# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

# WASHINGTON, D.C. 20549

# FORM 20-F

**(Mark One)**

| | |
|---|---|
| **o** | **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934** |
| | **OR** |
| **x** | **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**<br>**For the fiscal year ended December 31, 2016.** |
| | **OR** |
| **o** | **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**<br>**For the transition period from to .** |
| | **OR** |
| **o** | **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** |

Date of event requiring this shell company report . . . . . . . . . . . . . . . . . . .

**Commission file number: 001-36427**

# Cheetah Mobile Inc.

(Exact name of Registrant as specified in its charter)

**N/A**
(Translation of Registrant s name into English)

**Cayman Islands**
(Jurisdiction of incorporation or organization)

**Building No. 8**

**Hui Tong Times Square**

**Yaojiayuan South Road**

**Beijing 100123**

**People s Republic of China**
(Address of principal executive offices)

**Yuk Keung Ng**

**Director and Principal Financial Officer**

**Cheetah Mobile Inc.**

**Building No. 8**

**Hui Tong Times Square**

**Yaojiayuan South Road**

**Beijing 100123**

**People s Republic of China**

**Tel: +86-10-6292-7779**

**Email: IR@cmcm.com**
(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

| Title of each class | Name of each exchange on which registered |
|---|---|
| American depositary shares, each representing ten Class A ordinary shares | The New York Stock Exchange |
| Class A ordinary shares, par value US$0.000025 per share* | |

* Not for trading, but only in connection with the listing on the New York Stock Exchange of American depositary shares, each representing ten Class A ordinary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**NONE**
(Title of Class)

Table of Contents

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**NONE**
(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 410,608,263 Class A ordinary shares and 1,015,128,452 Class B ordinary shares, par value US$0.000025 per share, as of December 31, 2016.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

o Yes x No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes x No

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.

x Yes o 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

x Yes o No

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

| | | | |
|---|---|---|---|
| Large accelerated filer o | Accelerated filer x | Non-accelerated filer o | Emerging growth company o |

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, 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. o

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

| | | |
|---|---|---|
| US GAAP x | International Financial Reporting Standards as issued by the International Accounting Standards Board o | Other o |

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

o Yes o No

**TABLE OF CONTENTS**

Table of Contents

**INTRODUCTION**

In this annual report, except where the context otherwise requires and for purposes of this annual report only:

- Cheetah Mobile Inc., we, us, our company or our refers to Cheetah Mobile Inc., its subsidiaries and, in context of describing our operations and consolidated financial data, also includes our variable interest entities and, in certain periods prior to January 2017, the subsidiaries of our variable interest entities;

- ADSs refers to American depositary shares, each of which represents ten of our Class A ordinary shares;

- China or the PRC refers to the People s Republic of China, excluding, for the purposes of this annual report, Hong Kong, Macau and Taiwan;

- Ordinary shares, prior to the completion of our initial public offering in May 2014, refers to our ordinary shares, par value US$0.000025 per share and, upon the completion of the offering, to our Class A and Class B ordinary shares, par value US$0.000025 per share;

- RMB or Renminbi refers to the legal currency of China;

- US$, U.S. dollars, $, or dollars refers to the legal currency of the United States;

- , Euro dollars or Euro refers to the legal currency of the eurozone;

- ¥, Japanese Yen or JPY refers to the legal currency of Japan;

- Kingsoft Corporation Limited or Kingsoft Corporation refers to Kingsoft Corporation Limited, our controlling shareholder, a company listed on the Hong Kong Stock Exchange (Stock Code: 3888);

- Number of monthly active users, in reference to all of our products, refers to the number of computers, tablets or smartphones on which one or more of our products have been installed or downloaded and that accessed the internet at least once during the relevant month; and number of monthly active users, in reference to an individual product, refers to the number of computers, tablets or smartphones on which such product has been installed or downloaded and that accessed the internet at least once during the relevant month. A single device with multiple applications installed is counted as one user. A single person with applications installed on multiple devices is counted as multiple users. Multiple persons using a single device are counted as one user. The number of monthly active users for our mobile products is based on our internal statistics;

- Number of mobile devices on which our applications have been installed, as of a specified date, refers to the cumulative number of mobile devices on which one or more of our applications have been installed as of the specified date;

- Hong Kong Listing Rules refers to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited;

- Overseas revenues or revenues from overseas markets refers to revenues generated by our operating legal entities incorporated outside China. Such revenues are primarily attributable to customers located outside China, based on our customers registered addresses; and

- Variable interest entities or VIEs refers to those entities incorporated in PRC consolidated in our financial statements and over which our subsidiaries exercise effective control through a series of contractual arrangements.

Table of Contents

## FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains forward-looking statements that reflect our current expectations and views of future events. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by words or phrases such as may, could, should, would, will, expect, anticipate, aim, estimate, inte likely to, project, continue, potential, or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to, statements about:

- our business strategies, plans and priorities, including growth strategies as well as investment and acquisition plans in China and overseas;
- our ability to retain and attract users, customers and business partners, and increase their spendings or level of engagement with us;
- our ability to expand and improve our product and service offerings;
- our ability to monetize our platform;
- our future business development, results of operations and financial condition, including the seasonal trends of our results of operations;
- expectations regarding our user growth rate and user engagement;
- expected changes in our revenues and cost or expense items;
- competition and changes in landscape in our industry;
- relevant PRC and foreign government policies and regulations relating to our industry;

- general economic and business condition globally and in China; and
- assumptions underlying or related to any of the foregoing.

You should not place undue reliance on these forward-looking statements and you should read these statements in conjunction other sections of this annual report, in particular the risk factors disclosed in Item 3. Key Information D. Risk Factors. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. Moreover, we operate in a rapidly evolving environment. New risks emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in any forward-looking statement. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

Table of Contents

# PART I

## Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

## Item 2. Offer Statistics and Expected Timetable

Not applicable.

## Item 3. Key Information

### A. Selected Financial Data

The following table presents the selected consolidated financial information of our company. The selected consolidated statements of comprehensive income/(loss) data for each of the three years ended December 31, 2016 and the selected consolidated balance sheets data as of December 31, 2015 and 2016 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. The selected consolidated statements of comprehensive income/(loss) data for each of the two years ended December 31, 2012 and 2013 and the selected consolidated balance sheets data as of December 31, 2012, 2013 and 2014, excluding the financial data of Kingsoft Japan Inc., or Kingsoft Japan, have been derived from our audited consolidated financial statements that are not included in this annual report. Our audited consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. Our historical results do not necessarily indicate results expected for any future period. You should read the following selected financial data in conjunction with the consolidated financial statements and related notes and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report.

