

ALBEMARLE CORP
Form 10-Q
April 28, 2011
Table of Contents

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

FORM 10-Q

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

For Quarterly Period Ended March 31, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 1-12658

ALBEMARLE CORPORATION

(Exact name of registrant as specified in its charter)

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VIRGINIA
(State or other jurisdiction of
incorporation or organization)

54-1692118
(I.R.S. Employer
Identification No.)

451 FLORIDA STREET

BATON ROUGE, LOUISIANA
(Address of principal executive offices)

70801
(Zip Code)

Registrant's telephone number, including area code - (225) 388-8011

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock, \$.01 par value, outstanding as of April 22, 2011: 91,692,039

Table of Contents

ALBEMARLE CORPORATION

INDEX FORM 10-Q

	Page Number(s)
PART I. FINANCIAL INFORMATION	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Income Three Months Ended March 31, 2011 and 2010</u>	3
<u>Condensed Consolidated Balance Sheets March 31, 2011 and December 31, 2010</u>	4
<u>Consolidated Statements of Changes in Equity Three Months Ended March 31, 2011 and 2010</u>	5
<u>Condensed Consolidated Statements of Cash Flows Three Months Ended March 31, 2011 and 2010</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	7-15
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16-26
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
Item 4. <u>Controls and Procedures</u>	26
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	27
Item 1A. <u>Risk Factors</u>	27
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
Item 6. <u>Exhibits</u>	27
<u>SIGNATURES</u>	28
<u>EXHIBITS</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited).****ALBEMARLE CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(In Thousands, Except Per Share Amounts)****(Unaudited)**

	Three Months Ended March 31,	
	2011	2010
Net sales	\$ 696,530	\$ 580,270
Cost of goods sold	463,514	415,799
Gross profit	233,016	164,471
Selling, general and administrative expenses	73,039	66,530
Research and development expenses	17,615	14,719
Restructuring and other charges		6,958
Operating profit	142,362	76,264
Interest and financing expenses	(9,592)	(5,936)
Other income, net	338	1,010
Income before income taxes and equity in net income of unconsolidated investments	133,108	71,338
Income tax expense	32,172	16,700
Income before equity in net income of unconsolidated investments	100,936	54,638
Equity in net income of unconsolidated investments (net of tax)	12,831	10,276
Net income	113,767	64,914
Net income attributable to noncontrolling interests	(7,187)	(1,606)
Net income attributable to Albemarle Corporation	\$ 106,580	\$ 63,308
Basic earnings per share	\$ 1.16	\$ 0.69
Diluted earnings per share	\$ 1.15	\$ 0.69
Weighted-average common shares outstanding basic	91,633	91,386
Weighted-average common shares outstanding diluted	92,517	92,193
Cash dividends declared per share of common stock	\$ 0.165	\$ 0.14

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents**ALBEMARLE CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In Thousands)****(Unaudited)**

	March 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 441,013	\$ 529,650
Trade accounts receivable, less allowance for doubtful accounts (2011 \$2,510; 2010 \$2,527)	401,637	340,888
Other accounts receivable	44,866	33,772
Inventories	402,967	389,210
Other current assets	55,891	54,678
Total current assets	1,346,374	1,348,198
Property, plant and equipment, at cost	2,506,233	2,440,178
Less accumulated depreciation and amortization	1,466,228	1,433,865
Net property, plant and equipment	1,040,005	1,006,313
Investments	207,379	180,690
Other assets	123,364	125,878
Goodwill	287,264	272,238
Other intangibles, net of amortization	135,495	134,764
Total assets	\$ 3,139,881	\$ 3,068,081
Liabilities And Equity		
Current liabilities:		
Accounts payable	\$ 210,573	\$ 175,183
Accrued expenses	131,653	143,684
Current portion of long-term debt	9,097	8,983
Dividends payable	14,814	12,547
Income taxes payable	15,474	23,780
Total current liabilities	381,611	364,177
Long-term debt	758,597	851,927
Postretirement benefits	54,716	55,014
Pension benefits	53,088	102,836
Other noncurrent liabilities	105,616	108,811
Deferred income taxes	123,585	109,570
Commitments and contingencies (Note 9)		
Equity:		
Albemarle Corporation shareholders' equity:		
Common stock, \$.01 par value, issued and outstanding 91,668 in 2011 and 91,594 in 2010	917	916
Additional paid-in capital	28,856	18,835
Accumulated other comprehensive loss	(85,640)	(164,196)
Retained earnings	1,651,976	1,560,519

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Total Albemarle Corporation shareholders' equity	1,596,109	1,416,074
Noncontrolling interests	66,559	59,672
Total equity	1,662,668	1,475,746
Total liabilities and equity	\$ 3,139,881	\$ 3,068,081

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

(In Thousands, Except Share Data)	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive	Retained Earnings	Total Albemarle		Total Equity
	Shares	Amounts		(Loss) Income		Shareholders Equity	Non-controlling Interests	
Balance at January 1, 2011	91,593,984	\$ 916	\$ 18,835	\$ (164,196)	\$ 1,560,519	\$ 1,416,074	\$ 59,672	\$ 1,475,746
Comprehensive income (loss):								
Net income					106,580	106,580	7,187	113,767
Foreign currency translation, net of tax of \$2,631				74,277		74,277	(300)	73,977
Pension and postretirement benefits, net of tax of \$(2,453)				4,245		4,245		4,245
Other, net of tax of \$(21)				34		34		34
Total comprehensive income				78,556	106,580	185,136	6,887	192,023
Cash dividends declared					(15,123)	(15,123)		(15,123)
Stock-based compensation and other			6,501			6,501		6,501
Exercise of stock options	17,500		205			205		205
Tax benefit related to stock plans			3,867			3,867		3,867
Issuance of common stock, net	65,667	1	(1)					
Shares withheld for withholding taxes associated with common stock issuances	(9,646)		(551)			(551)		(551)
Balance at March 31, 2011	91,667,505	\$ 917	\$ 28,856	\$ (85,640)	\$ 1,651,976	\$ 1,596,109	\$ 66,559	\$ 1,662,668
Balance at January 1, 2010	91,509,099	\$ 915	\$ 8,658	\$ (91,860)	\$ 1,287,983	\$ 1,205,696	\$ 47,622	\$ 1,253,318
Comprehensive income (loss):								
Net income					63,308	63,308	1,606	64,914
Foreign currency translation, net of tax of \$(355)				(57,582)		(57,582)		(57,582)
Pension and postretirement benefits, net of tax of \$(1,443)				2,537		2,537		2,537
Other, net of tax of \$2				3		3		3
Total comprehensive (loss) income				(55,042)	63,308	8,266	1,606	9,872
Deconsolidation of Stannica LLC							(8,121)	(8,121)
Cash dividends declared					(12,788)	(12,788)		(12,788)
Stock-based compensation and other			6,122			6,122		6,122
Exercise of stock options	63,000		978			978		978
Shares repurchased and retired	(240,000)	(2)	(8,632)			(8,634)		(8,634)
Tax benefit related to stock plans			480			480		480
Issuance of common stock, net	14,000							
Shares withheld for withholding taxes associated with common stock issuances	(2,091)		(74)			(74)		(74)

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Balance at March 31, 2010	91,344,008	\$ 913	\$ 7,532	\$ (146,902)	\$ 1,338,503	\$ 1,200,046	\$ 41,107	\$ 1,241,153
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See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents**ALBEMARLE CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In Thousands)****(Unaudited)**

	Three Months Ended March 31,	
	2011	2010
Cash and cash equivalents at beginning of year	\$ 529,650	\$ 308,791
Cash flows from operating activities:		
Net income	113,767	64,914
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	23,004	24,701
Restructuring and other charges		6,958
Stock-based compensation	6,789	4,347
Excess tax benefits realized from stock-based compensation arrangements	(3,867)	(480)
Equity in net income of unconsolidated investments (net of tax)	(12,831)	(10,276)
Working capital changes	(52,116)	(74,296)
Dividends received from unconsolidated investments and nonmarketable securities	2,221	5,176
Pension and postretirement expense	6,463	5,395
Pension and postretirement contributions	(51,949)	(22,209)
Unrealized gain on investments in marketable securities	(1,483)	(368)
Net change in noncurrent income tax payables and receivables	(684)	2,222
Net change in noncurrent environmental liabilities	733	(527)
Deferred income taxes	21,209	9,914
Other, net	(4,700)	2,613
Net cash provided by operating activities	46,556	18,084
Cash flows from investing activities:		
Capital expenditures	(31,894)	(16,141)
Cash impact from deconsolidation of Stannica LLC, net		(13,074)
Cash payments related to acquisitions and other	(633)	(92)
Sales of marketable securities, net	1,872	1,386
Investments in equity and other corporate investments	(10,666)	
Net cash used in investing activities	(41,321)	(27,921)
Cash flows from financing activities:		
Repayments of long-term debt	(100,622)	(14,445)
Proceeds from borrowings	6,694	6,654
Dividends paid to shareholders	(12,856)	(11,401)
Repurchases of common stock		(8,634)
Proceeds from exercise of stock options	205	978
Excess tax benefits realized from stock-based compensation arrangements	3,867	480
Withholding taxes paid on stock-based compensation award distributions	(551)	(74)
Net cash used in financing activities	(103,263)	(26,442)
Net effect of foreign exchange on cash and cash equivalents	9,391	(5,195)

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Decrease in cash and cash equivalents	(88,637)	(41,474)
Cash and cash equivalents at end of period	\$ 441,013	\$ 267,317

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents**ALBEMARLE CORPORATION AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements****(Unaudited)****NOTE 1 Basis of Presentation:**

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Albemarle Corporation and our wholly-owned, majority-owned and controlled subsidiaries (collectively, Albemarle, we, us, our, or the Company) contain all adjustments necessary for a fair statement, in all material respects, of our condensed consolidated balance sheets as of March 31, 2011 and December 31, 2010, our consolidated statements of income and consolidated statements of changes in equity for the three-month periods ended March 31, 2011 and 2010 and our condensed consolidated statements of cash flows for the three-month periods ended March 31, 2011 and 2010. All adjustments are of a normal and recurring nature. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010, which was filed with the Securities and Exchange Commission, or the SEC, on February 25, 2011. The December 31, 2010 consolidated balance sheet data herein was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles, or GAAP, in the United States, or the U.S. The results of operations for the three-month period ended March 31, 2011 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made to the accompanying consolidated financial statements and the notes thereto to conform to the current presentation.

NOTE 2 Foreign Exchange:

Our consolidated statements of income include foreign exchange transaction (losses) gains for the three-month periods ended March 31, 2011 and 2010 in the amount of \$(0.5) million and \$0.8 million, respectively.

NOTE 3 Income Taxes:

The effective income tax rate for the first quarter of 2011 was 24.2 percent compared with 23.4 percent for the first quarter of 2010. The Company's effective income tax rate fluctuates based on, among other factors, our level and location of income. The difference between the U.S. federal statutory income tax rate and our effective income tax rate for the first quarter of 2011 and first quarter of 2010 is mainly due to the impact of earnings from outside the U.S.

NOTE 4 Earnings Per Share:

Basic and diluted earnings per share for the three-month periods ended March 31, 2011 and 2010 are calculated as follows:

	Three Months Ended March 31,	
	2011	2010
	(In thousands, except per share amounts)	
Basic earnings per share		
Numerator:		
Net income attributable to Albemarle Corporation	\$ 106,580	\$ 63,308
Denominator:		
Weighted-average common shares for basic earnings per share	91,633	91,386
Basic earnings per share	\$ 1.16	\$ 0.69
Diluted earnings per share		
Numerator:		
Net income attributable to Albemarle Corporation	\$ 106,580	\$ 63,308

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Denominator:

Weighted-average common shares for basic earnings per share	91,633	91,386
Incremental shares under stock compensation plans	884	807
Total shares	92,517	92,193
Diluted earnings per share	\$ 1.15	\$ 0.69

Table of Contents**ALBEMARLE CORPORATION AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 5 Dividends:**

Cash dividends declared for the three-month period ended March 31, 2011 totaled 16.5 cents per share, which were declared on February 16, 2011 and paid on April 1, 2011. Cash dividends declared for the three-month period ended March 31, 2010 totaled 14.0 cents per share, which were declared on February 17, 2010 and paid April 1, 2010.

NOTE 6 Inventories:

The following table provides a breakdown of inventories at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
	(In thousands)	
Finished goods	\$ 295,341	\$ 279,365
Raw materials	63,264	66,645
Stores, supplies and other	44,362	43,200
Total inventories	\$ 402,967	\$ 389,210

NOTE 7 Investments:

In the first quarter of 2011, we made approximately \$10.7 million in capital contributions to our 50% owned joint venture Saudi Organometallic Chemicals Company (SOCC).

Effective January 1, 2010, we entered into a new operating agreement relating to our heretofore consolidated joint venture Stannica LLC and divested ten percent of our interest in the venture to our partner for proceeds of approximately \$2.1 million (of which \$1.6 million in cash was received in the first quarter of 2010 and the remainder was collected in the third quarter of 2010), reducing our ownership to fifty percent. We determined that the joint venture was a variable interest entity but that we were not the primary beneficiary of the venture arrangement; accordingly, we deconsolidated our investment in this venture. We recorded a gain of approximately \$1.1 million on the transaction (included in consolidated gross profit), an \$8.1 million reduction in noncontrolling interests and \$20.4 million reduction in other consolidated net assets comprised of \$14.7 million in cash plus other net working capital. Our retained equity investment in the joint venture was recorded at its fair value of \$11.3 million (giving rise to the gain amount noted above) and is reported in Investments in our condensed consolidated balance sheet. To estimate the fair value of our investment, we used an income approach based on a discounted cash flow model which incorporated estimates and assumptions supported mainly by unobservable inputs, including pricing and volume data, anticipated growth rates, profitability levels, inflation factors, tax and discount rates. Our maximum exposure to loss in connection with our continuing involvement with Stannica LLC is limited to our investment carrying value. Starting in the first quarter of 2010, the earnings associated with our investment in Stannica LLC were reported in Equity in net income of unconsolidated investments in our consolidated statement of income in our Catalysts segment. Prior to this transaction, Stannica LLC was included in our Polymer Solutions segment. The carrying value of our investment in Stannica LLC was \$8.0 million and \$10.2 million at March 31, 2011 and December 31, 2010, respectively.

Table of Contents**ALBEMARLE CORPORATION AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 8 Long-Term Debt:**

Long-term debt at March 31, 2011 and December 31, 2010 consisted of the following:

	March 31, 2011	December 31, 2010
	(In thousands)	
Variable-rate domestic bank loans	\$	\$
5.10% Senior notes, net of unamortized discount of \$128 at March 31, 2011 and \$137 at December 31, 2010	324,872	324,863
4.50% Senior notes, net of unamortized discount of \$3,050 at March 31, 2011 and \$3,128 at December 31, 2010	346,950	346,872
Fixed rate foreign borrowings	29,808	33,223
Capital lease obligation	6,042	5,873
Variable-rate foreign bank loans	59,537	149,520
Miscellaneous	485	559
Total	767,694	860,910
Less amounts due within one year	9,097	8,983
Total long-term debt	\$ 758,597	\$ 851,927

Aggregate maturities of long-term debt as of March 31, 2011 are as follows (in millions): 2011 \$9.0; 2012 \$14.5; 2013 \$58.2; 2014 \$6.0; 2015 \$327.1; thereafter \$356.1.

NOTE 9 Commitments and Contingencies:

We had the following activity in our recorded environmental liabilities for the three months ended March 31, 2011, as follows (in thousands):

Beginning balance at December 31, 2010	\$ 13,806
Expenditures	(567)
Changes in estimates	50
Foreign currency translation	779
Ending balance at March 31, 2011	14,068
Less amounts reported in Accrued expenses	1,188
Amounts reported in Other noncurrent liabilities	\$ 12,880

The amounts recorded represent our future remediation and other anticipated environmental liabilities. Approximately 70% of our recorded liability is related to the closure and post-closure activities at a former landfill associated with our Bergheim, Germany site which was recorded at the time of our acquisition of this site in 2001. This closure project has been approved under the authority of the governmental permit for this site and is scheduled for completion in 2017, with post-closure monitoring to occur for 30 years thereafter. The remainder of our recorded

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liability is associated with sites that are being evaluated under governmental authority but for which final remediation plans have not yet been approved. These liabilities typically arise during the normal course of our operational and environmental management activities or at the time of acquisition of the site, and are based on internal analysis as well as input from outside consultants. As evaluations proceed at each relevant site, changes in risk assessment practices, remediation techniques and regulatory requirements can occur, therefore such liability estimates may be adjusted accordingly. The timing and duration of remediation activities at these sites will be determined when evaluations are completed. Although it is difficult to quantify the potential financial impact of compliance with environmental protection laws, management estimates (based on the latest available information) that there is a reasonable possibility that future environmental remediation costs associated with our past operations, in excess of amounts already recorded, could be up to approximately \$17.3 million before income taxes.

In connection with the remediation activities at our Bergheim, Germany site as required by the German environmental authorities, we have pledged certain of our land and housing facilities at this site with a recorded value of \$6.3 million.

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

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

On July 3, 2006, we received a Notice of Violation, or NOV, from the U.S. Environmental Protection Agency Region 4, or EPA, regarding the implementation of the Pharmaceutical Maximum Achievable Control Technology standards at our plant in Orangeburg, South Carolina. The alleged violations include (i) the applicability of the specific regulations to certain intermediates manufactured at the plant, (ii) failure to comply with certain reporting requirements, (iii) improper evaluation and testing to properly implement the regulations and (iv) the sufficiency of the leak detection and repair program at the plant. We are currently engaged in discussions with the EPA seeking to resolve these allegations, but no assurances can be given that we will be able to reach a resolution that is acceptable to both parties. Any settlement or finding adverse to us could result in the payment by us of fines, penalties, capital expenditures, or some combination thereof. At this time, it is not possible to predict with any certainty the outcome of our discussions with the EPA or the financial impact, which may result therefrom. However, we do not expect any financial impact to have a material adverse effect on the results of operations or the financial position of the Company.

In addition, we are involved from time to time in legal proceedings of types regarded as common in our businesses, including administrative or judicial proceedings seeking remediation under environmental laws, such as Superfund, products liability and premises liability litigation. Where appropriate, we may establish financial reserves as estimated by our general counsel for such proceedings. We also maintain insurance to mitigate certain of such risks.

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

NOTE 10 Operating Segments:

Segment income represents operating profit (adjusted for significant non-recurring items) and equity in net income of unconsolidated investments and is reduced by net income attributable to noncontrolling interests. Segment data includes intersegment transfers of raw materials at cost and allocations for certain corporate costs.

Summarized financial information concerning our reportable segments is shown in the following table. Corporate & other includes corporate-related items not allocated to the reportable segments.

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

	Three Months Ended March 31, 2011 2010 (In thousands)	
Net sales:		
Polymer Solutions	\$ 258,223	\$ 216,653
Catalysts	260,957	227,653
Fine Chemistry	177,350	135,964
Total net sales	\$ 696,530	\$ 580,270
Segment operating profit:		
Polymer Solutions	\$ 69,831	\$ 40,363
Catalysts	62,131	46,995
Fine Chemistry	33,959	12,568
Subtotal	165,921	99,926
Equity in net income of unconsolidated investments:		
Polymer Solutions	2,489	2,194
Catalysts	10,461	8,109
Fine Chemistry		
Corporate & Other	(119)	(27)
Total equity in net income of unconsolidated investments	12,831	10,276
Net income attributable to noncontrolling interests:		
Polymer Solutions	(2,846)	(790)
Catalysts		
Fine Chemistry	(4,425)	(798)
Corporate & Other	84	(18)
Total net income attributable to noncontrolling interests	(7,187)	(1,606)
Segment income:		
Polymer Solutions	69,474	41,767
Catalysts	72,592	55,104
Fine Chemistry	29,534	11,770
Total segment income	171,600	108,641
Corporate & other	(23,594)	(16,749)
Restructuring and other charges ⁽¹⁾		(6,958)
Interest and financing expenses	(9,592)	(5,936)
Other income, net	338	1,010
Income tax expense	(32,172)	(16,700)

Net income attributable to Albemarle Corporation	\$ 106,580	\$ 63,308
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- (1) The quarter ended March 31, 2010 included charges amounting to \$7.0 million (\$4.6 million after income taxes) associated with restructuring costs related principally to planned reductions in force at our Bergheim, Germany site.

Table of Contents**ALBEMARLE CORPORATION AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 11 Pension Plans and Other Postretirement Benefits:**

The following information is provided for domestic and foreign pension and postretirement defined benefit plans:

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Net Periodic Pension Benefit Cost (Credit):		
Service cost	\$ 2,932	\$ 2,694
Interest cost	8,076	7,906
Expected return on assets	(12,119)	(10,072)
Amortization of net transition asset		(2)
Amortization of prior service benefit	(245)	(250)
Amortization of net loss	6,493	4,221
Total net periodic pension benefit cost	\$ 5,137	\$ 4,497
Net Periodic Postretirement Benefit Cost (Credit):		
Service cost	\$ 125	\$ 136
Interest cost	845	901
Expected return on assets	(111)	(134)
Amortization of prior service benefit	(99)	(426)
Amortization of net loss	566	421
Total net periodic postretirement benefit cost	\$ 1,326	\$ 898
Total net periodic pension and postretirement benefit cost	\$ 6,463	\$ 5,395

We have made contributions of \$50.8 million and \$21.4 million to our qualified and nonqualified pension plans during the three-month periods ended March 31, 2011 and 2010, respectively.

We paid approximately \$1.1 million and \$0.8 million in premiums to the U.S. postretirement benefit plan during the three-month periods ended March 31, 2011 and 2010, respectively.

NOTE 12 Fair Value of Financial Instruments:

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

Cash and Cash Equivalents, Trade and Other Accounts Receivables and Accounts Payable The carrying value approximates fair value due to their short-term nature.

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Long-Term Debt The carrying value of long-term debt reported in the accompanying consolidated balance sheets, with the exceptions of the 4.5% and 5.1% senior notes and the foreign currency denominated debt at Jordan Bromine Company Limited, approximates fair value as substantially all of the long-term debt bears interest based on prevailing variable market rates currently available in the countries in which we have borrowings.

	March 31, 2011		December 31, 2010	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
	(In thousands)			
Long-term debt	\$ 767,694	\$ 784,669	\$ 860,910	\$ 879,511

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

Foreign Currency Forward Contracts We enter into foreign currency forward contracts in connection with our risk management strategies in an attempt to minimize the financial impact of changes in foreign currency exchange rates. The fair values of our foreign currency forward contracts are estimated based on current settlement values. At March 31, 2011 and December 31, 2010, we had outstanding foreign currency forward contracts with notional values totaling \$260.9 million and \$375.4 million, respectively. At December 31, 2010, we had balances of \$0.5 million and \$5.4 million in Other accounts receivable and Accrued expenses, respectively, associated with the fair values of our foreign currency forward contracts (at March 31, 2011 these amounts were insignificant). Gains and losses on foreign currency forward contracts are recognized currently in income; however, fluctuations in the value of these contracts are generally offset by the changes in the value of the underlying exposures being hedged. For the three-month periods ended March 31, 2011 and 2010 we recognized gains of \$5.8 million and \$0.2 million, respectively, in Other income, net in our consolidated statements of income related to the change in the fair values of our foreign currency forward contracts (with such amounts being substantially offset by changes in the value of the underlying exposures being hedged). Also, for the three months ended March 31, 2011, we recorded \$(5.8) million related to the change in the fair values of our foreign currency forward contracts and \$0.9 million of cash settlements in Other, net in our March 31, 2011 statement of cash flows. Such amounts associated with these activities for the three months ended March 31, 2010 were not material.

NOTE 13 Fair Value Measurement:

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

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability
- Level 3 Unobservable inputs for the asset or liability

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following tables set forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2011 and December 31, 2010 (in thousands):

	March 31, 2011	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)
Assets:			
Investments under executive deferred compensation plan ^(a)	\$ 17,374	\$ 17,374	\$
Equity securities ^(b)	\$ 30	\$ 30	\$
Foreign currency forward contracts ^(c)	\$ 1	\$	\$ 1
Liabilities:			
	\$ 17,374	\$ 17,374	\$

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Obligations under executive deferred compensation plan

(a)

	December 31, 2010	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)
Assets:			
Investments under executive deferred compensation plan ^(a)	\$ 17,763	\$ 17,763	\$
Equity securities ^(b)	\$ 29	\$ 29	\$
Foreign currency forward contracts ^(c)	\$ 540	\$	\$ 540
Liabilities:			
Obligations under executive deferred compensation plan ^(a)	\$ 17,763	\$ 17,763	\$
Foreign currency forward contracts ^(c)	\$ 5,413	\$	\$ 5,413

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

- (a) We maintain an Executive Deferred Compensation Plan, or the Plan, that was adopted in 2001 and subsequently amended. The purpose of the Plan is to provide current tax planning opportunities as well as supplemental funds upon the retirement or death of certain of our employees. The Plan is intended to aid in attracting and retaining employees of exceptional ability by providing them with these benefits. We also maintain a Benefit Protection Trust, or the Trust, that was created to provide a source of funds to assist in meeting the obligations of the Plan, subject to the claims of our creditors in the event of our insolvency. Assets of the Trust are consolidated in accordance with authoritative guidance. The assets of the Trust consist primarily of mutual fund investments (which are accounted for as trading securities and are marked-to-market on a monthly basis through the consolidated statements of income) and cash and cash equivalents. As such, these assets and obligations are classified within Level 1.
- (b) Our investments in equity securities are classified as available-for-sale and are reported in Investments in the consolidated balance sheets. The changes in fair value are reported in Other within Comprehensive income (loss) in our statements of changes in equity. These securities are classified within Level 1.
- (c) As a result of our global operating and financing activities, we are exposed to market risks from changes in interest and foreign currency exchange rates, which may adversely affect our operating results and financial position. When deemed appropriate, we minimize our risks from interest and foreign currency exchange rate fluctuations through the use of derivative financial instruments. Derivative financial instruments are used to manage risk and are not used for trading or other speculative purposes, and we do not use leveraged derivative financial instruments. The foreign currency forward contracts are valued using broker quotations or market transactions in either the listed or over-the-counter markets. As such, these derivative instruments are classified within Level 2.

NOTE 14 Restructuring and Other Charges:

The three-month period ended March 31, 2010 included charges amounting to \$7.0 million (\$4.6 million after income taxes) associated with restructuring costs related principally to planned reductions in force at our Bergheim, Germany site. Payments under this restructuring plan are expected to occur through 2014.

We had the following activity in our recorded workforce reduction liabilities for the three months ended March 31, 2011 (in thousands):

Beginning balance at December 31, 2010	\$ 7,074
Workforce reduction charges	950
Payments	(1,224)
Foreign currency translation	478
Ending balance at March 31, 2011	7,278
Less amounts reported in Accrued expenses	3,806
Amounts reported in Other noncurrent liabilities	\$ 3,472

During the first quarter of 2011, we recorded approximately \$1.0 million in charges related to restructuring programs at various manufacturing locations in the U.S. Payments under these programs are expected to occur within the next 12 months.

NOTE 15 Recently Issued Accounting Pronouncements:

In December 2010, the Financial Accounting Standards Board, or FASB, amended its accounting guidance related to the disclosure of pro forma information for business combinations. Under the amended guidance, a public entity that presents comparative financial statements must disclose the revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had

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occurred as of the beginning of the prior annual reporting period. The amendments also require public entities to provide a description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to business combination(s) that are included in the reported pro forma revenue and earnings. These amendments became effective for us on January 1, 2011 and did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued new accounting guidance relating to separating consideration in multiple-deliverable revenue arrangements. Under this guidance, multiple-deliverable arrangements will be accounted for separately (rather than on a combined basis) by selecting the best evidence of selling price among vendor-specific objective evidence, third-party evidence or estimated selling price. This new guidance, effective for fiscal years beginning on or after June 15, 2010, did not have a material effect on our consolidated financial statements.

Table of Contents

ALBEMARLE CORPORATION AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

In January 2010, new accounting guidance was issued by the FASB that requires additional disclosures about amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons therefor. Additionally, entities are now required to present information about purchases, sales, issuances and settlements separately in the reconciliation of fair value measurements using significant unobservable (Level 3) inputs. The amendments also clarified that entities should provide fair value measurement disclosures for each class, or subset, of assets or liabilities within a line item in the statement of financial position, and entities should disclose information about inputs and valuation techniques for Level 2 and Level 3 fair value measurements, whether recurring or nonrecurring. These amendments were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the reconciliation of fair value measurements using Level 3 inputs, which were effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The provisions of this guidance did not have a have a material effect on our consolidated financial statements.

Table of Contents

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

The following is a discussion and analysis of our financial condition and results of operations since December 31, 2010. A discussion of consolidated financial condition and sources of additional capital is included under a separate heading "Financial Condition and Liquidity" on page 23.

Forward-looking Statements

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

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

deterioration in economic and business conditions;

future financial and operating performance of our major customers and industries served by us;

the timing of orders received from customers;

the gain or loss of significant customers;

competition from other manufacturers;

changes in the demand for our products;

limitations or prohibitions on the manufacture and sale of our products;

availability of raw materials;

changes in the cost of raw materials and energy, and our inability to pass through such increases;

performance of acquired companies;

changes in our markets in general;

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fluctuations in foreign currencies;

changes in laws and increased government regulation of our operations or our products;

the occurrence of claims or litigation;

the occurrence of natural disasters;

the inability to maintain current levels of product or premises liability insurance or the denial of such coverage;

political unrest affecting the global economy, including adverse effects from terrorism or hostilities;

political unrest or instability affecting our manufacturing operations or joint ventures;

changes in accounting standards;

the inability to achieve results from our global manufacturing cost reduction initiatives as well as our ongoing continuous improvement and rationalization programs;

changes in interest rates, to the extent such rates (1) affect our ability to raise capital or increase our cost of funds, (2) have an impact on the overall performance of our pension fund investments and (3) increase our pension expense and funding obligations;

Table of Contents

volatility and substantial uncertainties in the debt and equity markets; and

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

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

Overview

We are a leading global developer, manufacturer and marketer of highly-engineered specialty chemicals for consumer electronics, petroleum refining, utilities, packaging, construction, automotive/transportation, pharmaceuticals, crop protection, food-safety and custom chemistry services. We are committed to global sustainability and are advancing responsible eco-practices and solutions in our three business segments. We believe that our commercial and geographic diversity, technical expertise, flexible, low-cost global manufacturing base and experienced management team enable us to maintain leading market positions in those areas of the specialty chemicals industry in which we operate.

First Quarter 2011

During the first quarter of 2011:

We achieved quarterly earnings of \$1.15 per share on a diluted basis, up 67 percent over the first quarter 2010.

Our net sales for the quarter increased 20 percent from the first quarter 2010 to \$697 million.

We had strong operating performance with significant year-over-year profit growth across all three segments.

Our quarterly dividend increased to \$0.165 per share of common stock (\$0.66 annually).

Outlook

During the first quarter of 2011 we have seen strong demand in the global markets that we serve contributing to an already tight supply situation for many of our products. Our businesses are well positioned to capitalize on opportunities in both recovering markets and emerging markets that bring new demand.

We continue to monitor key economic indicators and work to manage potential headwinds such as increased raw material and energy costs, pensions and other personnel costs. Also, we are monitoring potential global business impacts from the March 2011 earthquake and tsunami activity off the northeast coast of Japan, although our first quarter 2011 results were not materially affected by this event.

Overall, we expect the same fundamentals that drove our 2010 performance to remain in place and position us to deliver solid earnings growth in 2011.

Polymer Solutions: Our pricing programs combined with overall stable demand in the consumer electronics, automotive and commercial construction markets resulted in strong financial performance during the first quarter of 2011, especially in our fire safety business. Successful implementation of our pricing initiatives will help to offset raw material inflation headwinds we are facing as well as fund further investment in new products and technologies. Further, we believe improving global standards of living, coupled with the potential for increasingly stringent fire-safety regulations and global climate initiatives, should drive continued long-term demand for fire safety products.

Our presence in China should continue to grow with the newly added capacity of our antioxidants facility in Shanghai. Also, our phosphorous-based flame-retardant production capability at our Nanjing site is well positioned to serve the Asia Pacific construction and electronics markets.

