier for each named executive officer (other than Mr. Kissam) be set as follows: Mr. Tozier 88%, Ms. Narwold 105%, Mr. Juneau 148%, and Ms. Kelliher 85%. When applied to and combined with the Company score, this yielded actual bonus payouts for each named executive officer shown in the table below.

In the case of Mr. Kissam, in early 2016 the Board assessed his performance against both quantitative metrics and qualitative objectives and determined that an individual modifier of 91% was appropriate. When applied to and combined with the Company score, this yielded an actual bonus payout for Mr. Kissam at 92% of his Target bonus amount.

2015 AIP Payouts

Name	**Base Salary x Target Bonus % =**	**Target Bonus Amount x**	**Company Performance Score x**	**Individual Performance Modifier[1] [2] =**	**Actual Bonus Amount**
Luther C. Kissam IV	$ 840,000 x 110%	$ 924,000	100.3%	91%	$ 850,000
Scott A. Tozier	$ 505,000 x 75%	$ 378,750	100.3%	88%	$ 330,000
Karen G. Narwold	$ 440,000 x 70%	$ 308,000	100.3%	105%	$ 320,000
Matthew K. Juneau	$ 400,000 x 70%	$ 280,000	100.3%	148%	$ 410,000
Susan M. Kelliher	$ 395,000 x 70%	$ 276,500	100.3%	85%	$ 240,000

(1) Percentages shown rounded to the nearest multiple of 5%. Actual Bonus Amounts shown are exact.

(2) The average individual multiplier for our NEOs is 103%.

What are the performance metrics for 2016?

In February 2016, the Committee approved 2016 AIP performance metrics that included Adjusted EBITDA, Adjusted Free Cash Flow and Stewardship, weighted at 60%, 30% and 10% respectively. This is consistent with the 2015 metrics. The Committee concluded that this combination of metrics and weightings continues to represent an appropriate set of performance objectives against which to measure the success of the Company for the purposes of funding the AIP for 2016. The target bonuses as a percentage of base salary for the named executive officers in 2016 are: Mr. Kissam (125%), Mr. Tozier (75%), Ms. Narwold (75%), Mr. Juneau (75%), and Ms. Kelliher (75%). For 2016, bonus payouts for our named executive officers are capped at 200% of their respective target bonuses.

What is the purpose and what are the key features of the Synergy Bonus Plan?

On May 4, 2015, the Committee established targets for Synergy Bonuses for the achievement of at least $100 million in annual cost synergies during fiscal year 2016 that are also determined to be recurring at the end of 2016, related to the integration of our acquisition of Rockwood.

The maximum aggregate amount of the Synergy Bonuses payable to all participants is $7 million. This amount is paid out when an annual cost synergy of $120 million is achieved during fiscal year 2016 and a cost synergy of $160 million is determined to be recurring at the end of 2016. The Synergy Bonuses, if earned, will be paid in the first half of 2017 upon verification of synergies achieved. The Synergy Bonuses, based on the fiscal year 2016 achieved cost savings and validated recurring cost savings, are set forth in the following table:

		Annual Recurring Cost Reduction as determined at the end of 2016:			
Synergy Bonus		<$100 million	$100-120 million	$140 million	$160 million
Cost Reductions achieved during Fiscal Year 2016 of:	$120 million	0%	75%	87.5%	100%
	$110 million	0%	62.5%	75%	87.5%
	$100 million	0%	50%	62.5%	75%
	<$100 million	0%	0%	0%	0%

In addition, for every $1 million of cost savings achieved in fiscal year 2016 above $120 million, 2 percentage points will be added to the percentage of the Synergy Bonuses earned pursuant to the table above, subject to the $7 million Synergy Bonus cap. Synergy Bonuses for cost reduction results between the levels indicated in the table above will be interpolated to determine the percentage of the Synergy Bonuses earned. The Chief Executive Officer of the Company, who is not eligible to receive a Synergy Bonus, can lower the calculated Synergy Bonus payout by up to 25 percentage points if the costs to achieve the synergies are considered excessive by the Chief Executive Officer, in his discretion.

The maximum Synergy Bonuses for our named executive officers are as follows: Scott A. Tozier ($400,000); Karen G. Narwold ($300,000); Matthew K. Juneau ($200,000); and Susan M. Kelliher ($300,000).