On January 29, 2016, we obtained control of Kingsoft Japan. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Transactions and Agreements with Kingsoft Corporation and its Subsidiaries Purchase of Equity Interest in Kingsoft Japan . As we and Kingsoft Japan were under common control by Kingsoft Corporation both before and after our acquisition of control over Kingsoft Japan, the consolidated financial data presented below have been prepared as if we had owned the assets and liabilities of and operated Kingsoft Japan throughout the periods presented, and the consolidated financial data for the years ended December 31, 2012, 2013, 2014 and 2015 have been retrospectively adjusted accordingly. The consolidated financial data set forth below as of and for each of the years ended December 31, 2012, 2013, 2014 and 2015 may not necessarily reflect the results of operations, financial position and cash flows we would have experienced with respect to Kingsoft Japan if we had owned and operated Kingsoft Japan throughout those years.

Table of Contents

| | Year Ended December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 (As adjusted) RMB | 2013 (As adjusted) RMB | 2014 (As adjusted) RMB | 2015 (As adjusted) RMB | 2016 RMB | 2016 US$ | | |
| | (In thousands except for shares, per share and per ADS data) | | | | | | | |
| **Selected Consolidated Statements of Comprehensive Income/(Loss) Data:** | | | | | | | | |
| **Revenues** | 421,322 | 858,903 | 1,858,182 | 3,773,877 | 4,564,650 | 657,446 | | |
| Online marketing services | 236,412 | 638,668 | 1,339,250 | 3,283,423 | 3,950,886 | 569,045 | | |
| Internet value-added services | 2,354 | 83,155 | 400,671 | 395,312 | 500,991 | 72,158 | | |
| Internet security services and others | 182,556 | 137,080 | 118,261 | 95,142 | 112,773 | 16,243 | | |
| Cost of revenues(1) | (138,985) | (192,720) | (438,661) | (956,353) | (1,543,817) | (222,356) | | |
| **Gross profit** | 282,337 | 666,183 | 1,419,521 | 2,817,524 | 3,020,833 | 435,090 | | |
| Operating income and expenses: | | | | | | | | |
| Research and development(1) | 2003 | $350,004 | $50,000 | $ | $ | 35,000 | $ | $18,376[10] |
| Senior Vice President and | 2002 | 162,500 | 60,000 | | | 50,000 | | 6,250[10] |
| Chief Financial Officer[9] | 2001 | | | | | | | |
| E. Whitehead Elmore | 2003 | $340,020 | $35,000 | $ | $ | 18,000 | $71,976[5] | $17,001[12] |
| Executive Vice President[11] | 2002 | 338,850 | 84,000 | | | 18,000 | | 16,943[12] |
| | 2001 | 330,550 | 62,000 | | | 53,000[3] | 70,350[4] | 16,528[12] |
| William M. Gottwald | 2003 | $300,000 | $45,000 | $ | $ | 25,000 | $71,976[5] | $15,000[13] |
| Chairman of the Board | 2002 | 262,500 | 90,000 | | | 25,000 | | 13,234[13] |
| | 2001 | 260,417 | 58,625[2] | | | 70,000[3] | 70,350[4] | 13,021[13] |

1 Rohr served as President and Chief Operating Officer of the Company through September 30, 2002. Effective October 1, 2002, Rohr became President and Chief Executive Officer of the Company.

2 Reflects the value of incentive awards in lieu of cash bonuses in an amount equivalent to 4,000, 5,000 and 2,500 shares of Albemarle common stock granted to Rohr, Floyd D. Gottwald, Jr. and William M. Gottwald, respectively, on January 31, 2002, based on $23.45 per share, the closing market price of Albemarle common stock on that date. The incentive awards vest in equal annual installments over three years commencing January 1, 2003. Upon vesting, 50% of the value of the incentive award, based on the closing market price of Albemarle common stock on the date of vesting, is paid in whole shares of Albemarle common stock and 50% of the value of the incentive award, including any fractional shares, is paid in cash.

3 On September 7, 2001 and October 8, 2001, the expiration dates of certain options, originally granted prior to January 1, 2001 pursuant to the 1998 Plan, were extended from seven to 10 years. Under the rules of the Securities and Exchange Commission, the extension of the expiration dates is treated as a cancellation and regrant of the options in the year the expiration date was extended. Certain of the Named Officers are treated as having received the following grants during 2001: Rohr: 225,000 options, of which 100,000 and 25,000 were originally granted in 1999, 50,000 were originally granted in 2000, and 50,000 were granted in 2001; Floyd D. Gottwald, Jr.: 90,000 options, of which 35,000 were originally granted in 1998, 25,000 were originally granted in 1999, and 30,000 were granted in 2001; Elmore: 53,000 options, of which 20,000 were originally granted in 1998, 15,000 were originally granted in 1999, and 18,000 were granted in 2001; and William M. Gottwald: 70,000 options, of which 25,000 were originally granted in 1998, 25,000 were originally granted in 1999, and 20,000 were granted in 2001.

4 Reflects the value of performance units awarded at the end of the four-year performance period for performance units granted under the Company s 1994 Omnibus Stock Incentive Plan (the 1994 Plan ). The valuation date was January 31, 2002, the date of approval by the Executive Compensation Committee of the Board, based on $23.45 per share, the closing price of Albemarle common stock on that date.

5 Reflects the value of performance units awarded at the end of the four-year performance period for performance units granted under the Company s 1998 Incentive Plan (the 1998 Plan ). The valuation date was January 29, 2004, the date of approval by the Executive Compensation Committee of the Board, based on $29.99 per share, the closing price of Albemarle common stock at that date.

6 Includes contributions to the Albemarle Savings Plan ($10,000, $10,000 and $8,500) and accruals in the Company s supplemental executive retirement plan ($20,000, $12,542 and $11,083) for 2003, 2002 and 2001, respectively.

7 Floyd D. Gottwald, Jr. served as Chief Executive Officer and Chairman of the Executive Committee of the Company through September 30, 2002. Effective October 1, 2002, Floyd D. Gottwald, Jr. became Vice Chairman of the Board and Chairman of the Executive Committee of the Company.

8 Includes accruals in the Company s supplemental executive retirement plan ($15,000, $26,042 and $24,583) for 2003, 2002 and 2001, respectively.

9 Effective June 17, 2002, Rocheleau became Senior Vice President and Chief Financial Officer of the Company.

10 Includes accruals in the Albemarle Savings Plan ($9,877 and $6,250) and accruals in the Company s supplemental executive retirement plan ($8,499 and $0) for 2003 and 2002 respectively.

11 Elmore retired from the Company on January 31, 2004.

12 Includes contributions to the Albemarle Savings Plan ($9,894, $10,000 and $8,500) and accruals in the Company s supplemental executive retirement plan ($7,107, $6,943 and $8,028) for 2003, 2002 and 2001, respectively.

13 Includes contributions to the Albemarle Savings Plan ($10,000, $10,000 and $8,500) and accruals to the Company s supplemental executive retirement plan ($5,000, $3,234 and $4,521) for 2003, 2002 and 2001, respectively.