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Greenarmor™, the first Earthwise™ product from our Polymer Solutions segment, is expected to be commercially available in 2011. The Earthwise™ portfolio is expected to grow to include products from other business units and segments of Albemarle.

Catalysts: Improved volumes and higher pricing to counter significant raw material price increases drove net sales and earnings growth in our Catalysts segment in the first quarter of 2011. Increased global demand for petroleum products, generally deteriorating quality of crude oil feedstock and implementation of more stringent fuel quality requirements are expected to drive growth in our refinery catalyst business. We expect growth in our polyolefin catalysts division to come from growing global demand for plastics, particularly in Asia and the Middle East. Our fluidized catalytic cracking, or FCC,

Table of Contents

refinery catalysts business has seen significant price increases in rare earth materials due to recent Chinese export quotas. Our steps to maintain sufficient security of supply for the foreseeable future, as well as implemented cost pass-through mechanisms are helping us sustain current profitability levels for this business so far in 2011.

New market penetrations and introduction of innovative cost-effective products for the refining and polyolefins industries are expected to contribute to the segment's performance in 2011. We believe our focus on advanced product development in Catalysts is achieving commercial success, and we have introduced new value-added refining solutions and technologies that enable refiners to increase yields, a critical advantage for refiners. Our marketing and research groups are tightly aligned which enables us to continue to bring innovative technologies to the market. Additionally, we expect to continue exploring new alternative fuel opportunities by partnering with leading renewable fuels technology developers who can benefit from Albemarle's catalysis expertise.

We expect to leverage our existing positions in the Middle East, Asia and Brazil, along with our joint ventures, to capitalize on growth opportunities and further develop our leading position in those emerging markets. Our joint venture in Saudi Arabia with SABIC, expected to be operational in 2012, positions us to lead in the key Middle East developing region and the fast growing Middle East polyolefins market. Construction at our recently acquired Yeosu, South Korea site is progressing well, where existing assets have allowed us to rapidly develop research and small-scale production facilities, adding immediate value to the metallocene polyolefin and high brightness LED regional markets. Intermediate commercial operations at the site are expected to begin in 2011, with the commercial facility being fully operational in 2012, to meet regional growth in metallocene polyolefins and trimethyl gallium (TMG) markets for high brightness LED.

Fine Chemistry: Our Fine Chemistry segment continues to benefit from the rapid pace of innovation and the introduction of new products, coupled with the movement by companies to outsource certain research, product development and manufacturing functions. In our performance chemicals sector, we are seeing strong growth in the first quarter of 2011 as demand across our bromine franchise expanded, with new applications widening the breadth of use of our bromine and bromine derivatives and global supply remaining tight. Our completion fluids business has started to regain traction during the first quarter of 2011 and we expect this trend to continue throughout the year as global drilling activity increases to satisfy higher fuel demand. Additionally, we are encouraged by long-term drivers in the U.S. and China for our mercury control business. We are positioned to provide these markets with sensible, sustainable solutions to meet new regulatory demands, including emission prevention and control directives for coal-fueled power plants in the U.S. (and China) and waste reduction initiatives in the cement production industry in connection with the new Cement-MACT mercury emission standard. We expect to sustain the healthy margins with continued focus on the two strategic areas in our Fine Chemistry segment – maximizing our bromine franchise value in the performance chemicals sector and continued growth of our fine chemistry services business.

We are focused on profitably growing our globally competitive bromine and derivatives production network to serve all major bromine consuming products and markets. We believe the global supply/demand gap will continue to tighten as demand for existing and new uses of bromine expand, and global supply remains tight. We are positioned to expand capacity as needed at our low-cost production facilities.

Our fine chemistry services product pipeline is strong and opportunities are expanding. Our pharmaceutical and crop protection businesses continue to deliver solid results. We expect product development opportunities to continue, such as partnering with ExxonMobil Corporation to make a specialty lubricant and with pharmaceutical developers like SIGA Technologies in their manufacture of the ST-246 smallpox drug. Our technical expertise, manufacturing capabilities and speed to market allow us to develop preferred outsourcing positions serving leading chemical and pharmaceutical innovators in diverse industries. We believe we will continue to generate growth in profitable niche products leveraged from this service business.

Corporate and Other: We continue to focus on cash generation, working capital management and process efficiencies. Also, we expect our global effective tax rate for 2011 will be 24.2%, but our rate will vary based on the locales in which income is actually earned. We increased our quarterly dividend payout in the first quarter of 2011 to 16.5 cents per share. Under our existing share repurchase program, we expect to periodically repurchase shares in 2011 on an opportunistic basis. In addition, we remain committed to evaluating the merits of any opportunities that may arise for acquisitions or other business development activities that will complement our business footprint.

Additional information regarding our products, markets and financial performance is provided at our web site, www.albemarle.com. Our web site is not a part of this document nor is it incorporated herein by reference.

Table of Contents**Results of Operations**

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

First Quarter 2011 Compared to First Quarter 2010

Selected Financial Data (Unaudited)

	Three Months Ended March 31,		Percentage Change 2011 vs. 2010
	2011	2010	
(In thousands, except percentages and per share amounts)			
NET SALES	\$ 696,530	\$ 580,270	20%
Cost of goods sold	463,514	415,799	11%
GROSS PROFIT	233,016	164,471	42%
GROSS PROFIT MARGIN	33.5%	28.3%	
Selling, general and administrative expenses	73,039	66,530	10%
Research and development expenses	17,615	14,719	20%
Restructuring and other charges		6,958	*
OPERATING PROFIT	142,362	76,264	87%
OPERATING PROFIT MARGIN	20.4%	13.1%	
Interest and financing expenses	(9,592)	(5,936)	62%
Other income, net	338	1,010	(67)%
INCOME BEFORE INCOME TAXES AND EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS			
	133,108	71,338	87%
Income tax expense	32,172	16,700	93%
Effective tax rate	24.2%	23.4%	
INCOME BEFORE EQUITY IN NET INCOME OF UNCONSOLIDATED INVESTMENTS			
	100,936	54,638	85%
Equity in net income of unconsolidated investments (net of tax)	12,831	10,276	25%
NET INCOME	113,767	64,914	75%
Net income attributable to noncontrolling interests	(7,187)	(1,606)	348%
NET INCOME ATTRIBUTABLE TO ALBEMARLE CORPORATION			
	\$ 106,580	\$ 63,308	68%
PERCENTAGE OF NET SALES			
	15.3%	10.9%	
Basic earnings per share	\$ 1.16	\$ 0.69	68%
Diluted earnings per share	\$ 1.15	\$ 0.69	67%

* Percentage calculation is not meaningful.

Net Sales

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For the three-month period ended March 31, 2011, we recorded net sales of \$696.5 million, a 20% increase compared to net sales of \$580.3 million for the three-month period ended March 31, 2010. This increase was due primarily to favorable price in all segments as well as higher volumes for the Company as a whole resulting mainly from improved market conditions over first quarter 2010. Price was favorable 12% while volume had a favorable impact on our net sales of 8%.

Polymer Solutions net sales increased \$41.6 million, or 19%, for the three-month period ended March 31, 2011 compared to the same period in 2010, due mainly to the impact of favorable price of 20%, partly offset by slightly lower volume impacts of 1%. Catalysts net sales increased \$33.3 million, or 15%, for the three-month period ended March 31, 2011, compared to the same period last year due mainly to an increase in volumes contributing 9% and favorable price of 6%. Fine Chemistry net sales increased \$41.4 million, or 30%, for the three-month period ended March 31, 2011, as compared to the same period last year, primarily due to higher volumes contributing 23% of the increase as well as favorable price impacts of 7%. For a detailed discussion of revenues and segment income for each segment, see [Segment Information Overview](#) below.

Table of Contents

Gross Profit

For the three-month period ended March 31, 2011, our gross profit increased \$68.5 million, or 42%, from the corresponding 2010 period due mainly to favorable pricing across our segments as well as overall stronger volumes and related favorable production rate impacts on cost, partly offset by higher variable input costs (mainly raw materials). Overall, these factors contributed to our improved gross profit margin for the three-month period ended March 31, 2011 of 33.5%, up from 28.3% for the corresponding period in 2010.

Selling, General and Administrative Expenses

For the three-month period ended March 31, 2011, our selling, general and administrative, or SG&A, expenses increased \$6.5 million, or 10%, from the three-month period ended March 31, 2010. This increase was primarily due to higher personnel-related costs. As a percentage of net sales, SG&A expenses were 10.5% for the three-month period ended March 31, 2011, compared to 11.5% for the corresponding period in 2010.

Research and Development Expenses

For the three-month period ended March 31, 2011, our research and development, or R&D, expenses increased \$2.9 million, or 20%, from the three-month period ended March 31, 2010. As a percentage of net sales, R&D expenses were 2.5% for the three-month periods ended March 31, 2011 and 2010.

Restructuring and Other Charges

The three-month period ended March 31, 2010 included charges amounting to \$7.0 million (\$4.6 million after income taxes) for restructuring costs related principally to planned reductions in force at our Bergheim, Germany site.

Interest and Financing Expenses

Interest and financing expenses for the three-month period ended March 31, 2011 increased \$3.7 million to \$9.6 million from the corresponding 2010 period due mainly to higher average interest rates on our outstanding borrowings.

Other Income, Net

Other income, net for the three-month period ended March 31, 2011 was \$0.3 million versus \$1.0 million for the corresponding 2010 period. This change was due primarily to unfavorable net foreign exchange losses and other miscellaneous items over the corresponding period in 2010.

Income Tax Expense

The effective income tax rate for the first quarter of 2011 was 24.2% compared with 23.4% for the first quarter of 2010. The Company's effective income tax rate fluctuates based on, among other factors, our level and location of income. The difference between the U.S. federal statutory income tax rate and our effective income tax rate for the three-month periods ended March 31, 2011 and 2010 is mainly due to the impact of earnings from outside the U.S. Based on our current level and location of income, we expect our effective tax rate will be 24.2% for the year 2011.

Equity in Net Income of Unconsolidated Investments

Equity in net income of unconsolidated investments was \$12.8 million for the three-month period ended March 31, 2011 compared to \$10.3 million in the same period last year. This increase was due primarily to improved results in our Catalysts segment joint ventures Nippon Ketjen Company Limited, or Nippon Ketjen, and Fábrica Carioca de Catalisadores SA, or FCC SA.

Net Income Attributable to Noncontrolling Interests

For the three-month period ended March 31, 2011, net income attributable to noncontrolling interests was \$7.2 million compared to \$1.6 million in the same period last year. This increase of \$5.6 million was due primarily to improved volumes and profitability from our consolidated joint venture Jordan Bromine Company Limited, or JBC, based on higher demand for the products in our bromine portfolio.

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Net Income Attributable to Albemarle Corporation

Net income attributable to Albemarle Corporation increased to \$106.6 million in the three-month period ended March 31, 2011, from \$63.3 million in the three-month period ended March 31, 2010, primarily due to favorable pricing, sales volume increases, lower restructuring and other charges and favorable equity in net income of unconsolidated investments. These impacts were partly offset primarily by higher variable input costs, higher SG&A costs due mainly to increases in personnel-related costs, higher R&D costs, higher net income attributable to noncontrolling interests and higher income taxes.

Table of Contents

Segment Information Overview. We have identified three reportable segments as required by current accounting guidance. Our Polymer Solutions segment is comprised of the flame retardants and stabilizers and curatives product areas. Our Catalysts segment is comprised of the refinery catalysts and polyolefin catalysts product areas. Our Fine Chemistry segment is comprised of the performance chemicals and fine chemistry services and intermediates product areas. Segment income represents operating profit (adjusted for significant non-recurring items) and equity in net income of unconsolidated investments and is reduced by net income attributable to noncontrolling interests. Segment data includes intersegment transfers of raw materials at cost and allocations for certain corporate costs.

	Three Months Ended March 31,				Percentage Change 2011 vs 2010
	2011	% of net sales (In thousands, except percentages)	2010	% of net sales	
Net sales:					
Polymer Solutions	\$ 258,223	37.1%	\$ 216,653	37.4%	19%
Catalysts	260,957	37.5%	227,653	39.2%	15%
Fine Chemistry	177,350	25.4%	135,964	23.4%	30%
Total net sales	\$ 696,530	100.0%	\$ 580,270	100.0%	20%
Segment operating profit:					
Polymer Solutions	\$ 69,831	27.0%	\$ 40,363	18.6%	73%
Catalysts	62,131	23.8%	46,995	20.6%	32%
Fine Chemistry	33,959	19.1%	12,568	9.2%	170%
Subtotal	165,921		99,926		66%
Equity in net income of unconsolidated investments:					
Polymer Solutions	2,489		2,194		13%
Catalysts	10,461		8,109		29%
Fine Chemistry					%
Corporate & other	(119)		(27)		*
Total equity in net income of unconsolidated investments	12,831		10,276		25%
Net income attributable to noncontrolling interests:					
Polymer Solutions	(2,846)		(790)		260%
Catalysts					%
Fine Chemistry	(4,425)		(798)		*
Corporate & other	84		(18)		*
Total net income attributable to noncontrolling interests	(7,187)		(1,606)		348%
Segment income:					
Polymer Solutions	69,474	26.9%	41,767	19.3%	66%
Catalysts	72,592	27.8%	55,104	24.2%	32%
Fine Chemistry	29,534	16.7%	11,770	8.7%	151%
Total segment income	171,600		108,641		58%
Corporate & other	(23,594)		(16,749)		41%

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Restructuring and other charges		(6,958)	*
Interest and financing expenses	(9,592)	(5,936)	62%
Other income, net	338	1,010	(67)%
Income tax expense	(32,172)	(16,700)	93%
Net income attributable to Albemarle Corporation	\$ 106,580	\$ 63,308	68%

* Percentage calculation is not meaningful.

Our segment information includes measures we refer to as segment operating profit and segment income which are financial measures that are not required by, or presented in accordance with, accounting principles generally accepted in the United States (GAAP). The Company has reported segment operating profit and segment income because management believes that these financial measures provide transparency to investors and enable period-to-period comparability of financial performance. Segment operating profit and segment income should not be considered as an alternative to operating profit or net income attributable to Albemarle Corporation, respectively, as determined in accordance with GAAP.

Table of Contents

See below for a reconciliation of segment operating profit and segment income, the non-GAAP financial measures, to operating profit and net income attributable to Albemarle Corporation, respectively, the most directly comparable financial measures calculated and reported in accordance with GAAP.

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Total segment operating profit	\$ 165,921	\$ 99,926
Add (less):		
Corporate & other ^(a)	(23,559)	(16,704)
Restructuring and other charges		(6,958)
GAAP Operating profit	\$ 142,362	\$ 76,264
Total segment income	\$ 171,600	\$ 108,641
Add (less):		
Corporate & other	(23,594)	(16,749)
Restructuring and other charges		(6,958)
Interest and financing expenses	(9,592)	(5,936)
Other income, net	338	1,010
Income tax expense	(32,172)	(16,700)
GAAP Net income attributable to Albemarle Corporation	\$ 106,580	\$ 63,308

^(a) Excludes corporate equity income and noncontrolling interest adjustments of \$(35) and \$(45) for the three-month periods ended March 31, 2011 and 2010, respectively.

Polymer Solutions

Polymer Solutions segment net sales for the three-month period ended March 31, 2011 were \$258.2 million, up \$41.6 million, or 19%, compared to the same period in 2010, due mainly to the impact of favorable pricing of 20% resulting from the execution of recent price increases in our fire safety portfolio largely in response to rising raw material costs, offset slightly by lower volume impacts of 1%. Our stabilizers and curatives business also showed favorable pricing impacts in the first quarter 2011 over first quarter 2010 although partly offset by lower volumes. Segment income for Polymer Solutions was up 66%, or \$27.7 million, to \$69.5 million for the three-month period ended March 31, 2011 versus the same period in 2010, due mainly to the overall pricing improvements noted above, partly offset by higher variable input costs (mainly raw materials). Further, Polymer Solutions segment results for the first quarter 2011 were unfavorably impacted by higher SG&A/R&D spending for the segment of \$1.8 million compared to the corresponding period in 2010 and \$2.1 million in higher net income attributable to noncontrolling interests in our JBC joint venture, partly offset by higher equity in net income from our unconsolidated investment Magnifin of \$0.3 million versus first quarter 2010.

Catalysts

Catalysts segment net sales for the three-month period ended March 31, 2011 were \$261.0 million, an increase of \$33.3 million, or 15%, versus the three-month period ended March 31, 2010. This increase was due mainly to an increase in volumes contributing 9% and favorable price impacts of 6%. The higher volumes were due mainly to strong demand in refinery catalysts (particularly hydroprocessing catalysts and alternative fuels, offset in part by lower volumes in FCC refinery catalysts) as well as favorable volume impacts in polyolefin catalysts. Also, Catalysts pricing was up in refinery catalysts (mainly FCC and HPC) due mainly to the pass through of higher raw material costs. Catalysts segment income increased 32%, or \$17.5 million, to \$72.6 million for the three-month period ended March 31, 2011 in comparison to the three-month period ended March 31, 2010. This increase was mainly in our refinery catalysts business due to the volume and pricing gains noted above, partly offset by higher variable input costs (mainly raw materials). First quarter 2011 Catalysts segment income also benefited from year-over-year improvement in equity in net income from unconsolidated investments of \$2.4 million, resulting mainly from improved performance in its refinery catalysts joint venture Nippon Ketjen due to higher sales volumes as well as favorable results from FCC SA year

over year.

Table of Contents

Fine Chemistry

Fine Chemistry segment net sales for the three-month period ended March 31, 2011 were \$177.4 million, an increase of \$41.4 million, or 30%, versus the three-month period ended March 31, 2010. This increase was primarily attributable to higher volumes (particularly in our performance chemicals and agricultural intermediates businesses) contributing a 23% increase resulting mainly from improved customer demand versus the corresponding period of 2010. These favorable volume impacts on the segment's net sales were net of \$5.1 million in unfavorable impact from the July 30, 2010 divestiture of our Teesport, UK site. Pricing was also favorable 7% year-over-year for the segment. Segment income for the three-month period ended March 31, 2011 was \$29.5 million, up 151% from the corresponding period in 2010. These improved results were due mainly to higher sales volumes and pricing in the segment, particularly in performance chemicals, offset in part by higher variable input costs (mainly raw materials). Also, Fine Chemistry segment income results were unfavorably impacted by higher net income attributable to noncontrolling interests of \$3.6 million (mainly from improved bromine portfolio performance in our JBC joint venture) as well as higher SG&A/R&D spending of \$2.3 million.

Corporate and other

For the three-month period ended March 31, 2011, our Corporate and other expense was \$23.6 million versus \$16.7 million for the corresponding period in 2010. This increase was primarily due to higher employee-related costs, reflected mainly in selling, general and administrative expenses.

Financial Condition and Liquidity

Overview

The principal uses of cash in our business generally have been investment in our assets, funding working capital and repayment of debt. We also make contributions to our U.S. defined benefit pension plans. Historically, cash to fund the needs of our business has been principally provided by cash from operations, debt financing and equity issuances.

We are continuing our program to improve working capital efficiency and working capital metrics particularly in the areas of accounts receivable and inventory. We expect the combination of our current cash balances, our cash from operations and our long term borrowing capability to remain sufficient to fund working capital requirements for the foreseeable future.

Cash Flow

Our cash and cash equivalents decreased by \$88.6 million to \$441.0 million at March 31, 2011, down from \$529.7 million at December 31, 2010. For the three-month period ended March 31, 2011, our operations provided \$46.6 million of cash as compared to \$18.1 million in the three-month period ended March 31, 2010. This increase of \$28.5 million is primarily due to an increase in profitability and favorable changes in working capital versus the first quarter of 2010, partly offset mainly by higher pension and postretirement contributions. Our cash from operations for the first quarter 2011 combined with cash on hand funded capital expenditures for plant, machinery and equipment of \$31.9 million, \$10.7 million in additions to equity and other corporate investments, repayments of long-term debt of \$100.6 million and dividends to shareholders of \$12.9 million. In the first quarter of 2010, our cash balances were unfavorably impacted by \$13.1 million resulting from the deconsolidation of our Stannica LLC joint venture on January 1, 2010.

Net current assets decreased \$19.3 million to \$964.8 million at March 31, 2011 from \$984.0 million at December 31, 2010. The decrease in net current assets was due primarily to a decrease in cash and cash equivalents and an increase in accounts payable, partly offset by an increase in accounts receivable.

Capital expenditures for the three-month period ended March 31, 2011 of approximately \$32 million were used for plant, machinery and equipment improvements. We expect our capital expenditures will be approximately \$150 million in 2011 mainly due to capital projects associated with increased capacity, cost reduction and continuity of operations.

While we continue to closely monitor our cash generation, working capital management and capital spending, we believe we will have the financial flexibility and capability to opportunistically fund future growth initiatives. Additionally, we anticipate that future capital spending should be financed primarily with cash flow provided from operations, with additional cash needed, if any, provided by long-term borrowings. The amount and timing of any additional borrowings will depend on our specific cash requirements.

Table of Contents*Long-Term Debt*

We currently have outstanding \$325.0 million of 5.10% senior notes due in 2015 and \$350.0 million of 4.50% senior notes due in 2020, or the senior notes. The senior notes are senior unsecured obligations and rank equally with all of our other senior unsecured indebtedness from time to time outstanding. The senior notes will be effectively subordinated to any of our future secured indebtedness and to the existing and future indebtedness of our subsidiaries. We may redeem the senior notes before their maturity, in whole at any time or in part from time to time, at a redemption price equal to the greater of (i) 100% of the principal amount of the senior notes to be redeemed or (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis using the Treasury Rate (as defined in the indentures governing the senior notes) plus 15 basis points for the senior notes maturing in 2015 and 25 basis points for the senior notes maturing in 2020, plus, in each case, accrued interest thereon to the date of redemption. However, the 2020 senior notes are redeemable in whole or in part, at our option, at any time on or after three months prior to the maturity date, at a redemption price equal to 100% of the principal amount of the senior notes to be redeemed plus accrued and unpaid interest on the senior notes to be redeemed to the date of redemption. Holders of the 2020 senior notes may require us to purchase such notes at 101% upon a Change of Control Triggering Event, as defined in the related indenture.

The principal amounts of the senior notes become immediately due and payable upon the occurrence of certain bankruptcy or insolvency events involving us or certain of our subsidiaries and may be declared immediately due and payable by the trustee or the holders of not less than 25% of the senior notes upon the occurrence of an event of default. Events of default include, among other things: failure to pay principal or interest at required times; failure to perform or remedy a breach of covenants within prescribed periods; an event of default on any of our other indebtedness or certain indebtedness of our subsidiaries of \$40.0 million or more that is caused by a failure to make a payment when due or that results in the acceleration of that indebtedness before its maturity; and certain bankruptcy or insolvency events involving us or certain of our subsidiaries. We believe that as of March 31, 2011, we were, and currently are, in compliance with all of the covenants of the indentures governing the senior notes.

For additional funding and liquidity purposes, we currently maintain a \$675.0 million five-year unsecured revolving senior credit facility, which we refer to as the March 2007 credit agreement. The March 2007 credit agreement provides for an additional \$200.0 million in credit upon additional loan commitments by our existing and/or additional lenders. The total spread and fees can range from 0.32% to 0.675% over the London Inter-Bank Offered Rate, or LIBOR, applicable to the currency of the borrowing and are based on our credit rating as determined by the major rating agencies. There were no borrowings outstanding under the March 2007 credit agreement during the three-month period ended March 31, 2011.

Borrowings under our March 2007 credit agreement are conditioned upon compliance with the following covenants: (i) consolidated funded debt, as defined in the March 2007 credit agreement, must be less than or equal to 3.50 times consolidated EBITDA, as defined in the March 2007 credit agreement, as of the end of any fiscal quarter; (ii) consolidated tangible domestic assets, as defined in the March 2007 credit agreement, must be greater than or equal to \$750.0 million for us to make investments in entities and enterprises that are organized outside the U.S.; and (iii) with the exception of liens specified in our March 2007 credit agreement, liens may not attach to assets when the aggregate amount of all indebtedness secured by such liens plus unsecured subsidiary indebtedness, other than indebtedness incurred by our subsidiaries under the March 2007 credit agreement, would exceed 20% of consolidated net worth as defined in the March 2007 credit agreement. We believe that as of March 31, 2011, we were, and currently are, in compliance with all of the debt covenants under the March 2007 credit agreement.

The non-current portion of our long-term debt amounted to \$758.6 million at March 31, 2011, compared to \$851.9 million at December 31, 2010. This decrease was mainly attributable to repayments of long-term debt of \$100.6 million during the first quarter of 2011. In addition, at March 31, 2011, we had the ability to borrow \$675.0 million under our March 2007 credit agreement and \$156.0 million under other existing lines of credit, subject to various financial covenants under our March 2007 credit agreement. We have the ability to refinance our borrowings under our other existing credit lines with borrowings under the March 2007 credit agreement, as applicable. Therefore, amounts outstanding under our other existing credit lines are classified as long-term debt.

Off-Balance Sheet Arrangements

In the normal course of business with customers, vendors and others, we have entered into off-balance sheet arrangements, including bank guarantees and letters of credit, which totaled approximately \$34.2 million at March 31, 2011. None of these off-balance sheet arrangements has, or is likely to have, a material effect on our current or future financial condition, results of operations, liquidity or capital resources.

Table of Contents

Other Obligations

Total expected 2011 contributions to our domestic and foreign qualified and nonqualified pension plans should approximate \$55 million. We may choose to make additional pension contributions in excess of this amount. We have made \$50.8 million in total contributions to our domestic and foreign pension plans (both qualified and nonqualified) during the three-month period ended March 31, 2011.

The liability related to uncertain tax positions, including interest and penalties, recorded in Other noncurrent liabilities totaled \$21.2 million and \$21.9 million at March 31, 2011 and December 31, 2010, respectively. Related assets for corresponding offsetting benefits recorded in Other assets totaled \$12.3 million at March 31, 2011 and December 31, 2010. We cannot estimate the amount of any cash payments associated with these liabilities for the remainder of 2011 or the next twelve months, and we are unable to estimate the timing of any such cash payments in the future at this time.

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

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

Liquidity Outlook

We anticipate that cash on hand, cash provided by operating activities and long-term borrowings will be sufficient to pay our operating expenses, satisfy debt service obligations, fund capital expenditures, make pension contributions and make dividend payments for the foreseeable future. In addition, as we have historically done, we will continue to evaluate the merits of any opportunities that may arise for acquisitions of businesses or assets, which may require additional liquidity.

While we maintain business relationships with a diverse group of financial institutions, an adverse change in their credit standing could lead them to not honor their contractual credit commitments, renew their extensions of credit or provide new financing. While the corporate bond market remains strong, availability of bank debt is far more limited than prior to the market disruptions in 2008 and 2009, which severely impacted many financial institutions. If bank debt remains relatively less prevalent, we may incur increased borrowing costs and reduced credit capacity as our various credit facilities mature. It is also possible that our ability to access the capital markets may be limited by market or counterparty factors at a time when we would need or desire to do so, which could have an impact on our ability to finance our businesses or react to changing economic and business conditions. In addition, our cash flows from operations may be negatively affected by adverse consequences to our customers and the markets in which we compete as a result of moderating global economic conditions and reduced capital availability.

At March 31, 2011, we had the ability to borrow in excess of \$831.0 million under our March 2007 credit agreement and other existing lines of credit, subject to various financial covenants under our March 2007 credit agreement. With generally strong cash generative businesses and no significant debt maturities before 2015, we believe we have and will maintain a solid liquidity position.

We had cash and cash equivalents totaling \$441.0 million as of March 31, 2011, which represents an important source of our liquidity. Our cash is invested in short-term investments including time deposits and readily marketable securities with relatively short maturities.

Table of Contents

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, see Item 1 Financial Statements Note 15.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes in our interest rate risk, foreign currency exchange rate exposure, marketable securities price risk, or raw material price risk from the information we provided in our Annual Report on Form 10-K for the year ended December 31, 2010.

We had variable interest rate borrowings of \$59.5 million outstanding at March 31, 2011, bearing a weighted average interest rate of 4.57% and representing 8% of our total outstanding debt. A hypothetical 10% change (approximately 46 basis points) in the interest rate applicable to these borrowings would change our annualized interest expense by approximately \$0.3 million as of March 31, 2011. We may enter into interest rate swaps, collars or similar instruments with the objective of reducing interest rate volatility relating to our borrowing costs.

Our financial instruments, which are subject to foreign currency exchange risk, consist of foreign currency forward contracts with an aggregate notional value of \$260.9 million and with a fair value representing a minimal net asset position at March 31, 2011. Fluctuations in the value of these contracts are generally offset by the value of the underlying exposures being hedged. We conducted a sensitivity analysis on the fair value of our foreign currency hedge portfolio assuming an instantaneous 10% change in select foreign currency exchange rates from their levels as of March 31, 2011, with all other variables held constant. A 10% appreciation of the U.S. Dollar against foreign currencies that we hedge would result in a decrease of approximately \$10.1 million in the fair value of our foreign currency forward contracts. A 10% depreciation of the U.S. Dollar against these foreign currencies would result in an increase of \$6.6 million in the fair value of our foreign currency forward contracts. The sensitivity of the fair value of our foreign currency hedge portfolio represents changes in fair values estimated based on market conditions as of March 31, 2011, without reflecting the effects of underlying anticipated transactions. When those anticipated transactions are realized, actual effects of changing foreign currency exchange rates could have a material impact on our earnings and cash flows in future periods.

In addition, certain of our operations use natural gas as a source of energy which can expose our business to market risk when the price of natural gas changes suddenly. In an attempt to mitigate the impact and volatility of price swings in the natural gas market, from time to time we enter into natural gas hedge contracts with one or more major financial institutions for a portion of our 12-month rolling forecast for North American natural gas requirements. Such derivatives are held to secure natural gas at fixed prices and are not entered into for trading purposes. At March 31, 2011 and December 31, 2010, we had no natural gas hedge contracts outstanding.

Item 4. Controls and Procedures.

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

No change in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the fiscal quarter ended March 31, 2011 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved from time to time in legal proceedings of types regarded as common in our businesses, including administrative or judicial proceedings seeking remediation under environmental laws, such as Superfund, products liability and premises liability litigation. Where appropriate, we may establish financial reserves as estimated by our general counsel for such proceedings. We also maintain insurance to mitigate certain of such risks. Additional information with respect to this Item 1 is contained in Note 9 to the Notes to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors.

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical under the circumstances, some level of risk and uncertainty will always be present. Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010 describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our results of operations and our financial condition. We do not believe that there have been any material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

NONE

Item 6. Exhibits.

(a) Exhibits

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

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

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

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

101 Interactive Data File (Quarterly Report on Form 10-Q, for the quarterly period ended March 31, 2011, furnished in XBRL (eXtensible Business Reporting Language))

Attached as Exhibit 101 to this report are the following documents formatted in XBRL: (i) the Consolidated Statements of Income for the three months ended March 31, 2011 and 2010, (ii) the Condensed Consolidated Balance Sheets at March 31, 2011 and December 31, 2010, (iii) the Consolidated Statements of Changes in Equity for the three months ended March 31, 2011 and 2010, (iv) the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010 and (v) the Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Table of Contents

SIGNATURES

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

ALBEMARLE CORPORATION
(Registrant)

Date: April 28, 2011

By: */s/* SCOTT A. TOZIER
Scott A. Tozier

Senior Vice President, Chief Financial Officer

(principal financial officer)

28

lobal market of multinational players in the insurance industry. The merger with RAS will enable Allianz to reorganize its Italian business in the future and to directly reallocate the holding of operations to Allianz. This step forms part of the repositioning plan of Allianz, in particular, to (a) improve the Allianz Group's position in the

37

Table of Contents

Italian insurance market, (b) strengthen Allianz's foothold in its European home market and (c) in connection with the conversion of Allianz into a European Company, further streamline the Allianz organizational structure. The future Allianz SE will be the first European Company listed on the DJ EURO STOXX 50.

Background of the Merger

At various times since 2003, the Management Board of Allianz has considered the full integration of RAS into Allianz.

On November 22 and 23, 2004, during its semi-annual strategy meeting, the Management Board of Allianz discussed the full integration of RAS into the Allianz Group and a closer cooperation of Allianz and its Italian affiliates. The Management Board decided to further evaluate this matter.