What is the purpose and what are the key features of the LTIP?

We believe it is important to provide a long-term incentive opportunity to our named executive officers charged with driving sustainable growth and long-term value creation for Albemarle, further aligning their interests with those of our shareholders. We do this through a balanced annual LTIP grant, comprised in 2015 of PSUs and stock options. Each of these long-term incentives focuses on Albemarle s performance - financial performance, share price performance or both - as measured over multi-year periods.

The Committee considers grant values and grant terms from both our Peer Group and survey information when establishing long-term incentives for management, with a focus on median grant values and typical grant terms. While the Committee generally believes that median values and typical terms are competitive and provide an appropriate balance of opportunity and reward to management without heightened compensation-related risk, the Committee will authorize values above or below the median and different terms where it believes it is in the interest of the Company and its shareholders to do so in light of the factors mentioned above.

Our annual LTIP grant for 2015 consisted of a mix of PSUs and stock options. For 2016 we will also include time vested RSUs to ensure an equity mix that is performance-based and retentive in nature.

Our PSU grant performance measure is relative TSR as compared to our Peer Group for the three-year performance period. The relative TSR performance metric was selected to emphasize the linkage between our pay-for-performance philosophy and our shareholders   interests, and is intended to focus Company leadership on superior value creation during the three-year performance period and beyond. Earned PSU grants vest ratably at the end of years three and four, each for 50%.

The Committee believes that the PSU grant, when viewed in conjunction with annual grants of stock options that vest over a longer schedule (three years from the date of grant) than is typical in the marketplace, results in an LTIP approach that aligns the pay for performance of our executives with the investment returns experienced by our long-term shareholders.

What LTIP grants were made in 2015?

In February 2015, the Committee approved a total grant value for the named executive officers under the long term incentive plan. The values granted to each executive officer are set forth below, and are apportioned approximately 40% in the form of Stock Options and 60% in the form of PSUs: Luther C. Kissam IV ($4,000,000); Scott A Tozier ($900,000); Karen G. Narwold ($700,000); Matthew K. Juneau ($600,000); and Susan M. Kelliher ($500,000). The value of PSUs included in the above figures reflects the value of the PSUs that each named executive officer would receive for target level performance by the Company multiplied by the grant date closing stock price.

PSU Grants

In February 2015, the Committee approved a grant of PSUs to our named executive officers, as follows:

		2015 PSU Grants	
Name	**(Threshold 25%)**	**(Target 100%)**	**(Superior 200%)**
Luther C. Kissam IV	10,700 Units	42,798 Units	85,596 Units
Scott A. Tozier.	2,408 Units	9,630 Units	19,260 Units
Karen G. Narwold	1,873 Units	7,490 Units	14,980 Units
Matthew K. Juneau	1,605 Units	6,420 Units	12,840 Units
Susan M. Kelliher	1,338 Units	5,350 Units	10,700 Units

Consistent with the approach adopted in 2014, the 2015 PSU grant is based on the Company s relative TSR as measured over a three year performance period. TSR is calculated by dividing (a) the sum of the value of reinvested dividends paid during the performance period and the difference between the twenty-day average daily closing price of the Company s shares at the end and the beginning of the measurement period, by (b) the twenty-day average daily closing price of the Company s common shares at the beginning of the performance period.

The Company s TSR is compared to the Company s 2015 peer group, calculated on the same basis. Threshold, Target and Maximum performance and payout levels are identical to 2014.

Half of any shares earned will vest in early 2018 at the time the Committee evaluates the three-year relative TSR performance against the performance of the Company s 2015 peer group. The other half will vest on January 1, 2019.

Stock Option Grants

In February 2015, the Committee approved a grant of stock options to our named executive officers, as follows:

Names	**2015 Stock Options**
Luther C. Kissam IV	99,195
Scott A. Tozier	22,320
Karen G. Narwold	17,361
Matthew K. Juneau	14,880
Susan M. Kelliher	12,402

The options have a five-year vesting period, with ratable vesting in equal thirds on the third, fourth and fifth anniversaries of the grant.

What LTIP grants were made in 2016?