### Option/SAR Grants in Last Fiscal Year

The following table presents information concerning grants of stock options and SARs to the Named Officers for the fiscal year ended December 31, 2003. Each of the following options relates to Albemarle common stock and does not include a related SAR.

| Name | Individual Grants | | | | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term |
|---|---|---|---|---|---|
| | Options Granted (#)[(1)] | Percent of Total Options Granted to Employees in | Exercise or Base Price ($) | Expiration Date | |

| | | Fiscal Year | | | 5%($) | 10%($) |
|---|---|---|---|---|---|---|
| Mark C. Rohr | 75,000 | 13.30% | $ 25.83 | 1/29/13 | $ 1,218,323 | $ 3,087,480 |
| Floyd D. Gottwald, Jr. | 25,000 | 4.43% | $ 25.83 | 1/29/13 | $ 406,108 | $ 1,029,160 |
| Paul F. Rocheleau | 35,000 | 6.21% | $ 25.83 | 1/29/13 | $ 568,551 | $ 1,440,824 |
| E. Whitehead Elmore | 18,000 | 3.19% | $ 25.83 | 1/29/13 | $ 292,397 | $ 740,995 |
| William M. Gottwald | 25,000 | 4.43% | $ 25.83 | 1/29/13 | $ 406,108 | $ 1,029,160 |

[1] Ten-year option that cliff vests in three years.

**Aggregated Option/SAR Exercises in Last Fiscal Year and FY-End Option/SAR Values**

The following table presents information concerning stock options and SAR exercises by the Named Officers and fiscal year-end option/SAR values as of December 31, 2003.

| Name | Shares Acquired on Exercise (#) | Value Realized ($) | Number of Unexercised Options/SARs at FY-End (#) Exercisable | Number of Unexercised Options/SARs at FY-End (#) Unexercisable | Value of Unexercised In-The-Money Options/SARs at FY-End ($)[3] Exercisable | Value of Unexercised In-The-Money Options/SARs at FY-End ($)[3] Unexercisable |
|---|---|---|---|---|---|---|
| Mark C. Rohr | 0 | $ 0 | 87,500[1] | 337,500[1] | $ 1,014,563 | $ 1,788,625 |
| Floyd D. Gottwald, Jr. | 0 | $ 0 | 42,500[1] | 152,500[1] | $ 545,600 | $ 869,525 |
| Paul F. Rocheleau | 0 | $ 0 | 0 | 85,000[1] | $ 0 | $ 144,900 |
| E. Whitehead Elmore | 0 | $ 0 | 85,262[2] | 81,500[1] | $ 1,334,051 | $ 451,675 |
| William M. Gottwald | 0 | $ 0 | 132,500[1] | 107,500[1] | $ 1,664,775 | $ 608,425 |

1 Each of these options relates to Albemarle common stock and does not include a tandem SAR.

2 Each of these options relates to Albemarle common stock and 59,762 of such options include a tandem SAR.

3 These values are based on $29.97 a share, the closing price of Albemarle common stock on the New York Stock Exchange on December 31, 2003.

**Equity Compensation Plan Information**

The following table presents information as of December 31, 2003 with respect to compensation plans under which shares of Albemarle common stock are authorized for issuance.

| Plan Category | Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights[1] | Weighted Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans[2] |
|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Equity Compensation Plans Approved by Shareholders | | | | |
| 1994 Incentive Plan | | | | |
| 1998 Incentive Plan | 1,063,599 | $ | 19.64 | 0[3] |
| | 2,370,525 | | 23.27 | 0[4] |
| 2003 Incentive Plan | 50,000 | | 27.45 | 2,945,000 |
| Equity Compensation Plans Not Approved by Shareholders[5] | | | | |
| Total | 3,484,124 | $ | 22.22 | 2,945,000 |

[1] Amounts include 15,837 and 42,150 shares of Albemarle common stock earned at December 31, 2003 under performance unit awards granted under the 1994 and 1998 Plans, respectively. These shares vested and were awarded in January 2004. There are no outstanding warrants or rights.

[2] Amounts exclude any securities to be issued upon exercise of outstanding options.

[3] As permitted under the terms of the 1994 Plan, the Company approved an amendment to the 1994 Plan effective December 30, 2002 canceling all authorized shares remaining for future grants or awards.

[4] As permitted under the terms of the 1998 Plan, the Company approved an amendment to the 1998 Plan effective October 1, 2003 canceling all authorized shares remaining for future grants or awards.

[5] The Company does not have any equity compensation plans that have not been approved by shareholders.

### Retirement Benefits

The following table illustrates, under the Company s pension plan for salaried employees, the estimated benefits upon retirement at age 65, determined as of December 31, 2003, to persons with specified earnings and years of pension benefit service. To the extent benefits payable at retirement exceed amounts that may be payable under applicable provisions of the Internal Revenue Code of 1986, as amended (the Code ), they will be paid under the Company s supplemental executive retirement plan ( SERP ). This table includes the amounts that would be payable under the qualified pension plan and the SERP.

### Pension Plan Table*

Years of Pension Benefit Service and Estimated Annual Benefits

| Final Average Earnings | 10 | 15 | 20 | 25 | 30 | 35 | 40 | 50 | 60 |
|---|---|---|---|---|---|---|---|---|---|
| $ 300,000 | $ 43,241 | $ 64,862 | $ 86,483 | $ 108,103 | $ 129,724 | $ 151,344 | $ 172,965 | $ 216,206 | $ 259,448 |
| 350,000 | 50,741 | 76,112 | 101,483 | 126,853 | 152,224 | 177,594 | 202,965 | 253,706 | 304,448 |
| 400,000 | 58,241 | 87,362 | 116,483 | 145,603 | 174,724 | 203,844 | 232,965 | 291,206 | 349,448 |
| 450,000 | 65,741 | 98,612 | 131,483 | 164,353 | 197,224 | 230,094 | 262,965 | 328,706 | 394,448 |
| 500,000 | 73,241 | 109,862 | 146,483 | 183,103 | 219,724 | 256,344 | 292,965 | 366,206 | 439,448 |
| 550,000 | 80,741 | 121,112 | 161,483 | 201,853 | 242,224 | 282,594 | 322,965 | 403,706 | 484,448 |
| 600,000 | 88,241 | 132,362 | 176,483 | 220,603 | 264,724 | 308,844 | 352,965 | 441,206 | 529,448 |
| 650,000 | 95,741 | 143,612 | 191,483 | 239,353 | 287,224 | 335,094 | 382,965 | 478,706 | 574,448 |
| 700,000 | 103,241 | 154,862 | 206,483 | 258,103 | 309,724 | 361,344 | 412,965 | 516,206 | 619,448 |
| 750,000 | 110,741 | 166,112 | 221,483 | 276,853 | 332,224 | 387,594 | 442,965 | 553,706 | 664,448 |
| 800,000 | 118,241 | 177,362 | 236,483 | 295,603 | 354,724 | 413,844 | 472,965 | 591,206 | 709,448 |
| 850,000 | 125,741 | 188,612 | 251,483 | 314,353 | 377,224 | 440,094 | 502,965 | 628,706 | 754,448 |
| 900,000 | 133,241 | 199,862 | 266,483 | 333,103 | 399,724 | 466,344 | 532,965 | 666,206 | 799,448 |
| 950,000 | 140,741 | 211,112 | 281,483 | 351,853 | 422,224 | 492,594 | 562,965 | 703,706 | 844,448 |
| 1,000,000 | 148,241 | 222,362 | 296,483 | 370,603 | 444,724 | 518,844 | 592,965 | 741,206 | 889,448 |

* Assumes attainment of age 65 in 2003 and Social Security Covered Compensation of $43,968.