On December 8, 2004, the integration of RAS by means of a cross-border merger into Allianz was discussed in a meeting between representatives of Allianz, Goldman Sachs & Co. oHG, financial advisors to Allianz, and Shearman & Sterling LLP, German and Italian legal advisors to Allianz.

During meetings on January 24 and 25, 2005, the Management Board of Allianz discussed different options with respect to a closer co-operation between Allianz and its Italian subsidiaries and its legal and financial implications, as well as the possibility of a cross-border merger of RAS into Allianz and a conversion of Allianz AG into a European Company, or SE.

On February 23, 2005, the Management Board of Allianz again discussed the different options with respect to the integration of RAS and decided to mandate an audit firm to advise on the valuation of Allianz and RAS. Ernst & Young AG Wirtschaftsprüfungsgesellschaft was subsequently mandated with such role in March 2005.

In a meeting on March 17, 2005, Michael Diekmann, Chief Executive Officer of Allianz, Paul Achleitner and Helmut Perlet, both members of the Management Board of Allianz, together with other Allianz representatives, met with their legal and financial advisers to further discuss the possibility of a cross-border merger of RAS into Allianz and a conversion of Allianz AG into an SE.

On May 3, 2005, Michael Diekmann met with Henning Schulte-Noelle, Chairman of Allianz's Supervisory Board, in Munich and informed him of the preliminary considerations of the Management Board with respect to a possible full integration of RAS by means of a merger into Allianz.

During a regular meeting of Allianz's Management Board on May 12, 2005, Paul Achleitner presented an update of the current activities with respect to the potential merger transaction. On June 21, 2005, the Management Board met again to discuss the project and to review certain aspects of the transaction structure. During its July 4, 2005 meeting, the Management Board further discussed certain transaction steps and various open issues relating to the contemplated merger.

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On July 6, 2005, Paul Achleitner and Detlev Bremkamp, both members of Allianz's Management Board, met Paolo Vagnone, Chief Executive Officer of RAS, in Munich and informed him about the possible transaction and the basic considerations relating thereto.

Throughout July 2005, several meetings were held between the transaction teams of Allianz and RAS, along with their respective legal advisors (with Chiomenti Studio Legale, an Italian law firm, representing RAS) and with Allianz's financial advisors to discuss various legal, financial and valuation aspects of a possible merger.

On July 27, 2005, Paul Achleitner, Paolo Vagnone, other representatives of both companies, and their respective legal advisers met in Milan to further discuss merger-related issues.

On August 8, 2005, Michael Diekmann and Paul Achleitner met Giuseppe Vita, Chairman of the Board of Directors of RAS, at Allianz's headquarters in Munich to present him with the outlines of the contemplated merger transaction.

On August 23 and 24, 2005, Paul Achleitner and Allianz representatives further discussed with Paolo Vagnone and RAS representatives various financial and legal aspects of the transaction.

On August 24, 2005, RAS mandated Merrill Lynch International as its financial adviser, while at the beginning of September, Allianz mandated

Table of Contents

Mediobanca as its Italian financial adviser and Dresdner Kleinwort Wasserstein as an additional financial adviser on the transaction.

On September 1, 2005, representatives of Allianz met with Norbert Blix, Deputy Chairman of the Supervisory Board, and Peter Haimerl, member of the Supervisory Board of Allianz, who are both employee representatives, and informed them about the envisaged merger.

On September 5, 2005, Paul Achleitner and Allianz representatives met Henning Schulte-Noelle, Chairman of Allianz's Supervisory Board, in Munich to give him an update on the contemplated transaction.

On September 6, 2005, Giuseppe Vita and Paolo Vagnone met with representatives of Allianz and Shearman & Sterling LLP in Milan and discussed the transaction.

On September 6, 7 and 8, 2005, representatives of Allianz and RAS, and their respective legal and financial advisers, met in Milan to prepare the relevant documents and communications for the announcement of the transaction and to discuss valuation matters.

On September 8, 2005, the Management Board of Allianz held a meeting in Munich and resolved to proceed with the contemplated merger. On September 10, 2005, the Supervisory Board of Allianz met in Munich and approved the contemplated transaction.

On September 11, 2005, the Board of Directors of RAS approved, *inter alia*, (a) the plan for the integration of RAS by means of a cross-border merger into Allianz as well as the prior reorganization of the business of RAS, (b) the range of the merger exchange ratio of 0.153 and 0.161 Allianz shares per RAS ordinary share and per RAS savings share, and (c) the calling of an extraordinary shareholders' meeting to vote on the merger.

Also on September 11, 2005, after the above resolutions had been taken, Allianz and RAS publicly announced their plan to merge by issuing an ad-hoc announcement pursuant to § 15 of the German Securities Trading Act (*Wertpapierhandelsgesetz, WpHG*) and press releases.

Merger Valuation Reports

In accordance with the SE Regulation, the parties to a merger do not have absolute discretion to determine the merger exchange ratio. Under both the German Transformation Act (*Umwandlungsgesetz*) and the Italian Civil Code, which are applicable to the merger pursuant to Article 18 of the SE Regulation, the merger exchange ratio agreed upon by the parties must be reviewed by a court-appointed independent merger valuation auditor, and the independent merger valuation auditor is required to issue a report stating whether it finds the merger exchange ratio appropriate (*angemessen* or *congruo*) and describing the methods it used to arrive at its view and the difficulties encountered in the evaluation, if any.

With respect to the merger, two independent merger valuation auditors will be appointed, one for each of Allianz and RAS. The Munich district court I (*Landgericht München I*) will appoint an independent merger valuation auditor for Allianz for purposes of the merger, and the President

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of the Milan Court (*Presidente del Tribunale di Milano*) will appoint an independent merger valuation auditor for RAS for purposes of the merger.

Allianz and RAS will determine the merger exchange ratio by mutual agreement in the merger plan on the basis of comparative valuation, and the independent merger valuation auditors will not recommend any particular merger exchange ratio to Allianz or RAS.

The independent merger valuation auditors are required by the SE Regulation and applicable German and Italian law to:

confirm that the merger plan satisfies certain formal requirements; and

express an opinion on the appropriateness (*Angemessenheit* or *congruita*) of the merger exchange ratio in accordance with applicable law and legal practice.

The independent merger valuation auditors will not express an opinion on any other matter or, with respect to the matters described above, express an opinion for any purpose other than the satisfaction of certain legal requirements applicable under the SE Regulation, German law and Italian law.

Table of Contents

To satisfy the respective applicable German and Italian legal requirements, the independent merger valuation auditors will perform certain activities, including:

review the merger plan, the respective merger report prepared by the Management Board of Allianz and the Board of Directors of RAS, and any other documents as they consider necessary or appropriate to enable them to express the required opinions; and

meet with representatives of Allianz and RAS and representatives of their respective advisors (including accounting advisors and such other advisors as the independent merger valuation auditors deem appropriate) to discuss such aspects of the valuation process as they deem relevant to enable them to express the required opinions, including without limitation:

the discount rates applied to projected future net earnings of Allianz and RAS for purposes of calculating net present values; and

the consistency with which certain assumptions and details of the valuation methods have been applied to available data.

The independent merger valuation auditors will not assume any responsibility for independent verification of the information provided to them by the parties to the merger or by their respective accounting or other advisors.

The merger exchange ratio will ultimately be determined by Allianz and RAS on the basis of a comparative valuation of both Allianz and RAS. In accordance with judicial and market practices in Germany and Italy, the comparative valuation to establish the merger exchange ratio will be determined by applying the valuation principles recognized in Germany and Italy. The same recognized valuation principles will also be applied by the independent merger auditors for Allianz and RAS for their review of the merger exchange ratio, respectively. Detailed information describing the basis for the merger exchange ratio will be included in the merger reports of Allianz and RAS and in the merger audit reports to be prepared by the independent merger auditors.

On September 8, 2005 and September 11, 2005, respectively, Allianz's Management Board and RAS's Board of Directors passed resolutions in their respective corporate proceedings regarding the merger, anticipating that the final merger exchange ratio would be within the range from 0.153 to 0.161 Allianz shares per each RAS ordinary share and each RAS savings share. Allianz and RAS will endeavor to come to an agreement on the final merger exchange ratio that the independent merger valuation auditors are likely to consider appropriate (*angemessen* or *congruo*) within the meaning of the applicable law. Allianz cannot, however, assure that the independent merger valuation auditors will reach this conclusion with respect to the merger exchange ratio that Allianz will agree with RAS. Allianz will update this Registration Statement prior to effectiveness to reflect the opinions expressed by the independent merger valuation auditors with respect to the merger exchange ratio.

Material Differences Between Rights of Shareholders of Allianz SE and RAS

Allianz is currently a German stock corporation (*Aktiengesellschaft*) subject to the provisions of the German Stock Corporation Act (*Aktiengesetz*), the German Commercial Code (*Handelsgesetzbuch*), the German Co-Determination Act (*Mitbestimmungsgesetz*), and other German laws, as well as the German Corporate Governance Code (*Deutscher Corporate Governance Kodex*).

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As discussed above in Summary of Terms of the Merger Plan, upon completion of the merger, Allianz will convert its legal form by operation of law into a European Company, or SE. The SE is a legal form based on European Community law and was introduced by the enactment of the SE Regulation, which came into force on October 8, 2004. The creation of the European Company statute allows companies established in more than one EU Member State to merge and operate throughout the EU on the basis of a single set of rules and a unified management and reporting system. Since Allianz SE will have its registered office in Germany, it will be governed by the SE Regulation, the applicable German law supplementing the SE Regulation (namely, the German SE Implementation Act (*SE-Ausführungsgesetz*)), the German SE Employee Involvement Act, and relevant German law applicable to German stock corporations, in

Table of Contents

particular the German Stock Corporation Act (*Aktiengesetz*) unless the aforementioned SE-specific law already contains provisions covering the specific subject matter. The German Co-Determination Act, for example, will not be applicable to Allianz SE as the German SE Employee Involvement Act contains more specific provisions. We refer to all applicable German law and EU law mentioned above as German law and EU law, respectively.

Notwithstanding the special legal framework of an SE, an SE based in Germany is in general comparable with a German stock corporation (*Aktiengesellschaft*, AG). In particular, Allianz intends, upon its transformation into an SE, to continue a two-tier board system consisting of a management board (*Vorstand*) and a supervisory board (*Aufsichtsrat*), as discussed in more detail in the table below.

RAS is an Italian stock corporation subject to the provisions of the Italian civil code, the Italian special laws governing the insurance sector and legislative decree number 58, dated February 24, 1998, as amended, all of which we refer to as Italian law. RAS's shareholders, whose rights are currently governed by the RAS articles of association and Italian law, will, upon completion of the merger, become shareholders of Allianz SE and their rights will be governed by the Allianz SE articles of association (*Satzung*), as well as German law and EU law and regulations applicable to a Germany-based SE.

Table of Contents

The following description summarizes the material differences, assuming the transformation of Allianz into an SE, that may affect the rights of RAS shareholders but does not purport to be a complete statement of all those differences or a complete description of the specific provisions referred to in this summary. The identification of specific differences is not intended to indicate that other equally or more significant differences do not exist. Shareholders should read carefully the relevant provisions of Italian law, German law, EU law and regulations, the German Corporate Governance Code, the form of articles of association for Allianz SE, and RAS's articles of association. The form of articles of association of Allianz SE, which are proposed for Allianz SE after the merger is consummated, is filed as an exhibit in the registration statement of which this Prospectus forms a part. Furthermore, the description of shareholders' rights under German law below takes into account changes in law that will become effective on November 1, 2005.

	<u>Allianz SE</u>	<u>RAS S.p.A.</u>
Capitalization	The capital stock of Allianz is as of September 15, 2005, 1,013,483,136, subdivided into 395,891,850 no par value registered shares (without consideration of any warrants that have been exercised) with restricted transferability and with a notional value (the proportional amount of the share capital attributable to each share) of 2.56 per share. The capital stock will increase in connection with the merger up to ●, depending on the number of RAS shares that will be exchanged for Allianz shares and depending on the final exchange ratio.	The capital stock of RAS is of 403,336,202.40 subdivided into 670,886,994 ordinary shares and 1,340,010 savings shares. All shares have a par value of 0.60.
Corporate Governance General Considerations	The corporate bodies of Allianz SE will be the Management Board (<i>Vorstand</i>), the Supervisory Board (<i>Aufsichtsrat</i>) and the general meeting (<i>Hauptversammlung</i>). The Management Board and the Supervisory Board are separate and no individual may serve simultaneously as a member of both boards. This dual board system is optional for an SE and is provided for in the form of articles of association for Allianz SE.	The corporate bodies of RAS are the Board of Directors (<i>Consiglio di Amministrazione</i>), the board of statutory auditors (<i>Collegio Sindacale</i>) and the general meeting (<i>Assemblea</i>).
Board Structure; Election and Removal of Directors; Vacancies	Management Board. The Management Board of Allianz SE is expected to consist of 11 members. Under the form of articles of association of Allianz SE, the Supervisory Board determines the size of the Management Board, although it must have at least two members. The form of articles of association furthermore provide that Allianz SE may be	Under Italian law, a joint stock company is managed by a Board of Directors or by a sole director. Directors are elected by the general meeting for a maximum of three years. Directors can be revoked at any time by the general meeting. Directors revoked without cause may claim

Table of Contents

Allianz SE

RAS S.p.A.

legally represented by two members of the Management Board or by one member of the Management Board together with one holder of a general commercial power of attorney (*Prokura*), which entitles its holder to carry out legal acts and transactions on behalf of Allianz SE. In addition, pursuant to a filing with the commercial register in Munich, Germany, Allianz SE may also be represented by two holders of a general commercial power of attorney.

damages resulting from their removal from office.

The Supervisory Board appoints the members of the Management Board. Pursuant to the SE Regulation the initial term of the members of the Management Board may be up to six years. The form of articles of association provide for a term of up to • years. Each member may be reappointed or may have his term extended by the Supervisory Board for one or more terms of up to • years each.

Vacancies on the Board of Directors are filled by a majority vote of the remaining directors and confirmed by a resolution adopted by the general meeting. Directors so appointed remain in office for the remaining part of the relevant term. In case of death or resignations of the majority of the directors, the remaining directors must convene the general meeting to appoint the new directors.

Under RAS's articles of association, the Board of Directors is composed of no less than ten and no more than twenty directors. The Board of Directors of RAS currently comprises 18 directors.

The Supervisory Board may remove a member of the Management Board prior to the expiration of his term for good cause, for example, in the case of a serious breach of duty or a bona fide vote of no confidence by the general meeting.

Under Italian law and the articles of association of RAS, the Board of Directors is validly convened with the presence of at least fifty percent of the directors and acts by a simple majority of those present. In case of deadlock, the chairman has the deciding vote.

Supervisory Board. According to the form of articles of association for Allianz SE, the Supervisory Board of Allianz SE shall consist of • members. The number of employee representatives on the Allianz SE Supervisory Board will be subject to negotiations between the Management Board of Allianz and the Board of Directors of RAS, on the one hand, and a special negotiating body representing the EU-based employees of the Allianz Group (which includes the RAS Group), on the other hand.

If the Management Board of Allianz and the Board of Directors of RAS do not reach an agreement with the special negotiating body regarding the level of

Table of Contents

Allianz SE

RAS S.p.A.

employee representation, Allianz SE will become subject to a statutory level of employee representation. In this event, the highest level of representation that is applicable to one of the entities participating in the merger must be applied. Consequently, Allianz SE would become subject to German employee representation standards. This means that half of the members of Allianz SE's Supervisory Board would be employee representatives, who would be nominated by Allianz SE's EU-based employees for appointment by the shareholders' meeting of Allianz SE. The employee representatives would have to be nominated according to a statutory allocation formula based on the number of employees in the respective EU Member State in which the Allianz Group is represented.

Under the SE Regulation, each member of the Supervisory Board can generally be elected for a fixed term, which expires at the end of the general meeting at which the shareholders discharge the members of the Supervisory Board in respect of the fifth fiscal year after the beginning of the term. The fiscal year in which the members of the Supervisory Board are first elected is not considered. Supervisory Board members may be reelected. The general meeting may remove any Supervisory Board member it has elected (i.e., shareholder representatives) by a simple majority of the votes cast. The employee representatives have to be removed by the general meeting upon motion of those employees or bodies who nominated them for appointment. In addition, any member of the Supervisory Board may resign by written notice to the Management Board.

In the event of a member withdrawing from the Supervisory Board before the end of a term without a substitute taking his place, a successor must be elected but only for the remaining term of the withdrawing member.

Table of Contents

Allianz SE

RAS S.p.A.

The Supervisory Board elects its chairman. The chairman of the Allianz SE Supervisory Board must be a shareholders representative.

The Supervisory Board has a quorum when all members of the Supervisory Board were invited or requested to participate in a decision and • or more members, including the chairman of the supervisory board, participate in a decision before the Supervisory Board. Except where a different majority is required by law or the articles of association of Allianz SE, the Supervisory Board acts by simple majority of the votes cast. In the case of any deadlock, the chairman has the deciding vote. The Supervisory Board meets at least twice each half-year.

Duties of Directors

The Management Board is responsible for managing the day-to-day business of Allianz SE. The Management Board is bound by applicable law, the articles of association of Allianz SE as well as its internal rules of procedure (*Geschäftsordnung*). The Management Board represents Allianz SE in its dealings with third parties.

According to the articles of association of RAS, the Board of Directors is in charge of the management of RAS and has all the powers of ordinary and extraordinary administration. The board has the authority to perform any act that relates to the management of the company, except those that are expressly reserved by law to the general meeting.

The Supervisory Board oversees the Management Board but is not permitted to make management decisions. It is also responsible for appointing and removing the members of the Management Board.

According to the articles of association of RAS, the Board of Directors is responsible for appointing and determining the compensation of one or more general managers, who are in charge of the day-to-day operations of RAS and of implementing the Board of Directors resolutions.

The Supervisory Board represents Allianz SE in connection with transactions between a member of the Management Board and Allianz SE. To the extent that a Supervisory Board committee is entitled to decide on a specific matter in lieu of the Supervisory Board, the right of representing Allianz SE vis-à-vis the Management Board in that matter can be transferred to the relevant Supervisory Board committee.

Table of Contents

Allianz SE

RAS S.p.A.

The Management Board reports regularly (at least every three months) to the supervisory Board on the business of Allianz SE. According to the form articles of association for Allianz SE, the Management Board must obtain the prior consent of the Supervisory Board for certain transactions. The Supervisory Board may specify additional transactions that shall require its prior approval.

In addition, supervisory boards of German insurance companies appoint the company's external auditor.

In any transaction or contract between Allianz SE and any member of the Management Board, Allianz SE is represented by the Supervisory Board. See Duties of Directors.

A member of the Management Board may not deal with, or vote on, matters relating to proposals, arrangements or contractual agreements between himself and Allianz SE and may be liable to Allianz SE if he has a material interest in any contractual agreement between Allianz SE and a third party which was not disclosed to, and approved by, the Supervisory Board.

According to the German Corporate Governance Code, members of the Management Board shall disclose any conflict of interest without delay to the supervisory board and the other members of the Management Board. Likewise, members of the Supervisory Board shall disclose any conflict of interest without delay to the other supervisory members.

Under Italian law, a director with a direct or indirect interest, which does not have to be necessarily conflicting, in a transaction contemplated by RAS must inform the Board of Directors of any such conflict of interest in a comprehensive manner. If a managing director has a conflict of interest, he must refrain from executing the transaction and refer the relevant decision to the Board of Directors.

If the Board of Directors approves the transaction, such decision must be duly motivated, in particular with regard to its economic rationale for the company.

In case the conflicted director has not informed the board of the conflict, the board has not motivated its decision, or such decision has been adopted with the decisive vote of an interested director, the relevant resolution can be challenged in court by any of the directors who did not participate in the adoption of the resolution or by the statutory auditors of the company.

The challenge must be brought within 90 days from the date of the relevant resolution.

Directors are liable towards the company for damages deriving from the conflict of interest.

Conflict-of-Interest Transactions

Table of Contents

	<u>Allianz SE</u>	<u>RAS S.p.A.</u>
Indemnification of Directors and Officers	<p>Under German law, Allianz SE may not, as a general matter, indemnify members of the Management Board or the supervisory board. Exceptions are subject to limited instances and need to be essential for the company's well-being. In addition, German law permits an SE to indemnify a member of the Management Board or the Supervisory Board for attorneys' fees incurred if such member is the successful party in litigation in a country, such as the U.S., where winning parties are required to bear their own costs, if German law would have required the losing party to pay such member's attorneys' fees had the suit been brought in Germany. A German SE may, however, purchase insurance for its board members. Such insurance may be subject to restrictions imposed by German law.</p>	<p>Under Italian law, RAS is liable for damages to third parties caused by its employees during the performance of their duties.</p> <p>Italian law and national collective bargaining agreements further provide that RAS will reimburse its executives for legal expenses incurred in defending against criminal prosecution, <i>provided</i> that such prosecution is related to actions taken by the executive in the performance of his duties to RAS. This rule does not apply to instances of intentional misconduct or gross negligence.</p>
Director Liability	<p>Under German and EU law, an SE is not allowed to limit or eliminate the personal liability of the members of either the management board or the supervisory board for damages due to a breach of duty in their official capacity. For a discussion of the general standard of conduct of the members of the management board and the supervisory board, see Duties of Directors.</p> <p>More specifically, members of the Management Board and of the Supervisory Board of Allianz SE who violate their duties to maintain the confidentiality of corporate information (as established by German and EU law) may be jointly and severally liable to Allianz SE for any resulting damages, unless their actions were validly approved by resolution at a shareholders meeting.</p> <p>Allianz SE may, however, waive its claims for damages due to a breach of duty or reach a settlement with regard to such claims if more than three years have passed after such claims have arisen, but only with the approval of the</p>	<p>Under Italian law and RAS's articles of association, the members of the board of directors must perform their duties with the care required by the nature of their office and their specific competences.</p> <p>Directors are jointly and severally liable towards the company for damages resulting from breach of the duties of their office. Directors are also jointly liable if they have knowledge of facts that may be prejudicial to the company but have not implemented, to the extent possible, measures necessary to avoid or limit the effects of such facts.</p> <p>The company may initiate a liability claim against its own directors with the approval of the general meeting of the company. The liability claim can be waived or settled, <i>provided</i> the waiver or settlement is authorized by the general meeting. Such authorization is deemed not granted in the event that shareholders representing at least 5% of the company's share capital vote against the authorization.</p>

Table of Contents

	<u>Allianz SE</u>	<u>RAS S.p.A.</u>
	<p>general meeting, <i>provided</i> that such waiver may not be granted and such settlement may not be reached if shareholders holding in the aggregate at least 10% of the issued shares file an objection to the protocol.</p>	<p>A liability claim against the directors may also be initiated on behalf and to the benefit of the company by shareholders representing at least 5% of the share capital of RAS. For the relevant procedure, see Shareholders Suits.</p>
		<p>Liability claims may also be brought directly by individual shareholders or third parties for the damages directly caused to them.</p>
Loans to Directors	<p>German law requires that any loan made by Allianz SE exceeding a month's salary to any member of the Management Board or a representative authorized by a special power of attorney (<i>Prokurist</i>) or to their spouses or minor children must be authorized by a resolution of the Supervisory Board. Loans made by Allianz SE to a member of the Supervisory Board require an affirmative vote of the Supervisory Board. For purposes of this resolution, the member of the Supervisory Board who would be the borrower is not entitled to vote.</p>	<p>Italian law or RAS's articles of association and corporate governance code do not contain specific provisions regarding loans to directors.</p>
Shareholder Nomination	<p>Any shareholder entitled to attend and vote at the general meeting can nominate individuals for the election as shareholder representative to the Supervisory Board at the general meeting.</p> <p>If a shareholder wishes to have Allianz SE publish his nomination of individuals for election to the Supervisory Board other than those recommended by the existing Supervisory Board, such shareholder must communicate this motion to Allianz SE at least two weeks prior to the date of the general meeting. The nomination must contain the name, the profession, the domicile and memberships in other Supervisory Boards or other comparable domestic or foreign supervising constituencies of the individual to be nominated. If such communication is given to Allianz SE,</p>	<p>Under Italian law and RAS's articles of association, the members of the Board of Directors are elected by the general meeting upon proposal of the shareholders or of the existing Board of Directors.</p>

Table of Contents

Allianz SE

RAS S.p.A.

the Management Board must, without undue delay, notify the banks and the shareholders' associations which at the last general meeting exercised voting rights for shareholders or who have requested such notification, of the applications and proposals for elections by shareholders, including the names of such shareholders and a possible response by the Management Board. The same notification has to be submitted by the management board to shareholders who, after the publication of the notice of the general meeting in the German Federal Gazette, requested such notification, or who have been registered in the share register of Allianz SE at least two weeks prior to the date of the general meeting. The notification requirement is fulfilled if the relevant information is posted on the company's Internet website.

In addition, if the agenda for the general meeting is duly published, shareholders may nominate individuals for election (shareholders representatives) at the general meeting, even if they did not communicate such nomination in the manner described above.

Shareholders' Meetings

According to the SE Regulation, the general meeting must be held within the six months following the end of the fiscal year. According to the form of articles of association for Allianz SE, shareholders are entitled to participate and to vote at the general meeting if they have provided notice of their participation in due time and if their respective shares are duly registered. Notice of participation to the meeting must be submitted to the management board no later than the last day of the statutory notification period, unless such deadline is extended by the Management Board. The deadline must be published in the company's designated journals.

Each no par value registered share in Allianz SE is entitled to one vote. German law does not allow cumulative voting.

According to Italian law and the articles of association of RAS, the general meeting must be held at least once a year within 120 days

after the end of the company's fiscal year. This term can be extended to 180 days.

Pursuant to the articles of association of RAS, all registered shareholders may attend the general meeting.

To attend the general meeting, the owners of RAS's shares held through the book-entry system managed by Monte Titoli S.p.A. are required to instruct the relevant banks or financial institutions associated with Monte Titoli S.p.A. or any other relevant authorized intermediary with which their accounts are held, to provide

Table of Contents

Allianz SE

RAS S.p.A.

A shareholder's voting right may be exercised by a representative. Proxies

RAS with certificates evidencing the shares owned at least two days prior to the first date scheduled for the meeting. Such registration allows them gain admission to the general meeting.

may be given through electronic means. The procedure to give proxies must be announced in the company's designated journals.

Any shareholder entitled to attend the general meeting may be represented according to the relevant provisions of Italian law. Representation requires a written proxy. The proxy can be given only for one meeting.

The general meeting is presided by the chairman of the Supervisory Board or, if he is unable to attend, by another member of the Supervisory Board to be appointed by the Supervisory Board.

The general meeting is presided by the chairman of the Board of Directors or, if he is unable to attend, by another member of the Board of Directors.

In the absence of any legal requirement providing otherwise, resolutions at the general meeting is passed by a simple majority of the votes cast.

In order to be validly convened, the general meeting requires the attendance of shareholders representing at least 50% of the voting capital on the first call, while no quorum is required on second call. On both first and second call, resolutions are passed by a simple majority of the votes cast.

Notice of Shareholders' Meetings Under the form of articles of association for Allianz SE, notice of the general meeting is to be published in the company's designated journals.

Under Italian law and RAS's articles of association, a written notice calling a shareholders' meeting indicating the time, place and agenda of the meeting must be published in the Gazette of the Italian Republic (*Gazzetta Ufficiale della Repubblica Italiana*) not less than thirty days before the date scheduled for the meeting. In addition, according to RAS's articles of association, the notice of the shareholders meeting may also be published in one or more national Italian newspapers and on RAS's website.

Shareholders' Right to Call a Shareholders' Meeting

The Management Board must convene a shareholders meeting without undue delay upon request of shareholders representing in aggregate at least 5% of the company's share capital, who have been shareholders of Allianz SE for at least three months preceding the request.

The directors must convene without delay a shareholders' meeting if requested to do so by shareholders representing at least 10% of the share capital of RAS, indicating the agenda of the meeting.

Table of Contents

	<u>Allianz SE</u>	<u>RAS S.p.A.</u>
	Such request must be directed to the Management Board and must contain the agenda for the shareholders meeting.	Should the directors (or the board of statutory auditors) fail to call the shareholders meeting, the meeting can be convened by the competent tribunal.
	If the requested shareholders meeting does not occur in time or does not occur within two months as from the request, the meeting can, upon authorization by the competent court, be convened by the shareholders requesting such shareholders meeting.	
Shareholders Proposals	Under German law, shareholders holding in the aggregate shares representing at least 5% of the share capital or a proportional amount of 500,000 of the registered stated capital are entitled to require that a matter is included in the agenda for resolution and that the management board submits a proposal at the respective shareholders meeting and to publish this proposal in the German Federal Gazette. The request must be made in writing stating the purpose and the reasons therefore. Proposals duly published may be submitted to the general meeting for decision.	There are no specific rules under Italian law other than those relating to the right of calling a shareholders meeting. See above Shareholders Right to Call a Shareholders Meeting.
	Each shareholder may also submit at the shareholders meeting counterproposals to the proposals submitted by the Management Board and the Supervisory Board. For further information regarding the nomination of Supervisory Board members, see Shareholder Nominations.	
Proxy Solicitations	According to German law, shareholders (or shareholders associations) can solicit other shareholders votes and proxy or make suggestions regarding the exercise of the voting rights in the so-called shareholders panel (<i>Aktionärsforum</i>) in the German Electronic Federal Gazette (<i>elektronischer Bundesanzeiger</i>) in order to promote or submit a proposal or motion in, a shareholders meeting or otherwise. Such solicitation must (a) disclose the name and address of the soliciting shareholder (or shareholders association), (b) the name of the concerned company, (c) the proposal, motion or suggestion on how to exercise	Under Italian law, one or more shareholders representing at least 0.5% of the share capital of RAS and registered as shareholders for at least six months can solicit other shareholders proxies. Solicitation of proxies must be made through an authorized intermediary and requires the publication of a prospectus and a proxy form. Proxies must be dated, signed and indicate the voting instructions. Proxies so granted can be revoked until one day prior to the shareholders meeting. Proxies can

Table of Contents

	<u>Allianz SE</u>	<u>RAS S.p.A.</u>
	voting rights regarding a particular agenda item at a shareholders meeting and (d) the date of the relevant shareholders meeting.	only be given for one single, already convened, shareholders meeting.
Required Vote for Authorization of Certain Actions	<p>According to German law, the following resolutions may be passed only by a majority of at least 75% of the capital stock represented at the passing of the resolution and a simple majority of the votes cast at the shareholders meeting: certain capital increases (contingent capital; authorized capital), capital decreases, a dissolution of Allianz SE, a merger of Allianz SE or any other form of transformation (<i>Umwandlung</i>) of Allianz SE, including, without limitation, spin-offs (<i>Spaltung</i>), a transfer of all or virtually all of Allianz SE's assets, a change of Allianz SE's corporate form, and the exclusion of preemptive rights (<i>Bezugsrecht</i>).</p>	<p>Extraordinary shareholders meetings are required to vote on all amendments of the company's articles of association, including capital increases, transfer of the company's registered office abroad, changes in the corporate purposes and all other matters referred to it by Italian law such as the liquidation or winding-up of the company as well as mergers and de-mergers.</p> <p>In order to be validly approved, resolutions pertaining to the above matters require the attendance of shareholders representing at least 50% of the ordinary share capital on first call, more than one-third on second call and at least one-fifth on any subsequent calls, and the affirmative vote of holders of at least two-thirds of the RAS share capital participating in the vote on the resolution.</p>
Amendment to Articles of Association	<p>Changes to the corporate purpose (<i>Unternehmensgegenstand</i>) of Allianz SE stated in the articles of association and the relocation of the registered seat (<i>Sitzverlegung</i>) into a different EU Member State require a 75% majority of the capital stock represented at the time the resolution is passed. For other amendments, the form of articles of association for Allianz SE stipulate that a majority of • of votes cast suffices, unless a greater majority is required by law.</p> <p>As provided in the form of articles of association for Allianz SE, the Supervisory Board is authorized to amend the wording of the articles of association.</p>	<p>Under Italian law, the articles of association of a joint stock company may be amended at any time by the shareholders at an extraordinary shareholders meeting. See Required Vote for Authorization of Certain Actions for the required quorums and voting thresholds.</p>

Table of Contents

	<u>Allianz SE</u>	<u>RAS S.p.A.</u>
Dividends	Under German law, dividends may be declared and paid out of the corporation's distributable balance sheet profits shown in the corporation's audited and approved financial statements for the preceding fiscal year, as determined by resolution of the general meeting.	Under Italian law, RAS may pay dividends out of its net profits shown in the company's audited and approved financial statements for the preceding fiscal year or out of its distributable legal reserves. The dividend distribution must be approved by the general meeting approving the company's financial statements.
Cash Exit Rights; Appraisal Rights	<p>Under German law, shareholders of an SE are entitled to withdraw as shareholders from the SE in consideration for adequate compensation if:</p> <ul style="list-style-type: none"> the SE relocates its registered office (<i>Unternehmenssitz</i>) from one EU Member State to another; the SE enters into a domination and profit (and loss) transfer agreement with a controlling shareholder; the SE is acquired by way of merger by another company with a different legal corporate form; or shareholders of the SE receive shares with restricted transferability in connection with a merger. <p>According to the prevailing opinion in German legal literature and a court decision of the higher regional court in Düsseldorf, Germany (<i>OLG Düsseldorf</i>), such cash exit rights are also triggered if a merger results in the delisting of the shares of the merged entity. The adequate compensation is generally payable in cash.</p> <p>A valuation proceeding (<i>Spruchverfahren</i>) is available to Allianz SE's shareholders under German law to determine the adequacy of the consideration to be paid in the situations described above. In addition, a valuation proceeding is available in connection with the expulsion of minority shareholders in a squeeze out; <i>provided</i>,</p>	<p>Under Italian law, shareholders of Italian joint stock companies are entitled to exercise cash exit rights whenever a resolution is adopted at a special meeting of shareholders with respect to, <i>inter alia</i>:</p> <ul style="list-style-type: none"> a change in the business purpose of the company; a change in the legal form of the company; the transfer of the registered office of the company outside of Italy; or a merger in which the shareholders of a listed company receive shares which are not listed on a regulated stock market in Italy. <p>Cash exit rights can only be exercised by dissenting, absent or abstaining shareholders. Cash exit rights can be exercised for all or part of the shares held by the relevant shareholder.</p> <p>In order to validly exercise their cash exit rights, shareholders entitled to do so must send notice thereof to the company by registered mail within 15 days after the publication in the Companies Register of the resolution approved at the special meeting of shareholders.</p>

The shares with respect to which cash exit rights are being exercised cannot be sold by the relevant shareholder and must be deposited with the company.

