ALCOA INC
Form 10-Q
October 25, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2007

OR

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

Commission File Number 1-3610

ALCOA INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA	**25-0317820**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
390 Park Avenue, New York, New York	**10022-4608**
(Address of principal executive offices)	**(Zip code)**

Investor Relations 212-836-2674

Office of the Secretary 212-836-2732

(Registrant s telephone number, including area code)

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, and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 22, 2007, 848,148,235 shares of common stock, par value $1.00 per share, of the registrant were outstanding.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Alcoa and subsidiaries

Condensed Statement of Consolidated Income (unaudited)

(in millions, except per-share amounts)

	Third quarter ended September 30, 2007	Third quarter ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Sales (M)	$ 7,387	$ 7,631	$ 23,361	$ 22,539
Cost of goods sold (exclusive of expenses below)	5,910	6,015	18,095	17,186
Selling, general administrative, and other expenses	365	326	1,089	1,035
Research and development expenses	64	53	171	150
Provision for depreciation, depletion, and amortization	338	325	959	955
Goodwill impairment charge (N)	133		133	
Restructuring and other charges (D)	444	(3)	413	(11)
Interest expense	151	101	320	291
Other income, net (F)	(1,731)	(48)	(1,835)	(144)
Total costs and expenses	5,674	6,769	19,345	19,462
Income from continuing operations before taxes on income	1,713	862	4,016	3,077
Provision for taxes on income (G)	1,079	213	1,768	836
Income from continuing operations before minority interests share	634	649	2,248	2,241
Less: Minority interests share	76	109	301	338
Income from continuing operations	558	540	1,947	1,903
Loss from discontinued operations (H)	(3)	(3)	(15)	(14)
NET INCOME	$ 555	$ 537	$ 1,932	$ 1,889
EARNINGS (LOSS) PER COMMON SHARE (I)				
Basic:				
Income from continuing operations	$ .64	$ .62	$ 2.24	$ 2.19
Loss from discontinued operations			(.02)	(.02)
Net income	$ .64	$ .62	$ 2.22	$ 2.17
Diluted:				
Income from continuing operations	$ .64	$ .62	$ 2.22	$ 2.17
Loss from discontinued operations	(.01)	(.01)	(.02)	(.01)
Net income	$ .63	$ .61	$ 2.20	$ 2.16
Dividends paid per common share	$ .17	$ .15	$ .51	$ .45

The accompanying notes are an integral part of the condensed consolidated financial statements.

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Alcoa and subsidiaries

Condensed Consolidated Balance Sheet (unaudited)

(in millions)

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,314	$ 506
Receivables from customers, less allowances of $72 in 2007 and $68 in 2006	2,976	2,788
Other receivables	364	301
Inventories (J)	3,311	3,380
Fair value of derivative contracts	140	295
Prepaid expenses and other current assets	1,289	1,083
Total current assets	9,394	8,353
Properties, plants, and equipment	30,660	27,689
Less: accumulated depreciation, depletion, and amortization	14,527	13,682
Properties, plants, and equipment, net	16,133	14,007
Goodwill	4,793	4,885
Investments (O)	1,981	1,718
Other assets	3,853	3,939
Assets held for sale (H)	3,044	4,281
Total assets	$ 39,198	$ 37,183
LIABILITIES		
Current liabilities:		
Short-term borrowings	$ 575	$ 462
Commercial paper (C)	356	340
Accounts payable, trade	2,649	2,407
Accrued compensation and retirement costs	977	949
Taxes, including taxes on income	1,524	851
Other current liabilities	1,268	1,360
Long-term debt due within one year (C)	198	510
Total current liabilities	7,547	6,879
Commercial paper (C)		1,132
Long-term debt, less amount due within one year (C)	6,332	4,777
Accrued pension benefits	1,311	1,566
Accrued postretirement benefits	2,840	2,956
Other noncurrent liabilities and deferred credits	1,959	2,002
Deferred income taxes	534	762
Liabilities of operations held for sale (H)	437	678
Total liabilities	20,960	20,752

MINORITY INTERESTS	2,324	1,800
COMMITMENTS AND CONTINGENCIES (K)		
SHAREHOLDERS EQUITY		
Preferred stock	55	55
Common stock	925	925
Additional capital	5,760	5,817
Retained earnings	12,405	11,066
Treasury stock, at cost	(2,510)	(1,999)
Accumulated other comprehensive loss (L)	(721)	(1,233)
Total shareholders equity	15,914	14,631
Total liabilities and equity	$ 39,198	$ 37,183

The accompanying notes are an integral part of the condensed consolidated financial statements.