The benefit formula under the pension plan is based on the participant s final-average earnings, which are defined as the average of the highest three consecutive calendar years earnings (base pay plus 50% of incentive bonuses paid in any fiscal year) during the 10 consecutive calendar years immediately preceding the date of determination. The years of pension benefit service for certain of the executive officers named in the above compensation table as of December 31, 2003 are: Floyd D. Gottwald, Jr., 61; Elmore, 34; William M. Gottwald, 23; Rohr, 5; and Rocheleau, 2. Benefits under the pension plan are computed on the basis of a life annuity with 60 months guaranteed payments. The benefits listed in the above compensation table are not subject to deduction for Social Security or other offset payments. Pension benefits payable to Floyd D. Gottwald, Jr. and William M. Gottwald are offset by benefits payable from the qualified and non-qualified pension plans of Ethyl

Corporation ( Ethyl ), based on 53 and 15 years of service with Ethyl, respectively.

**Supplemental Executive Retirement Plan**

The Company maintains a SERP in the form of a non-qualified pension plan that provides eligible individuals the difference between the benefits they actually accrue under the qualified employee pension and savings plans of the Company and the benefits they would have accrued under such plans but for the maximum benefit and annual addition limitations and the limitation on compensation that may be recognized thereunder under the Code. Certain key employees may be granted additional pension service benefits equal to 4% per annum of the employee s average pay over his or her last three years multiplied by the number of years of service to the Company (including service with Ethyl) up to 15 years, net of certain other benefits received from the Company (including amounts received under the qualified and non-qualified plans), previous employers, including Ethyl, and Social Security. These benefits have been granted to Rohr. All benefits under the SERP vest upon a Change in Control of the Company, as defined in the SERP.

**AGREEMENTS WITH EXECUTIVE OFFICERS**

In the event that Rohr s employment is terminated within the first five years of his employment other than for cause, the Company is obligated to pay Rohr a severance equal to two times his then-current annual compensation, including base salary and annual incentive compensation. In addition, in the event a change in control of the Company were to occur within the first 10 years of Rohr s employment and one or more of the events described below were to occur within 24 months thereafter, Rohr may elect to resign in which case (a) he will receive an adjusted benefit payable at normal retirement age under the Company s non-qualified pension plan without offset from other benefits, (b) all vested outstanding options will become exercisable and (c) all restricted stock will become non-forfeitable. The events include (1) a change or diminution of responsibilities or compensation, (2) relocation, (3) a reduction of benefit eligibility or level and (4) failure by a successor company to assume his severance agreement.

Elmore retired on January 31, 2004. He has a two-year agreement to provide consulting services to the Company. Under the terms of the agreement, Elmore received a cash payment of $37,500 on February 1, 2004. He will also receive quarterly cash payments of $37,500 on May 1, August 1, November 1 and February 1 through January 2006. Stock options and performance units granted to Elmore were amended to extend the exercise and/or vesting period of the awards until the expiration date of such grants, notwithstanding Elmore s retirement, disability or death.

## THE EXECUTIVE COMPENSATION COMMITTEE REPORT

This report of the Executive Compensation Committee of the Board of Directors describes the objectives of the Company s executive compensation program, the various components of the program, and explains the basis of 2003 decisions regarding executive compensation. The Compensation Committee held eight meetings during 2003.

The philosophy and incentive programs that constitute the executive compensation program are outlined below.

*Overall Objectives of Executive Compensation Program.* The Compensation Committee s guiding philosophy is to establish executive compensation policies that are linked to the sustained creation of shareholder value. The following objectives serve as the guiding principles for all compensation decisions:

provide a competitive total compensation opportunity that will enable the Company to attract, retain and motivate highly qualified executives;

align compensation opportunities with shareholder interests by making the executive compensation program highly sensitive to the Company s performance, which is defined in terms of long-term profitability and creating shareholder value; and

provide a strong emphasis on equity-based compensation and equity ownership, creating a direct link between shareholder and management interests.

*Compensation Program Components.* The Compensation Committee believes that the total compensation opportunity available to members of management should consist of base salary, annual incentives and long-term incentives with each component geared to the median of the market for all positions in the aggregate. Individuals may be compensated above or below the median of the marketplace based on the Company s performance and on considerations of individual performance and experience. The Compensation Committee considers all elements of the program when setting compensation levels.

The Compensation Committee periodically meets individually with members of management in order to assess progress toward meeting objectives set by the Board of Directors for both annual and long-term compensation.

The Compensation Committee utilizes compensation surveys to aid in the determination of competitive levels of executive pay. The surveys include companies that are larger and smaller than the Company. Surveys include companies in the chemical business, including, but not limited to, some of the companies included in the S&P 1500 Specialty Chemicals Index and the S&P 1500 Diversified Chemicals Index shown in the performance graph on page 16. The Compensation Committee also utilizes executive compensation information compiled from the proxy statements of other chemical companies. References to the market in this report refer to these survey and proxy data.

*Base Salaries.* Base salaries are determined in accordance with the responsibilities of each officer, median market data for the position and the officer s performance. The Compensation Committee considers each of these factors but does not assign a specific value to each factor. Furthermore, a subjective element is acknowledged in evaluating the officer s overall accountabilities to the extent such may be specific to the Company and the demonstrated capabilities of the individual.

Salaries for some officers for 2003 were maintained at current levels to reflect the increased emphasis on compensation that is tied to the long-term performance of the Company. In addition, with changes in the company s senior management structure in late 2002, certain officer base salaries were reduced to reflect current accountabilities. Total compensation for the Company s officers is believed to be generally in line with the median of the market as described above.

Salaries in 2004 have been generally maintained at current levels, with the exception of the members of the Executive Committee, who recommended to the Compensation Committee that each of their base salaries be reduced by at least 10% for 2004. This base salary change was specifically requested to provide leadership as the Company moves its compensation structure to variable pay in 2004, which will create an even stronger tie between achievement of growth in corporate profit and each employee s compensation. The Compensation Committee has acted on these requests and approved the adjustment of their base salaries for 2004.

*Annual Incentives.* The purpose of the annual incentive component is to create a substantial incentive to officers and key employees to maximize shareholder value and to provide a means for recognizing individual contribution to corporate and business unit results.

Key features of the annual incentive program include the following:

a primary emphasis on sustained growth in profit;

a significant emphasis on the achievement of key strategic objectives related to safety performance, revenue growth, new business development and management of cost;

a structured, objective approach to determine awards; and

recognition of individual achievement and contribution of participants.