Table of Contents

Allianz SE

RAS S.p.A.

in each case the shareholder complies with the procedural requirements specified in the respective statutory provisions.

Cash exit rights may not be exercised if the resolution, which gives rise to cash exit rights, is revoked in a subsequent shareholders meeting held within 90 days following the approval of such resolution. In this case, the cash exit rights that have already been exercised become ineffective.

The cash amount payable to the shareholders exercising their cash exit rights is calculated based on the arithmetical average of the closing price for the company's shares during the six months preceding the publication of the notice convening the special shareholders meeting for the approval of the transaction, which gave rise to the cash exit rights.

Shareholders Suits

German law does not provide for class actions, and only permits shareholder derivative suits under limited circumstances, even in the case of breach of duty by the members of the management board or the supervisory board.

Italian law does not provide for class actions and does not generally permit shareholder derivative suits even with respect of breach of duty by the directors. However, shareholders representing at least 5% of the share capital of Italian-listed companies may bring on behalf of the company a liability claim against the directors for breach of their duties towards the company.

According to German law, the general meeting, acting by a simple majority of the votes cast, is entitled to request Allianz SE to claim damages but is not entitled to assert any rights on behalf of Allianz SE. The general meeting may appoint any disinterested party as a special representative to prosecute such claim on behalf of Allianz SE. Such special representative will be court-appointed upon the motion of a minority of the shareholders representing in the aggregate at least 10% of the issued shares or a proportionate amount of at least 1,000,000 of the registered stated capital, if the court deems this appropriate. If the court complies with the request to appoint a special representative, the company must pay the special representative adequate reimbursement and remuneration.

The shareholders promoting such claim appoint a representative to lead the action and perform all necessary ancillary activities.

If the action is successful, damages granted inure to the exclusive benefit of the company. The company must reimburse the shareholders, who initiated the action, for the costs and expenses related to the action.

Table of Contents

Allianz SE

RAS S.p.A.

According to German law, shareholders representing at least 1% of the issued share capital or in aggregate

an attributable amount of at least 100,000 may request before court admission to prosecute such claims themselves on behalf of Allianz SE

(*Klagezulassungsverfahren*). Such request is only complied with (a) if such shareholders prove that they or their legal predecessors had title to the shares of Allianz SE at the time the asserted misconduct or damages have been made public, (b) if such shareholders prove that Allianz SE has not filed a lawsuit itself within a reasonable period of time despite such shareholders' request, (c) if facts are available that raise suspicion that Allianz SE has suffered damages due to improbity or severe violation of the law or the articles of association, and (d) if the claim for damages is not outbalanced by legitimate interests of Allianz SE.

If the court allows the shareholders to prosecute the claim on behalf of Allianz SE, they must file such claim within three months as of the legal effectiveness of the court ruling regarding the admission to prosecute the claim, *provided* that Allianz SE has not filed such claim itself within reasonable time despite of another request of such shareholders. Allianz SE may itself take over the prosecution of such claim pending at any time. A court ruling or a settlement agreement (*Vergleich*) on such claim has binding effect towards the company and any shareholder of the company.

If the request for admission to prosecute the claim on behalf of Allianz SE is rejected by the court, the costs incurred in such procedure must generally be borne by the applicant shareholders. If the plaintiff shareholders win the lawsuit, Allianz SE must reimburse such shareholders for any costs incurred by the lawsuit. The same applies if the lawsuit is partially or entirely lost by the plaintiff shareholders, *provided* that the admission

Table of Contents

Allianz SE

RAS S.p.A.

to file the lawsuit was granted not due to willful or gross negligent wrong assertions by the plaintiff shareholders.

Each shareholder who was present at the shareholders meeting and has his objection against a resolution recorded in the minutes may within one month after adoption of the respective resolution by the shareholders meeting take action against the company to contest the resolution (*Anfechtungsklage*).

Inspection of Books and Records

German law does not permit shareholders to inspect corporate books and records but does permit, however, shareholders to inspect the share register with respect to their personal information upon request. German law further provides each shareholder with a right to information at the shareholders meeting, to the extent that such information is necessary to permit a proper evaluation of the relevant item on the agenda.

Under Italian law, any shareholder, in person or through an agent, may inspect RAS's shareholders ledger and the minutes of shareholder meetings at any time and may request a copy of the same at his own expense.

The right to information is a right only to oral information at a shareholders meeting. Information may be given in writing to shareholders, but they are entitled neither to receive written information nor to inspect any documents of the corporation. As a practical matter, shareholders may receive certain written information about Allianz SE through its public filings with the commercial register (*Handelsregister*) and the German Federal Gazette and other places for publication of the company.

Transferability

The no par value registered shares may only be transferred with the consent of Allianz SE. Allianz SE will only withhold its consent to a duly applied request if it deems this to be necessary in the interest of Allianz SE on exceptional grounds; therefore, the consent requirement is deemed not to limit the tradeability over the stock exchange as required by German law and has very limited practical impact. Allianz SE will

RAS's shares are freely transferable.

Table of Contents

	<u>Allianz SE</u>	<u>RAS S.p.A.</u>
Preemptive Rights	<p>inform the applicant about the reasons leading to such a refusal.</p> <p>Under German law, an existing shareholder in an SE has a preemptive right to subscribe for any issue by such SE of shares, debt instruments convertible into shares and participating debt instruments in proportion to the shares held by such shareholder in the existing capital of such SE. German law provides that this preemptive right can be excluded only by a shareholder resolution. A majority of at least three-quarters of the issued shares represented at the meeting is required for such resolution to pass.</p> <p>Furthermore, under German law, Allianz SE may, in general, only acquire its own shares upon authorization by a shareholder meeting, <i>provided</i> that the company acquires no more than 10% of its issued shares or acquires them for certain purpose defined by law, <i>e.g.</i>, for the transfer to employees.</p>	<p>Under Italian law, an existing shareholder in a stock corporation has a preemptive right for any issue of such corporation of shares or debt convertible into shares in proportion to the shares held by such shareholder at the time of the issuance.</p> <p>The preemptive rights can also be exercised by the holders of debt convertible into shares of the company on the basis of the relevant exchange ratio.</p> <p>Existing shareholders are not entitled to preemptive rights with respect to newly issued shares to be paid in by contribution in kind. The preemptive rights can also be excluded by a resolution approved by shareholders representing more than 50% of the company's share capital. In both of the above cases, the reasons for the exclusion must be adequately illustrated by a report of the board of directors.</p> <p>In addition, the by-laws of listed companies can exclude preemptive rights with respect to newly issued shares for an amount up to a maximum of 10% of the existing share capital.</p>
Takeover Statutes	<p>Under German Law, the management board of the target company generally must not take any measures that would impede the success of the tender offer other than soliciting alternative offers or acting with authorization of the supervisory board.</p> <p>In addition, the general meeting can authorize other defense measures if such a vote is supported by 75% of the capital stock present at the time the resolution is passed. The duration of such authorization may not exceed 18 months. Individual measures taken in reliance upon such authorization have to be approved by the supervisory board.</p>	<p>Under Italian law, defense measures can only be adopted by Italian companies listed on an Italian or EU regulated market if approved by a shareholders' meeting with the affirmative vote of holders representing at least 30% of a company's share capital participating in the vote on the resolution.</p>

Accounting Treatment of the Transaction

We will account for the merger as a purchase under both IFRS and U.S. GAAP.

Table of Contents

THE RAS SHAREHOLDERS MEETINGS

General

The extraordinary meeting of holders of RAS ordinary shares at which the merger plan will be presented for approval is scheduled to be held on February 3, 2006, on first call, and February 4, 2006, on second call. The special meeting of holders of RAS savings shares to approve the merger resolution passed by the holders of RAS ordinary shares is scheduled to be held on February 3, 4 and 6, 2006, on first call, second call and third call, respectively. The merger requires the approvals of both holders of RAS ordinary shares and holders of RAS savings shares in order to be implemented.

Under Italian law, the extraordinary meeting of holders of RAS ordinary shares will be validly convened with the attendance of shareholders representing at least 50% of RAS ordinary shares on first call, more than 33.33% on second call and at least 20% on any subsequent calls. Approval of the merger plan and of the modification to the RAS articles of association in connection with the Reorganization requires a resolution passed with the affirmative vote of holders of at least two-thirds of RAS ordinary shares participating in the vote on the resolution. The special meeting of holders of RAS savings shares will then have to approve the resolution of the extraordinary meeting of holders of RAS ordinary shares approving the merger plan. The holders of RAS saving shares must pass this resolution with the affirmative vote of holders of the majority of the RAS savings shares participating in the vote on the resolution, representing at least 20% of the total amount of RAS savings shares outstanding.

At September 28, 2005, we owned approximately 55.5% of the outstanding RAS ordinary shares. We also own 35.8% of the outstanding RAS savings shares and have secured in over-the-counter derivative transactions a further 4.5% of all issued and outstanding RAS savings shares. (See Relationship Between Allianz and RAS Tender Offer for RAS Shares and Additional Share Purchases). We intend to vote those RAS ordinary shares and RAS savings shares in favor of the proposed merger at the extraordinary meeting of holders of RAS ordinary shares and the special meeting of holders of RAS savings shares, respectively.

Appraisal Rights and Cash Exit Rights

Italian law does not entitle the holders of RAS ordinary shares and RAS savings shares to formal appraisal rights in connection with the merger. RAS shareholders are, however, entitled to cash exit rights as specified under Italian law. Under Italian law, shareholders of Italian joint stock companies are entitled to exercise cash exit rights whenever a resolution is adopted at an extraordinary or special meeting of shareholders with respect to, *inter alia*:

a change in the business purpose of the company;

a change in the legal form of the company;

a transfer of the company's registered office outside of Italy; or

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a merger in which the shareholders of a listed company receive shares which are not listed on a regulated stock market in Italy.

Holders of RAS ordinary shares absent, abstaining or voting against the merger or the change in corporate purpose deriving from the Reorganization in the RAS extraordinary shareholders' meeting, and holders of RAS savings shares absent, abstaining or voting against approval of the resolution at their special shareholders' meeting approving the merger, will be entitled to exercise cash exit rights and request liquidation (i.e., cash payment) of their RAS shares as a consequence of (a) the change of RAS's corporate purpose and the substantial modification of its business caused by the Reorganization, (b) the transfer abroad of RAS's registered seat due to the merger and (c) only with respect to the RAS savings shares, the modification of their participation rights as a result of the exchange of RAS savings shares for Allianz shares (i.e., ordinary shares). RAS shareholders entitled to cash exit rights may exercise their rights with respect to all or part of the shares that they hold. In order to validly exercise cash exit rights, RAS shareholders entitled to do so must provide notice thereof to RAS by registered mail within 15 days after the date of publication in the Companies' Register in Milan, Italy, of the resolutions voted upon at the relevant meeting of RAS shareholders. The shares with respect to which cash exit rights are being exercised cannot be sold by RAS shareholders and must be deposited with RAS.

Table of Contents

Cash exit rights may not be exercised if the resolutions relating to the merger are approved at the relevant meeting of RAS shareholders and then revoked in a subsequent shareholders meeting of RAS held within 90 days following the approval of such resolutions. In this case, the cash exit rights that have already been exercised become ineffective.

The cash amount payable to RAS shareholders exercising their cash exit rights is calculated based on the arithmetical average of the closing price for RAS ordinary shares and RAS savings shares, respectively, on the Milan Stock Exchange during the six months preceding the publication of the notice convening the extraordinary meeting of holders of RAS ordinary shares and the special meeting of holders of RAS savings shares, respectively. The notices were published in Italy on September 27, 2005. Accordingly, the cash exit price amounts to 16.72 per RAS ordinary share and 24.24 per RAS savings share.

Pursuant to the cash exit procedure provided for in Article 2437-*quater* of the Italian Civil Code, the RAS shares with respect to which cash exit rights are exercised will be offered for purchase, at their value indicated above, *pro rata* to holders of RAS ordinary shares and RAS savings shares, as the case may be, who do not exercise cash exit rights. Holders of RAS shares who accept such offer also have the preemptive right to purchase any RAS ordinary shares or RAS savings shares not purchased in such offer. Consistent with its intention to acquire all of the RAS ordinary shares and RAS savings shares, Allianz will purchase any RAS shares that are not so purchased.

The payment to RAS shareholders, who exercise their cash exit rights, will occur prior to the effectiveness of the merger.

Contestation Suits

Under German law, Allianz shares will not be issued to RAS shareholders until the merger is registered in the commercial register for Allianz, which cannot take place before the registration of the implementation of the capital increase for purposes of the merger in the commercial register for Allianz. Allianz shareholders could contest the merger by filing an action to set aside the resolution by the Allianz extraordinary meeting of shareholders approving the merger plan. This action must be commenced within one month from the date of such resolution. An action could be brought on the basis of alleged procedural irregularities before or during the shareholders meeting voting on the merger plan or on material defects in relation to the merger plan or the merger resolution itself, including violation of information rights. German law provides that a contestation suit by an Allianz shareholder against the validity of the resolution approving the merger plan may be based on the grounds that the merger exchange ratio set forth in the merger plan is too low from the point of view of Allianz shareholders. The merger cannot be registered in the commercial register for Allianz while a contestation suit is pending. However, pursuant to the German Transformation Act (*Umwandlungsgesetz*), if an action to set aside the resolution approving the merger plan is filed, Allianz may apply for a decision by the competent court to the effect that such filing does not bar the registration of the merger in the commercial register. Such a decision may only be made if the contestation suit against the validity of the merger resolution is inadmissible or clearly unfounded or if it appears to the court in its discretion, having considered the seriousness of the infringements of rights as asserted in the claim, that the immediate completion of the merger should have priority in order to avert significant disadvantages for Allianz as well as their shareholders, as asserted by Allianz. After the decision by the competent court has become final and binding, which may take several months, the merger may be registered in the commercial register for Allianz. If Allianz is successful in registering the merger by obtaining such an affirmative accelerated court decision, Allianz still could be liable to pay damages to Allianz shareholders having filed the contestation suit if it is later on determined that the contestation suit is legally founded. If, on the other hand, an affected company is unsuccessful in its request for an accelerated court decision, the registration of the merger can occur only after the action has been finally adjudicated. The denial of an action to set aside a merger resolution can in principle be appealed in sequence to two higher courts.

Under Italian law, RAS shareholders may challenge the merger resolution on the basis of the general rules for the challenge of shareholders resolutions. In particular, holders of RAS ordinary shares and/or RAS savings shares, who are absent

Table of Contents

from their respective special meeting of shareholders or who abstain from or dissent in the vote on the merger plan and who hold at least one-thousandth of RAS's ordinary share capital or savings share capital, respectively, could contest the merger by filing an action within 90 days after the registration of the merger resolution in the Companies' Register for RAS in Milan, Italy. Such suits could allege procedural irregularities, an unfair exchange ratio, as well as any other violation of Italian law or the by-laws of the company. In addition, in very limited cases relating to grave procedural irregularities (such as failure to convene the shareholders' meeting), any holder of RAS ordinary shares or savings shares, regardless of the amount of shares held, can challenge the merger resolution within three years after the registration of such resolution with the Companies' Register in Milan, Italy. None of the above challenges has the effect of suspending the merger resolution. If, however, these RAS shareholders contest the merger resolution asserting that they would suffer irreparable harm if the merger is implemented and succeed in proving the existence of a *prima facie* case, a competent court could issue an injunction suspending the effect of the merger resolution and preventing the entering into of the merger deed with the Companies' Register in Milan, Italy. If such an injunction is imposed, the implementation of the merger could be delayed or hindered under Italian law. For as long as the merger resolution remains suspended under Italian law, we would be prevented from registering the merger in the commercial register for Allianz in Germany. Once the merger deed has been entered into and following its registration with the Companies' Register in Milan, Italy, the merger resolution can no longer be declared invalid and challenging shareholders could then only be entitled to monetary damages.

Voting Securities and Principal Owners Thereof

The information set forth under the heading "Major Shareholders and Related Party Transactions - Major Shareholders" at Item 7 in Allianz's Annual Report on Form 20-F that is incorporated by reference into this Prospectus is incorporated by reference into this paragraph, as supplemented by the following. On July 14, 2005, Allianz was informed by Munich Re pursuant to the rules of the German Securities Trading Act (WpHG) that Munich Re reduced its ownership interest in Allianz to below 5% and held 4.9% of the share capital of Allianz as of this date. As a result of this reduction, we do not have any shareholder that holds 5% or more of the share capital of Allianz.

Directors and Officers of Allianz

The information set forth under the heading "Item 6. Directors, Senior Management and Employees - Supervisory Board", subject to the changes described below, and "Management Board" in Allianz's Annual Report on Form 20-F that is incorporated by reference into this Prospectus is incorporated by reference into this paragraph.

At Allianz's annual general meeting on May 4, 2005, the terms of the following members of the Supervisory Board expired: Frank Ley, Dr. Alrecht Schäfer and Professor Dr. Herbert Scholl. The following three new members joined the Supervisory Board on this date, each of whose terms expire in 2008:

Franz Fehrenbach, 56 years old, whose principal occupation is Chairman of the Management Board of Robert Bosch GmbH and who is also member of the Board of Directors of Robert Bosch Corporation USA;

Dr. Franz Humer, 59 years old, whose principal is Chairman of the Board of Directors and Chief Executive Officer of F. Hoffmann-La Roche AG and who is also a member of the Supervisory Boards of Hoffmann-La Roche AG (Chairman), Roche Deutschland Holding GmbH (Chairman), Roche Diagnostics GmbH (Chairman) and member of the Board of Directors of Diageo plc; and

Iris Mischlau-Meyrahn, 46 years old, whose principal occupation is as an employee of Allianz Versicherungs AG and who is an employee representative on the Supervisory Board of Allianz.

Material Interests of Certain Persons in the Merger

As a matter of law, all employment and service agreements, which were entered into by RAS and which after the Reorganization will still be attributable to RAS, will automatically pass to

Table of Contents

Allianz SE upon legal effectiveness of the merger, unless otherwise provided for in the respective agreement or unless an affected employee objects to the transfer of his or her employment agreement. As a result of the Reorganization, the number of such agreements is likely to be limited.

Table of Contents

RELATIONSHIP BETWEEN ALLIANZ AND RAS

General

RAS is a majority-owned subsidiary of Allianz. Of the 18 directors on RAS's Board of Directors, five are currently members of the Management Board of Allianz. Specifically:

Michael Diekmann, deputy chairman of RAS's Board of Directors, is also chairman of the Management Board of Allianz. He is also chairman and, in some cases, vice president of the Supervisory Board or the Board of Directors of several companies in the Allianz Group;

Detlev Bremkamp, a member of RAS's Board of Directors, is a member of the Management Board of Allianz. He is also a member and, in some cases, chairman of the Board of Directors or the Supervisory Board of several companies in the Allianz Group;

Dr. Helmut Perlet, a member of RAS's Board of Directors, is a member of the Management Board of Allianz, as well as a member of the Board of Directors or the Supervisory Board of several companies in the Allianz Group;

Dr. Reiner Hagemann, a member of the Management Board of Allianz, is a member and, in some cases, chairman or deputy chairman of the Supervisory Board or the Board of Directors of several companies in the Allianz Group, including certain subsidiaries of RAS; and

Dr. Gerhard Rupprecht, a member of the Management Board of Allianz, is a member of the Supervisory Board or the Board of Directors of several companies in the Allianz Group, including two subsidiaries of RAS.

On September 11, 2005, Allianz announced that Detlev Bremkamp and Dr. Reiner Hagemann will resign from the Management Board of Allianz with effect from December 31, 2005. They will also resign from their positions on the Board of Directors of RAS and most RAS subsidiaries, as applicable, effective on the same date. Mr. Bremkamp will continue to be a member of the Supervisory Board of Elmonda AG, in which RAS holds a 50% interest.

In 1984, the Allianz Group acquired a 14.3% interest in RAS. During the following years, the Allianz Group progressively increased its participation in RAS and obtained a majority interest in RAS in 1987 when its interest in the company amounted to 51.5%. In December 2002, RAS launched a public offer to repurchase a portion of its outstanding ordinary shares. As a result of this repurchase and subsequent cancellation of those RAS ordinary shares repurchased in the offer, the Allianz Group held 55.5% of RAS ordinary shares and 55.4% of RAS's total share capital, prior to the additional purchases of RAS savings shares described below in Tender Offer for RAS Shares and Additional Share Purchases.

The commercial relationships between Allianz and its subsidiaries, on the one hand, and RAS and its subsidiaries, on the other, comprise transactions with each other conducted in the ordinary course of business, including certain reinsurance agreements by which RAS and certain of its subsidiaries cede intra-group premiums to Allianz. Furthermore, in the ordinary course of their investment activity, RAS and certain of its subsidiaries have subscribed debt securities issued by Allianz.

Tender Offer for RAS Shares and Additional Share Purchases

In the second half of October 2005, Allianz will commence a voluntary public tender offer for all of the shares of RAS at a cash price of \$19 per RAS ordinary share and \$55 per RAS savings share. The tender offer is intended to provide those RAS shareholders, who do not wish to become shareholders of Allianz SE, with the opportunity to sell their shares for cash at a time well before such shareholders have the possibility to exercise their statutory cash exit right and at favorable conditions compared to the cash compensation due under the cash exit rights, if exercised, under Italian law. The tender offer will expire during the month of November 2005.

On September 27, 2005, Allianz announced that it purchased in off-market transactions a total of 479,462 RAS savings shares, representing 35.8% of all issued and outstanding RAS savings shares. In addition, Allianz secured in over-the-counter

Table of Contents

derivative transactions further 60,000 RAS savings shares, representing a further 4.5% of all issued and outstanding RAS savings shares. The highest price paid in connection with such transactions was equal to \$55 per RAS savings share. Subsequent to such purchases, Allianz also announced its decision to adjust the price of the tender offer on the RAS savings shares, pre-announced to the market on September 11, 2005, by increasing such price from \$26.5 to \$55 per each RAS savings share.

Table of Contents**MARKET PRICE DATA****Allianz**

The principal trading market for the Allianz shares is the Frankfurt Stock Exchange. The shares are also listed and traded on all other German stock exchanges, *i.e.*, the Baden-Württemberg Stock Exchange in Stuttgart, the Berlin-Bremen Stock Exchange, the Düsseldorf Stock Exchange, the Hanseatic Stock Exchange in Hamburg, the Hanover Stock Exchange and the Munich Stock Exchange. Furthermore, the Allianz shares are listed on the SWX Swiss Exchange, London Stock Exchange and Euronext Paris. American Depositary Shares relating to Allianz's shares are listed and principally traded on the New York Stock Exchange.

The table below sets forth, for the periods indicated, the high and low closing sales prices on the Frankfurt Stock Exchange for the ordinary shares of Allianz as reported by XETRA. The table also shows, for the periods indicated, the highs and lows of the DAX. See the discussion under "Currencies and Exchange Rates" in this Prospectus, for information with respect to rates of exchange between the U.S. dollar and the Euro applicable during the periods set forth below.

	Price Per Ordinary Share ⁽¹⁾		DAX	
	High	Low	High	Low
Yearly highs and lows				
2000	399.2	285.9	8,065.0	6,200.7
2001	358.3	185.8	6,795.1	3,787.2
2002	259.5	69.4	5,462.6	2,597.9
2003	101.5	41.1	3,965.2	2,203.0
2004	111.2	73.9	4,261.8	3,647.0
2005 (through September 26, 2005)	110.1	89.7	5,005.9	4,178.1
Quarterly highs and lows				
2003				
First Quarter	89.4	41.1	3,157.3	2,203.0
Second Quarter	78.2	43.4	3,304.2	2,450.2
Third Quarter	95.0	69.6	3,668.7	3,146.6
Fourth Quarter	101.5	76.0	3,965.2	3,276.6
2004				
First Quarter	111.2	86.2	4,151.8	3,726.1
Second Quarter	94.4	80.7	4,134.1	3,754.4
Third Quarter	89.3	73.9	4,035.0	3,647.0
Fourth Quarter	97.9	78.5	4,261.8	3,854.4
2005				
First Quarter	101.0	89.7	4,428.1	4,201.8
Second Quarter	98.4	90.1	4,627.5	4,178.1
Monthly highs and lows				
2005				
March	101.0	95.8	4,428.1	4,296.4
April	98.2	90.1	4,405.7	4,178.1
May	95.8	91.2	4,480.4	4,224.0

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June	97.7	94.4	4,627.5	4,497.3
July	105.8	95.2	4,892.5	4,530.2
August	110.1	103.2	4,990.6	4,783.8
September (through September 26, 2005)	109.3	103.1	5,005.9	4,837.8

(1) Adjusted to reflect the capital increase in April 2003.

Based on turnover statistics supplied by Bloomberg, the average daily volume of the ordinary shares of Allianz traded on the Frankfurt Stock Exchange (XETRA) between January 1, 2005 and September 26, 2005 was 2,862,333 shares.

Table of Contents**Trading on the New York Stock Exchange**

Official trading of Allianz ADSs on the New York Stock Exchange commenced on November 3, 2000. Allianz ADSs trade under the symbol AZ.

The following table sets forth, for the periods indicated, the high and low closing sales prices per Allianz ADS as reported on the New York Stock Exchange Composite Tape:

	Price per ADS	
	High	Low
	\$	\$
Yearly highs and lows		
2001	37.6	18.7
2002	25.2	7.5
2003	12.7	5.0
2004	14.0	9.0
2005 (through September 26, 2005)	13.8	11.4
Quarterly highs and lows		
2003		
First Quarter	10.5	5.0
Second Quarter	9.3	5.3
Third Quarter	10.6	8.2
Fourth Quarter	12.7	9.0
2004		
First Quarter	14.0	10.6
Second Quarter	11.4	9.6
Third Quarter	10.9	9.0
Fourth Quarter	13.3	10.0
2005		
First Quarter	13.4	11.7
Second Quarter	12.6	11.5
Monthly highs and lows		
2005		
March	13.4	12.6
April	12.6	11.6
May	12.2	11.6
June	12.0	11.5
July	12.9	11.4
August	13.8	12.7
September (through September 26, 2005)	13.6	12.6

You are urged to obtain a current market quotation for Allianz ADSs and Allianz shares.

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On September 9, 2005, the last trading day prior to the formal public announcement of our decision to pursue a statutory merger of RAS and Allianz, the closing sales price per Allianz share on the XETRA trading system of the Frankfurt Stock Exchange was 109.07, equivalent to \$131.28 per Allianz share, translated at the noon buying rate for September 26, 2005, and the high and low bid prices for the Allianz ADSs as quoted on the New York Stock Exchange were \$13.61 and \$13.54, respectively.

On September 26, 2005, the closing sales price per Allianz share on XETRA was 107.74, equivalent to \$129.68 based on an exchange rate of \$1.2036 per Euro, and the high and low bid prices for the Allianz ADSs as quoted on the New York Stock Exchange were \$13.02 and \$12.87, respectively.

Table of Contents**RAS**

RAS ordinary shares trade on the Milan Stock Exchange. The table below sets forth, for the periods indicated, the high and low sale prices of RAS ordinary shares as reported by Bloomberg.

	Price Per Ordinary Share ()	
	High	Low
Yearly highs and lows		
2000	17.2	7.1
2001	16.5	11.0
2002	15.3	9.9
2003	14.1	10.0
2004	17.0	13.7
2005 (through September 26, 2005)	18.9	15.5
Quarterly highs and lows		
2003		
First Quarter	12.4	10.0
Second Quarter	14.0	11.4
Third Quarter	14.1	12.7
Fourth Quarter	13.8	13.2
2004		
First Quarter	15.2	13.7
Second Quarter	15.7	14.6
Third Quarter	15.6	14.1
Fourth Quarter	17.0	15.5
2005		
First Quarter	18.2	16.6
Second Quarter	18.2	15.5
Monthly highs and lows		
2005		
March	18.2	17.7
April	18.2	16.6
May	16.8	15.5
June	16.2	15.5
July	16.6	16.2
August	17.1	16.2
September (through September 26, 2005)	18.9	16.8

Since 1986, RAS savings shares have traded on the Milan Stock Exchange. The table sets forth, for the periods indicated, the high and low sale prices of RAS savings shares as reported by Bloomberg.

Price Per Savings Share ()

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	<u>High</u>	<u>Low</u>
Yearly highs and lows		
2000	12.9	5.8
2001	12.6	7.5
2002	14.3	9.3
2003	14.6	10.9
2004	17.6	13.7
2005 (through September 26, 2005)	56.2	17.3
Quarterly highs and lows		
2003		
First Quarter	14.0	10.9
Second Quarter	14.6	12.6
Third Quarter	14.0	13.5
Fourth Quarter	14.0	13.3
2004		
First Quarter	15.6	13.7
Second Quarter	15.9	14.9
Third Quarter	16.4	14.1
Fourth Quarter	17.6	15.9
2005		
First Quarter	28.0	17.3
Second Quarter	26.1	20.7
Monthly highs and lows		
2005		
March	28.0	25.6
April	26.1	23.0
May	23.9	22.3
June	23.3	20.7
July	21.6	20.8
August	23.9	21.1
September (through September 26, 2005)	56.2	22.9

You are urged to obtain a current market quotation for RAS ordinary shares and RAS savings shares.

Table of Contents

U.S. FEDERAL, ITALIAN AND GERMAN TAX CONSEQUENCES

General

This section describes the material Italian, German, and U.S. federal income tax consequences for U.S. holders (as defined below) of the receipt and ownership of Allianz shares and cash in lieu of Allianz fractional shares pursuant to the merger of RAS into Allianz. This section applies only to U.S. holders that hold RAS shares as capital assets and that will acquire Allianz shares pursuant to the merger of RAS into Allianz. This section does not apply to special classes of U.S. holders such as dealers in securities or currencies, holders with a functional currency other than the U.S. dollar, tax-exempt organizations, financial institutions, holders liable for the alternative minimum tax, securities traders electing to account for their investment in RAS shares or Allianz shares on a mark-to-market basis, persons holding RAS shares or Allianz shares in a hedging transaction or as part of a straddle or conversion transaction, persons holding RAS shares or Allianz shares through a permanent establishment in Germany or as business assets for which a permanent representative has been appointed in Germany, and any person that owns actually or constructively 10 percent or more of the outstanding voting shares of RAS stock or Allianz stock.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, the laws of the Federal Republic of Germany and the laws of the Republic of Italy, all as currently in effect, as well as on the Convention Between the United States of America and the Federal Republic of Germany for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital and to Certain Other Taxes (the U.S.-Germany Treaty) and the Convention between the Government of the United States of America and the Government of the Republic of Italy for the Avoidance of Double Taxation with Respect to Taxes on Income and the Prevention of Fraud or Fiscal Evasion (the U.S.-Italy Treaty). These laws are subject to change, possibly on a retroactive basis.