In February 2016, the Committee approved a total grant value for the named executive officers under the long term incentive plan. The values granted to each executive officer are apportioned approximately 50% in the form of PSUs, 25% in the form of Stock Options and 25% in the form of RSUs. With this change in LTIP mix, we improve the retention impact of the LTIP program, while maintaining a focus on rewards based on performance. We are also aligning our vesting schedule more closely with our peers, while still exceeding that of our peers, thereby providing a stronger retention mechanism.

The values granted to each named executive officer are set forth below, and are respectively: Luther C. Kissam IV ($4,000,000); Scott A Tozier ($900,000); Karen G. Narwold ($700,000); Matthew K. Juneau ($600,000); and Susan M. Kelliher ($500,000). The value of PSUs included in the above figures reflects the approximate number of PSUs that each named executive officer would receive for target level performance by the Company multiplied by the grant date fair market value, assuming a fair market value of $78.03 per share using the Monte Carlo valuation method.

PSU Grants

In February 2016, the Committee approved a grant of PSUs to our named executive officers, as follows:

		2016 PSU Grants	
Name	**(Threshold 25%)**	**(Target 100%)**	**(Superior 200%)**
Luther C. Kissam IV	6,408 Units	25,632 Units	51,264 Units
Scott A. Tozier	1,442 Units	5,768 Units	11,536 Units
Karen G. Narwold	1,122 Units	4,486 Units	8,972 Units

Matthew K. Juneau	962 Units	3,846 Units	7,692 Units
Susan M. Kelliher	801 Units	3,204 Units	6,408 Units

Consistent with the approach adopted since 2014, the 2016 PSU grant is based on Albemarle s relative TSR as measured over a three year performance period with performance and payout calculated in the same manner as the 2015 PSU grants and half of any shares earned vesting in early 2019 at the time the Committee evaluates the three-year relative TSR performance against the performance of the Company s 2016 peer group. The other half will vest on January 1, 2020.

Stock Option Grants

In February 2016, the Committee approved a grant of stock options to our named executive officers, as follows:

Names	**2016 Stock Options**
Luther C. Kissam IV	62,267
Scott A. Tozier	14,010
Karen G. Narwold	10,897
Matthew K. Juneau	9,340
Susan M. Kelliher	7,784

The options have a three-year vesting period, with vesting on the third anniversary of the grant date.

RSU Grants

In February 2016, the Committee approved RSU awards to our named executive officers, as follows:

Names	**2016 Restricted Stock Units**
Luther C. Kissam IV	17,682
Scott A. Tozier	3,980
Karen G. Narwold	3,096
Matthew K. Juneau	2,654
Susan M. Kelliher	2,212

Half of the RSUs will vest on the third anniversary of the grant in 2019, while the other half will vest on the fourth anniversary of the grant in 2020.

What other benefits does the Company provide to named executive officers?

The Company provides named executive officers with the same benefits provided to other Albemarle employees, including:

Health and dental insurance (Company pays a portion of costs);

Basic life insurance;

Long-term disability insurance;

Participation in the Albemarle Corporation Savings Plan (the Savings Plan), including Company matching and defined contribution pension contributions;

Participation in Albemarle Corporation Pension Plan (Pension Plan), for those executives hired prior to 2004 (Messrs. Kissam and Juneau only); and

Matching charitable contributions.

Executive Deferred Compensation Plan (EDCP)

We maintain a deferred compensation plan that covers executives who are limited in how much they can contribute to tax-qualified deferred compensation plans (such as our Savings plan). We maintain this plan in order to be competitive and because we want to encourage executives to save for their retirement. A participant in the EDCP may defer up to 50% of base salary and/or up to 100% of cash incentive awards. We also provide for employer contributions in the EDCP to provide executives with the same proportional benefits as are provided to all other employees but that cannot be provided under our tax-qualified plan because of statutory limitations that apply under that plan.

Defined Benefit Plan

Until April 1, 2004, we maintained a traditional tax-qualified defined benefit pension plan. In 2004, we implemented a new defined contribution pension benefit in our tax-qualified Savings Plan for all non-represented employees hired on or after April 1, 2004, and limited participation in the defined benefit pension plan to then-current participants. Mr. Kissam and Mr. Juneau joined the Company prior to April 1, 2004, and, as such, participated in the defined benefit pension plan. We also maintain a supplemental executive retirement plan (SERP) to provide participants with the difference between (i) the benefits they would actually accrue under the qualified defined benefit pension plan but for the maximum compensation and benefit limitations under the Code, and (ii) the benefits actually accrued under the qualified plan, which are subject to the Code s compensation and benefit limits. Certain provisions of the SERP also permit the Committee to award key executives additional pension credits related to offset reduction in the qualified defined benefit pension plan as a mid-career hire. This provision was also limited to then-current participants in 2004 concurrent with the qualified plan changes.