Annual incentive awards are reviewed by the Compensation Committee in conjunction with senior management. Awards are based on an evaluation of the performance, level of responsibility and leadership of the individual in relation to overall corporate results. For 2003, annual incentives were based on the performance of the Company as a whole, performance of the Company s business units and other financial measures, including return on capital employed. The performance of the Company reflected strong growth in revenue of approximately 9%, including three acquisitions concluded during the year and significant product development success. However, a difficult economic environment, including escalating raw material and energy costs, dampened the growth in net income and the Company did not achieve the challenging goals established at the start of the year. Accordingly annual incentives were awarded at levels below annual targets.

*Stock Options and Restricted Awards*. The Compensation Committee believes strongly that equity based awards are an integral part of total compensation for officers and certain key managers with significant responsibility for the long-term results of the Company. Stock options and performance share awards that are tied to corporate performance provide an effective means of delivering incentive compensation and also encourage stock ownership on the part of management.

The 1998 Incentive Plan (and the 2003 Incentive Plan approved by shareholders at the last annual meeting):

- authorizes the granting of stock options, SARs, performance shares, restricted stock and other incentive awards, all of which may be made subject to the attainment of performance goals established by the Compensation Committee;

- provides for the enumeration of the business criteria on which an individual s performance goals are to be based; and

- establishes the maximum share grants or awards (or, in the case of incentive awards, the maximum compensation) that can be paid to a 1998 Plan participant.

In 2003, incentive awards of stock options were made in accordance with the 1998 Plan. Following adoption of the 2003 Plan by shareholders, all remaining shares authorized for grant under the 1998 Plan but not used were cancelled. The Compensation Committee is considering alternatives to utilizing stock options as the primary long-term incentive vehicle for future grants to executives, in recognition of the changing nature of executive compensation.

*Stock Ownership Guidelines.* To further align the interests of members of management with the Company s shareholders, the Compensation Committee has established stock ownership guidelines that encourage the accumulation and retention of Albemarle common stock. The guidelines call for certain members of management to hold a minimum multiple of base salary in shares of Albemarle common stock by the end of the fifth calendar year of participation in the Company s Incentive Plans. Participation in the 2003 Plan beyond the fifth calendar year is contingent upon satisfying the applicable guidelines. The current guidelines are as follows:

| | |
|---|---|
| CEO | 4 x salary |
| Other Named Officers | 3 x salary |
| Other management level employees | 1x to 2x (depending upon position level) salary |

At the end of 2003, all members of management covered by these guidelines for five years had met their applicable ownership targets. In concert with changes in future long-term incentive awards contemplated above, stock ownership guidelines for officers will be modified in 2004.

*Discussion of 2003 Compensation for the Chief Executive Officer.* The Compensation Committee met periodically with the Chief Executive Officer, Mark C. Rohr, interviewed key senior executives and reviewed the performance of the Company as well as that of Mr. Rohr for 2003. Rohr s base salary was increased significantly during 2003 to reflect his increased responsibility and strong leadership of the Company. For 2003, the Compensation Committee awarded Rohr a bonus of $90,000. This decision was made in recognition of his leadership in focusing management on earnings growth in the face of significant economic challenges and the strength of the Company s performance and strategic positioning for maximizing long-term shareholder return. The Compensation Committee specifically noted Rohr s leadership as reflected in the continued strong relative performance of the Company. The Compensation Committee awarded Rohr 75,000 stock options, as reflected in tables on pages 9 and 10, to provide performance based incentive commensurate with his contribution to the Company s success. As a member of the Executive Committee electing to receive a reduced salary in 2004, Mr. Rohr s salary will be decreased by 10%.

*Deductibility of Compensation.* The Compensation Committee has carefully considered Section 162(m) of the Internal Revenue Code, which provides certain criteria for the tax deductibility of compensation in excess of $1 million paid to the Company s executive officers. The Compensation Committee intends, except in special circumstances, that grants of options, awards of performance shares, restricted stock and other incentive awards under the 2003 Plan will comply with the requirements of Section 162(m).

THE EXECUTIVE COMPENSATION COMMITTEE

Richard L. Morrill, Chairman

Seymour S. Preston III

John Sherman, Jr.

Anne M. Whittemore

January 30, 2004

**PERFORMANCE GRAPH**

Cumulative Total Shareholder Return*

Performance through December 31, 2003

| Date | Albemarle | S&P 500 Companies | S&P 1500 Specialty Chemicals (excluding Albemarle) | S&P 1500 Diversified Chemicals |
|---|---|---|---|---|
| 12/31/98 | $100.00 | $100.00 | $100.00 | $100.00 |
| 12/31/99 | 82.36 | 121.01 | 103.67 | 126.70 |
| 12/31/00 | 108.54 | 109.99 | 97.50 | 103.80 |
| 12/31/01 | 107.77 | 96.98 | 103.89 | 98.79 |
| 12/31/02 | 130.25 | 75.59 | 103.23 | 95.98 |
| 12/31/03 | 140.07 | 97.24 | 124.01 | 120.90 |

The S&P 1500 Specialty Chemicals Index includes the following companies: A. Schulman, Inc., Arch Chemicals, Inc., Cambrex Corporation, Crompton Corporation, Cytec Industries Inc., Ecolab Inc., Ferro Corporation, H.B. Fuller Company, Great Lakes Chemical Corporation, International Flavors & Fragrances Inc., The Lubrizol Corporation, MacDermid, Incorporated, Material Sciences Corporation, Minerals Technologies Inc., OM Group, Inc., OMNOVA Solutions Inc., Polyone Corporation, Quaker Chemical Corporation, Rohm and Haas Company, RPM International Inc., Sensient Technologies Corporation, Sigma-Aldrich Corporation and The Valspar Corporation. The S&P 1500 Diversified Chemicals Index includes the following companies: Cabot Corporation, The Dow Chemical Company, E.I. duPont de Nemours and Company, Eastman Chemical Company, Engelhard Corporation, FMC Corporation, Hercules Incorporated, Olin Corporation, Penford Corporation and PPG Industries, Inc.

## THE AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors is composed of three independent directors and operates under a written charter adopted by the Board of Directors. The Audit Committee approves the selection of the Company s independent accountants.

Management is responsible for the Company s disclosure controls, internal controls and the financial reporting process. The independent accountants are responsible for performing an independent audit of the Company s consolidated financial statements in accordance with generally accepted auditing standards and for issuing a report thereon. The Audit Committee s primary responsibility is to monitor and oversee these processes and to report thereon to the Board of Directors. In this context, the Audit Committee has met privately with management, the internal auditors and PricewaterhouseCoopers LLP, the Company s independent accountants, all of whom have unrestricted access to the Committee.

The Audit Committee has discussed with PricewaterhouseCoopers the matters required to be discussed by Statement on Auditing Standards No. 61 (Codification of Statements on Accounting Standards), including the scope of the auditor s responsibilities, significant accounting adjustments and any disagreements with management.