For purposes of this discussion, a U.S. holder is a beneficial owner of RAS shares that will acquire Allianz shares pursuant to the merger of RAS into Allianz that is for United States federal income tax purposes (i) a citizen or resident of the United States of America, (ii) a domestic corporation, (iii) an estate the income of which is subject to regular U.S. federal income taxation regardless of its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of that trust, and for German and Italian tax purposes, an individual or corporate holder resident in the United States of America.

If a partnership holds RAS shares or Allianz shares, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding RAS shares or Allianz shares, you should consult your own tax advisor.

You should consult your own tax advisor regarding the United States federal, state and local, German, Italian and other tax consequences of exchanging your RAS shares and of owning and disposing of Allianz shares in your particular circumstances.

This discussion addresses only United States federal, Italian and German income taxation.

Tax Consequences of the Proposed Merger

Italian Tax Consequences of the Proposed Merger

This summary assumes that Allianz and RAS would be considered residents for tax purposes of the Federal Republic of Germany and of the Republic of Italy, respectively, and that they are organized and that their business will be conducted in the manner outlined in this Prospectus. Changes in the tax residence or organizational structure of Allianz or RAS or the manner in which they conduct their business may invalidate this summary.

According to the prevailing interpretation of Italian tax laws and based on general principles applicable to merger transactions, the merger of RAS with and into Allianz will not trigger any taxable event for Italian income tax purposes for U.S. holders of RAS shares; the Allianz shares received by each of such RAS shareholders at the effective time of the merger would be deemed as having the same

Table of Contents

aggregate tax basis as the RAS shares held by said shareholders prior to the merger. It has to be noted that even if one were to apply a more restrictive interpretation, and therefore to consider the merger as a taxable event, the possible capital gains realized by U.S. holders of RAS shares still would not be taxable in Italy in the following cases:

if the U.S. holder (i) never owned RAS ordinary shares representing more than 2 percent of the voting rights in the RAS ordinary shareholders meeting or more than 5 percent of the RAS stated capital, and (ii) did not and will not dispose of RAS ordinary shares representing in the aggregate (i.e., including the RAS ordinary shares cancelled by operation of the merger) more than either of the above thresholds in any twelve-month period prior to or after the effective time of the merger; or

if the U.S. holder is entitled to the benefits of the U.S.-Italy Treaty and all of the requirements and procedures established by the U.S.-Italy Treaty are complied with.

Since no fractional shares will be issued by Allianz to RAS shareholders in connection with the merger, the parties will appoint an authorized intermediary to trade fractional share interests to allow RAS shareholders to receive whole shares of Allianz common stock. Details of the relevant procedure will be provided in a notice published in a national daily newspaper in Italy. Any capital gain realized by RAS shareholders upon the sale of these shares would in principle be subject to tax in Italy; however, the above-mentioned exemptions provided for by Italian tax law and the U.S.-Italy Treaty would apply. The relevant capital gain would be represented by the difference between the sale price and tax basis of the RAS ordinary shares sold.

Under Italian law, RAS shareholders who abstain from the vote or dissent to the merger are entitled to exercise a withdrawal right. In such case, the redemption price of each of their RAS ordinary shares, to be paid at the effective time of the merger, shall be equal to the average closing sales price of one RAS ordinary share listed on the Milan Stock Exchange during the six-month period prior to the date of the extraordinary and special shareholders meetings at which the merger is approved by the RAS shareholders. RAS shareholders redeeming shares will in principle be subject to a 27% rate withholding tax in Italy (12.5% in case of the RAS saving shares) on any profits derived from the redemption, which profits will be deemed equal to the difference between the redemption price and the tax basis of their RAS ordinary shares. Such withholding tax may be reduced to 15%, 10% or 5% pursuant to the U.S.-Italy Treaty, to the extent that the U.S. holder is entitled to its benefits.

German Tax Consequences of the Merger to U.S. Holders of RAS shares

An exchange of RAS shares for Allianz shares does generally not trigger a taxable capital gain for German tax purposes by you as a U.S. holder.

U.S. Federal Income Tax Consequences of the Proposed Merger

We believe that we are not now, and have not been at any time during your holding period, a passive foreign investment company, and this discussion assumes that RAS is not now, and has not been at any time during your holding period, a passive foreign investment company.

If you exchange your RAS shares for Allianz shares or cash in lieu of Allianz fractional shares pursuant to the merger, you will recognize capital gain or loss equal to the difference between:

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the sum of (A) the fair market value (determined in U.S. dollars on the date of exchange) of the Allianz shares you receive in the merger and (B) the value (in U.S. dollars determined on the date of the exchange) of U.S. or foreign currency received in lieu of Allianz fractional shares in the merger; *and*

your tax basis, determined in U.S. dollars, in your RAS shares, which is generally equal to the cost (in U.S. dollars) of the acquisition of the RAS shares.

Gain or loss will be long-term capital gain or loss if, at the time of the exchange, your holding period for your RAS shares exceeds one year. Currently, long-term capital gain of a non-corporate U.S. holder is generally taxed at a maximum rate of 15%. The deductibility of capital losses is subject to limitations. Any gain or loss generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes.

Table of Contents

Your tax basis in Allianz shares received pursuant to the merger will be the fair market value (in U.S. dollars) of those Allianz shares on the date you receive them. Your holding period for Allianz shares received pursuant to the merger will begin on the day after you receive such shares.

Tax Consequences of the Ownership and Disposition of Allianz Shares

Dividends

German Taxation

Dividend distributions by a German corporation are subject to a 20% withholding tax. In addition, a solidarity surcharge at a rate of 5.5% on the withholding tax is levied, resulting in an aggregate rate of withholding tax of 21.1% of the declared dividend. The withholding tax is generally withheld irrespective of whether and to what extent the dividend distribution is exempt at the level of the holder.

If you are eligible for the benefits under the U.S.-Germany Treaty, the rate of dividend withholding tax for individual holders and corporate holders of a non-qualifying participation is reduced to 15%. In that case, the Non-German Holder eligible for the reduced treaty rate may apply for a refund of 6.1% of the declared dividend.

German Refund Procedure

The application for refund of German withholding tax must be filed with the German Federal Tax Office (Bundesamt für Finanzen, Friedhofstrasse 1, D-53225 Bonn, Germany). The relevant forms can be obtained from the German Federal Tax Office or from German embassies and consulates.

U.S. Federal Income Taxation

Under the United States federal income tax laws, and subject to the passive foreign investment company rules discussed below, the gross amount of any dividend we pay out in respect of your Allianz shares of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a noncorporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2009 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that you hold the Allianz shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to Allianz shares generally will be qualified dividend income.

You must include any German tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of

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the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Euro payments made, determined at the spot Euro/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the Allianz shares and thereafter as capital gain.

Subject to certain limitations, the German tax withheld and paid over to the Federal Republic of Germany will be creditable against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate. To the extent a refund of the tax withheld is available to you under German law or the U.S.-Germany Treaty, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax

Table of Contents

liability. See Taxation of Dividends German Refund Procedure , above, for the procedures for obtaining a tax refund.

Dividends will be income from sources outside the United States, but dividends paid in taxable years beginning before January 1, 2007 generally will be passive or financial services income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on your circumstances, be passive or general income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

Distributions of additional Allianz shares to you with respect to your Allianz shares that are made as part of a *pro rata* distribution to all of our shareholders generally will not be subject to United States federal income tax.

Capital Gains

German Taxation

Capital gains realized on the disposition of Allianz shares by you as a U.S. holder are subject to German income taxation only if you or, in case of a gratuitous transfer, your legal predecessor has held, directly or indirectly, at any time during the five years preceding the disposition at least 1% of the registered share capital of Allianz AG. In this case:

5% of the capital gains, if any, are subject to corporate income tax plus the solidarity surcharge, if you are a corporate shareholder; and

in all other cases, one-half of the capital gains is subject to German income tax.

Most double taxation treaties, including the U.S.-Germany Treaty, however, provide for complete exemption from German taxation of capital gains in respect of the Allianz shares.

United States Federal Income Taxation.

Subject to the passive foreign investment company rules discussed below, if you sell or otherwise dispose of your Allianz shares, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your Allianz shares. Your initial tax basis is determined as described above under Tax Consequences of the Proposed Merger U.S. Federal Income Tax Consequences of the Proposed Merger. Capital gain of a noncorporate U.S. holder that is recognized before January 1, 2009 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The deductibility of capital losses is subject to limitations. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Passive Foreign Investment Company Rules

We believe that Allianz shares should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, gain realized on the sale or other disposition of Allianz shares would in general not be treated as capital gain. Instead, you would be treated as if you had realized such gain and certain excess distributions ratably over your holding period for the Allianz shares and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your Allianz shares will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your Allianz shares. Dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are treated as a PFIC with respect to you either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

Backup Withholding and Information Reporting

If you are a noncorporate U.S. holder, information reporting requirements, on Internal Revenue Service Form 1099, generally will apply to (i) your receipt of Allianz shares and any cash in lieu of Allianz fractional shares in exchange for your RAS shares effected at a United States office of a broker, (ii) dividend payments or other taxable distributions made to you in respect of Allianz shares within the United States, and (iii) the payment of proceeds to you from the sale of Allianz shares effected at a United States office of a broker.

Table of Contents

Additionally, backup withholding may apply to such payments if you are a noncorporate U.S. holder that (i) fails to provide an accurate taxpayer identification number, (ii) is notified by the Internal Revenue Service that you have failed to report all interest and dividends required to be shown on your federal income tax returns, or (iii) in certain circumstances, fails to comply with applicable certification requirements.

For a noncorporate U.S. holder, if the exchange of RAS shares for Allianz shares or cash in lieu of Allianz fractional shares, or a sale of Allianz shares, is effected at a foreign office of a broker, such exchange or sale will be subject to information reporting if the broker is (i) a United States person, (ii) a controlled foreign corporation for United States tax purposes, (iii) a foreign person 50% or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period, or (iv) a foreign partnership, if at any time during its tax year (A) one or more of its partners are U.S. persons, as defined in U.S. Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership, or (B) such foreign partnership is engaged in the conduct of a United States trade or business. Backup withholding will apply if the exchange or sale is subject to information reporting and the broker has actual knowledge that you are a United States person.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the United States Internal Revenue Service.

Table of Contents

VALIDITY OF SECURITIES

Dr. Peter Hemeling, in his capacity as General Counsel of Allianz, will pass upon the validity under German law of the Allianz shares to be issued in connection with the merger.

EXPERTS

The consolidated financial statements and schedules of Allianz as of December 31, 2004 and 2003, and for each of the years in the three-year period ended December 31, 2004, have been incorporated by reference herein in reliance upon the report of KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

The consolidated financial statements and schedules of RAS as of December 31, 2004 and 2003, and for each of the years in the three-year period ended December 31, 2004, have been included in this Prospectus in reliance upon the report of KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, independent registered public accounting firm, included in this Prospectus, and upon the authority of said firm as experts in accounting and auditing.

Table of Contents

RAS GROUP

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2004 and 2003</u>	F-3
<u>Consolidated Income Statements for the years ended December 31, 2004, 2003 and 2002</u>	F-4
<u>Consolidated Statements of Changes in Shareholders' Equity for years ended December 31, 2004, 2003 and 2002</u>	F-5
<u>Consolidated Cash Flow Statements for each of the years ended December 31, 2004, 2003 and 2002</u>	F-6
<u>Notes to the Consolidated Financial Statements</u>	F-7
<u>Nature of Operations and Basis of Presentation</u>	F-7
<u>Summary of Significant Accounting Policies</u>	F-7
<u>Recently Issued Accounting Pronouncements</u>	F-16
<u>Consolidation</u>	F-17
<u>Segment Reporting</u>	F-18
<u>Supplementary Information on RAS Group Assets</u>	F-24
<u>Supplementary Information on RAS Group Liabilities and Equity</u>	F-30
<u>Supplementary Information on the RAS Group Consolidated Income Statement</u>	F-34
<u>Other Information</u>	F-41
<u>Summary of significant differences between the accounting principles used in the preparation of the consolidated financial statements and accounting principles generally accepted in the United States of America</u>	F-47
<u>Subsequent Events</u>	F-48
<u>Selected Subsidiaries</u>	F-49
Schedules:	
<u>Schedule I Summary of Investments</u>	F-50

Table of Contents

Report of Independent Registered Public Accounting Firm

The Management Board and Supervisory Board of Allianz Aktiengesellschaft:

We have audited the accompanying consolidated balance sheets of Riunione Adriatica di Sicurtà S.P.A. Group (RAS Group) and subsidiaries as of December 31, 2004 and 2003, and the related consolidated income statements, consolidated statements of changes in shareholders' equity and consolidated cash flow statements for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RAS Group and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with International Financial Reporting Standards.

International Financial Reporting Standards vary in certain significant respects from U.S. generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in Note 38 to the consolidated financial statements.

KPMG Deutsche Treuhand-Gesellschaft

Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft

Munich, Germany

September 28, 2005

Table of Contents**RAS Group****Consolidated Balance Sheets**

as of December 31, 2004 and 2003

		<u>2004</u>	<u>2003</u>
	Note	mn	mn
ASSETS			
Intangible assets	6	489	415
Investments in associated enterprises	7	587	510
Investments	8	36,197	33,970
Separate account assets		351	12,968
Loans and advances to banks	9	1,858	1,280
Loans and advances to customers	9	4,100	3,733
Trading assets	10	17,045	162
Cash and cash equivalents	11	1,035	1,228
Amounts ceded to reinsurers from insurance reserves	12	1,695	1,710
Deferred tax assets	32	426	513
Other assets	13	7,274	6,522
		<u>71,057</u>	<u>63,011</u>
Total assets			
		<u>71,057</u>	<u>63,011</u>
		<u>2004</u>	<u>2003</u>
	Note	mn	mn
EQUITY AND LIABILITIES			
Shareholders' equity	14	6,528	6,107
Minority interests in shareholders' equity	15	1,059	907
Hybrid equity	16	45	45
Insurance reserves	17	54,412	35,581
Separate account liabilities		351	12,968
Liabilities to banks	18	157	43
Liabilities to customers	19	1,832	1,308
Certificated liabilities	20	558	472
Trading liabilities		136	31
Other accrued liabilities	21	867	867
Other liabilities	22	4,001	3,570
Deferred tax liabilities	32	1,068	1,055
Deferred income		43	57
		<u>71,057</u>	<u>63,011</u>
Total equity and liabilities			
		<u>71,057</u>	<u>63,011</u>

Table of Contents**RAS Group****Consolidated Income Statements**

for the years ended December 31, 2004, 2003 and 2002

		<u>2004</u>	<u>2003</u>	<u>2002</u>
	Note	mn	mn	mn
Premiums earned (net)	23	7,483	7,406	7,308
Interest and similar income	24	1,674	1,712	1,742
Income from investments in associated enterprises (net)	7	158	105	915
Other income from investments	25	430	572	408
Trading income (net)	26	776	(173)	105
Fee and commission income, and income from service activities	27	391	323	254
Other income		372	458	449
Total income		<u>11,284</u>	<u>10,403</u>	<u>11,181</u>
Insurance benefits (net)	28	(7,228)	(6,407)	(6,326)
Interest and similar expenses	29	(58)	(69)	(43)
Other expenses from investments	30	(211)	(551)	(1,093)
Loan loss provisions		(6)	(6)	(1)
Acquisition costs and administrative expenses	31	(2,178)	(2,089)	(2,180)
Amortization of goodwill	6	(49)	(46)	(49)
Other expenses		(444)	(452)	(451)
Total expenses		<u>(10,174)</u>	<u>(9,620)</u>	<u>(10,143)</u>
Earnings from ordinary activities before taxes		1,110	783	1,038
Taxes	32	(293)	(300)	(160)
Minority interests in earnings		(142)	(59)	28
Net income		<u>675</u>	<u>424</u>	<u>906</u>
Basic earnings per ordinary share	33	1.01	0.63	1.25
Diluted earnings per ordinary share	33	1.01	0.63	1.25
Basic earnings per savings share	33	1.03	0.65	1.29
Diluted earnings per savings share	33	1.03	0.65	1.29

Table of Contents**RAS Group****Consolidated Statements of Changes in Shareholders' Equity**

for the years ended December 31, 2004, 2003 and 2002

	Paid-in capital	Revenue reserves	Foreign currency translation adjustments	Unrealized gains and losses (net)	Shareholders equity
	mn	mn	mn	mn	mn
Balance as of December 31, 2001	2,692	2,641	114	551	5,998
Foreign currency translation adjustments			(15)		(15)
Capital paid in	357	(357)			
Treasury shares		(88)			(88)
Unrealized investment gains and losses				(214)	(214)
Net income		906			906
Dividends paid		(268)			(268)
Miscellaneous		5			5
Balance as of December 31, 2002	3,049	2,839	99	337	6,324
Foreign currency translation adjustments			(50)	(2)	(52)
Treasury shares		(709)			(709)
Cancellation of treasury shares	(800)	800			
Unrealized investment gains and losses				499	499
Net income		424			424
Dividends paid		(295)			(295)
Miscellaneous		(84)			(84)
Balance as of December 31, 2003	2,249	2,975	49	834	6,107
Foreign currency translation adjustments			9	2	11
Treasury shares		5			5
Unrealized investment gains and losses				269	269
Net income		675			675
Dividends paid		(403)			(403)
Miscellaneous		(136)			(136)
Balance as of December 31, 2004	2,249	3,116	58	1,105	6,528

Table of Contents**RAS Group****Consolidated Cash Flow Statements**

for the years ended December 31, 2004, 2003 and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	mn	mn	mn
Operating activities			
Net income	675	424	906
Minority interests in earnings	142	59	(28)
Equity in earnings of associates	(134)	(80)	(45)
Amortization and depreciation	3	100	120
Deferred income tax expense	55	71	(324)
Realized gains and losses and reversals of impairments and impairments, net	(276)	(70)	(220)
Trading assets and liabilities	(128)	58	(142)
Change in loans and advances to banks and customers	(945)	246	(2,799)
Change in other assets	(465)	(12)	(517)
Change in insurance reserves	1,179	(166)	3,060
Change in deferred acquisition costs	(207)	(271)	(181)
Change in liabilities to banks and customers	638	(304)	75
Change in other liabilities	417	375	448
Net cash flow provided by operating activities	<u>954</u>	<u>430</u>	<u>353</u>
Investing activities			
Change in securities available-for-sale	(770)	990	(5,411)
Change in investments held-to-maturity	(271)	(454)	633
Change in real estate	(152)	(100)	245
Other	(17)	85	955
Net cash flow (used in) provided by investing activities	<u>(1,210)</u>	<u>521</u>	<u>(3,578)</u>
Financing activities			
Change in SFAS 97 aggregate policy reserves	556	122	3,178
Change in hybrid equity and certificated liabilities	86	366	75
Treasury shares	5	(709)	(88)
Dividends	(446)	(305)	(268)
Other	(136)	(84)	422
Net cash flow provided by (used in) financing activities	<u>65</u>	<u>(610)</u>	<u>3,319</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(2)</u>	<u>26</u>	<u>(7)</u>
Change in cash and cash equivalents	(193)	367	87
Cash and cash equivalents at beginning of period	<u>1,228</u>	<u>861</u>	<u>774</u>
Cash and cash equivalents at end of period	<u>1,035</u>	<u>1,228</u>	<u>861</u>

Table of Contents

Notes to the Consolidated Financial Statements

1 Nature of operations and basis of presentation

Nature of Operations

Riunione Adriatica di Sicurtà S.p.A. (RAS) and its subsidiaries (RAS Group) are one of the leading financial services providers in Italy, offering insurance, banking and asset management products and services. RAS Group is the fourth-largest property-casualty insurer and second-largest life/health insurer in Italy based on gross premiums written and statutory premiums, respectively, in 2004. RAS also has insurance operations in Austria, Portugal, and Switzerland. With RAS Group's acquisition of Banca Bnl Investimenti in 2004 and subsequent merger of these operations into RAS's subsidiary, RASBank, RAS has an increasing presence in Italy's financial services sector. RAS S.p.A., Milan. RAS is a Società per Azioni (S.p.A.) incorporated in Italy. It is recorded in the Milan Company Register under its registered address at Corso Italia 23, 20122 Milan, Italy.

The parent company of RAS is Allianz Company Italiana Finanziamenti S.p.A., which owns approximately 55.5% of RAS's ordinary shares. The ultimate parent company of RAS is Allianz Aktiengesellschaft AG (Allianz AG). Allianz AG and its subsidiaries (the Allianz Group) have global property-casualty insurance, life/health insurance, banking and asset management operations in more than 70 countries, with the largest of its operations in Europe.

On September 11, 2005, the RAS S.p.A. and Allianz AG announced their intention to merge. All outstanding ordinary and savings shares of RAS S.p.A. will be exchanged for shares of Allianz AG or cash if the merger is approved by the shareholders of RAS S.p.A. and the shareholders of Allianz AG. If approved, the merger is expected to occur in 2006.

Basis of Presentation

The consolidated financial statements of the RAS Group have been prepared in conformity with International Financial Reporting Standards (IFRS). Since 2002, the designation IFRS applies to the overall framework of all standards approved by the International Accounting Standards Board (IASB). Already approved standards continue to be cited as International Accounting Standards (IAS) standards currently in force for the years under review have been adopted in the presentation of the consolidated financial statements. For years through 2004, IFRS does not provide specific guidance concerning the reporting of insurance and reinsurance transactions. Therefore, as envisioned in the IFRS Framework, the provisions embodied under accounting principles generally accepted in the United States of America (US GAAP) have been applied. The calculation of aggregate policy reserves and deferred policy acquisition costs is in accordance with various US GAAP Statements of Financial Accounting Standards (SFAS), including SFAS 60, SFAS 97, and SFAS 120. The consolidated financial statements of the RAS Group have been prepared in Euros (€).

Significant differences between IFRS and US GAAP affecting the RAS Group's net income and shareholders' equity have been summarized in Note 38.

2 Summary of significant accounting policies

Principles of Consolidation

The consolidated financial statements of the RAS Group include those of RAS S.p.A., its subsidiaries and certain investment funds and special purpose entities. Subsidiaries, investment funds and special purpose entities that are directly or indirectly controlled by the RAS Group are consolidated (hereafter "subsidiaries"). Subsidiaries are consolidated from the date control is obtained by the RAS Group. Subsidiaries that are disposed are consolidated until the date of disposal. The RAS Group has used interim financial statements for certain subsidiaries whose fiscal year is other than December 31, but not exceeding a lag of three months. The effects of intercompany transactions have been eliminated.

Business combinations are accounted for by applying the purchase method. The purchase method requires that the RAS Group allocate the cost of a business combination by recognizing the acquiree's identifiable assets, liabilities and certain contingent liabilities at their fair values on the date of acquisition. The cost of a business combination represents the fair value of the consideration given and any costs directly attributable to the business.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

combination. If the acquisition cost of the business combination exceeds the RAS Group's proportionate share of the fair value of the net assets of the acquiree, the difference is recorded as goodwill. Any minority interest is recorded at the minority's proportion of the fair value of the net assets of the acquiree.

For business combinations with an agreement date before March 31, 2004, minority interests are recorded at the minority's proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities.

Foreign Currency Translation

Foreign currency is translated in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, by the method of functional currency. The functional currencies for the RAS Group's subsidiaries are usually the local currency of the relevant company, e.g., the prevailing currency in the environment where the subsidiary carries out its ordinary activities. In accordance with the functional currency method, assets and liabilities are translated at the closing rate on the balance sheet date and income and expenses are translated at the annual average rate in all financial statements of subsidiaries not reporting in Euro. Any foreign currency translation differences, including those arising in the process of equity consolidation, are recorded in shareholders' equity as foreign currency translation adjustments.

Currency gains and losses arising from foreign currency transactions (transactions in a currency other than the functional currency of the entity) are reported in other income and other expenses, respectively.

Use of Estimates and Assumptions

The preparation of consolidated financial statements that requires the RAS Group make estimates and assumptions that affect items reported in the consolidated balance sheet and consolidated income statement, as well as under contingent liabilities. The actual values may differ from those reported. The most important of such items are the reserve for loss and loss adjustment expenses, the aggregate policy reserves, fair value and impairments of investments, goodwill, deferred policy acquisition costs, deferred taxes and reserves for pensions and similar obligations.

Supplementary information on assets

Intangible Assets

Goodwill resulting from business combinations represents the difference between the acquisition cost of the business combination and the RAS Group's proportionate share of the net fair value of identifiable assets, liabilities and contingent liabilities. Goodwill resulting from business combinations with an agreement date on or after March 31, 2004, is not subject to amortization and is carried at cost less accumulated

impairments.

Goodwill resulting from business combinations before March 31, 2004, was amortized on a straight-line basis over its estimated useful life, which is generally ten years for the property-casualty segment, twenty years for the life/health segment, and twenty years for the banking segment. Goodwill resulting from business combinations before March 31, 2004, is carried at cost less accumulated amortization and impairments. As of January 1, 2005, goodwill resulting from business combinations before March 31, 2004, is not subject to amortization.

An annual impairment test of goodwill is conducted on October 1, in addition to whenever there is an indication that goodwill is not recoverable. The impairment review includes comparing the present value of each cash generating unit to its respective carrying value including goodwill. If the present value is greater, an impairment is not recorded. If the carrying value of the cash generating unit in the consolidated balance sheet exceeds the present value of the cash generating unit, the implicit present value of the related goodwill is determined with a corresponding impairment charge recorded reducing the respective goodwill to its present value. Impairments of goodwill are not reversed. Gains or losses realized on the disposal of subsidiaries include any related goodwill.

Intangible assets acquired in business combinations with an agreement date after March 31,

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

2004, are recorded at fair value on the acquisition date if the intangible asset is separable or arises from contractual or other legal rights. Intangible assets with an indefinite useful life are not subject to amortization. Intangible assets with a definite useful life are amortized over their useful lives. Intangible assets acquired in business combinations with an agreement date before March 31, 2004, were recorded at fair value on the acquisition date and are amortized over their useful lives.

Present value of future profits (PVFP) is the present value of net cash flows anticipated in the future from insurance policies in force at the date of acquisition and is amortized over the life of the related contracts. PVFP was determined using discount rates ranging from 12% to 15%. Interest accrues on the unamortized PVFP balance based upon the policy liability or contract rates which range from 3.5% to 8.5%.

Software includes software purchased from third parties or developed internally, which are amortized on a straight-line basis over their useful service lives or contractual terms, generally over 3 to 5 years. Costs for repairs and maintenance are expensed, while improvements if they extend the useful life of the asset are capitalized. For the RAS Group's Property-Casualty and Life/Health segments amortization of software is allocated amongst several line items according to cost allocation. Amortization of software related to the RAS Group's Banking and Asset Management segments is included in administrative expenses within the RAS Group's consolidated income statement.

Similar to goodwill, intangible assets are subject to an annual impairment test, in addition to whenever there is an indication that it is not recoverable. If there are indications that intangible assets are impaired, their respective recoverable amounts are determined. If the recoverable amounts of intangible assets are less than their carrying amounts, an impairment is recorded reducing the respective intangible asset to its current recoverable amount.

Investments in associated enterprises

Associated enterprises are enterprises over which an enterprise included in the consolidated financial statements can exercise a significant influence. A significant influence is presumed if the RAS Group has at least 20% but no more than 50% of the voting rights.

Investments in associated enterprises are generally accounted for using the equity method, such that the carrying amount of the investment represents the RAS Group's proportionate share of the associates' net assets. The RAS Group accounts for all material investments in associates on a time lag of no more than three months.

Income from investments in associated enterprises is included as a separate component of total income as the RAS Group considers income earned from such investments to be consistent with revenues such as realized gains, interest, and dividends earned from other investments.

Investments

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Investments include securities held-to-maturity, securities available-for-sale, real estate used by third parties and funds held by others under reinsurance contracts assumed.

Securities held-to-maturity are comprised of fixed maturity securities, which the RAS Group has the positive intent and ability to hold to maturity. These securities are carried at amortized cost and the related premium or discount is amortized using the effective interest method over the life of the security. Amortization of premium or discount is included in interest and similar income.

Securities available-for-sale are securities that are not classified as held-to-maturity or trading assets. Securities available-for-sale are carried at fair value. Unrealized gains and losses, which are the difference between fair value and cost, or amortized cost in the case of fixed maturity securities, are included as a separate component of shareholders' equity, net of deferred taxes, or, taken to the latent reserve for premium refunds to the extent that policyholders will participate in such gains and losses on the basis of statutory or contractual regulations when they are realized. Realized gains and losses on securities are generally determined by applying the average cost method.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Recognition of an impairment loss on held-to-maturity and available-for-sale fixed maturity securities is recorded if a decline in fair value below amortized cost is considered other-than-temporary. If all amounts due according to the contractual terms of the security are not considered collectible, typically due to deterioration in the creditworthiness of the issuer, the security is considered to be other-than-temporarily impaired. Other-than-temporary impairments are not recorded as a result of declines in fair value resulting from general market interest or exchange rate movements unless the RAS Group intends to dispose of the security.

Recognition of an impairment loss on available-for-sale equity securities is recorded if a decline in fair value below the cost basis of an investment is considered other-than-temporary. The RAS Group generally considers unrealized losses on equity securities to be other-than-temporary if the fair value has been below the weighted-average cost by more than 20% for more than 6 months. Further, equity securities are considered to be other-than-temporarily impaired if the fair value has been below the weighted-average cost more than 12 months. Further, equity securities are considered to be other-than-temporarily impaired if objective evidence indicates the cost is not recoverable or if the RAS Group intends to dispose of the security.

For equity securities, if, in a subsequent period, the amount of an other-than-temporary impairment previously recorded on a security decreases, the other-than-temporary impairment is reversed through other income from investments. For fixed income securities, if, in a subsequent period, the amount of the other-than-temporary impairment previously recorded on a security decreases and the decrease can be objectively related to an event occurring after the other-than-temporary impairment, such as an improvement in the debtor's credit rating, the impairment is reversed. For both equity and fixed maturity securities, such reversals do not result in a carrying amount of a security that exceeds what would have been, had the other-than-temporary impairment not been recorded, at the date of the impairment is reversed.

Real estate used by third-parties (i.e., real property and equivalent rights and buildings, including buildings on leased land) is carried at cost less accumulated depreciation and impairments. Real estate used by third parties is depreciated on a straight-line basis over its estimated life, with a maximum of 50 years. When testing for impairment, the fair value of real estate used by third parties is determined by the discounted cash flow method. Improvement costs are capitalized if they extend the useful life of the asset, otherwise they are recognized as an expense.

Funds held by others under reinsurance contracts assumed relate to cash deposits to which the RAS Group is entitled, but which the ceding insurer retains as collateral for future obligations of the RAS Group. The cash deposits are recorded on the balance sheet at face value, less any impairments for balances that are deemed to not be fully recoverable.

Separate account assets and liabilities

Separate account assets are measured at fair value and reported in the consolidated balance sheet as a summary total, with an equivalent summary total reported for the related separate account liabilities, if the following conditions are met:

the separate account is legally recognized,

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the separate account assets are legally insulated from the general account liabilities of the issuing insurance company,

the insurance company must, as a result of contractual, statutory or regulatory requirements, invest the contract holder's funds within the separate account as directed by the contract holder in designated investment alternatives or in accordance with specific investment objectives or policies, and

all investment performance, must as a result of contractual, statutory, or regulatory requirements be passed through to the individual contract holder.

Changes in the fair value of separate account assets are offset by a corresponding change in separate account liabilities in the consolidated income statement.

Contracts that do not meet the separate account criteria above, are treated as general account assets

F-10

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

and liabilities. The contract holder liability, which represents the fair value of the related assets, is recorded in the consolidated balance sheet as insurance reserves, with changes recorded in the consolidated income statement as insurance benefits (net). The assets related to such contracts are recorded in the consolidated balance sheet as trading assets, with changes in fair value recorded in the consolidated income statement as trading income.