Alcoa and subsidiaries

Condensed Statement of Consolidated Cash Flows (unaudited)

(in millions)

	Nine months ended September 30, 2007	2006
CASH FROM OPERATIONS		
Net income	$ 1,932	$ 1,889
Adjustments to reconcile net income to cash from operations:		
Depreciation, depletion, and amortization	959	955
Deferred income taxes	518	(78)
Equity income, net of dividends	(79)	(65)
Goodwill impairment charge (N)	133	
Restructuring and other charges (D)	413	(11)
Gains from investing activities asset sales (O)	(1,772)	(11)
Provision for doubtful accounts	13	16
Loss from discontinued operations (H)	15	14
Minority interests	301	338
Stock-based compensation	83	57
Excess tax benefits from stock-based payment arrangements	(77)	(16)
Other	(33)	(181)
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, and foreign currency translation adjustments:		
Decrease (increase) in receivables	224	(287)
Decrease (increase) in inventories	184	(518)
(Increase) in prepaid expenses and other current assets	(100)	(200)
(Decrease) in accounts payable and accrued expenses	(145)	(460)
Increase in taxes, including taxes on income	341	270
Cash received on long-term aluminum supply contract (N)	93	
Pension contributions	(297)	(344)
Net change in noncurrent assets and liabilities	(188)	(28)
(Increase) in net assets held for sale	(49)	(106)
CASH PROVIDED FROM CONTINUING OPERATIONS	2,469	1,234
CASH USED FOR DISCONTINUED OPERATIONS	(1)	
CASH PROVIDED FROM OPERATIONS	2,468	1,234
FINANCING ACTIVITIES		
Net change in short-term borrowings	102	86
Net change in commercial paper (C)	(1,116)	1,281
Additions to long-term debt (C)	2,049	20
Debt issuance costs (C)	(126)	
Payments on long-term debt (C)	(848)	(32)
Common stock issued for stock compensation plans	819	141
Excess tax benefits from stock-based payment arrangements	77	16
Repurchase of common stock	(1,548)	(290)
Dividends paid to shareholders	(447)	(392)
Dividends paid to minority interests	(310)	(281)
Contributions from minority interests	369	64
CASH (USED FOR) PROVIDED FROM FINANCING ACTIVITIES	(979)	613

INVESTING ACTIVITIES		
Capital expenditures	(2,615)	(2,054)
Capital expenditures of discontinued operations		(4)
Proceeds from the sale of assets	87	19
Additions to investments	(123)	(52)
Sales of investments (O)	1,981	7
Net change in short-term investments and restricted cash	(23)	(3)
Other	(13)	15
CASH USED FOR INVESTING ACTIVITIES	(706)	(2,072)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	25	25
Net change in cash and cash equivalents	808	(200)
Cash and cash equivalents at beginning of year	506	762
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,314	$ 562

The accompanying notes are an integral part of the condensed consolidated financial statements.

Alcoa and subsidiaries

Notes to the Condensed Consolidated Financial Statements (unaudited)

(dollars in millions, except per-share amounts)

A. **Basis of Presentation** The Condensed Consolidated Financial Statements (the Financial Statements) are unaudited. The Financial Statements include all adjustments, consisting of normal recurring adjustments, considered necessary by management to fairly state the results of operations, financial position, and cash flows. The results reported in these Financial Statements are not necessarily indicative of the results that may be expected for the entire year. The 2006 year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. This Form 10-Q report should be read in conjunction with Alcoa s Annual Report on Form 10-K for the year ended December 31, 2006, which includes all disclosures required by accounting principles generally accepted in the United States of America. Certain amounts in the prior period Condensed Statement of Consolidated Cash Flows have been reclassified to conform to the current period presentation.

B. Recently Issued and Recently Adopted Accounting Standards In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115, (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). SFAS 159 becomes effective for Alcoa on January 1, 2008. Management is currently evaluating the potential impact of SFAS 159 on the Financial Statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157 becomes effective for Alcoa on January 1, 2008. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. The adoption of SFAS 157 is not expected to have a material impact on the Financial Statements.

In April 2007, the FASB issued FASB Staff Position (FSP) No. FIN 39-1, Amendment of FASB Interpretation No. 39, (FSP FIN 39-1). FSP FIN 39-1 amends FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts, by permitting entities that enter into master netting arrangements as part of their derivative transactions to offset in their financial statements net derivative positions against the fair value of amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral or the obligation to return cash collateral under those arrangements. FSP FIN 39-1 becomes effective for Alcoa on January 1, 2008. Management is currently evaluating the potential impact of FSP FIN 39-1 on the Financial Statements.

In March 2007, the Emerging Issues Task Force (EITF) issued EITF Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements, (EITF 06-10). Under the provisions of EITF 06-10, an employer is required to recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, or Accounting Principles Board Opinion No. 12, Omnibus Opinion 1967, if the employer has agreed to maintain a life insurance policy during the employee s retirement or provide the employee with a death benefit based on the substantive arrangement with the employee. The provisions of EITF 06-10 also require an employer to recognize and measure the asset in a collateral assignment split-dollar life insurance arrangement based on the nature and substance of the arrangement. EITF 06-10 becomes effective for Alcoa on January 1, 2008. Management is currently evaluating the potential impact of EITF 06-10 on the Financial Statements.