The Audit Committee also has received the written disclosures and the letter from PricewaterhouseCoopers relating to the independence of that firm as required by Independence Standards Board Standard No.1 (Independence Discussions with Audit Committees), and has discussed with PricewaterhouseCoopers that firm s independence from the Company.

The Audit Committee has reviewed and discussed the consolidated financial statements with management and PricewaterhouseCoopers. Based on this review and these discussions, the representation of management that the consolidated financial statements were prepared in accordance with generally accepted accounting principles and the report of PricewaterhouseCoopers to the Audit Committee, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company s annual report on Form 10-K for the year ended December 31, 2003 to be filed with the Securities and Exchange Commission.

The Audit Committee also reviews with management and the independent accountants the results of the independent accountants review of the unaudited financial statements that are included in the Company s quarterly reports on Form 10-Q.

### Audit Committee Pre-Approval Policy

The Audit Committee has adopted a policy for the provision of audit services and permitted non-audit services by the Company s independent accountants. The Company s chief financial officer has primary responsibility to the Audit Committee for administration and enforcement of this policy and for reporting non-compliance. Under the policy the chief financial officer is responsible for presenting to the Audit Committee an annual budget and plan for audit services and for any proposed audit-related, tax or other non-audit services to be performed by the independent accountants. The presentation must be in sufficient detail to define clearly the services included. Any services included within the budget and plan that the Audit Committee approves require no further Committee approval for that budget year. All other audit and permissible non-audit engagements of the independent accountants must be approved in advance by the Audit Committee. The pre-approval requirements do not prohibit the delivery of permissible non-audit services that were not recognized as non-audit services at the time of the engagement so long as (i) all such services are less than 5% of revenues paid to the independent accountants for the fiscal year and (ii) the services are approved by the Audit Committee prior to completion of the audit.

### Fees Billed by PricewaterhouseCoopers

The Audit Committee reviews the fees charged by the Company s independent accountants. During the fiscal years ended December 31, 2003 and December 31, 2002, PricewaterhouseCoopers billed the Company the fees set forth below in connection with services rendered by that firm to the Company.

| | 2003 | | 2002 | |
|---|---|---|---|---|
| Audit Fees | $ | 949,000 | $ | 1,073,000 |
| Audit-Related Fees | | 228,000 | | 449,000 |
| Tax Fees | | 1,074,000 | | 1,502,000 |
| All Other Fees | | 56,000 | | 60,000 |
| Total fees | $ | 2,307,000 | $ | 3,084,000 |

*Audit Fees.* Audit fees include professional services rendered by PricewaterhouseCoopers for the audit of the Company s annual financial statements and the reviews of the financial statements included in the Company s quarterly reports on Form 10-Q. This category also includes fees for audits provided in connection with statutory filings or services that generally only the principal auditor reasonably can provide to a client, such as procedures related to audit of income tax provisions and related reserves, consents and assistance with and review of documents filed with the Securities and Exchange Commission.

*Audit-Related Fees.* Audit-related fees includes reviews of the Company s employee benefit plans, due diligence related to mergers and acquisitions, audits in connection with acquisitions, internal control reviews, and consultation on financial accounting and reporting standards. For both 2003 and 2002, amounts billed to Albemarle were primarily for employee benefit plan reviews and for due diligence and audits related to mergers and acquisitions.

*Tax Fees.* Tax fees include original and amended tax returns, studies supporting tax return amounts as may be required by Internal Revenue Service regulations, claims for refunds, assistance with tax audits and other work directly affecting or supporting the payment of taxes ( compliance ), and planning, research and advice supporting the Company s efforts to maximize the tax efficiency of its operations ( planning ). For the fiscal years ended December 31, 2003 and December 31, 2002, payments for compliance totaled $1,006,000 and $1,032,000, respectively, and payments for planning were $68,000 and $470,000, respectively.

*All Other Fees.* This category includes minor ministerial duties related to statutory filings in foreign countries in 2003 and 2002, and Best Practices software license fees in 2003.

THE AUDIT COMMITTEE

John Sherman, Jr., Chairman

Seymour S. Preston III

Charles E. Stewart

January 30, 2004

## RATIFICATION OF APPOINTMENT OF AUDITORS

The Audit Committee has appointed PricewaterhouseCoopers LLP, certified public accountants, as the Company s independent auditors for the fiscal year ending December 31, 2004. A representative of PricewaterhouseCoopers is expected to be present at the annual meeting with an opportunity to make a statement and to be available to respond to appropriate questions.

PricewaterhouseCoopers principal function is to audit the consolidated financial statements of the Company and its subsidiaries and, in connection with that audit, to review certain related filings with the Securities and Exchange Commission and to conduct limited reviews of the financial statements included in the Company s quarterly reports.

**The Board and Audit Committee recommend that shareholders vote FOR ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent auditors for the fiscal year ending December 31, 2004.**

Appointment of the Company s independent auditors is not required to be submitted to a vote of the shareholders of the Company for ratification. Under the Sarbanes-Oxley Act of 2002 and the rules of the Securities and Exchange Commission promulgated thereunder, the Audit Committee is solely responsible for the appointment, compensation and oversight of the work of the Company s independent auditors.

## SHAREHOLDER PROPOSALS

Under the regulations of the Securities and Exchange Commission, any shareholder desiring to make a proposal to be acted upon at the 2005 annual meeting of shareholders must present such proposal to the Company s Secretary at the Company s principal office at 330 South Fourth Street, Richmond, Virginia 23219 not later than October 29, 2004, in order for the proposal to be considered for inclusion in the Company s proxy statement. The Company anticipates holding the 2005 annual meeting on March 24, 2005.

The Company s bylaws provide that a shareholder of the Company entitled to vote for the election of directors may nominate persons for election to the Board by delivering written notice to the Secretary of the Company. With respect to an election to be held at an annual meeting of shareholders, such notice generally must be delivered not later than the close of business on the ninetieth day nor earlier than the close of business on the one-hundred twentieth day prior to the first anniversary of the preceding year s annual meeting. With respect to an election to be held at a special meeting of shareholders, such notice must be delivered not earlier than the close of business on the one-hundred twentieth day prior to such special meeting, and not later than the close of business on the later of the ninetieth day prior to such special meeting or the tenth day following the day on which public announcement is made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such special meeting.

The shareholder s notice must include

- as to each person whom the shareholder proposes to nominate for election as a director:
  - all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest or is otherwise required pursuant to Regulation 14A under the Exchange Act; and
  - such person s written consent to being named in the proxy statement as a nominee and to serving as such a director if elected; and

as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination is made:

the name and address of such shareholder, as they appear on the Company s books, and of such beneficial owner;

the class and number of shares of capital stock of the Company that are owned beneficially and of record by such shareholder and such beneficial owner;

a representation that the shareholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such nomination; and

a representation whether the shareholder or the beneficial owner, if any, intends or is part of a group that intends (1) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Company s outstanding capital stock required to elect the nominee and/or (2) otherwise to solicit proxies from shareholders in support of such nomination.