Loans and advances to banks and customers

Loans and advances to banks and customers originated by the RAS Group that are not intended to be sold in the near term are generally carried at their outstanding unpaid principal balance, net of the loan loss allowance, deferred fees and costs on origination, and unamortized premiums or discounts. Interest revenues are accrued on the unpaid principal balance, net of charge-offs. Using the effective interest method, net deferred fees and premiums or discounts are recorded as an adjustment of the interest revenue yield over the lives of the related loans.

Loan impairments and provisions

Impaired loans represent loans for which, based upon current information and events, it is probable that the RAS Group will not be able to collect all interest and principal amounts due in accordance with the contractual terms of the loan agreements.

The loan loss allowance represents management's estimate of probable losses that have occurred in the loan portfolio and other lending-related commitments.

Loans are charged-off when all economically sensible means of recovery have been exhausted. At the point of charge-off, the loan as well as any specific allowance associated with the loan must be removed from the consolidated balance sheet or a charge may be recorded to directly charge-off the loan. A charge-off may be full or partial. Subsequent to a charge-off, recoveries, if any, are recognized in the consolidated income statement as a credit to the loan loss provisions.

The loan loss provision is the amount necessary to adjust the loan loss allowance to a level determined through the process described above.

Trading assets

Trading assets consist of debt and equity securities, which have been acquired principally for the purpose of generating a profit from short-term fluctuations in price and derivative financial instruments that do not meet the criteria for hedge accounting with positive market values. Trading assets are reported at fair value. Changes in fair value are recorded as trading income (net).

Derivative financial instruments

The RAS Group uses derivative financial instruments such as swaps and forwards to hedge against changes in interest rates and foreign exchange rates in its investment portfolios.

Substantially all of the RAS Group's derivative financial instruments do not meet the criteria for hedge accounting and are reported at fair value as trading assets or trading liabilities. Gains or losses on these derivative financial instruments arising from valuation at fair value are included in trading income (net).

Cash and cash equivalents

Cash and cash equivalents include balances with banks payable on demand, balances with central banks, and checks and cash on hand, subject to a maximum term of six months from the date of acquisition.

Reinsurance

Premiums ceded for reinsurance and reinsurance recoveries on benefits and claims incurred are deducted from premiums earned and insurance benefits. Assets and liabilities related to reinsurance are reported on a gross basis. Amounts ceded to reinsurers from insurance reserves are estimated in a manner consistent with the claim liability associated with the reinsured risks. Accordingly, revenues and expenses related to reinsurance agreements are recognized consistent with the underlying risk of the business reinsured.

Income taxes

The tax shown in the RAS Group's consolidated income statement consists of the taxes actually

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

charged to individual RAS Group enterprises and changes in deferred tax assets and liabilities.

The calculation of deferred tax is based on temporary differences between the RAS Group's carrying amounts of assets or liabilities in its consolidated balance sheets and their tax bases. The tax rates used for the calculation of deferred taxes are the local rates applicable in the countries concerned; changes to tax rates already adopted prior to or as of the consolidated balance sheet date are taken into account. Deferred tax assets are recognized if sufficient future taxable income is available for realization.

Other assets

Other assets, amongst others, consist of real estate owned by the RAS Group and used for its own activities, equipment, accounts receivable, deferred policy acquisition costs, prepaid expenses and miscellaneous assets.

Real estate owned by the RAS Group used for its own activities (e.g., real property and buildings, including buildings on leased land) is carried at cost less accumulated depreciation and impairments. The capitalized cost of buildings is calculated on the basis of acquisition cost and depreciated on a straight-line basis over a maximum of 50 years in accordance with their useful lives. Costs for repairs and maintenance are expensed, while improvements if they extend the useful life of the asset are capitalized. An impairment is recognized when the recoverable amount of these assets is less than their carrying amount.

Equipment is carried at cost less accumulated depreciation and impairments. Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets. The estimated useful life of equipment ranges from 2 to 10 years, except for purchased information technology equipment, which is 2 to 8 years.

Receivables are recorded at face value less any payments received, net of appropriate valuation allowances.

Deferred policy acquisition costs generally consist of commissions, underwriting expenses and policy issuance costs, which vary with and are directly related to the acquisition and renewal of insurance contracts. Such acquisition costs are deferred, to the extent they are recoverable, and amortized over the life of the related contracts.

Supplementary information on equity and liabilities

Shareholders' equity

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Paid-in capital includes issued capital and capital reserves. Issued capital represents the mathematical per par value received from the issuance of shares. Capital reserves represent the premium (additional paid in capital) received from the issuance of shares.

Revenue reserves include the retained earnings of the RAS Group and treasury shares. Treasury shares held by the RAS Group are deducted from shareholders' equity at cost.

Any translation differences, including those arising in the process of equity consolidation, are recorded as foreign currency translation adjustments directly in shareholders' equity without affecting earnings.

Certificated liabilities and hybrid equity

Certificated liabilities and hybrid equity are initially measured at cost, which is the fair value of the consideration received, net of transaction costs incurred. Subsequent measurement is at amortized cost, using the effective interest method to amortize the premium or discount to the redemption value over the life of the liability.

Insurance reserves

Insurance reserves include unearned premiums, aggregate policy reserves, reserves for loss and loss adjustment expenses, the reserve for premium refunds, premium deficiency reserves and other insurance reserves.

For short-duration insurance contracts, such as property-casualty contracts, in accordance with SFAS 60, premiums written to be earned in future years, are

Table of Contents**Notes to the Consolidated Financial Statements (Continued)**

recorded as **unearned premiums**. These premiums are earned in subsequent years in relation to the exact risk coverage period. Deferred policy acquisition costs for short-duration insurance contracts are amortized over the periods in which the related premiums are earned.

The **aggregate policy reserves** for long-duration insurance contracts, such as traditional life and health products, are computed in accordance with SFAS 60 using the net level premium method, which represents the present value of estimated future policy benefits to be paid less the present value of estimated future net premiums to be collected from policyholders. The method uses best estimate assumptions for mortality, morbidity, expected investment yields, surrenders and expenses at the policy inception date, which remain locked-in thereafter. Deferred policy acquisition costs and PVFP for traditional life and health products are amortized over the premium paying period of the related policies in proportion to the earned premium using assumptions consistent with those used in computing the aggregate policy reserves. The aggregate policy reserves, deferred policy acquisition costs and PVFP are adjusted for a provision of adverse deviation, which is used to provide a margin for fluctuation and uncertainty inherent in the assumption setting process.

The aggregate policy reserves for traditional participating insurance contracts are computed in accordance with SFAS 120 using the net level premium method. The method uses best estimate assumptions for mortality, morbidity and interest rates that are guaranteed in the contract or are used in determining the dividends. Deferred policy acquisition costs and PVFP for traditional participating products are amortized over the expected life of the contracts in proportion to estimated gross margins (EGMs) based upon historical and anticipated future experience, which is determined on a best estimate basis and evaluated regularly. The present value of EGMs is computed using the expected investment yield. EGMs include premiums, investment income including realized gains and losses, insurance benefits, administration costs, changes in the aggregate reserves and policyholder dividends. The effect of changes in EGMs are recognized in the period revised.

The aggregate policy reserves for universal life-type and investment contracts in accordance with SFAS 97 is equal to the account balance, which represents premiums received and investment return credited to the policy less deductions for mortality costs and expense charges. Deferred policy acquisition costs and PVFP for universal life-type and investment contracts are amortized over the expected life of the contracts in proportion to estimated gross profits (EGPs) based upon historical and anticipated future experience, which is determined on a best estimate basis and evaluated regularly. The present value of EGPs is computed using the interest rate that accrues to the policyholders, or the credited rate. EGPs include margins from mortality, administration, investment income including realized gains and losses and surrender charges. The effect of changes in EGPs are recognized in the period revised.

Current and historical client data, as well as industry data, are used to determine the assumptions. Assumptions for interest reflect expected earnings on assets, which back the future policyholder benefits. The information used by the RAS Group's qualified actuaries in setting such assumptions includes, but is not limited to, pricing assumptions, available experience studies, and profitability analyses.

Reserves for loss and loss adjustment expenses are established for the payment of losses and loss adjustment expenses (LAE) on claims which have occurred but are not yet settled. Reserves for loss and loss adjustment expenses fall into two categories: case reserves for reported claims and reserves for incurred but not reported (IBNR) reserves.

Case reserves for reported claims are based on estimates of future payments that will be made in respect of claims, including LAE relating to such claims. Such estimates are made on a case-by-case basis, based on the facts and circumstances available at the time the reserves are established. The estimates reflect the informed judgment of claims personnel based on general insurance reserving practices and knowledge of the nature and value of a specific type of claim. These case reserves are regularly re-evaluated in the ordinary course of the settlement process

and adjustments are made as new information becomes available.

F-13

Table of Contents**Notes to the Consolidated Financial Statements (Continued)**

IBNR reserves are established to recognize the estimated cost of losses that have occurred but where the RAS Group has not yet been notified. IBNR reserves, similar to case reserves for reported claims, are established to recognize the estimated costs, including LAE, necessary to bring claims to final settlement. Since nothing is known about the occurrence, the RAS Group relies on its past experience, adjusted for current trends and any other relevant factors. IBNR reserves are estimates based on actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims. The analyzes are based on facts and circumstances known at the time, predictions of future events, estimates of future inflation and other societal and economic factors. Late reported claim trends, claim severity, exposure growth and future inflation are examples of factors used in projecting the IBNR reserves. IBNR reserves are reviewed and revised periodically as additional information becomes available and actual claims are reported.

The process of estimating reserves for loss and loss adjustment expenses is by nature imprecise due to the large number of variables affecting the ultimate amount of claims. Some of these variables are internal, such as changes in claims handling procedures, introduction of new IT systems or company acquisitions and divestitures. Others are external, such as inflation, judicial trends, and legislative changes. The RAS Group attempts to reduce the uncertainty in reserve estimates through the use of multiple actuarial and reserving techniques and analysis of the assumptions underlying each technique.

The **reserves for premium refunds** includes the amounts allocated under the relevant local statutory or contractual regulations to the accounts of the policyholders and the amounts resulting from the differences between these IFRS based financial statements and the local financial statements (latent reserve for premium refunds), which will reverse and enter into future deferred profit participation calculations. These differences are recognized on a future accrual basis and reported in profit participation accounts. Unrealized gains and losses recognized in connection with the valuation of securities available-for-sale are recognized in the latent reserve for premium refunds to the extent that policyholders will participate in such gains and losses on the basis of statutory or contractual regulations when they are realized. The profit participation allocated to participating policyholders or disbursed to them reduces the reserve. Any dividends allocated or disbursed over and above the reserve are recorded in other expenses.

Methods and corresponding percentages for participation in profits by the policyholders are set out below for the most significant countries for latent reserves:

<u>Country</u>	<u>Base</u>	<u>Percentage</u>
Italy		
Life	investments	85%
Switzerland		
Group Life	all sources of profit	90%
Austria		
Life	all sources of profit	85%

Premium deficiency reserves are calculated individually for each insurance portfolio on the basis of estimates of future claims, costs, premiums earned and proportionate investment income. For short duration contracts, a premium deficiency is recognized if the sum of expected claim costs and claim adjustment expenses, expected dividends to policyholders, unamortized acquisition costs, and maintenance expenses exceeds related unearned premiums while considering anticipated investment income. For long duration contracts, if actual experience regarding investment yields, mortality, morbidity, terminations or expense indicate that existing contract liabilities, along with the present value of future gross premiums, will not be sufficient to cover the present value of future benefits and to recover unamortized acquisition costs, then a premium deficiency is recognized.

Other insurance reserves include experience-rated and other premium refunds in favor of policyholders.

Other accrued liabilities

The RAS Group uses the projected unit credit actuarial method to determine the present value of its defined benefit plans and the related service cost and, where applicable, past service cost. The principal

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

assumptions used by the RAS Group are included in Note 21. The census date for the primary pension plans is October or November, with any significant changes through December 31, taken into account.

For each individual defined benefit pension plan, the RAS Group recognizes a portion of its actuarial gains and losses in income or expense if the unrecognized actuarial net gain or loss at the end of the previous reporting period exceeds the greater of: a) 10% of the projected benefit obligation at that date; or b) 10% of the fair value of any plan assets at that date. Any unrecognized actuarial net gain or loss exceeding the greater of these two values is generally recognized as expense over the expected average remaining working lives of the employees participating in the plans.

Accrued taxes are calculated in accordance with relevant local tax regulations.

Miscellaneous accrued liabilities primarily include anticipated losses arising from non-insurance business, litigation, employees (e.g., early retirement, phased retirement, employee awards for long service, and vacation) and agents (e.g., unpaid commissions).

Other liabilities

Other liabilities include funds held under reinsurance business ceded, accounts payable on direct insurance business, accounts payable on reinsurance business, and miscellaneous liabilities. These liabilities are reported at redemption value.

Supplementary information on net income

Premiums

Property-casualty insurance premiums are recognized as revenues over the period of the contract in proportion to the amount of insurance protection provided. Unearned premiums are calculated separately for each individual policy to cover the unexpired portion of written premiums.

Life insurance premiums on traditional life insurance policies are recognized as earned when due. Premiums on short duration life insurance policies are recognized as revenues over the period of the contract in proportion to the amount of insurance protection provided. Unearned premiums are calculated separately for each individual policy to cover the unexpired portion of written premiums. Benefits are recognized when incurred.

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Revenues for universal life-type and investment contracts, such as universal life and variable annuity contracts, represent charges assessed against the policyholders' account balances for the cost of insurance, surrenders and policy administration and are included within premiums earned on the RAS Group's consolidated income statement. Benefits charged to expense include benefit claims incurred during the period in excess of policy account balances and interest credited to policy account balances.

Interest and similar income/expense

Interest income and interest expense are recognized using the effective interest method. Interest and similar income includes dividends from available-for-sale equity securities. Dividends are recognized in income when received.

Trading income (net)

Trading income comprises all realized and unrealized gains and losses from trading assets and trading liabilities.

Income from investments in associated enterprises (net)

Income from investments in associated enterprises (net) includes dividends from associates and the share of net income using the equity method from associates. Dividends are recognized in income when received.

Fee and commission income, and income from service activities

Fee and commission income, and income from service activities is recognized as the services are performed.

Other supplementary information

Stock based compensation plans

The RAS Group accounts for its stock based compensation plans under the fair value recognition

Table of Contents**Notes to the Consolidated Financial Statements (Continued)**

provisions of SFAS 123, *Accounting for Stock-Based Compensation*, whereby stock-based compensation cost is measured at the grant date based on the value of the awards granted and is recognized as expense over the vesting period. For rights redeemed by the issue of shares, the fair value is determined at the date of grant. The corresponding compensation expense is accrued over the vesting period and increases revenue reserves in shareholders' equity. For awards to be settled in cash, the total compensation expense is initially measured as the difference between the current share price and the reference price (or exercise) price, if any, of the award and is recognized as expense over the vesting period. The amount of total compensation expense for these awards is remeasured at each reporting date based on the underlying share price and is recorded in other accrued liabilities until paid. Compensation expense is reversed in the period in which an unvested award is forfeited. The RAS Group stock-based compensation plans are more fully described in Note 36.

3 Recently issued accounting pronouncements

In December 2003, the IASB issued the revised IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39 revised). IAS 39 revised is effective January 1, 2005. IAS 39 revised requires a change to the RAS Group's impairment criteria for equity securities. Under the existing IAS 39, an equity security is considered to be impaired if there is objective evidence that the cost of the equity security may not be recovered. IAS 39 revised requires that a significant or prolonged decline in the fair value of an equity security below cost be considered to be objective evidence of impairment. As a result, the RAS Group will establish new impairment criteria for equity securities to define significant decline or prolonged decline. The RAS Group's existing accounting policy for impairment criteria is included in Note 2.

Further, IAS 39 revised does not allow an adjusted cost basis to be established upon impairment of an equity security. Rather, each reporting period, if the fair value is less than the original cost basis of the equity security, the security is analyzed for impairment based upon the RAS Group's impairment criteria. At each reporting date, for equity securities that are determined to be impaired based upon the RAS Group's impairment criteria, an impairment is recognized for the difference between the fair value less than original cost basis, less any previously recognized impairments. According to the RAS Group's existing accounting policy, at each reporting period, if the fair value was less than the adjusted cost basis of the equity security, the security was analyzed for impairment based upon the RAS Group's impairment criteria. At each reporting date, for equity securities that were determined to be impaired based upon the RAS Group's impairment criteria, an impairment was recognized for the difference between the fair value less the adjusted cost basis.

IAS 39 revised also prohibits reversals of impairment losses on equity securities that are classified as available for sale. According to the RAS Group's existing accounting policy, if the amount of an impairment previously recorded on an available for sale equity security decreases, the impairment is reversed. IAS 39 revised requires retrospective application of these changes.

In December 2003 and April 2004, the IASB issued improvements to 15 standards. Each of these revised standards is effective on January 1, 2005. As a result of the adoption of IAS 1 revised, the RAS Group will reclassify minority interests in shareholders' equity into equity in the consolidated balance sheet as of January 1, 2005.

In February 2004, the IASB issued IFRS 2, *Share Based Payments* (IFRS 2). In accordance with IFRS 2, share-based compensation plans are required to be classified as equity settled or cash settled plans. Equity settled plans are measured at fair value on the grant date and recognized as expense in the income statement, with an increase in shareholders' equity, over the vesting period. Cash settled plans are measured at fair value at each reporting date and recognized as liabilities. Changes in the fair value of cash settled plans are recognized as expense in the income statement. IFRS 2 is effective January 1, 2005.

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

Further, IFRS 2 requires that share-based compensation plans include a best estimate of the amount of number of shares that are expected to vest in determining the amount of expense to be recognized. The RAS Group's previous accounting policy required the fair value of the shares granted be expensed over the vesting period, until the related shares were forfeited, at which time the expense was reversed.

In March 2004, the IASB issued IFRS 3, *Business Combinations* (IFRS 3). In accordance with IFRS 3, a company must cease the amortization of goodwill and intangible assets with a definite life and rather test for impairment on an annual basis in addition to whenever there is an indication that the carrying value is not recoverable. As a result of the adoption on IFRS 3 on January 1, 2005, the RAS Group will cease amortization of goodwill.

In March 2004, the IASB issued IFRS 4, *Insurance Contracts* (IFRS 4). IFRS 4 represents the completion of phase I and is a transitional standard until the IASB has more fully addressed the recognition and measurement of insurance contracts. IFRS 4 requires that all contracts issued by insurance companies be classified as either insurance contracts or investment contracts. Contracts with significant insurance risk are considered insurance contracts. IFRS 4 permits a company to continue with its previously adopted accounting policies with regards to recognition and measurement of insurance contracts. Contracts issued by insurance companies without significant insurance risk are considered investment contracts. Investment contracts are accounted for in accordance with IAS 39 revised. IFRS 4 is effective on January 1, 2005. As a result of the adoption of IFRS 4, certain contracts will be classified as investment contracts under IFRS 4.

4 Consolidation

In addition to RAS S.p.A., 26 (2003: 27; 2002: 30) Italian and 38 (2003: 32; 2002: 29) foreign enterprises have been consolidated as of December 31, 2004.

CreditRas Vita S.p.A. (CreditRas) has been consolidated in all periods presented although RAS own less than a majority of the voting power. RAS S.p.A. controls CreditRas on the basis of a shareholder agreement between the RAS Group subsidiary owning 50% of CreditRas and the other shareholder. Pursuant to this shareholder agreement, the RAS Group has the power to govern the financial and operating policies of CreditRas and the right to appoint the general manager of CreditRas, who has been given unilateral authority over all aspects of the financial and operating policies, including the hiring and termination of staff and the purchase and sale of assets, of CreditRas. In addition, RAS Group employees perform all management functions of CreditRas and all operations are undertaken in RAS Group's facilities. The RAS Group also develops all insurance products written through CreditRas. Although the RAS Group and the other shareholder each have the right to appoint half of the directors of CreditRas, the rights of the other shareholder are limited to matters specifically reserved to the board of directors and shareholders under Italian law, such as decisions concerning capital increases, amendments to articles and similar matters. The shareholder agreement for CreditRas is subject to automatic renewal and is not terminable prior to its stated terms.

Additionally, there were 14 (2003: 17; 2002: 17) associated enterprises accounted for using the equity method as of December 31, 2004.

Acquisitions

2004 Acquisitions

During March, the RAS Group acquired Banca BNL Investimenti for 102 mn, resulting in goodwill of 93 mn. Banca BNL Investimenti was subsequently merged into RasBank.

During June, the RAS Group acquired BPVi Suisse S.A. (subsequently renamed RasBank Suisse) for 11 mn.

2003 Acquisitions

During March, the RAS Group acquired Phenix Compagnie d Assurances sur la Vie, Lausanne, for 22 mn and Phenix Compagnie d Assurances, Lausanne, for 20 mn.

During September, the RAS Group acquired Commerzbank Asset Management Italia (CAMI)

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

for 7 mn, resulting in negative goodwill of 3 mn which was immediately recognized in the consolidated income statement. CAMI was subsequently merged into RasBank and Ras Asset Management Sgr.

2002 Acquisitions

During March, Allianz Suisse Versicherungs-Gesellschaft, a subsidiary of the RAS Group, issued share capital representing a 31.32% ownership interest to Allianz AG in exchange for a 100% ownership interest in Berner Versicherungen and its subsidiaries, resulting in goodwill of 36 mn. In addition, the RAS Group acquired Top Versicherungsservice GmbH, resulting in goodwill of 6 mn.

5 Segment Reporting

The RAS Group is organized into four business segments: property-casualty insurance, life/health insurance and banking and asset management. A summary of the business segments is as follows:

Property-Casualty

RAS is the fourth-largest property-casualty insurer in the Italian market as measured by gross premiums written in 2004. The RAS Group operates in all personal and commercial property-casualty lines throughout Italy. RAS distributes property-casualty products and services primarily through an extensive network of general agents, brokers and through Internet and telephone-based direct sales channels. RAS also has property-casualty operations in Switzerland, Austria and Portugal.

Life/Health

RAS is the second-largest life insurer in the Italian market based on statutory premiums in 2004. RAS's individual life policies are primarily endowment policies but also include annuities and other policies, including capitalization and other products. Consistent with trends in the Italian market generally, RAS's products include an increasing amount of unit-linked policies, where policyholders participate directly in the performance of policy-related investments, and, after a year of a decreasing number of endowment products, RAS increased its sales of these products in 2004. Sales of unit-linked and equity-linked products sold through banks represented 64.9% of RAS's total statutory life premiums in Italy, reflecting the importance of this distribution channel. The unit-linked policies include products linked to funds managed by RAS, as well as by third-party investment managers and index-linked products. RAS also has life/health operations in Switzerland, Austria and Portugal.

Banking

The RAS Group's banking operations are primarily conducted through RASBank and Investitori Sgr.

RASBank is the multichannel bank of the RAS Group. Established in 1990, RASBank underwent a rapid expansion in 2002 through the acquisition of the Dival Ras, Ras Investimenti Sim, Commerzbank Asset Management Italia, BPVi Suisse and Bnl Investimenti network of financial promoters. RASBank offers its 500,000 clients a vast range of banking and financial services through call centers, the Internet and through a network of more than 3,000 financial promoters across the nation.

Investitori Sgr is the RAS Group company created to cater for private banking needs. Established in 2001 to meet the specific requirements of significant investments, Investitori Sgr operates through a network of private bankers, offering its clients an extensive choice of personalized portfolios of stocks and securities together with an exclusive range of investment funds.

Asset Management

The RAS Group's asset management operations are conducted primarily by RAS Asset Management Sgr. RAS Asset Management Sgr operates in the sector of public funds, funds of funds (fund management) personal and institutional property management and private equity funds.

Table of Contents**Notes to the Consolidated Financial Statements (Continued)****Business Segment Information Consolidated Balance Sheets**

as of December 31, 2004 and 2003

	Property-Casualty		Life/Health	
	2004	2003	2004	2003
	mn	mn	mn	mn
ASSETS				
Intangible assets	112	134	284	279
Investments in associated enterprises	1,097	969	726	690
Investments	10,527	10,045	25,385	23,548
Separate account assets			351	12,968
Loans and advances to banks	246	171	259	354
Loans and advances to customers	926	898	2,674	2,499
Trading assets	32	35	16,764	34
Cash and cash equivalents	329	349	204	376
Amounts ceded to reinsurers from insurance reserves	881	1,000	814	710
Deferred tax assets	211	309	164	159
Other assets	3,306	3,034	3,089	3,013
Total segment assets	17,667	16,944	50,714	44,630

	Property-Casualty		Life/Health	
	2004	2003	2004	2003
	mn	mn	mn	mn
EQUITY AND LIABILITIES				
Hybrid equity			65	65
Insurance reserves	10,405	10,139	44,007	25,442
Separate account liabilities			351	12,968
Liabilities to banks	2	5	97	113
Liabilities to customers			22	
Certificated liabilities	5	6		1
Trading liabilities				
Other accrued liabilities	578	603	176	153
Other liabilities	1,253	1,183	1,774	1,827
Deferred tax liabilities	494	483	570	566
Deferred income	33	39	10	17
Total segment liabilities	12,770	12,458	47,072	41,152

Table of Contents**Notes to the Consolidated Financial Statements (Continued)****Personal Financial Services**

Banking		Asset Management		Consolidation Adjustments		Group	
2004	2003	2004	2003	2004	2003	2004	2003
mn	mn	mn	mn	mn	mn	mn	mn
93	2					489	415
	12	1	1	(1,237)	(1,162)	587	510
249	315	37	64	(1)	(2)	36,197	33,970
						351	12,968
1,350	763	5	48	(2)	(56)	1,858	1,280
630	484	1	3	(131)	(151)	4,100	3,733
249	93					17,045	162
697	691	7	10	(202)	(198)	1,035	1,228
						1,695	1,710
49	42	2	3			426	513
961	528	47	51	(129)	(104)	7,274	6,522
<u>4,278</u>	<u>2,930</u>	<u>100</u>	<u>180</u>	<u>(1,702)</u>	<u>(1,673)</u>	<u>71,057</u>	<u>63,011</u>
Banking		Asset Management		Consolidation Adjustments		Group	
2004	2003	2004	2003	2004	2003	2004	2003
mn	mn	mn	mn	mn	mn	mn	mn
				(20)	(20)	45	45
						54,412	35,581
						351	12,968
106	27	4	3	(52)	(105)	157	43
2,045	1,542		49	(235)	(283)	1,832	1,308
556	469			(3)	(4)	558	472
136	31					136	31
108	93	5	18			867	867
1,079	620	45	35	(150)	(95)	4,001	3,570
3	4	1	2			1,068	1,055
			1			43	57
<u>4,033</u>	<u>2,786</u>	<u>55</u>	<u>108</u>	<u>(460)</u>	<u>(507)</u>	<u>63,470</u>	<u>55,997</u>
Shareholders equity and minority interests in shareholders equity						7,587	7,014
Total equity and liabilities						71,057	63,011

Table of Contents**Notes to the Consolidated Financial Statements (Continued)****Business Segment Information Consolidated Income Statements**

for the years ended December 31, 2004, 2003 and 2002

	Property-Casualty			Life/Health		
	2004	2003	2002	2004	2003	2002
	mn	mn	mn	mn	mn	mn
Premiums earned (net)	5,709	5,539	5,367	1,774	1,867	1,941
Interest and similar income	492	534	567	1,134	1,132	1,126
Income from investments in associated enterprises (net)	172	108	741	102	42	204
Other income from investments	175	246	221	255	326	187
Trading income (net)	5	(44)	(13)	760	(117)	115
Fee and commission income, and income from service activities	62	61	24	17	4	8
Other income	103	128	186	249	324	226
Total income	6,718	6,572	7,093	4,291	3,578	3,807
Insurance benefits (net)	(4,238)	(4,095)	(4,146)	(2,990)	(2,312)	(2,180)
Interest and similar expenses	(3)	(11)	(4)	(24)	(21)	(11)
Other expenses from investments	(95)	(203)	(388)	(115)	(348)	(702)
Loan loss provisions	(3)	(5)				
Acquisition costs and administrative expenses	(1,311)	(1,373)	(1,334)	(557)	(475)	(569)
Amortization of goodwill	(38)	(40)	(38)	(11)	(9)	(11)
Other expenses	(261)	(294)	(297)	(168)	(147)	(169)
Total expenses	(5,949)	(6,021)	(6,207)	(3,865)	(3,312)	(3,642)
Earnings from ordinary activities before taxes	769	551	886	426	266	165
Taxes	(199)	(230)	(148)	(94)	(74)	15
Minority interests in earnings	(91)	(27)	14	(52)	(32)	14
Net income	479	294	752	280	160	194

Table of Contents**Notes to the Consolidated Financial Statements (Continued)**

Personal Financial Services											
Banking			Asset Management			Consolidation Adjustments			Group		
2004	2003	2002	2004	2003	2002	2004	2003	2002	2004	2003	2002
mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn	mn
									7,483	7,406	7,308
55	57	67	1	4	5	(8)	(15)	(23)	1,674	1,712	1,742
						(116)	(45)	(30)	158	105	915
									430	572	408
11	(12)	3							776	(173)	105
284	224	209	189	186	229	(161)	(152)	(216)	391	323	254
34	24	25	6		5	(20)	(18)	7	372	458	449
384	293	304	196	190	239	(305)	(230)	(262)	11,284	10,403	11,181
									(7,228)	(6,407)	(6,326)
(37)	(46)	(44)		(1)	(2)	6	10	18	(58)	(69)	(43)
(1)					(3)				(211)	(551)	(1,093)
(3)	(1)	(1)							(6)	(6)	(1)
(318)	(231)	(225)	(169)	(158)	(207)	177	148	155	(2,178)	(2,089)	(2,180)
	2			1					(49)	(46)	(49)
(38)	(40)	(26)	(1)	(6)	(17)	24	35	58	(444)	(452)	(451)
(397)	(316)	(296)	(170)	(164)	(229)	207	193	231	(10,174)	(9,620)	(10,143)
(13)	(23)	8	26	26	10	(98)	(37)	(31)	1,110	783	1,038
10	14	(8)	(10)	(10)	(17)			(2)	(293)	(300)	(160)
						1			(142)	(59)	28
(3)	(9)		16	16	(7)	(97)	(37)	(33)	675	424	906

Table of Contents**Notes to the Consolidated Financial Statements (Continued)****Segmental reporting by geographic location**

The geographic analysis of the property-casualty insurance segment and the life/health insurance segment of total income and total assets is based on customer domicile. The asset management and banking segments do not have material total income or total assets for customers domiciled outside of Italy.

As of and for the years ended December 31,	Total income			Total assets	
	2004	2003	2002	2004	2003
	mn	mn	mn	mn	mn
Property-casualty					
Italy	4,173	4,003	4,557	11,172	10,715
Rest of Europe:					
Switzerland	1,335	1,381	1,385	4,208	4,130
Austria	896	887	829	2,200	2,037
Portugal	300	278	257	596	559
Other	134	87	65	998	949
Subtotal	6,838	6,636	7,093	19,174	18,390
Consolidation adjustments ⁽¹⁾	(120)	(64)		(1,507)	(1,446)
Total	6,718	6,572	7,093	17,667	16,944

As of and for the years ended December 31,	Total income			Total assets	
	2004	2003	2002	2004	2003
	mn	mn	mn	mn	mn
Life/health					
Italy	2,865	2,071	2,166	37,672	31,940
Rest of Europe:					
Switzerland	847	985	1,060	9,149	9,115
Austria	504	443	508	3,735	3,430
Portugal	79	79	73	433	420
Subtotal	4,295	3,578	3,807	50,989	44,905
Consolidation adjustments ⁽¹⁾	(4)			(275)	(275)
Total	4,291	3,578	3,807	50,714	44,630

⁽¹⁾ Represents elimination of intercompany transactions between RAS Group companies in different geographic regions.

Table of Contents**Notes to the Consolidated Financial Statements (Continued)****6 Intangible assets**

As of December 31,	2004	2003
	mn	mn
Goodwill	264	219
PVFP	147	142
Software ⁽¹⁾	74	49
Other	4	5
Total	489	415

⁽¹⁾ Includes 53 mn (2003: 22 mn) for software developed in-house and 21 mn (2003: 27 mn) for software purchased from third parties.