On January 1, 2007, Alcoa adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements, uncertain tax positions that it has taken or expects to take on a tax return. This Interpretation requires that a company recognize in its financial statements the impact of tax positions that meet a more likely than not threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The adoption of FIN 48 did not have an impact on the accompanying Financial Statements. In accordance with the disclosure provisions of FIN 48, the following information is presented as of the date of adoption.

Alcoa has $23 of unrecognized tax benefits, all of which, if recorded, would change the 2007 annual effective tax rate by less than one percent. The company s results of operations were not materially impacted during the nine-month period ended September 30, 2007 from changes in its unrecognized tax benefits, nor does the company anticipate such an impact during the fourth quarter of 2007.

It is Alcoa s policy to recognize interest and penalties related to income taxes as a component of the provision for income taxes on the accompanying Condensed Statement of Consolidated Income. The amount of interest and penalties accrued at the date of adoption is approximately $5.

Alcoa and its subsidiaries file income tax returns in the U.S., various states and foreign jurisdictions. With few exceptions, Alcoa is no longer subject to income tax examinations by tax authorities for years prior to 2001. All U.S. tax years prior to 2006 have been audited by the Internal Revenue Service. Various state and foreign jurisdiction tax authorities are in the process of examining Alcoa s income tax returns for various tax years ranging from 2001 to 2005.

Effective January 1, 2007, Alcoa adopted FSP No. FIN 48-1, Definition of Settlement in FASB Interpretation No. 48, (FSP FIN 48-1), which was issued on May 2, 2007. FSP FIN 48-1 amends FIN 48 to provide guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The term effectively settled replaces the term ultimately settled when used to describe recognition, and the terms settlement or settled replace the terms ultimate settlement or ultimately settled when used to describe measurement of a tax position under FIN 48. FSP FIN 48-1 clarifies that a tax position can be effectively settled upon the completion of an examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open. The adoption of FSP FIN 48-1 did not have an impact on the accompanying Financial Statements.

C. Debt In January 2007, Alcoa completed a public debt offering under its existing shelf registration statement for $2,000 in new senior notes. The $2,000 is comprised of $750 of 5.55% Notes due 2017, $625 of 5.9% Notes due 2027, and $625 of 5.95% Notes due 2037 (collectively, the Senior Notes). Alcoa received $1,979 in net proceeds from the public debt offering reflecting original issue discounts and the payment of financing costs. A portion of the net proceeds from the Senior Notes was used by Alcoa to repay $1,132 of its commercial paper outstanding as of December 31, 2006 in January 2007. The $1,132 was reflected as long-term on the December 31, 2006 Condensed Consolidated Balance Sheet due to the fact that this amount was refinanced with new long-term debt instruments. Additionally, Alcoa used a portion of the net proceeds to pay $338 related to a tender offer of its 4.25% Notes due 2007 (see below). The remaining net proceeds were used to repay new commercial paper that was borrowed in January 2007 prior to the issuance of the Senior Notes and for general corporate purposes. Alcoa paid $15 in financing costs associated with the issuance of the Senior Notes. These costs were deferred and will be amortized, along with the original issue discounts, to interest expense using the effective interest method over the respective terms of the Senior Notes. Interest on the Senior Notes will be paid semi-annually in February and August commencing August 2007. Alcoa has the option to redeem the Senior Notes, as a whole or in part, at any time or from time to time, on at least 30 days but not more than 60 days prior notice to the holders of the Senior Notes at a redemption price specified in the Senior Notes. The Senior Notes are subject to repurchase upon the occurrence of a change in control repurchase event (as defined in the Senior Notes) at a repurchase price in cash equal to 101% of the aggregate principal amount of the Senior Notes repurchased, plus any accrued and unpaid interest on the Senior Notes repurchased. The Senior Notes rank *pari passu* with Alcoa s other senior unsecured unsubordinated indebtedness.

Also in January 2007, Alcoa commenced a tender offer (the Offer) to purchase for cash any and all of its 4.25% Notes due 2007 (the 2007 Notes). Upon expiration of the Offer, $333 of the aggregate outstanding principal amount of the 2007 Notes was validly tendered and accepted. At December 31, 2006, the 2007 Notes had an outstanding balance of $792 and an original maturity of August 15, 2007. The $333 was reflected as long-term on the December 31, 2006 Condensed Consolidated Balance Sheet due to the fact that this amount was refinanced with new long-term debt instruments. Alcoa paid a total of $338, which consisted of the purchase price of $331 for the tendered 2007 Notes plus $7 in accrued and unpaid interest, to the holders of the tendered 2007 Notes on February 1, 2007. An immaterial gain was recognized for the early retirement of the $333 principal amount. On August 15, 2007, Alcoa repaid the $459 of outstanding principal of the 2007 Notes that was not tendered under the Offer.