Because the 2004 annual meeting is to be held on March 31, 2004, the Secretary of the Company must receive written notice of a shareholder proposal to be acted upon at the 2005 annual meeting not later than the close of business on January 1, 2005 nor earlier than the close of business on December 2, 2004.

In order for a shareholder to bring other business before a shareholder meeting, timely notice must be received by the Company within the time limits described in the immediately preceding paragraph. The shareholder s notice must contain:

as to each matter:

a brief description of the business desired to be brought before the meeting,

the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the bylaws of the Company, the language of the proposed amendment),

the reasons for conducting such business at the meeting and

any material interest in such business of such shareholder and for the beneficial owner, if any, on whose behalf the proposal is made and

as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made, the information described above with respect to the shareholder proposing such business.

The requirements found in the Company s bylaws are separate from and in addition to the requirements of the Securities and Exchange Commission that a shareholder must meet to have a proposal included in the Company s proxy statement.

## CERTAIN MATTERS RELATING TO PROXY MATERIALS AND ANNUAL REPORTS

### Electronic Access of Proxy Materials and Annual Reports

This proxy statement and the Company s Annual Report on Form 10-K are available on the Company s Internet website at http://www.albemarle.com. Shareholders can elect to access future proxy soliciting materials, including notices to shareholders of annual meetings and proxy statements, and annual reports over the Internet instead of receiving paper copies in the mail. Providing these documents over the Internet will reduce the Company s printing and postage costs and the number of paper documents shareholders would otherwise receive. The Company will notify shareholders who consent to accessing these documents over the Internet when such documents will be available. Once given, a shareholder s consent will remain in effect until such shareholder revokes it by notifying the Company otherwise at Albemarle Corporation, 330 South Fourth Street, Richmond, Virginia 23219, Attention: Corporate Secretary. Shareholders of record can choose this option by marking the appropriate oval on the proxy card included with this proxy statement. Beneficial owners whose shares are held in street name should refer to the information provided by the institution that holds such beneficial owner s shares and follow the instructions on such form for instructions on how to elect to view future proxy statements and annual reports over the Internet, if this option is provided by such institution. Paper copies of these documents may be requested by writing the Company at Investor Relations, Albemarle Corporation, 330 South Fourth Street, Richmond, Virginia 23219 or by telephoning (804) 788-6091.

**Separate Copies for Beneficial Owners**

Institutions that hold shares in street name for two or more beneficial owners with the same address are permitted to deliver a single proxy statement and annual report to that address. Any such beneficial owner can request a separate copy of this proxy statement or the Annual Report on Form 10-K by contacting the Company s investor relations department as described above.

## OTHER MATTERS

The Board of Directors is not aware of any matters to be presented for action at the meeting other than as set forth in this proxy statement. However, if any other matters properly come before the meeting, or any adjournment or postponement thereof, the person or persons voting the proxies will vote them in accordance with their best judgment.

By Order of the Board of Directors

Luther C. Kissam, IV, *Secretary*

Annex A

November 19, 2003

**ALBEMARLE CORPORATION**

***Audit Committee Charter***

**I. Introduction and Purpose**

**A.** The Board of Directors of Albemarle Corporation (the Company ) has constituted an Audit Committee which shall have responsibility for assisting the Board of Directors in its oversight of:

1. the reliability and integrity of the Company s financial statements;

2. effective management of the Company s financial risks;

3. the Company s compliance with laws and regulations;

4. the independent auditor s qualifications and independence; and

5. the performance of the Company s independent auditor and internal audit function.

**B.** The Audit Committee shall prepare the report of the Committee required by the Securities and Exchange Commission ( SEC ) to be included in the Company s annual Proxy Statement.

**II. Responsibilities**

**A. Selection and Retention of Independent Auditor**

The Audit Committee shall be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor (subject to shareholder ratification at the annual shareholder meeting).

The Audit Committee shall have sole authority to approve all audit and permissible non-audit engagements, including fees and terms, with the independent auditor and shall establish policies and procedures for the engagement of the independent auditor to provide permissible non-audit services.

The independent auditor must report directly to the Audit Committee and shall be accountable to the Board of Directors through the Audit Committee.

**B. The Reliability and Integrity of the Company s Financial Statements**

The Audit Committee shall:

1. review and discuss with Management and the independent auditor major issues regarding accounting principles and financial statement presentation;

2. review and discuss major issues as to the adequacy of the Company s internal control over financial reporting and any special audit steps adopted in light of material control deficiencies;

3. review and discuss analyses prepared by Management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;

4. consider and approve, when appropriate, any significant changes in the Company s accounting and auditing policies;

5. review and discuss any accounting and financial reporting proposals that may have a significant impact on the Company s financial reports;

6. review and discuss with Management and the independent auditor the Company s annual and quarterly financial statements and drafts of the Company s Annual Report on Form 10-K and Quarterly Reports on Form 10-Q

including the Company s disclosure under Management s Discussion and Analysis of Financial Condition and Results of Operations;

7. review, quarterly, a letter as contemplated by the American Institute of Certified Public Accountants ( AICPA ) in Statement on Auditing Standards No. 71;

8. discuss with the independent auditor and Management business, financial or legal issues that may significantly impact the Company s financial statements and internal control over financial reporting;

9. satisfy itself as regards the integrity and prudence of the Company s internal control systems, including periodic review of policies and/or practices;

10. review the Company s accounting policies and practices in the light of the requirements of the Financial Accounting Standards Board ( FASB ), the SEC, the Public Company Accounting Oversight Board ( PCAOB ) and the AICPA;

11. discuss with Management the type of information to be disclosed in earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, giving attention to any use of pro forma , adjusted or non-GAAP financial measures or information;

12. discuss with Management and the independent auditor the effect of regulatory and accounting initiatives, as well as off-balance sheet structures on the Company s financial statements; and

13. perform or undertake on behalf of the Board any such other tasks or actions as the Board may from time to time authorize.

**C. Effective Management of the Company s Financial Risks**

The Audit Committee shall:

1. be aware of the current areas of greatest risk to the Company and shall discuss policies and guidelines to govern the process by which Management is effectively assessing and managing those risks;

2. satisfy itself that effective systems of accounting and internal control over financial reporting are established and maintained to manage financial risk; and

3. make the Board of Directors aware of any matters that have come to its attention that may significantly impact the financial condition or affairs of the Company, and help assess the related risks and planned actions to manage those risks.

**D. The Company s Compliance with Laws and Regulations**

The Audit Committee shall establish procedures for:

1. the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and

2. the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

The General Counsel and Management shall periodically report to the Committee regarding:

1. any significant changes in the various rules, regulations and laws which relate generally to the Company s business operations and the Company s compliance with such rules, regulations and laws; and

2. developments in the law relating to the responsibilities and liabilities of Directors.