In 2012, the Company announced that it was freezing accruals in the above-referenced tax-qualified and non-qualified (SERP) defined benefit plans effective December 31, 2014. Beginning on January 1, 2013, all of our named executive officers, regardless of hire date, participate in the same tax-qualified Savings Plan and non-qualified defined contribution plan (EDCP). A special defined benefit accrual was provided to participating employees at all levels during the two-year transition period (2013 2014) which included an offsetting calculation to ensure that participants did not receive double benefits in both the defined benefit and defined contribution plans during this period.

Beginning on January 1, 2013, the new defined contribution plan design has provided all participating employees the opportunity to receive a Company contribution of 11% of their base and bonus earnings for the calendar year if they contribute at least 9% of their base and bonus earnings to the Savings Plan. Such Company contributions go into the tax-qualified Savings Plan up to the compensation and benefit limitations under the Code, and after that are credited to an EDCP account.

Perquisites

Our perquisites are intended to be limited in nature, and are focused in areas directly related to a business purpose, or in helping to foster the health, security and well-being of our senior executives for the benefit of the Company.

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In some cases, we have determined it is appropriate for executives to belong to a golf or social club, so that the executives have a venue in which to entertain customers, and to interact with members of their communities.

When an executive is required to geographically relocate in order to join the Company, or is asked to relocate due to a change in their work location after joining the Company, we provide them with the same relocation package that is also offered to management and senior professional employees. Certain relocation expenses are grossed-up for taxes, as is the competitive practice within our Peer Group, and more broadly, in the general marketplace.

We also offer limited reimbursement for executive physical exams and financial planning. Our policy is to not provide tax gross-ups on such amounts to named executive officers.

What are our arrangements for post-termination payments?

We believe that providing our executives with reasonable severance benefits aligns our executives interests with shareholders interests in the context of potential change in control transactions, and also believe that such benefits help facilitate our recruitment and retention of talented executives.

Consistent with this philosophy, we maintain a Severance Pay Plan (SPP), which provides severance payments to certain of our employees if we (a) terminate their employment without cause (or request that they relocate and they elect not to do so) after a change in control, or (b) eliminate their position (or a change in our organizational structure has a similar effect) outside of a change in control. The SPP provides our named executive officers with severance payments only in the absence of a change in control.

Between 2006 and 2015, we entered into severance compensation agreements (and related amendments) with each of our named executive officers, providing for severance payments for a change in control-related termination. In 2015, each agreement was amended to provide that on a change in control, any outstanding awards granted under our incentive plans will be treated in accordance with the terms of the notices granting such awards. As part of this amendment, Mr. Kissam s severance compensation agreement also was amended to eliminate excise tax gross-ups for change of control payments and to clarify that change of control payments will be reduced to the extent that they would cause him to be liable for excess parachute payments. None of the other severance compensation agreements in effect previously included an excise tax gross-up.

The Committee periodically reviews our post-employment compensation arrangements taking best practices into consideration, and believes that these arrangements are generally consistent with arrangements currently being offered by our Peer Group. The Committee has determined that both the terms and payout levels are appropriate to accomplish our stated objectives. The Committee also considered the non-competition agreement that we would receive from the named executive officer in exchange for any post-employment termination benefits. Based on these considerations, the Committee believes that such arrangements are appropriate and reasonable.

For additional information with respect to change in control arrangements, please see Agreements with Executive Officers and Other Potential Payments upon Termination or a Change in Control on page 38.

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ADDITIONAL INFORMATION

We believe this additional information may assist you in better understanding our compensation practices and principles.