Lastly, in January 2007, Alcoa commenced offers to exchange up to $500 of each of its outstanding 7.375% Notes due 2010 (2010 notes), 6.5% Notes due 2011 (2011 notes), and 6% Notes due 2012 (2012 notes), (collectively, the old notes), for up to $1,500 of new Notes due 2019 and 2022. At December 31, 2006, each of the old notes had an outstanding balance of $1,000. Upon expiration of the exchange offers in February 2007, principal amounts of $489 of 2010 notes, $416 of 2011 notes, and $483 of 2012 notes were validly tendered and accepted. In exchange for the tendered amounts, Alcoa issued $750 of 5.72% Notes due 2019 and $627 of 5.87% Notes due 2022 (collectively, the new notes), and paid $98 in cash. The $98 consisted of $75 for the exchange price, which included an early participation incentive for those holders that tendered old notes by February 5, 2007, $11 in principal to retire tendered old notes not exchanged, and the remainder was for accrued and unpaid interest on the tendered old notes. The $75, along with $6 in financing costs associated with the exchange offers plus the remaining unamortized debt issuance costs, original issue discounts, and terminated interest rate swaps associated with the old notes, were deferred and will be amortized to interest expense using the effective interest method over the respective terms of the new notes. Alcoa recognized an immaterial loss for the early retirement of the $11 in old notes. Interest on the new notes will be paid semi-annually in February and August commencing August 2007. Alcoa has the option to redeem the new notes, as a whole or in part, at any time or from time to time, on at least 30 days but not more than 60 days prior notice to the holders of the new notes at a redemption price specified in the new notes. The new notes are subject to repurchase upon the occurrence of a change in control repurchase event (as defined in the new notes) at a repurchase price in cash equal to 101% of the aggregate principal amount of the new notes repurchased, plus any accrued and unpaid interest on the new notes repurchased. The new notes rank *pari passu* with Alcoa s other senior unsecured unsubordinated indebtedness.

On February 23, 2007, Alcoa entered into a registration rights agreement (the Agreement) related to the new notes. Under the Agreement, Alcoa agreed to file a registration statement in order to exchange the new notes for registered securities having terms identical in all material respects to the new notes, except that the registered securities would not contain transfer restrictions. Alcoa filed the registration statement with the Securities and Exchange Commission (SEC) on March 19, 2007 and it was declared effective on April 2, 2007. The registered exchange offer was made on April 3, 2007 and expired on May 2, 2007. Upon expiration of the registered exchange offer, virtually all of the new notes were exchanged for registered securities. This exchange had no impact on the accompanying Financial Statements. Under the Agreement, Alcoa also agreed that under certain circumstances it would file a shelf registration statement with the SEC covering resales by holders of the new notes in lieu of the registered exchange offer. In the event of a registration default, as defined in the Agreement, additional interest would accrue on the aggregate principal amount of the new notes affected by such default at a rate per annum equal to 0.25% during the first 90 days immediately following the occurrence of any registration default, and would increase to a maximum of 0.50% thereafter. As of September 30, 2007, Alcoa is not in default under the Agreement and management has determined that the likelihood of such a default is remote. The Agreement had no impact on the accompanying Financial Statements.

D. Restructuring and Other Charges In the third quarter and nine-month period of 2007, Alcoa recorded charges of $444 ($311 after tax and minority interests) and $413 ($308 after tax and minority interests), respectively. The net charge in both periods included $357 ($251 after tax) in asset impairments related to the Packaging and Consumer businesses, the Electrical and Electronic Solutions business, and the Automotive Castings business; $53 ($36 after tax) in severance charges associated with the Electrical and Electronic Solutions business; and $34 ($24 after tax and minority interests) in net charges, primarily for severance charges and asset impairments of various other facilities (see Note N for additional information related to the Packaging and Consumer businesses, the Electrical and Electronic Solutions business, and the Automotive Castings business). The 2007 nine-month period also includes net charges, primarily for accelerated depreciation associated with the shutdown of certain facilities in 2007, of $34 ($24 after tax and minority interests) related to the restructuring program initiated in the fourth quarter of 2006. All of these amounts were slightly offset in the nine-month period of 2007 by a $65 ($27 after tax) adjustment to the original impairment charge recorded in the fourth quarter of 2006 related to the estimated fair value of the soft alloy extrusion business, which was contributed to a joint venture effective June 1, 2007 (see Note O for additional information). In the third quarter and nine-month period of 2006, Alcoa recorded income of $3 ($2 after tax and minority interests) and $11 ($7 after tax and minority interests), respectively, primarily resulting from adjustments to prior year severance and other exit cost reserves due to changes in facts and circumstances.

As of September 30, 2007, approximately 3,100 of the 6,200 employees associated with the 2006 restructuring program have been terminated. Also, the terminations associated with the 2005 restructuring program are essentially complete. For further details on the 2006 and 2005 restructuring programs, see Note D to the audited consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2006.

In the 2007 nine-month period, cash payments of $72 and $18 were made against total reserves related to the 2006 and 2005 restructuring programs, respectively. The remaining reserves are expected to be paid in cash through 2007, with the exception of approximately $50 to $55, which is expected to be paid over the next several years for ongoing site remediation work and special termination benefit payments. Restructuring and other charges are not included in the segment results.