**E. The Independent Auditor s Qualifications and Independence**

The Audit Committee shall:

1. obtain and review, at least annually, a report by the independent auditor:

   a. describing the firm s internal quality control procedures;

   b. identifying any material issues raised by the most recent internal quality control review, or peer review, of the firm or by any inquiry or investigation by governmental or professional authorities within the preceding five years, respecting one or more independent audits by the firm, and any steps taken to deal with any such issues; and

   c. delineating all relationships between the independent auditor and the Company, including audit and non-audit assignments and any fees and other compensation paid to the independent auditor;

2. evaluate the qualifications, experience, performance and independence of the senior members of the independent auditor team, including that of the independent auditor s lead and concurring partners, taking into consideration the opinions of Management and the internal auditors and present its conclusions with respect to such evaluations to the Board of Directors;

3. assure the regular rotation of the lead and concurring audit partners as required by law, and consider whether there should be regular rotation of the independent auditing firm itself, in order to assure continuing independence of the independent auditor;

4. consider whether the independent auditor s performance of permissible non-audit services is compatible with the auditor s independence; and

5. set clear hiring policies with respect to any current or former employees of the independent auditor.

**F. The Performance of the Company s Independent Auditor and Internal Audit Function**

The Audit Committee shall:

1. with respect to each fiscal year:

   a. meet with the independent auditor, the internal auditors and the senior management to review the scope, fees, staffing, timing, and methodology of the proposed audits for such fiscal year; and

b. discuss with the independent auditor the internal audit department s responsibilities, budget and staffing, and any recommended changes in the planned scope of the internal audit;

2. review with the Company s independent auditor any significant difficulties encountered during the course of the audit, including:

   a. any significant disagreements with Management;

   b. any restrictions on the scope of work or access to required information;

   c. any accounting adjustments that were noted or proposed by the auditor but were passed (as immaterial or otherwise);

   d. any management or internal control letters issued, or proposed to be issued, by the audit firm to the Company; and

   e. any discussions with the independent auditor s national office respecting auditing or accounting issues presented by the engagement; and

3. receive regular reports from the independent auditor and the internal auditors on the underlying process and status of their audits and any findings or preliminary conclusions that have been reached.

## III. Composition of the Audit Committee

The Audit Committee shall be composed of at least three directors, each of whom shall be financially literate, as such qualification is interpreted by the Board of Directors in its business judgment (or, if any new member of the Committee at the time of his or her appointment is not then financially literate, such member shall become so within a reasonable period of time thereafter). In addition, at least one member of the Committee, preferably the Chairman of the Committee, shall have accounting or related financial management expertise, as such qualification is interpreted by the Board of Directors in its business judgment. Furthermore, the composition of the Committee shall satisfy the independence requirements of the SEC and the NYSE within the time requirements established by the SEC and the NYSE, all as determined by the Board of Directors. Director retainer and meeting fees shall be the only compensation that Committee members may receive from the Company. No member of the Committee may own directly or indirectly more than twenty percent of the Company s common stock. No member of the Audit Committee may serve on the audit committee of more than three public companies.

## IV. Administration of the Committee

Regular meetings of the Audit Committee shall be held at least four times per year. The Audit Committee shall meet separately, as often as may be deemed necessary or appropriate in its judgment with the Company s Management, internal auditors and independent auditor. Special meetings of the Audit Committee may be convened by the Chairman or a majority of the Committee members. The internal auditors or the independent auditor may request a meeting if they consider that one is necessary. The Audit Committee may form subcommittees and delegate authority to subcommittees when appropriate.

The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain special legal, accounting or other consultants to advise the Committee. The Audit Committee shall have the authority to retain and compensate such advisors without seeking further approval and shall receive appropriate funding, as determined by the Audit Committee, from the Company to compensate such advisors and the independent auditor and for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties. The Audit Committee shall have the authority to conduct or authorize investigations into any matters within its scope of responsibilities and shall have the authority to retain outside advisors to assist the Committee in the conduct of any investigation.

### A. Board Reporting

The Chairman of the Audit Committee shall report the results of each Audit Committee meeting at the next regular meeting of the Board of Directors, and shall review with the Board of Directors any issues that arise with respect to the items listed in I.A.1 through I.A.5 above.

### B. Other Matters

Each year the Chairman of the Committee shall discuss the Committee s performance with each Committee member, following which discussions the Chairman shall lead the Committee in a review of its performance. The annual evaluation shall include a review of the Committee s charter.

The Committee shall cause to be provided to the NYSE appropriate written confirmation of any of the foregoing matters as the NYSE may from time to time require.

**ELECTRONIC ACCESS TO FUTURE DOCUMENTS**

**NOW AVAILABLE**

Albemarle Corporation (the Company ) provides its annual reports and proxy solicitation materials, including notices to shareholders of annual meetings and proxy statements, over the Internet. If you give your consent to access these documents over the Internet, the Company will advise you when these documents become available on the Internet. Providing these documents over the Internet will reduce the Company s printing and postage costs. Once you give your consent, it will remain in effect until you notify the Company that you wish to resume mail delivery of the annual reports and proxy statements. Even though you give your consent, you still have the right at any time to request copies of these documents.

To give your consent, mark the appropriate oval located on the attached card.

FOLD AND DETACH HERE

**ALBEMARLE CORPORATION**

Richmond, Virginia

**PROXY FOR ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MARCH 31, 2004**

**This Proxy is solicited on behalf of the Board of Directors.**

The undersigned hereby appoints Floyd D. Gottwald, Jr., Seymour S. Preston III and William M. Gottwald, or any of them, with full power of substitution in each, proxies to vote all shares of the undersigned in Albemarle Corporation, at the annual meeting of shareholders to be held March 31, 2004, and at any and all adjournments or postponements thereof.

This Proxy when properly executed will be voted in the manner directed herein by the undersigned shareholder. **If no direction is made, this Proxy will be voted FOR all nominees and FOR Proposal 2 and according to the discretion of the proxy holders on any other matters that may properly come before the meeting or any and all adjournments or postponements thereof.**

**YOUR VOTE IS IMPORTANT!**

(Continued and to be signed on the reverse side.)

**ALBEMARLE CORPORATION**

PLEASE MARK VOTE IN OVALS USING DARK INK ONLY.

1. Election of Directors

¨ FOR ALL ¨ WITHHOLD ALL ¨ FOR ALL EXCEPT

Nominees: Mark C. Rohr, Lloyd B. Andrew, Charles E. Stewart, William M. Gottwald, Seymour S. Preston III, John Sherman, Jr., Floyd D. Gottwald, Jr., Richard L. Morrill, Anne Marie Whittemore and John D. Gottwald.

**INSTRUCTION: To withhold authority to vote for any such nominee(s), write the name(s) of the nominee(s) on the line provided below:**

---

2. The proposal to ratify the appointment of PricewaterhouseCoopers LLP as the independent auditors for the Company for the fiscal year ending December 31, 2004.

¨ FOR ¨ AGAINST ¨ ABSTAIN

Until contrary notice is given to the Company, I consent to access all future proxy statements and annual reports issued by the Company over the Internet. ¨

Dated ______________, 2004

Signature

**Please sign name exactly as it appears on the stock certificate. Only one of several joint owners or co-owners need sign. Fiduciaries should give full title.**

**PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.**