Role of the Committee and the CEO

The Committee, consisting entirely of independent Directors, is responsible for executive compensation. As part of the compensation-setting process each year, the Committee meets periodically with the CEO and the Senior Vice President, Human Resources to review a list of corporate performance goals and receives comments from members of the Board of Directors. The CEO recommends to the Committee the compensation amounts for each of our named executive officers, other than himself. The Committee has retained an independent compensation consultant, PM, to provide advice on best practices and market developments. The CEO, the Senior Vice President, Human Resources, Human Resources staff members and the Committee s consultant attend Committee meetings and make recommendations regarding plan design and levels of compensation. However, only Committee members make decisions regarding executive compensation.

While the Committee will ask for advice and recommendations from management and PM, the Committee is responsible for executive compensation and as such:

- Sets named executive officer base salaries;
- Reviews financial and operational goals, performance measures and strategic and operating plans for the Company;
- Establishes specific goals, objectives and potential rewards for the AIP and LTIP plans;
- Reviews annual and long-term performance against goals and objectives and approves payment of any incentive earned;
- Reviews contractual agreements and benefits, including supplemental retirement and any payments that may be earned upon termination, and makes changes as appropriate;
- Reviews incentive plan designs and makes changes as appropriate; and
- Reviews total compensation to ensure compensation earned by named executive officers is fair and reasonable relative to corporate and individual performance.

Role of Compensation Consultant

The Committee retained PM to provide independent advice to the Committee. PM gathers and analyzes data at the direction of the Committee, advises the Committee on compensation standards and trends, and assists in the development of policies and programs. The Committee directs, approves and evaluates PM s work in relation to all executive compensation matters. The Committee considers PM to be independent from our management pursuant to SEC standards. Please see Independence of the Executive Compensation Consultant on page 49.

The Committee regularly meets with PM without management present. PM periodically meets with management, participates in Committee meetings throughout the year, reviews materials in advance, consults with the Chairperson of the Committee, provides to the Committee additional data on market trends and compensation design, and assesses recommendations for base salary and annual incentive awards for our named executive officers. PM may provide consulting advice to management

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outside the scope of executive compensation with the approval of the Committee, and was, as such, engaged in support of the integration of compensation and pay structures in light of the Rockwood acquisition. All work completed by PM, whether for the Committee or management, is subject to the approval of the Committee. The Committee does not delegate authority to PM.

Deductibility of Compensation

In determining the total compensation of each named executive officer, the Committee considers the tax deductibility of compensation. The Committee believes it is in our best interest and that of our shareholders to provide compensation that is tax deductible by the Company. While the Committee intends that all compensation be deductible, there may be instances where potentially non-deductible compensation is provided to reward executives consistent with our compensation philosophy for each compensation element.

Clawbacks

The Plan contains a forfeiture and recoupment policy provision for cash and equity awards paid to an awardee (including named executive officers and other recipients) in the event of a restatement of financial results due to the misconduct of the awardee or the failure of the awardee to prevent such misconduct. Awards can also be cancelled, forfeited, reduced, or recouped upon the occurrence of certain specified events, such as termination of employment for cause, violation of Company policies, breach of noncompetition or confidentiality covenants, or other conduct by an employee that is detrimental to the business or reputation of the Company.

EXECUTIVE COMPENSATION COMMITTEE REPORT

The Executive Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis section of this Proxy Statement with management and, based on such review and discussion, recommended to the Board of Directors that it be included in this Proxy Statement.

EXECUTIVE COMPENSATION COMMITTEE

John Sherman Jr., Chair
J. Kent Masters

Harriett Tee Taggart

March 28, 2016

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COMPENSATION OF EXECUTIVE OFFICERS

Total Compensation of Our Named Executive Officers

The following table presents information for the fiscal years ended December 31, 2015, 2014 and 2013 relating to total compensation of our CEO, CFO, and three other highest paid executive officers (the named executive officers).

SUMMARY COMPENSATION TABLE

e and Principal Position	Year	Salary[1]	Bonus	Stock Awards [2]	Option Awards[2]	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings[5	All Other Compensation[7]	Total
er C. Kissam IV	2015	$ 830,000	$	$ 2,368,441 [3]	$ 1,600,015	$ 850,000	$ (582,528)	$ 196,094	$ 5,262,(
dent and CEO	2014	800,000		5,005,028 [3]	1,600,028	677,600	2,092,661	132,141	10,307,
	2013	800,000		2,400,060 [4]	1,600,014	88,000	405,686	128,594	5,422,
: A. Tozier	2015	500,000	&nb						