Activity and reserve balances for restructuring charges are as follows:

	Employee termination and severance costs	Other exit costs	Total
Reserve balances at December 31, 2005	$ 121	$ 38	$ 159
2006:			
Cash payments	(39)	(2)	(41)
Restructuring charges	100	16	116
Reversals of previously recorded restructuring charges	(29)	(12)	(41)
Reserve balances at December 31, 2006	153	40	193
2007:			
Cash payments	(83)	(14)	(97)
Restructuring charges	72	15	87
Reversals of previously recorded restructuring charges	(7)	(1)	(8)
Reserve balances at September 30, 2007	$ 135	$ 40	$ 175

E. Pension Plans and Other Postretirement Benefits The components of net periodic benefit cost are as follows:

	Third quarter ended September 30,		Nine months ended September 30,	
Pension benefits	**2007**	**2006**	**2007**	**2006**
Service cost	$ 49	$ 52	$ 149	$ 156
Interest cost	165	158	495	467
Expected return on plan assets	(196)	(184)	(588)	(553)
Amortization of prior service cost	4	4	11	10
Recognized actuarial loss	32	28	96	91
Curtailment			2	
Net periodic benefit cost	$ 57	$ 58	$ 165	$ 171

In the nine months ended September 30, 2007, Alcoa recorded a curtailment charge of $2 due to the contribution of Alcoa s soft alloy extrusion business to a newly formed joint venture (see Note O for additional information).

Alcoa made discretionary contributions of $135 and $200 and required contributions of $71 and $42 in the third quarter of 2007 and 2006, respectively, to its pension plans. In the nine-month period of 2007 and 2006, Alcoa made discretionary contributions of $158 and $200 and required contributions of $139 and $144, respectively, to its pension plans.

Postretirement benefits	Third quarter ended September 30, 2007	2006	Nine months ended September 30, 2007	2006
Service cost	$ 8	$ 8	$ 22	$ 24
Interest cost	49	54	147	155
Expected return on plan assets	(5)	(4)	(13)	(12)
Amortization of prior service cost	(1)	3	(3)	7
Recognized actuarial loss	14	12	42	52
Curtailment	(7)		(3)	
Net periodic benefit cost	$ 58	$ 73	$ 192	$ 226

In the third quarter of 2007, Alcoa recorded curtailment income of $7 due to the elimination of the retiree life insurance benefit for certain U.S. employees who retire subsequent to April 1, 2008. In the nine months ended September 30, 2007, the income of $7 was offset by a curtailment charge of $4 recorded in the second quarter of 2007 due to the contribution of Alcoa s soft alloy extrusion business to a newly formed joint venture.

F. Other Income, Net

	Third quarter ended September 30, 2007	2006	Nine months ended September 30, 2007	2006
Equity income	$ 7	$ 15	$ 58	$ 61
Interest income	15	35	46	67
Dividend income	14		14	24
Foreign currency losses, net	(69)	(9)	(47)	(25)
Gain on sales of assets	1,771	4	1,772	12
Other (expense) income, net	(7)	3	(8)	5
	$ 1,731	$ 48	$ 1,835	$ 144

The Gain on sales of assets in both the third quarter and nine-month period of 2007 include the gain from the sale of Alcoa s investment in the Aluminum Corporation of China Limited (see Note O for additional information).

G. Income Taxes The effective tax rate for the third quarter of 2007 and 2006 was 63.0% and 24.7%, respectively. The rate for the third quarter of 2007 differs from the U.S. federal statutory rate of 35% primarily due to a discrete income tax charge of $464 related to goodwill that is non-deductible for tax purposes associated with the planned sale of the Packaging and Consumer businesses (see Note N for additional information). The rate for the third quarter of 2006 differs from the U.S. federal statutory rate of 35% primarily due to lower taxes on foreign income and a discrete tax benefit of $18 related to the cumulative correction of Alcoa s deferred tax assets attributable to an international location.

The effective tax rate for the 2007 and 2006 nine-month periods was 44.0% and 27.2%, respectively. The rate for the 2007 nine-month period differs from the U.S. federal statutory rate of 35% primarily due to the aforementioned $464 discrete income tax charge, partially offset by foreign income being taxed in lower rate jurisdictions. The rate for the 2006 nine-month period differs from the U.S. federal statutory rate of 35% primarily due to foreign income being taxed in lower rate jurisdictions.

See Note B for discussion of the adoption of FIN 48 and FSP FIN 48-1.

H. Discontinued Operations and Assets Held for Sale For all periods presented in the accompanying Condensed Statement of Consolidated Income, businesses classified as discontinued operations include the Hawesville, KY automotive casting facility, the wireless component of the telecommunications business, and a small automotive casting business in the U.K. The home exteriors business was also included in discontinued operations in the 2006 third quarter and nine-month period.