Amortization expense of intangible assets is estimated to be 30 mn in 2005, 32 mn in 2006, 31 mn in 2007, 28 mn in 2008 and 23 mn in 2009. The percentage of PVFP as of December 31, 2004 that is expected to be amortized in 2005 is 9.53% (10.55% in 2006, 10.16% in 2007, 8.33% in 2008 and 6.29% in 2009).

Goodwill

For the years ended December 31,	2004	2003
	mn	mn
Cost as of December 31, previous year	589	592
Accumulated amortization as of December 31, previous year	(370)	(324)
Carrying amount as of December 31, previous year	219	268
Additions	94	(3)
Amortization	(49)	(46)
Carrying amount as of December 31,	264	219
Accumulated amortization as of December 31,	419	370
Cost as of December 31,	683	589

PVFP

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<u>For the years ended December 31,</u>	<u>2004</u>	<u>2003</u>
	<u>mn</u>	<u>mn</u>
Cost as of December 31, previous year	207	219
Accumulated amortization as of December 31, previous year	(65)	(52)
Carrying amount as of December 31, previous year	142	167
Additions	29	
Foreign currency translation adjustments	1	(9)
Amortization ⁽¹⁾	(25)	(16)
Carrying amount as of December 31,	147	142
Accumulated amortization as of December 31,	90	65
Cost as of December 31,	237	207

⁽¹⁾ Includes interest accrued on unamortized PVFP of 14 mn (2003: 9 mn).

7 Investments in associated enterprises

<u>As of December 31,</u>	<u>2004</u>	<u>2003</u>
	<u>mn</u>	<u>mn</u>
Carrying amount	587	510

The carrying amount of investments in associated companies is primarily comprised of the RAS Group's investments in Mondial Assistance Group and AGF RAS International N.V. RAS has a 50% voting interest in these companies. The AGF Group holds the remaining voting interest. The AGF Group is also a subsidiary of the Allianz Group.

Table of Contents**Notes to the Consolidated Financial Statements (Continued)*****Income from investments in associates (net)***

For the years ended December 31,	2004	2003	2002
	mn	mn	mn
<i>Income:</i>			
Current income	134	80	45
Realized gains from investments in associated enterprises	25	43	885
Subtotal	159	123	930
<i>Expenses:</i>			
Impairments	(1)	(8)	
Realized losses from investments in associated enterprises		(10)	(6)
Miscellaneous expenses			(9)
Subtotal	(1)	(18)	(15)
Total	158	105	915

8 Investments

As of December 31,	2004	2003
	mn	mn
Securities held-to-maturity	1,843	1,572
Securities available-for-sale	32,449	30,546
Real estate used by third parties	1,806	1,706
Funds held by others under reinsurance contracts assumed	99	146
Total	36,197	33,970

Table of Contents**Notes to the Consolidated Financial Statements (Continued)***Securities held-to-maturity*

The following table presents amortized cost, fair value and unrealized gains and losses for securities held-to-maturity:

As of December 31,	2004				2003			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	mn	mn	mn	mn	mn	mn	mn	mn
Government and government agency bonds:								
Switzerland	747	18		765	78			78
Austria	368	9		377	386	1		387
All other countries	47			47	320	20		340
Subtotal	1,162	27		1,189	784	21		805
Corporate bonds	678	75		753	730	1		731
Other	3			3	58		(1)	57
Total	1,843	102		1,945	1,572	22	(1)	1,593

Securities available-for-sale

The following table presents amortized cost, fair value and unrealized gains and losses for securities available-for-sale:

As of December 31,	2004				2003			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	mn	mn	mn	mn	mn	mn	mn	mn
Debt securities:								
Government and government agency bonds:								
Italy	11,901	641	(9)	12,533	11,298	379	(42)	11,635
Switzerland	2,319	88	(3)	2,404	2,005	71	(8)	2,068
Greece	964	57	(1)	1,020	812	25	(5)	832
Austria	892	45	(3)	934	918	41	(6)	953
All other countries	4,408	248	(5)	4,651	4,159	164	(18)	4,305

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Subtotal	20,484	1,079	(21)	21,542	19,192	680	(79)	19,793
Corporate bonds	6,432	273	(14)	6,691	6,210	220	(17)	6,413
Other	165	2		167	517	14		531
Subtotal	27,081	1,354	(35)	28,400	25,919	914	(96)	26,737
Equity securities	2,988	1,088	(27)	4,049	3,102	835	(128)	3,809
Total	30,069	2,442	(62)	32,449	29,021	1,749	(224)	30,546

As of December 31, 2004, the fair value of the shares of Unicredito Italiano S.p.A. held by the RAS Group totaled 1,306 mn.

F-26

Table of Contents**Notes to the Consolidated Financial Statements (Continued)**

The following table presents proceeds from sales, gross realized gains, and gross realized losses of securities available-for-sale:

For the years ended December 31,	2004	2003	2002
	mn	mn	mn
Proceeds from Sales			
Government bonds	7,620	11,604	11,308
Corporate bonds	2,421	2,102	1,817
Equity securities	2,600	2,694	4,620
Other	94	132	78
Total	12,735	16,532	17,823
Gross Realized Gains			
Government bonds	120	139	150
Corporate bonds	57	65	30
Equity securities	202	256	183
Other		5	1
Total	379	465	364
Gross Realized Losses			
Government bonds	(31)	(8)	(25)
Corporate bonds	(13)	(21)	(41)
Equity securities	(112)	(188)	(521)
Other		(1)	(1)
Total	(156)	(218)	(588)

Contractual maturities

The amortized cost and estimated fair value of securities available-for-sale and securities held-to-maturity with fixed maturities, by contractual maturity, are as follows:

As of December 31, 2004	Available-for-sale		Held-to-maturity	
	Amortized cost	Fair values	Amortized cost	Fair values
	mn	mn	mn	mn
Contractual term to maturity:				

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Due in 1 year or less	1,600	1,614	73	75
Due after 1 year and in less than 5 years	11,278	11,614	575	602
Due after 5 years and in less than 10 years	9,660	10,161	603	641
Due after 10 years	4,543	5,011	592	627
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	27,081	28,400	1,843	1,945
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Actual maturities may deviate from the contractually defined maturities, because certain security issuers have the right to call or repay certain obligations ahead of schedule, with or without redemption or early repayment penalties. Investments that are not due at a single maturity date are, in general, not allocated over various maturity buckets, but are shown within their final contractual maturity dates.

Table of Contents**Notes to the Consolidated Financial Statements (Continued)****Real estate used by third-parties**

For the years ended December 31,	2004	2003
	mn	mn
Cost as of December 31, previous year	2,075	2,085
Accumulated depreciation as of December 31, previous year	(369)	(363)
Carrying amount as of December 31, previous year	1,706	1,722
Additions	128	167
Foreign currency translation adjustments	14	(90)
Disposals	(9)	(69)
Depreciation	(33)	(24)
Carrying amount as of December 31,	1,806	1,706
Accumulated depreciation as of December 31,	403	369
Cost as of December 31,	2,209	2,075

As of December 31, 2004, the fair value of real estate used by third parties was 2,155 mn (2003: 1,933 mn).

9 Loans and advances to banks and customers

As of December 31,	2004		2003	
	Loans to banks	Loans to customers	Loans to banks	Loans to customers
	mn	mn	mn	mn
Loans to unrelated parties	1,360	1,759	764	2,232
Loans to related parties		1,343		1,210
Short-term investments and certificates of deposit	498		516	
Other		1,003		294
Subtotal	1,858	4,105	1,280	3,736
Loan loss allowance		(5)		(3)
Total	1,858	4,100	1,280	3,733

Loans to related parties

Loans to related parties and interest income from loans to related parties are comprised of the following:

As of or for the year ended December 31,	2004		2003		2002
	Loans to related parties	Interest income	Loans to related parties	Interest income	Interest income
	mn	mn	mn	mn	mn
Allianz AG	1,283	44	1,147	25	1
Dresdner Bank AG	52	3	59	3	3
Allianz Finance B.V.	4				
Allianz Finance II, B.V.	4		4		
Total	1,343	47	1,210	28	4

F-28

Table of Contents**Notes to the Consolidated Financial Statements (Continued)****10 Trading assets**

As of December 31,	2004	2003
	mn	mn
Equity securities ⁽¹⁾	15,309	82
Debt securities ⁽¹⁾	1,597	54
Derivative financial instruments	139	26
Total	17,045	162

⁽¹⁾ Includes 16,650 mn of assets related to unit linked contracts that do not meet the criteria for classification as separate account assets as of December 31, 2004.

11 Cash and cash equivalents

As of December 31,	2004	2003
	mn	mn
Balances with banks payable on demand	992	1,218
Balances with central banks ⁽¹⁾	37	3
Checks and cash on hand	6	7
Total	1,035	1,228

⁽¹⁾ Compulsory deposits on accounts with national central banks under restrictions due to required reserves from the European Central Bank.

12 Amounts ceded to reinsurers from insurance reserves

As of December 31,	2004	2003
	mn	mn
Unearned premiums	170	168
Aggregate policy reserves	712	588
Reserves for loss and loss adjustment expenses	813	954
Total	1,695	1,710

13 Other assets

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<u>As of December 31,</u>	<u>2004</u>	<u>2003</u>
	<u>mn</u>	<u>mn</u>
Real estate owned by the RAS Group used for its own activities	613	586
Equipment	93	128
Accounts receivable on direct insurance business ⁽¹⁾	1,409	1,511
Accounts receivable on reinsurance business	312	329
Other receivables ⁽²⁾	1,429	1,196
Other assets	1,418	960
Deferred policy acquisition costs	1,966	1,768
Prepaid expenses	34	44
Total	7,274	6,522

(1) Includes accounts receivable from policyholders of 851 mn (2003: 882 mn) and from agents and other distributors of 576 mn (2003: 646 mn), net of allowance for doubtful amounts of 18 mn (2003: 17 mn).

(2) Includes accrued investment income of 577 mn (2003: 561 mn), current income tax receivables of 196 mn (2003: 193 mn) and other tax receivables of 352 mn (2003: 261 mn).

Table of Contents**Notes to the Consolidated Financial Statements (Continued)***Real estate owned by the RAS Group used for its own activities*

For the years ended December 31,	2004	2003
	mn	mn
Cost as of December 31, previous year	695	708
Accumulated depreciation as of December 31, previous year	(109)	(95)
Carrying amount as of December 31, previous year	586	613
Additions	38	5
Changes in the RAS Group of consolidated companies		5
Foreign currency translation adjustments	3	(17)
Disposals		(6)
Depreciation	(14)	(14)
Carrying amount as of December 31,	613	586
Accumulated depreciation as of December 31,	123	109
Cost as of December 31,	736	695

As of December 31, 2004, the fair value of real estate owned by the RAS Group used for its own activities was 702 mn (2003: 624 mn).

Deferred policy acquisition costs

For the years ended December 31,	2004	2003
	mn	mn
Property-casualty segment		
Carrying amount as of December 31, previous year	435	404
Additions	462	342
Foreign currency translation adjustments	1	(2)
Amortization	(360)	(309)
Carrying amount as of December 31,	538	435
Life/health segment		
Carrying amount as of December 31, previous year	1,333	1,092
Additions	272	414
Foreign currency translation adjustments	2	(14)
Amortization	(179)	(159)
Carrying amount as of December 31,	1,428	1,333

Total	1,966	1,768
-------	-------	-------

14 Shareholders equity

<u>As of December 31,</u>	<u>2004</u>	<u>2003</u>
	<u>mn</u>	<u>mn</u>
Issued capital	403	403
Capital reserve	1,846	1,846
Revenue reserves	3,121	2,985
Treasury stock	(5)	(10)
Foreign currency translation adjustments	58	49
Unrealized gains and losses (net)	1,105	834
Total	6,528	6,107

Authorized capital

RAS S.p.A. has authorized capital of 516,456,000 or 860,760,000 total ordinary and savings shares. The ordinary and savings shares of RAS S.p.A. are each entitled to one vote. The savings shares of RAS S.p.A. are entitled to a preferred dividend of .03 per share. In any year the dividend paid on savings shares does not exceed the preferred dividend amount, the difference is carried forward for two years prior to any dividend payments on ordinary

Table of Contents**Notes to the Consolidated Financial Statements (Continued)**

shares. Dividend payments to ordinary and savings shares in excess of the preferred dividend on savings shares are allocated between ordinary and savings shares, with savings shares receiving a total dividend in excess of ordinary shares from a minimum of \$.012 per share to a maximum of \$.06 per share.

Issued capital

Changes in number of shares outstanding were as follows:

	Shares Outstanding		Treasury Shares	
	Ordinary	Savings	Ordinary	Savings
December 31, 2001	719,501,366	9,634,939	845,000	227,000
Employee shares	479,943			
Shares repurchased			6,848,500	98,300
Shares sold			(93,500)	(4,300)
December 31, 2002	719,981,309	9,634,939	7,600,000	321,000
Employee shares	389,074			
Shares repurchased			42,676,389	7,974,149
Cancellation of treasury shares	(49,483,389)	(8,294,929)	(49,483,389)	(8,294,929)
December 31, 2003	670,886,994	1,340,010	793,000	220
Employee shares				
Shares repurchased			2,204,276	
Shares sold			(2,497,276)	(220)
December 31, 2004	670,886,994	1,340,010	500,000	

Dividends paid

During the year ended December 31, 2004, RAS S.p.A. paid a dividend of \$.60 per ordinary share (2003: \$.44; 2002: \$.37). and \$.62 per savings share (2003: \$.46 ; 2002: \$.41).

15 Minority interests in shareholders' equity

As of December 31,	2004	2003
	mn	mn
Unrealized gains and losses (net)	62	45
Share of earnings and other equity components	997	862
Total	1,059	907

The primary subsidiaries of the RAS Group included in minority interests in 2004 and 2003 are Allianz Elementar Versicherungs-AG, Vienna, Allianz Elementar Lebensversicherungs-AG, Vienna, CreditRas Vita S.p.A., Milan, Allianz Suisse Versicherungsgesellschaft, Zurich and Allianz Suisse Lebensversicherungsgesellschaft, Zurich.

16 Hybrid equity

The perpetual liability was issued in 2003 by CreditRas Vita S.p.A. with a face value of 45 mn and a floating rate (6 months Euribor plus 140 basis points).

17 Insurance reserves

As of December 31,	2004	2003
	mn	mn
Unearned premiums	2,163	2,135
Aggregate policy reserves	41,261	23,198
Reserves for loss and loss adjustment expenses	9,164	8,968
Reserves for premium refunds	1,615	1,080
Premium deficiency reserves	2	3
Other insurance reserves	207	197
Total	54,412	35,581

Table of Contents**Notes to the Consolidated Financial Statements (Continued)***Aggregate policy reserves*

As of December 31,	2004	2003
	mn	mn
Traditional Participating Insurance Contracts (SFAS 120)	6,438	6,252
Universal-Life Type and Investment Contracts (SFAS 97) ⁽¹⁾	27,088	9,584
Long-duration Insurance Contracts (SFAS 60)	7,735	7,362
Total	41,261	23,198

⁽¹⁾ Includes 16,650 mn of liabilities related to unit linked contracts that do not meet the criteria for classification as separate account assets during the year ended December 31, 2004.

Participating life business represented approximately 56% and 60% of the RAS Group's gross insurance in-force as of December 31, 2004 and 2003, respectively. Participating policies represented approximately 44% (2003: 46%) of the gross premiums written and 42% (2003: 45%) of the life premiums earned during the year ended December 31, 2004. Conventional participating reserves were approximately 16% (2003: 28%) of the RAS Group's consolidated aggregate policy reserves as of December 31, 2004.

Reserves for loss and loss adjustment expenses

As of December 31,	2004	2003
	mn	mn
Property-Casualty segment	8,030	7,889
Life/Health segment	1,134	1,079
Total	9,164	8,968

Changes in the reserves for loss and loss adjustment expenses for property-casualty segment are as follows:

For the years ended December 31,	2004	2003	2002
	mn	mn	mn
Gross reserves for loss and loss adjustment expenses as of January 1,	7,889	8,024	6,875
Amount ceded to reinsurers	(844)	(935)	(841)

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Net reserves for loss and loss adjustment expenses as of January 1,	7,045	7,089	6,034
Loss and loss adjustment expenses incurred (net)			
Current year	4,276	4,128	4,048
Prior years ⁽¹⁾	(75)	(42)	89
Subtotal	4,201	4,086	4,137
Claims paid (net)			
Current year	(1,728)	(1,663)	(1,648)
Prior years	(2,231)	(2,273)	(2,168)
Subtotal	(3,959)	(3,936)	(3,816)
Foreign currency translation adjustments	27	(195)	92
Change in the group of consolidated companies		1	642
Net reserves for loss and loss adjustment expenses as of December 31,	7,314	7,045	7,089
Amount ceded to reinsurers	716	844	935
Gross reserves for loss and loss adjustment expenses as of December 31,	8,030	7,889	8,024

(1) Prior years loss and loss adjustment expenses incurred (net) reflects the changes in estimation charged or credited to the consolidated income statement in each year with respect to the net reserves for loss and loss adjustment expenses established as of the beginning of that year. The RAS Group recorded additional income of 75 mn during the year ended December 31, 2004 (2003: 42 mn and 2002: losses of 89 mn) with respect of losses occurring in prior years. These amounts as percentages of the net balance of the beginning of the year were 1% in 2004 (2003: .6% and 2002: 1.5 %).

Table of Contents**Notes to the Consolidated Financial Statements (Continued)***Reserves for premium refunds*

For the years ended December 31,	2004	2003	2002
	mn	mn	mn
Amounts already allocated under local statutory or contractual regulations			
As of December 31, previous year	185	167	167
Foreign currency translation adjustments	1	(7)	2
Changes in RAS Group consolidated companies		2	6
Change	34	23	(8)
	220	185	167
Latent reserves for premiums refunds			
As of December 31, previous year	895	857	487
Foreign currency translation adjustments	1	(5)	(14)
Change due to fluctuations in market value	421	161	482
Changes in RAS Group consolidated companies	10	8	(18)
Changes due to valuation differences charged (credited) to income	68	(126)	(80)
	1,395	895	857
As of December 31,	1,615	1,080	1,024
Total	1,615	1,080	1,024

18 Liabilities to banks

As of December 31,	2004	2003
	mn	mn
Payable on demand	100	27
Term deposits and certificates of deposit	6	
Other	51	16
	157	43
Total	157	43

As of December 31, 2004, liabilities to banks due within one year totaled 106 mn (2003: 27 mn) and those due after more than one year totaled 51 mn (2003: 16 mn).

19 Liabilities to customers

<u>As of December 31,</u>	<u>2004</u>	<u>2003</u>
	<u>mn</u>	<u>mn</u>
Savings deposits	8	6
Repurchase agreements and collateral received from securities lending transactions	73	50
Other	1,751	1,252
Total	1,832	1,308

As of December 31, 2004, liabilities to customers due within one year totaled 1,729 mn (2003: 1,181 mn) and those due after more than one year totaled 103 mn (2003: 127 mn).

20 Certificated liabilities

The following table summarizes the contractual maturity dates of the RAS Group's certificated liabilities as December 31, 2004:

<u>As of December 31,</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>	<u>2004</u>	<u>2003</u>
	<u>mn</u>	<u>mn</u>	<u>mn</u>	<u>mn</u>	<u>mn</u>	<u>mn</u>	<u>Total</u>	<u>Total</u>
	<u>mn</u>	<u>mn</u>	<u>mn</u>	<u>mn</u>	<u>mn</u>	<u>mn</u>	<u>mn</u>	<u>mn</u>
RAS S.p.A.								
Senior bonds	42	276	67	161	12		558	472

Table of Contents**Notes to the Consolidated Financial Statements (Continued)****21 Other accrued liabilities**

As of December 31,	2004	2003
	mn	mn
Liability for defined benefit plans	315	319
Accrued taxes	270	314
Miscellaneous accrued liabilities	282	234
Total	867	867

22 Other liabilities

As of December 31,	2004	2003
	mn	mn
Funds held under reinsurance business ceded	839	760
Accounts payable for direct insurance business	948	1,063
Accounts payable for reinsurance business	302	290
Other liabilities	1,912	1,457
Total	4,001	3,570

Accounts payable for direct insurance business and accounts payable for reinsurance are due within one year. Of the remaining other liabilities, 1,861 mn (2003: 1,425 mn) are due within one year, and 51 mn (2003: 32 mn) are due after more than one year.

23 Premiums earned (net)

For the years ended December 31,	2004			2003			2002		
	Property- Casualty ⁽¹⁾	Life/ Health ⁽¹⁾	Total	Property- Casualty ⁽¹⁾	Life/ Health ⁽¹⁾	Total	Property- Casualty ⁽¹⁾	Life/ Health ⁽¹⁾	Total
	mn	mn	mn	mn	mn	mn	mn	mn	mn
Premiums written									
Direct	6,279	1,851	8,130	6,060	1,906	7,966	5,836	2,022	7,858
Assumed	133	18	151	182	69	251	134	46	180

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Subtotal	6,412	1,869	8,281	6,242	1,975	8,217	5,970	2,068	8,038
Ceded	(624)	(87)	(711)	(571)	(106)	(677)	(516)	(131)	(647)
Net	5,788	1,782	7,570	5,671	1,869	7,540	5,454	1,937	7,391
Premiums earned									
Direct	6,195	1,850	8,045	5,909	1,906	7,815	5,717	2,025	7,742
Assumed	127	18	145	187	70	257	135	46	181
Subtotal	6,322	1,868	8,190	6,096	1,976	8,072	5,852	2,071	7,923
Ceded	(615)	(92)	(707)	(558)	(108)	(666)	(485)	(130)	(615)
Net	5,707	1,776	7,483	5,538	1,868	7,406	5,367	1,941	7,308

(1) After eliminating intra-RAS Group transactions between segments.

Table of Contents**Notes to the Consolidated Financial Statements (Continued)****24 Interest and similar income**

For the years ended December 31,	2004	2003	2002
	mn	mn	mn
Securities held-to-maturity	61	54	26
Securities available-for-sale ⁽¹⁾	1,234	1,328	1,351
Real estate used by third parties	133	127	127
Loans to banks and customers	198	170	183
Other	48	33	55
Total	1,674	1,712	1,742

⁽¹⁾ Includes dividend income of 148 mn (2003: 208 mn, 2002: 205 mn).

25 Other income from investments

For the years ended December 31,	2004	2003	2002
	mn	mn	mn
Realized gains from investments:			
Securities available-for-sale	379	465	364
Real estate used by third parties	5	8	31
Subtotal	384	473	395
Reversals of impairments from investments:			
Securities held-to-maturity		1	3
Securities available-for-sale	46	97	10
Real estate used by third parties		1	
Subtotal	46	99	13
Total	430	572	408

26 Trading income (net)

For the years ended December 31,	2004	2003	2002
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	mn	mn	mn
Equity securities ⁽¹⁾	865	1	
Debt securities ⁽¹⁾	(96)	6	3
Derivative financial instruments	16	(114)	82
Other	(9)	(66)	20
	<u> </u>	<u> </u>	<u> </u>
Total	776	(173)	105
	<u> </u>	<u> </u>	<u> </u>

⁽¹⁾ Includes 761 mn of income from assets of unit linked contracts that do not meet the criteria for classification as separate account assets during the year ended December 31, 2004.

27 Fee and commission income, and income from service activities

For the years ended December 31, 2005	2004	2003	2002
	mn	mn	mn
Banking fees and commissions	37	47	43
Asset management fees and commissions	325	236	199
Income from service activities	29	40	12
	<u> </u>	<u> </u>	<u> </u>
Total	391	323	254
	<u> </u>	<u> </u>	<u> </u>

F-35

Table of Contents**Notes to the Consolidated Financial Statements (Continued)****28 Insurance benefits (net)**

For the years ended December 31,	Gross			Ceded			Net		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
	mn	mn	mn	mn	mn	mn	mn	mn	mn
Property-casualty⁽¹⁾:									
<i>Claims:</i>									
Claims paid	(4,287)	(4,243)	(4,199)	328	307	383	(3,959)	(3,936)	(3,816)
Change in loss reserves	(190)	(61)	(305)	(52)	(89)	(16)	(242)	(150)	(321)
Subtotal	(4,477)	(4,304)	(4,504)	276	218	367	(4,201)	(4,086)	(4,137)
<i>Change in other reserves:</i>									
Aggregate policy reserves	(2)		(3)				(2)		(3)
Other	(10)	36	25		(2)	(5)	(10)	34	20
Subtotal	(12)	36	22		(2)	(5)	(12)	34	17
Expenses for premium refunds	(24)	(44)	(28)		2	3	(24)	(42)	(25)
Subtotal	(4,513)	(4,312)	(4,510)	276	218	365	(4,237)	(4,094)	(4,145)
Life/health⁽¹⁾:									
Benefits paid	(1,875)	(2,161)	(1,904)	117	194	171	(1,758)	(1,967)	(1,733)
<i>Change in reserves:</i>									
Aggregate policy reserves	(1,031)	(201)	(382)	(22)	(130)	(155)	(1,053)	(331)	(537)
Other	(55)	23	(10)	(14)	(38)	85	(69)	(15)	75
Subtotal	(1,086)	(178)	(392)	(36)	(168)	(70)	(1,122)	(346)	(462)
Expenses for premium refunds	(112)	(2)	10	1	2	4	(111)		14
Subtotal	(3,073)	(2,341)	(2,286)	82	28	105	(2,991)	(2,313)	(2,181)
Total	(7,586)	(6,653)	(6,796)	358	246	470	(7,228)	(6,407)	(6,326)

⁽¹⁾ After eliminating intra-RAS Group transactions between segments.

Table of Contents**Notes to the Consolidated Financial Statements (Continued)****29 Interest and similar expenses**

For the years ended December 31,	2004	2003	2002
	mn	mn	mn
Deposits	(26)	(24)	(16)
Certificated liabilities	(6)	(11)	(2)
Other interest expense	(26)	(34)	(25)
Total	(58)	(69)	(43)

30 Other expenses from investments

For the years ended December 31,	2004	2003	2002
	mn	mn	mn
Realized losses from investments:			
Securities available-for-sale	(156)	(218)	(588)
Real estate used by third parties			(3)
Subtotal	(156)	(218)	(591)
Impairments from investments:			
Securities held-to-maturity			(4)
Securities available-for-sale	(22)	(301)	(461)
Real estate used by third parties		(8)	(9)
Other investment securities			(2)
Subtotal	(22)	(309)	(476)
Depreciation on real estate used by third parties	(33)	(24)	(26)
Total	(211)	(551)	(1,093)

Table of Contents**Notes to the Consolidated Financial Statements (Continued)****31 Acquisition costs and administrative expenses**

For the years ended December 31,	2004	2003	2002
	mn	mn	mn
Property-casualty⁽¹⁾			
Acquisition costs:			
Payments	(1,245)	(1,190)	(1,136)
Less commissions and profit received on reinsurance business ceded	144	85	84
Change in deferred acquisition costs	103	29	24
	<u> </u>	<u> </u>	<u> </u>
Subtotal	(998)	(1,076)	(1,028)
Administrative expenses	(278)	(257)	(269)
	<u> </u>	<u> </u>	<u> </u>
Underwriting costs (net)	(1,276)	(1,333)	(1,297)
Expenses from service activities	(4)	(4)	
Expenses for management of investments	(23)	(30)	(33)
	<u> </u>	<u> </u>	<u> </u>
Subtotal	(1,303)	(1,367)	(1,330)
	<u> </u>	<u> </u>	<u> </u>
Life/health⁽¹⁾			
Acquisition costs:			
Payments	(455)	(538)	(487)
Less commissions and profit received on reinsurance business ceded	(13)	11	16
Change in deferred acquisition costs	92	225	70
	<u> </u>	<u> </u>	<u> </u>
Total acquisition costs	(376)	(302)	(401)
Administrative expenses	(119)	(126)	(129)
	<u> </u>	<u> </u>	<u> </u>
Underwriting costs (net)	(495)	(428)	(530)
Expenses for management of investments	(44)	(28)	(32)
	<u> </u>	<u> </u>	<u> </u>
Subtotal	(539)	(456)	(562)
	<u> </u>	<u> </u>	<u> </u>
Banking⁽¹⁾			
Personnel expenses	(49)	(36)	(32)
Operating expenses	(81)	(70)	(46)
Fee and commission expenses	(166)	(121)	(100)
	<u> </u>	<u> </u>	<u> </u>
Subtotal	(296)	(227)	(178)
	<u> </u>	<u> </u>	<u> </u>
Asset management⁽¹⁾			
Personnel expenses	(20)	(26)	(34)
Operating expenses	(9)	(10)	(39)
Fee and commission expenses	(11)	(3)	(37)
	<u> </u>	<u> </u>	<u> </u>
Subtotal	(40)	(39)	(110)
	<u> </u>	<u> </u>	<u> </u>

Total	(2,178)	(2,089)	(2,180)
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(1) After eliminating intra-RAS Group transactions between segments.

F-38

Table of Contents**Notes to the Consolidated Financial Statements (Continued)**

Acquisition costs and administrative expenses in property-casualty and life/health segments include the personnel and operating expenses of the insurance business allocated to the functional areas acquisition of insurance policies, administration of insurance policies and management of investments. Other personnel and operating expenses are reported under insurance benefits (net), i.e. claims settlement expenses, and other expenses.

All personnel and operating expenses in banking segment are reported under acquisition costs and administrative expenses.

32 Taxes

Taxes are comprised of the following for the years ended December 31:

For the years ended December 31,	2004	2003	2002
	mn	mn	mn
Current income taxes	(224)	(223)	(475)
Deferred income taxes	(55)	(71)	324
Income tax expense	(279)	(294)	(151)
Other taxes	(14)	(6)	(9)
Total	(293)	(300)	(160)

The following table shows the reconciliation of the RAS Group's expected income tax charge with income tax expense. The RAS Group's reconciliation is a summary of the individual company-related reconciliations, which are based on the respective country-specific tax rates after consolidation effects are taken into account. The effective tax rate is determined by dividing income tax expense by earnings from ordinary activities before income taxes.

For the years ended December 31,	2004	2003	2002
	mn	mn	mn
Earnings from ordinary activities before taxes	1,110	783	1,038
Other taxes	(14)	(6)	(9)
Earnings from activities before income taxes	1,096	777	1,029
Expected income tax rate	32.2%	34.0%	38.4%
Expected income tax charge	353	264	395

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Municipal trade tax and similar taxes	36	28	41
Net tax exempt income	(80)	(31)	(212)
Amortization of goodwill	12	12	12
Effects of tax losses	5	(4)	(53)
Other tax settlements	(47)	25	(32)
	<u> </u>	<u> </u>	<u> </u>
Income tax expense	279	294	151
	<u> </u>	<u> </u>	<u> </u>
Effective tax rate	25.5%	37.8%	14.7%
	<u> </u>	<u> </u>	<u> </u>

During the year ended December 31, 2004, current income tax expense includes a benefit of 11 mn (2003: 6 mn; 2002: charge of 15 mn) related to prior periods.

During the year ended December 31, 2004, deferred income tax expense includes a charge of 25 mn (2003: 60 mn; 2002: benefit of 211 mn) attributable to the recognition of deferred taxes on temporary differences and income of 15 mn (2003: 26 mn; 2002: charge of 1 mn) related to the change of applicable tax rates due to changes in tax law.

During the year ended December 31, 2004, a deferred tax charge of 5 mn (2003: - mn; 2002: 2 mn) was recognized due to a devaluation of deferred tax assets on tax losses carried forward and the recognition of deferred tax assets on losses carried forward from earlier periods, for which no deferred taxes had yet been recognized or which had been devalued resulted in income of - mn (2003: 4 mn; 2002: 55 mn). The above mentioned effects are shown in the reconciliation statement as effects of tax losses .

Table of Contents**Notes to the Consolidated Financial Statements (Continued)***Deferred income taxes*

Deferred tax assets and liabilities are comprised of the following:

As of December 31,	2004	2003
	mn	mn
Deferred tax assets		
Intangible assets	15	16
Investments	45	107
Trading assets	13	12
Deferred acquisition costs		1
Tax losses carried forward	118	186
Other assets	129	125
Insurance reserves	76	19
Pensions and similar reserves	17	22
Other liabilities	23	30
Total deferred tax assets	436	518
Valuation allowance for deferred tax assets on tax losses carried forward	(10)	(5)
Net deferred tax assets	426	513
Deferred tax liabilities		
Intangible assets	38	33
Investments	228	291
Trading assets	4	4
Deferred acquisition costs	468	360
Other assets	44	56
Insurance reserves	187	232
Pensions and similar reserves	1	
Other liabilities	98	79
Total deferred tax liabilities	1,068	1,055
Net deferred tax liability	(642)	(542)

As of December 31, 2004 and 2003, the tax rates used in the calculation of the RAS Group deferred taxes are the applicable national rates, which ranged from 12.5% to 38.25%.

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During the year ended December 31, 2004, deferred tax charge included in shareholders' equity amounted to 70 mn (2003: benefit of 63 mn; 2002: benefit of 105 mn).

Tax losses carried forward

Tax losses carried forward are scheduled according to their expiry periods as follows:

For the years ending December 31,	mn
2005	5
2006	3
2007	6
2008	186
2009	270
Unrestricted	67
Total	537

Management of the RAS Group believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize its deferred tax assets.

33 Earnings per share

As the savings shares issued by RAS S.p.A. are considered to be participating in the net income of the RAS Group, basic earnings per share is calculated assuming all net income is distributed according to the terms of the RAS Group's Articles of Association (see Note 14 for additional information). Basic earnings per ordinary and savings share is the total of the following:

Dividends paid per ordinary or savings share; and

Undistributed net income per ordinary or savings share (the undistributed net income of the RAS Group allocated to the ordinary or savings shares divided by the weighted-average number of ordinary or savings shares outstanding for the period).

Table of Contents**Notes to the Consolidated Financial Statements (Continued)**

As of December 2004, 2003, and 2002, stock options issued by RAS S.p.A. are anti-dilutive; therefore, are not included in diluted earnings per share. The reconciliation of basic and diluted earnings per ordinary and savings share is as follows:

For the years ended December 31,	2004	2003	2002
	mn	mn	mn
Net income	675	424	906
Dividends paid:			
Ordinary shares	(402)	(294)	(265)
Savings shares	(1)	(1)	(4)
Subtotal	(403)	(295)	(269)
Undistributed earnings	272	129	637
Allocation of undistributed earnings:			
Ordinary shares	271	128	629
Savings shares	1	1	8
Total	272	129	637
Basic earnings per ordinary share:			
Weighted-average ordinary shares outstanding	670,240,494	673,455,823	715,518,838
Undistributed earnings per ordinary share	0.41	0.19	0.88
Distributed earnings per ordinary share	0.60	0.44	0.37
Basic earnings per ordinary share	1.01	0.63	1.25
Diluted earnings per ordinary share	1.01	0.63	1.25
Basic earnings per savings share:			
Weighted-average savings shares outstanding	1,339,900	2,004,284	9,360,829
Undistributed earnings per savings share	0.41	0.19	0.88
Distributed earnings per savings share	0.62	0.46	0.41
Basic earnings per savings share	1.03	0.65	1.29
Diluted earnings per savings share	1.03	0.65	1.29

34 Litigation

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RAS Group companies are involved in legal, regulatory and arbitration proceedings in Italy and a number of foreign jurisdictions, involving claims by and against them, which arise in the ordinary course of their businesses, including in connection with their activities as insurance, banking and asset management companies, employers, investors and taxpayers. It is not feasible to predict or determine the ultimate outcome of the pending or threatened proceedings. RAS's management does not believe that the outcome of these proceedings, including those discussed below, will have a material adverse effect on the financial position or results of operations of the RAS Group, after consideration of any applicable reserves.

Antitrust Investigation and Related Civil Suits

In August of 2000, the Italian Antitrust Authority (*Autorita Garante della Concorrenza e del Mercato*) commenced an investigation relating to price-fixing in the insurance industry. Specifically, several insurance companies were alleged to have coordinated their behavior in order to achieve premium increases in the automobile third-party liability business. As a result of this investigation, on July 28, 2000, the Italian Antitrust Authority imposed administrative fines against thirty-eight Italian insurance companies. In February 2002, the Italian Council of State (*Consiglio di Stato*), Italy's highest administrative court, upheld the fines imposed on sixteen insurance companies, including RAS and a RAS subsidiary, Allianz Subalpina. Following this

F-41

Table of Contents

Notes to the Consolidated Financial Statements (Continued)

ruling, an increasing number of policyholders initiated civil suits against RAS and Allianz Subalpina for reimbursement of a portion of premiums paid, claiming that such premiums were unduly inflated by up to 20% from 1995 to 2000. As of June 30, 2005, 1,558 suits had been brought against Allianz Subalpina, 790 of which had been lost and 203 of which had been won. As of the same date, 11,196 suits have been brought against RAS, of which 4,211 have been lost and 962 of which have been won. As of June 30, 2005, Allianz Subalpina had filed 71 appeals, none of which has been yet decided. As of the same date, RAS had filed 414 appeals, 74 of which it has won.

With the enactment of a new Italian law in 2004 providing emergency measures for equity-based rulings, the number of new suits had lessened as of June 30, 2005, particularly in central and northern Italy. This law requires these lawsuits to be decided on the basis of law rather than principles of equity, with the result that appeals are now heard by Italian civil courts, rather than by the Italian Supreme Court (*Corte di Cassazione*), Italy's highest court. As a result of this new legislation, judges are required to ascertain the existence of tangible damages (e.g., a higher premium) as a specific result of the exchange of information alleged by the Italian Antitrust Authority. As of June 30, 2005, the application of this principle has led to pronouncements both in favor and against RAS and Allianz Subalpina, although the decisions against these companies outnumber the decisions in favor of such companies.

Furthermore, on February 4, 2005, the Italian Supreme Court rendered a judgment determining that, starting as of that date, the competent court to hear such suits is the Italian Court of Appeal (*Corte di Appello*) rather than Italian justices of the peace (*Giudice di pace*), who are judges performing traditional judicial functions regarding small claims matters and who may base their decisions on principles of equity. This decision saw the number of new suits initiated against RAS and Allianz Subalpina decline compared to prior years. As of June 30, 2005, 96 suits against RAS and six against Allianz Subalpina were pending before the Court of Appeal, where, in the opinion of RAS's management, outcomes are expected to be based on the technical and legal aspects of each case.

RAS's management believes that the new Italian law in 2004 and the Supreme Court's decision in February 2005 should help reduce the RAS Group's exposure to such legal proceedings.

Tax Inspections

Following receipt of a notice of assessment from the tax authorities of Trieste, Italy in early 2003 in respect of RAS's 1996 income, a decision was issued in favor of RAS on November 18, 2003 and deposited on December 16, 2003. The tax authorities appealed this decision on February 16, 2005; the President of the Italian Tax Commission adjourned the hearing to April 13, 2005 and asked the Italian Tax Commission (CTU) to appoint an assessor. In addition, on December 15, 2003, RAS received a notice of assessment from the tax authorities of Trieste, Italy in respect of its 1997 and 1998 income. An initial favorable ruling was issued on December 14, 2004, in line with the previous finding with respect to RAS's 1996 income, except on a minor point due to a clerical error, against which the company will appeal in due course. On June 29, 2004, RAS received an identical notice of assessment in respect of income for the years 1999-2001. The first hearing was held on January 10, 2005. At this hearing, the CTU proposed that an expert should be appointed for the CTU; the appointment was made at the hearing on February 22, 2005.

In all these instances, the disputed amounts are significant, but RAS believes that its conduct has been correct; consequently, it reserves the right to appeal. Nevertheless, it has prudently recorded accruals to the provisions for legal defense fees and any contingent liabilities.

Policies issued before and during World War II

The International Commission on Holocaust Era Insurance Claims (the ICHEIC) continues to process requests for compensation in respect of insurance policies issued before and during World War II. Since October 2002, the ICHEIC has been working in collaboration with the Foundation Remembrance, Responsibility and Future (the German Foundation) and the German Insurance Industry Association (the GDV). As of June 30, 2005, RAS had received 49,382 claims/inquiries

Table of Contents**Notes to the Consolidated Financial Statements (Continued)**

relating to insurance policies in force between 1920 and 1945. It had examined 47,643 and made offers totaling \$13,841,778.81 in respect of 1,155 policies. As of June 30, 2005, the claimants had accepted the offers in respect of 1,047 policies for a total amount of \$12,942,555.07. Since May 2003, by virtue of the agreement between the German Foundation, the ICHEIC and the GDV, all payments to claimants are made by the GDV on behalf of the German Companies, including RAS (by virtue of its status as a majority-owned subsidiary of Allianz). The GDV makes such payments using funds provided by the German Foundation in accordance with the guidelines of the ICHEIC. Therefore, all claims made against RAS and the Rosy Group companies are covered by the funds of the German Foundation. Allianz AG has made contributions to the German Foundation on behalf of the entire Allianz Group, including RAS Group. There is no obligation to make supplementary payments. But Allianz AG will charge RAS for its relevant portion of the contribution with respect to the claims on which RAS has made offers. The ICHEIC's auditors (Price WaterhouseCoopers) have completed the so-called Audit Stage II, Phase I of this process, which confirmed that RAS processes the ICHEIC claims in full compliance with all the rules and guidelines established by the ICHEIC. The ICHEIC's auditors have performed the last phase of the audit (Stage II, Phase 2) during summer 2005, by means of an examination of a sample of claims and RAS's decisions. In any case, as a result of the audit compliance statement obtained at the beginning of 2003, RAS's decisions on claims are now definitive and may be appealed through recourse to the independent bodies set up by the ICHEIC and the German Foundation. As of June 30, 2005, 349 appeals had been filed against RAS's decisions, and rulings had been issued on 336 appeals. The rulings found for the company's initial decision in 194 cases and for the claimants in the other 142 cases, involving formulation of an offer of payment based on mere allegations and purely circumstantial evidence. With regard to U.S. litigation, the legal peace ensured by the German Foundation's agreement still stands and therefore RAS has no litigation pending at this time.

35 Related party transactions

In addition to the loans disclosed in Note 9, the RAS Group has entered into various types of ordinary course of business relations, including reinsurance, banking and asset management, with both its associates and with the Allianz Group. These transactions are made on terms equivalent to those that prevail in arm's length transactions. A summary of the effects of these transactions on the RAS Group's consolidated balance sheets is as follows:

As of December 31,	2004		2003	
	Associates	Allianz Group	Associates	Allianz Group
	mn	mn	mn	mn
Investments	6	62	7	61
Loans to customers	3	35		80
Trading assets		32		18
Amounts ceded to reinsurers	10	435	7	435
Other assets	3	48	7	53
Insurance reserves	10	88	10	96
Liabilities to customers		46	9	75
Other liabilities	12	280	13	73

Table of Contents**Notes to the Consolidated Financial Statements (Continued)**

A summary of the effects of these transactions on the RAS Group's consolidated income statements is as follows:

For the years ended December 31,	2004		2003		2002	
	Associates	Allianz Group	Associates	Allianz Group	Associates	Allianz Group
	mn	mn	mn	mn	mn	mn
Premiums earned (net)	(17)	(342)	(14)	(240)	(15)	(195)
Interest and similar income		2		2		3
Trading income				3		3
Fee and commission income, and income from service activities		6		1		2
Other income		6		1		1
Insurance benefits (net)	(2)	148		130	(3)	127
Interest and similar expenses		(1)				(2)
Acquisition costs and administrative expenses	3	98	1	39	3	32
Other expenses				(7)		(21)

36 Share Based Compensation***RAS Group Stock Option Plan***

The RAS Group has awarded eligible members of senior management with stock purchase options on RAS S.p.A. ordinary shares. Under these plans, options have been granted annually on January 31. Each of these award grants is subject to a vesting period of 18 months to 2 years and the options expire after a period of 6.5 to 7 years after the grant date.

Options may be exercised at any time after the vesting period and before expiration, provided that:

at the time of exercise, the RAS S.p.A. share price is at least 20% higher than the average share price in January of the grant year (for the 2001 award grant the hurdle is 10%), and

the performance of the RAS S.p.A. share in the year of grant exceeds the Milan Insurance Index (MIBINSH Index) in the same year.

The RAS Group's stock options granted, exercised and expired/forfeited as of December 31, 2004:

<u>Date Granted</u>	Vesting	Options	Options	Options
---------------------	---------	---------	---------	---------

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	period	granted	exercised	expired/ forfeited
	<u>years</u>			
January 2001	1.5	711,000	123,000	53,000
January 2002	1.5	793,000	723,000	45,000
January 2003	2	850,000		49,000
January 2004	2	900,000		

The following table provides the weighted-average fair value of options granted as of the grant date and the assumptions used in calculating their fair value by application of the Black-Scholes option pricing model.

<u>For the years ended December 31,</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Weighted-average fair value of options granted	1.51	4.68	5.47
Weighted-average assumptions:			
Risk free interest rate	3.3%	3.1%	2.9%
Expected volatility	17.0%	13.5%	13.5%
Dividend yield	6.8%	6.3%	6.6%

F-44

Table of Contents**Notes to the Consolidated Financial Statements (Continued)**

RAS Group stock option activity during the periods indicated was as follows:

	Number of RAS Options	Weighted Average Exercise Price
Balance as of December 31, 2002	1,481,000	14.06
Granted	850,000	11.51
Exercised		
Forfeited	(124,000)	13.33
Balance as of December 31, 2003	2,207,000	13.14
Granted	900,000	14.32
Exercised	(846,000)	13.28
Forfeited		
Balance as of December 31, 2004	2,261,000	13.55

The average remaining period until expiration of the 2,261,000 (2003: 2,207,000) options still outstanding as of December 31, 2004, was 4.9 years (2003: 4.8). As of December 31, 2004, 560,000 (2003: 1,425,000) options were exercisable which had a weighted average exercise price of 15.24 (2003: 14.08).

During the year ended December 31, 2004, the RAS Group recorded compensation expense of 3 mn (2003: 3 mn) related to these stock option awards.

Allianz Group Equity Incentives Plans

In addition to stock options granted under the RAS Group Stock Option Plan, senior management of the RAS Group participate in the Group Equity Incentives Plans (GEI) of Allianz AG. The GEI Plans of Allianz AG include Stock Appreciation Rights (SARs) and Restricted Stock Units (RSUs). Awards of SARs and RSUs by the RAS Group are made consistent with the terms of the GEI Plans of Allianz AG.

SARs

Subsequent to a two-year vesting period, the SARs may be exercised at any time between the 2nd and the 7th anniversary of the effective date of the relevant plan, provided the following performance criteria are met:

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the price of Allianz AG shares has outperformed the Dow Jones Europe STOXX Price Index (600) at least once for a period of five consecutive stock exchange days during the contractual term of the SAR; and

the Allianz AG share price outperforms the reference price by at least 20% at the time when the SAR is exercised.

Under the conditions of the SARs, the RAS Group is required to pay, in cash, the difference between the stock market price of Allianz AG shares on the day the rights are exercised and the reference price, as specified in the respective plan. The maximum difference is capped at 150% of the reference price. SARs not exercised by the last day of a plan will be exercised automatically where the necessary conditions have been met. If these conditions have not been met or a plan participant ceases to be employed, the plan participant's SARs are forfeited.

The following table presents the vesting period, reference price and number outstanding of the SARs outstanding by grant date:

Grant Date	Vesting period	Reference price	SARs outstanding
April 1999	2 years	264.23	40,254
April 2000	2 years	332.10	23,094
April 2001	2 years	322.14	30,299
April 2002	2 years	239.80	41,402
May 2003	2 years	65.91	164,108
May 2004	2 years	83.47	153,441

F-45

Table of Contents**Notes to the Consolidated Financial Statements (Continued)**

As of December 31, 2004, the SARs outstanding that have vested have not met the second performance criteria noted above (20% increase of the share price).

The total compensation expense related to the SAR plan is calculated as the amount by which the quoted Allianz AG share price exceeds the reference price. The total compensation expense is recognized over the two-year vesting period. As of December 31, 2004, a liability of \$5 mn (2003: \$2 mn) was recorded in other accrued liabilities related to the SARs. During the year ended December 31, 2004, the RAS Group recognized compensation expense of \$3 mn (2003: \$2 mn) related to SARs.

The RAS Group has entered into call options on Allianz AG stock to hedge its future obligations under the SARs.

RSUs

The RAS Group will exercise all RSUs on the first stock exchange day that succeeds the five-year vesting period. At the date of exercise, the RAS Group can choose to settle each RSU by one of following:

cash payment in the amount of the average closing price of Allianz AG's share in the ten trading days preceding the exercise date, or

issuing one Allianz AG share, or other equivalent equity instruments.

The following table presents the vesting period, grant price and number outstanding of the RSUs outstanding by grant date:

Grant date	Vesting period	Grant Price	RSUs outstanding
May 2003	5 years	65.91	24,766
May 2004	5 years	83.47	28,817

The total compensation expense related to the RSU plan is calculated as the amount of the quoted Allianz AG share price and is remeasured at each reporting period based on changes in the Allianz AG share price and is accrued over the five-year vesting period. As of December 31, 2004, a liability of \$1 mn (2003: \$- mn) was recorded in other accrued liabilities related to the RSUs. During the year ended December 31, 2004, the RAS Group recognized compensation expense of \$1 mn (2003: \$- mn) related to RSUs.

37 Compensation of the Board of Directors

As of December 31, 2004, the Board of Directors of the RAS Group had 18 members (2003: 17). During the year ended December 31, 2004, total compensation paid by the RAS Group to the Board of Directors, including the Chief Executive Officer, was 3,663,847 (2003: 2,084,809; 2002: 1,752,250). In addition, 100,000 (2003: 90,000; 2002: 80,000) stock options to purchase shares of RAS S.p.A. at 14.32 (2003: 11.51; 12.93) were issued to the Chief Executive Officer. The stock options vest after three years (2003: two years; eighteen months). As of December 31, 2004, the RAS Group had 4 General Managers (2003: 5). During the year ended December 31, 2004, total compensation paid by the RAS Group to the General Managers, excluding the Chief Executive Officer, was 3,762,467 (2003: 2,408,618; 2002: 1,886,761). In addition, 150,000 (2003: 162,000; 2002: 145,000) stock options to purchase shares of RAS S.p.A. at 14.32 (2003: 11.51; 2002: 12.93) were issued the General Managers, excluding the Chief Executive Officer. The stock options vest after 3 years (2003: two years; 2002: eighteen months).

F-46

Table of Contents**Notes to the Consolidated Financial Statements (Continued)****38 Summary of significant differences between the accounting principles used in the preparation of the consolidated financial statements and accounting principles generally accepted in the United States of America**

The consolidated financial statements of the RAS Group are presented in accordance with IFRS. IFRS differs in certain respects from US GAAP. The following table represents the reconciliation of the RAS Group's net income and shareholders' equity between IFRS and US GAAP for the years ended December 31:

	Net Income			Shareholders Equity	
	2004	2003	2002	2004	2003
	mn	mn	mn	mn	mn
Amounts determined in accordance with IFRS	675	424	906	6,528	6,107
Adjustments in respect to:					
(a) Goodwill	49	46	49	144	95
(b) Investments	(3)	(34)	(5)		
Effect of US GAAP adjustments before income taxes and minority interests in earnings	46	12	44	144	95
(c) Income taxes	(1)	224	(1)		
(d) Minority interests in earnings	2	(94)	2		
Effect of US GAAP adjustments	47	142	45	144	95
Amount determined in accordance with US GAAP	722	566	951	6,672	6,202
Earnings per ordinary share in accordance with US GAAP:					
Basic	1.08	.84	1.31		
Diluted	1.08	.84	1.31		
Earnings per savings share in accordance with US GAAP:					
Basic	1.10	.86	1.35		
Diluted	1.10	.86	1.35		

Valuation and recognition differences

The following describes the valuation and recognition differences presented in the reconciliation of the RAS Group's net income and shareholders' equity between IFRS and US GAAP.

(a) Goodwill

In accordance with US GAAP, goodwill is not subject to amortization; however, it is tested for impairment annually at a reporting unit level, or more frequently based upon facts and circumstances. For years through December 31, 2004, goodwill was amortized over its estimated useful life in accordance with IFRS. Therefore, the reconciliation adjustment to net income represents the reversal of goodwill amortization recorded in accordance with IFRS. The reconciliation adjustment to shareholders' equity represents the effects of the reversal of accumulated amortization related to goodwill. As of January 1, 2005, goodwill is not subject to amortization in accordance with IFRS.

(b) Investments

In accordance with IFRS, if the amount of the impairment previously recorded on an equity security decreases, the impairment is reversed through net income. Further, if the amount of the impairment previously recorded on a fixed maturity security decreases and the decrease can be objectively related to an event occurring after the impairment, such as an improvement in the debtor's credit rating, the impairment is reversed through net income. For both

Table of Contents**Notes to the Consolidated Financial Statements (Continued)**

equity and fixed maturity securities, such reversals can not result in a carrying amount of a security in excess of the carrying amount prior to the impairment. In accordance with US GAAP, reversals of impairments recorded on equity and debt securities are not permitted. Therefore, the reconciliation adjustment to net income represents the elimination of the reversal of impairments on debt and equity securities, net of policyholder participation.

(c) Income taxes

In accordance with IFRS, the effect on deferred taxes resulting from a change in tax laws or rates is recognized in the income statement except to the extent the change relates to transactions recognized directly in shareholders' equity. The effect on deferred taxes for transactions originally recognized directly in shareholders' equity are allocated directly to shareholders' equity.

In accordance with US GAAP, the effect on deferred taxes of a change in tax laws or rates is recognized in the income statement including the effect for transactions originally recognized directly in shareholders' equity.

The following table indicates the amounts recognized in US GAAP net income for changes in tax laws and rates related to transactions recognized directly to shareholders' equity under IFRS:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	mn	mn	mn
Before elimination of minority interests		232	
After elimination of minority interests		128	

The adjustment concerning the change in tax laws and tax rates during the year ended December 31, 2003, primarily relates a reduction in the federal tax rates within Italy (effective January 1, 2004), as well as a change in tax law whereby all unrealized gains/losses and impairments/reversals of impairments on participations in strategic investments have become exempt from taxation (effective January 1, 2004).

The tax effect of all other US GAAP adjustments, during the years ended December 31, 2004, 2003 and 2002, amounted to tax expense of 1 mn, 8 mn and 1 mn, respectively.

(d) Minority interest in earnings

Represents the minority interest effect of the US GAAP adjustments.

39 Subsequent Events

On May 26, 2005, the RAS S.p.A. paid a dividend of \$.80 per ordinary share and \$.82 per savings share, totaling 538 mn.

On September 11, 2005, the RAS S.p.A. and Allianz AG announced their intention to merge. All outstanding ordinary and savings shares of RAS S.p.A. will be exchanged for shares of Allianz AG or cash if the merger is approved by the shareholders of RAS S.p.A. and the shareholders of Allianz AG. If approved, the merger is expected to occur in 2006.

F-48

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****40 Selected subsidiaries**

<u>Legal name and location</u>	<u>% owned⁽¹⁾</u>
Agricola San Felice, S.p.A.	100.0
Allianz Subalpina S.p.A., Turin	97.94
Bernese Assicurazioni Financial S.p.A., Rome	100.0
Bernese Assicurazioni, S.p.A., Rome	99.59
Bernese Vita, S.p.A., Rome	100.0
Borgo San Felice S.r.l., Castednuovo Beradenga	100.0
CreditRas Assicurazioni S.p.A., Milan	50.0
CreditRas Vita S.p.A., Milan	50.0
GENIALLOYD S.p.A., Milan	99.99
Intermediass S.r.l., Milan	100.0
Investitori Holding S.p.A, Milan.	99.75
L Assicuratrice Italiana Danni S.p.A., Milan	100.0
L Assicuratrice Italiana Vita S.p.A., Milan	100.0
RAS Asset Management, Milan	100.0
RASBANK S.p.A., Milan	100.0
Rasfin SIM S.p.A., Milan	100.0
RAS Tutela Giudiziaria S.p.A., Milan	100.0
RB Vita S.p.A., Milan	100.0
Allianz Elementar Versicherungs-AG, Vienna	50.10
Allianz Elementar Lebensversicherungs-AG, Vienna	99.00
Allianz Invest, Kapitalanlagegesellschaft mbH, Vienna	100.00
Allianz Investmentbank AG, Vienna	100.00
BAWAG Allianz Mitarbeitervorsorgekasse AG, Vienna	50.00
Opernring-Hof Bau- und Betriebs-AG, Vienna	100.00
Darta Saving Life Assurance Limited, Dublin	100.00
RAS International NV Holding, Amsterdam	100.00
Companhia de Seguros Allianz Portugal SA, Lisbon	64.85
UNIPENSAO, Lisbon	81.40
Alba Allgemeine Versicherungs-Gesellschaft, Basel	100.00
CAP Compagnie d Assurance de Protection, Zug	100.00
Allianz Suisse Immobilien AG, Volketswil	100.00
Allianz Suisse Versicherungsgesellschaft, Zurich	69.80
Allianz Suisse Lebensversicherungsgesellschaft, Zurich	99.99

⁽¹⁾ Percentage includes equity participations held by dependent enterprises in full, even if the RAS Group's share in the dependent enterprise is under 100%.

Table of Contents

SCHEDULE I

RAS GROUP

SUMMARY OF INVESTMENTS⁽¹⁾

AS OF DECEMBER 31, 2004

	Amortized cost	Fair Value	Amount shown In balance sheet
	mn	mn	mn
Fixed maturities:			
Government Bonds:			
Italy	11,901	12,533	12,533
Switzerland	3,066	3,169	3,151
Austria	1,260	1,311	1,302
Greece	964	1,020	1,020
All other countries	4,455	4,698	4,698
	<u>21,646</u>	<u>22,731</u>	<u>22,704</u>
Subtotal	21,646	22,731	22,704
Corporate Bonds:			
Public utilities	190	199	199
All other corporate bonds	6,920	7,245	7,170
	<u>7,110</u>	<u>7,444</u>	<u>7,369</u>
Subtotal	7,110	7,444	7,369
Other	168	170	170
	<u>28,924</u>	<u>30,345</u>	<u>30,243</u>
Total fixed maturities	28,924	30,345	30,243
Equity securities:			
Public utilities	332	380	380
Banks, insurance companies, funds	1,590	2,446	2,446
Industrial, miscellaneous and all other	1,066	1,223	1,223
	<u>2,988</u>	<u>4,049</u>	<u>4,049</u>
Total equity securities	2,988	4,049	4,049
Loans and advances to banks and customers:			
Loans	5,337	5,337	5,337
Short-term investments	442	442	442
Policy loans	124	124	124
Certificates of deposit	55	55	55
	<u>5,958</u>	<u>5,958</u>	<u>5,958</u>
Total loans and advances to banks and customers	5,958	5,958	5,958
Trading assets	17,045	17,045	17,045
Real estate	1,806	2,155	1,806
Other	99	99	99
	<u>56,820</u>	<u>59,651</u>	<u>59,200</u>
Total	56,820	59,651	59,200

(1) Includes investments, loans and advances to banks, loans and advances to customers and trading assets.

F-50

Table of Contents

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Directors and Officers.

The laws of Germany make no explicit indemnification of management or supervisory boards members. We have provided insurance for the indemnification of our management and supervisory board members against civil liabilities, including liabilities under the Securities Act, which they may incur in connection with their activities of behalf of Allianz.

Item 21. Exhibits and Financial Statement Schedules.

- (a) Exhibits pursuant to Item 601 of Regulation S-K:
 - 2.1 Merger Plan (To be provided by pre-effective amendment)
 - 3.1 Form of Articles of Association of Allianz SE (To be provided by pre-effective amendment)
 - 5.1 Opinion of Dr. Peter Hemeling, in his capacity as General Counsel to Allianz, as to the validity of the securities being registered (To be provided by pre-effective amendment)
 - 10 Form of Services Agreement of Members of the Management Board of Allianz AG (Incorporated by reference to Exhibit 4.9 of Allianz's Annual Report on Form 20-F for the year ended December 31, 2004)
 - 23.1 Consent of Dr. Peter Hemeling (Included in Exhibit 5.1)
 - 23.2 Consent of KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftspruefungsgesellschaft as to the financial statements of Allianz
 - 23.3 Consent of KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftspruefungsgesellschaft as to the financial statements of RAS
- (b) Not applicable.
- (c) Merger valuation auditors' reports pursuant to Item 4(b) of Form F-4 (To be provided by pre-effective amendment)

Item 22. Undertakings.

- (a) The undersigned registrant hereby undertakes:
 - (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
 - (a) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;
 - (b)

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To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the change in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

- (c) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that paragraphs (a)(1)(a) and (a)(1)(b) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

Table of Contents

- (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- (4) To file a post-effective amendment to the registration statement to include any financial statements required by Item 8.A. of Form 20-F at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a)(3) of the Securities Act of 1933 need not be furnished, provided, that the registrant includes in the prospectus, by means of a post-effective amendment, financial statements required pursuant to this paragraph (4) and other information necessary to ensure that all other information in the prospectus is at least as current as the date of those financial statements. Notwithstanding the foregoing, a post-effective amendment need not be filed to include financial statements and information required by Section 10(a)(3) of the Securities Act of 1933 or Item 8.A. of Form 20-F if such financial statements and information are contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in this registration statement.
- (b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Exchange Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.
- (d) The undersigned registrant hereby undertakes: (i) to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means, and (ii) to arrange or provide for a facility in the United States for the purpose of responding to such requests. The undertaking in subparagraph (i) above includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.
- (e) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, Allianz AG has duly caused this registration statement or amendment to be signed on its behalf by the undersigned, thereunto duly authorized, in Munich, Germany, on September 30, 2005.

Allianz AG

By: /s/ Michael Diekmann
Name: Michael Diekmann

Title: Chairman of the Management Board

By: /s/ Dr. Helmut Perlet
Name: Dr. Helmut Perlet

Title: Member of the Management Board

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated on September 30, 2005.

Signature	Capacity
/s/ Michael Diekmann	Chairman of the Management Board
Michael Diekmann	(Principal Executive Officer)
/s/ Dr. Paul Achleitner	Member of the Management Board
Dr. Paul Achleitner	
/s/ Dr. Helmut Perlet	Member of the Management Board
Dr. Helmut Perlet	(Principal Financial Officer and Principal Accounting Officer)
/s/ Detlev Bremkamp	Member of the Management Board
Detlev Bremkamp	
/s/ Jan R. Carendi	Member of the Management Board
Jan R. Carendi	
/s/ Dr. Joachim Faber	Member of the Management Board
Dr. Joachim Faber	

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/s/ Dr. Reiner Hagemann

Member of the Management Board

Dr. Reiner Hagemann

/s/ Dr. Gerhard Rupprecht

Member of the Management Board

Dr. Gerhard Rupprecht

/s/ Dr. Herbert Walter

Member of the Management Board

Dr. Herbert Walter

/s/ Dr. Werner Zedelius

Member of the Management Board

Dr. Werner Zedelius

II-3

Table of Contents

SIGNATURE

Pursuant to the requirements of Section 6(a) of the Securities Act of 1933, as amended, the undersigned has signed the registration statement or amendment, solely in the capacity of the duly authorized representative of Allianz AG in the United States, in Novato, California, on September 30, 2005.

Allianz of America Corporation

By: /s/ Peter Huehne
Name: Peter Huehne

Title: Chief Financial Officer of Allianz of
America Corporation

II-4

Table of Contents

EXHIBIT INDEX

Number	Description of Exhibit
2.1	Merger Plan (To be provided by pre-effective amendment)
3.1	Form of Articles of Association of Allianz SE (To be provided by pre-effective amendment)
5.1	Opinion of Dr. Peter Hemeling, in his capacity as General Counsel to Allianz, as to the validity of the securities being registered (To be provided by pre-effective amendment)
10	Form of Services Agreement of Members of the Management Board of Allianz AG (Incorporated by reference to Exhibit 4.9 of Allianz's Annual Report on Form 20-F for the year ended December 31, 2004).
23.1	Consent of Dr. Peter Hemeling (Included in Exhibit 5.1)
23.2	Consent of KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftspruefungsgesellschaft as to the financial statements of Allianz
23.3	Consent of KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftspruefungsgesellschaft as to the financial statements of RAS.
99.1	Merger valuation auditors' reports pursuant to Item 4(b) of Form F-4 (To be provided by pre-effective amendment)