The following table details selected financial information for the businesses included within discontinued operations:

	Third quarter ended September 30, 2007	Third quarter ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Sales	$	$ 154	$	$ 471
Loss from operations	$ (1)	$ (3)	$ (2)	$ (12)
Gain (loss) on sale of businesses		(1)	(17)	(3)
Loss from impairment	(3)		(3)	(1)
Total pretax loss	(4)	(4)	(22)	(16)
Income tax benefit	1	1	7	2
Loss from discontinued operations	$ (3)	$ (3)	$ (15)	$ (14)

In the third quarter of 2007, Alcoa recorded a loss of $3 (after tax) from discontinued operations primarily due to the write-off of the carrying value of assets related to the Hawesville, KY automotive casting facility. In the third quarter of 2006, Alcoa recorded a loss of $3 (after tax) from discontinued operations consisting primarily of net operating losses.

In the 2007 nine-month period, Alcoa recorded a loss of $15 (after tax) from discontinued operations primarily related to working capital and other adjustments associated with the 2006 fourth quarter sale of the home exteriors business and the previously mentioned write-off of the carrying value of assets related to the Hawesville, KY automotive casting facility. In the 2006 nine-month period, Alcoa recorded a loss of $14 (after tax) from discontinued operations consisting of net operating losses of $11 and a loss of $3 related to the 2005 fourth quarter sale of the imaging and graphics communications business.

For both periods presented in the accompanying Condensed Consolidated Balance Sheet, the assets and liabilities of operations classified as held for sale include the Hawesville, KY automotive casting facility, the wireless component of the telecommunications business, a small automotive casting business in the U.K., and the net assets of three soft alloy extrusion facilities in the U.S. that were not contributed to the newly formed joint venture. Additionally, in the third quarter of 2007, Alcoa classified the assets and related liabilities of the remaining Automotive Castings business and the businesses within the Packaging and Consumer segment as held for sale for all periods presented based upon management s decision to sell these businesses (see Note N for additional information). The net assets of the soft alloy extrusion business that were contributed to the joint venture in June 2007 were also classified as held for sale as of December 31, 2006 (see Note O for additional information).

The major classes of assets and liabilities of operations held for sale are as follows:

	September 30, 2007	December 31, 2006
Assets:		
Receivables, less allowances	$ 388	$ 672
Inventories	436	651
Properties, plants, and equipment, net	705	1,188
Goodwill	1,069	1,285
Intangibles	379	404
Other assets	67	81
Assets held for sale	$ 3,044	$ 4,281
Liabilities:		
Accounts payable	$ 328	$ 487
Accrued expenses	88	164
Other liabilities	21	27

Liabilities of operations held for sale	$	437	$	678

I. Earnings Per Share The information used to compute basic and diluted EPS on income from continuing operations is as follows (shares in millions):

	Third quarter ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Income from continuing operations	$ 558	$ 540	$ 1,947	$ 1,903
Less: preferred stock dividends			1	1
Income from continuing operations available to common shareholders	$ 558	$ 540	$ 1,946	$ 1,902
Average shares outstanding basic	868	868	869	869
Effect of dilutive securities:				
Potential shares of common stock, attributable to stock options, stock awards, and performance awards	10	5	9	6
Average shares outstanding diluted	878	873	878	875

Options to purchase 17 million and 70 million shares of common stock at a weighted average exercise price of $42.42 and $35.80 per share were outstanding as of September 30, 2007 and 2006, respectively, but were not included in the computation of diluted EPS because they were anti-dilutive, as the exercise prices of the options were greater than the average market price of Alcoa s common stock.

J. Inventories

	September 30, 2007	December 31, 2006
Finished goods	$ 828	$ 925
Work in process	1,034	1,121
Bauxite and alumina	627	535
Purchased raw materials	580	574
Operating supplies	242	225
	$ 3,311	$ 3,380

Approximately 41% and 43% of total inventories at September 30, 2007 and December 31, 2006, respectively, were valued on a LIFO basis. If valued on an average-cost basis, total inventories would have been $1,074 and $1,028 higher at September 30, 2007 and December 31, 2006, respectively.

K. Commitments and Contingencies

Litigation

Effective January 1, 2007, Alcoa engaged a financial liability cap for medical benefits provided to retirees, who retired on or after June 1, 1993, along with their spouses, eligible dependents, and their surviving spouses (collectively, the participants) as permitted under a four-year collective bargaining agreement that was ratified by Alcoa and the United Steelworkers Union on June 22, 2006. The cap requires that the participants pay a portion of their monthly premiums and increased their deductibles and co-payments for their Alcoa-provided medical coverage. On March 20, 2007, as part of a lawsuit brought against Alcoa in the United States District Court for the Eastern District of Tennessee, approximately 3,000 retirees, who retired between June 1, 1993 and September 30, 2006, along with their spouses, eligible dependents, and their surviving spouses filed a motion for a preliminary injunction seeking the reinstatement of retiree medical benefits as they existed prior to January 1, 2007 under the Employees Group Benefits Plan of Alcoa, Plan II. The plaintiffs allege that Alcoa s implementation of the financial liability cap violates their purportedly vested right to lifetime retiree medical benefits at a lower cost than they are now required to pay under the January 1, 2007 plan. Alcoa s position is that the plaintiffs had no such right. The cap on Alcoa s contribution toward retiree medical benefits was part of every collective bargaining agreement dating back to 1993, and those agreements were ratified by the retirees. Alcoa estimates that, in the event of an unfavorable outcome, its maximum exposure would be an additional postretirement benefit liability of approximately $300 and approximately $40 of expense (includes an interest cost component) annually, on average, for the next 11 years, all of which includes an estimate for approximately 10,000 additional retirees, who retired from June 1, 1993 through May 31, 2006, and their spouses who are not parties to the litigation. This litigation is in its preliminary stages and the company is unable to reasonably predict an outcome. However, Alcoa believes that it has valid defenses and intends to defend this matter vigorously.

In addition to the litigation discussed above, various other lawsuits, claims, and proceedings have been or may be instituted or asserted against Alcoa, including those pertaining to environmental, product liability, and safety and health matters. While the amounts claimed may be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. Therefore, it is possible that the company s financial position, liquidity, or results of operations in a particular period could be materially affected by certain contingencies. However, based on facts currently available, management believes that the disposition of matters that are pending or asserted will not have a material adverse effect, individually or in the aggregate, on the financial position, liquidity, or the results of operations of the company.

Environmental Matters

Alcoa continues to participate in environmental assessments and cleanups at a number of locations. These include approximately 32 owned or operating facilities and adjoining properties, approximately 33 previously owned or operating facilities and adjoining properties, and approximately 66 waste sites, including Superfund sites. A liability is recorded for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated.

As assessments and cleanups proceed, the liability is adjusted based on progress made in determining the extent of remedial actions and related costs and damages. The liability can change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements, and technological changes. Therefore, it is not possible to determine the outcomes or to estimate with any degree of accuracy the potential costs for certain of these matters.

The following discussion provides additional details regarding the current status of Alcoa s significant sites where the final outcome cannot be determined or the potential costs in the future cannot be estimated.

Massena, NY. Alcoa has been conducting investigations and studies of the Grasse River, adjacent to Alcoa s Massena, NY plant site, under order from the U.S. Environmental Protection Agency (EPA) issued under the Comprehensive Environmental Response, Compensation and Liability Act, also known as Superfund. Sediments and fish in the river contain varying levels of polychlorinated biphenyls (PCBs).

In 2002, Alcoa submitted an Analysis of Alternatives Report that detailed a variety of remedial alternatives with estimated costs ranging from $2 to $525. Because the selection of the $2 alternative (natural recovery) was considered remote, Alcoa adjusted the reserve for the Grasse River in 2002 to $30 representing the low end of the range of possible alternatives, as no single alternative could be identified as more probable than the others.

In June of 2003, based on river observations during the spring of 2003, the EPA requested that Alcoa gather additional field data to assess the potential for sediment erosion from winter river ice formation and breakup. The results of these additional studies, submitted in a report to the EPA in April of 2004, suggest that this phenomenon has the potential to occur approximately every 10 years and may impact sediments in certain portions of the river under all remedial scenarios. The EPA informed Alcoa that a final remedial decision for the river could not be made without substantially more information, including river pilot studies on the effects of ice formation and breakup on each of the remedial techniques. Alcoa submitted to the EPA, and the EPA approved, a Remedial Options Pilot Study (ROPS) to gather this information. The scope of this study includes sediment removal and capping, the installation of an ice control structure, and significant monitoring.

In May of 2004, Alcoa agreed to perform the study at an estimated cost of $35. Most of the construction work was completed in 2005 with monitoring work proposed through 2008. The findings will be incorporated into a revised Analysis of Alternatives Report, which is expected to be submitted in 2008. This information will be used by the EPA to propose a remedy for the entire river. Alcoa adjusted the reserves in the second quarter of 2004 to include the $35 for the ROPS. This was in addition to the $30 previously reserved.

The reserves for the Grasse River were re-evaluated in the fourth quarter of 2006 and an adjustment of $4 was made. This adjustment is to cover commitments made to the EPA for additional investigation work, for the on-going monitoring program, including that associated with the ROPS program, to prepare a revised Analysis of Alternatives Report, and for an interim measure that involves, annually, the mechanical ice breaking of the river to prevent the formation of ice jams until a permanent remedy is selected. This reserve adjustment is intended to cover these commitments through 2008 when the revised Analysis of Alternatives report will be submitted.

With the exception of the natural recovery remedy, none of the existing alternatives in the 2002 Analysis of Alternatives Report is more probable than the others and the results of the ROPS are necessary to revise the scope and estimated cost of many of the current alternatives.

The EPA s ultimate selection of a remedy could result in additional liability. Alcoa may be required to record a subsequent reserve adjustment at the time the EPA s Record of Decision is issued, which is expected in 2008 or later.

Sherwin, TX. In connection with the sale of the Sherwin alumina refinery in Texas, which was required to be divested as part of the Reynolds merger in 2000, Alcoa has agreed to retain responsibility for the remediation of the then existing environmental conditions, as well as a pro rata share of the final closure of the active waste disposal areas, which remain in use. Alcoa s share of the closure costs is proportional to the total period of operation of the active waste disposal areas. Alcoa estimated its liability for the active disposal areas by making certain assumptions about the period of operation, the amount of material placed in the area prior to closure, and the appropriate technology, engineering, and regulatory status applicable to final closure. The most probable cost for remediation has been reserved. It is reasonably possible that an additional liability, not expected to exceed $75, may be incurred if actual experience varies from the original assumptions used.

East St. Louis, IL. In response to questions regarding environmental conditions at the former East St. Louis, IL operations, Alcoa entered into an administrative order with the EPA in December 2002 to perform a remedial investigation and feasibility study of an area used for the disposal of bauxite residue from historic alumina refining operations. A draft feasibility study was submitted to the EPA in April 2005. The feasibility study includes remedial alternatives that range from no further action at $0 to significant grading, stabilization, and water management of the bauxite residue disposal areas at $75. Because the selection of the $0 alternative was considered remote, Alcoa increased the environmental reserve for this location by $15 in the second quarter of 2005, representing the low end of the range of possible alternatives, which met the remedy selection criteria, as no alternative could be identified as more probable than the others. Recently, the EPA temporarily suspended their final review of the feasibility study based on Alcoa s request for additional time to fully explore site redevelopment and material use options. Ultimately, the EPA s selection of a remedy could result in additional liability, and Alcoa may be required to record a subsequent reserve adjustment at the time the EPA s Record of Decision is issued, which is expected in 2008 or later.

Based on the foregoing, it is possible that Alcoa s results of operations, in a particular period, could be materially affected by matters relating to these sites. However, based on facts currently available, management believes that adequate reserves have been provided and that the disposition of these matters will not have a material adverse effect on the financial position, liquidity, or the results of operations of the company.

Alcoa s remediation reserve balance was $293 and $332 at September 30, 2007 and December 31, 2006 (of which $54 and $49 was classified as a current liability), respectively, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. In the 2007 nine-month period, the remediation reserve was decreased by $17 consisting of a $15 adjustment for the liabilities associated with a previously owned smelter site and a $5 adjustment for liabilities at the Russian rolling mills and extrusion plants, both of which were slightly offset by a net increase of $3 in liabilities associated with various locations. The $15 and $5 adjustments, which were recorded as a credit to Cost of goods sold on the accompanying Condensed Statement of Consolidated Income, were made after further investigations were completed whereby Alcoa was able to obtain additional information about the environmental condition and the associated liabilities related to these sites. Payments related to remediation expenses applied against the reserve were $22 in the 2007 nine-month period. These amounts include expenditures currently mandated, as well as those not required by any regulatory authority or third party.

Included in annual operating expenses are the recurring costs of managing hazardous substances and environmental programs. These costs are estimated to be approximately 2% of cost of goods sold.

<u>Other</u>

Alcoa Aluminio S.A. (Aluminio), a wholly-owned subsidiary of Alcoa, is a participant in several hydroelectric power construction projects in Brazil for purposes of increasing its energy self-sufficiency and providing a long-term, low-cost source of power for its facilities. Two of these projects, Machadinho and Barra Grande, were completed in 2002 and 2006, respectively.

Aluminio committed to taking a share of the output of the Machadinho and Barra Grande projects each for 30 years at cost (including cost of financing the project). In the event that other participants in either one of these projects fail to fulfill their financial responsibilities, Aluminio may be required to fund a portion of the deficiency. In accordance with the respective agreements, if Aluminio funds any such deficiency, its participation and share of the output from the respective project will increase proportionately.

In January 2007, Aluminio exercised pre-emptive rights to acquire an additional ownership interest of 4.67% in Machadinho for $18. This additional investment provides an additional 15 megawatts of assured energy. This transaction was approved by the Brazilian Energy Agency, antitrust regulators, and other third parties. In September 2007, Aluminio s ownership interest of 31.89% was reduced by 0.9% due to the admission of a new investor to the Machadinho consortium.

With Machadinho and Barra Grande, Aluminio s current power self-sufficiency is approximately 40%, to meet a total energy demand of approximately 690 megawatts from Brazilian primary plants. Aluminio accounts for the Machadinho and Barra Grande hydroelectric projects on the equity method. Aluminio s investment participation in these projects is 30.99% for Machadinho and 42.18% for Barra Grande. Its total investment in these projects was $231 and $175 at September 30, 2007 and December 31, 2006, respectively. Alcoa s maximum exposure to loss on these completed projects is approximately $570, which represents Alcoa s investment and guarantees of debt.

In the first quarter of 2006, Aluminio acquired an additional 6.41% share in the Estreito hydroelectric power project, reaching 25.49% of total participation in the consortium. This additional share entitles Aluminio to 38 megawatts of assured energy. Aluminio s share of the project is estimated to have installed capacity of approximately 280 megawatts and assured power of approximately 150 megawatts. In December 2006, the consortium obtained the environmental installation license, after completion of certain socioeconomic and cultural impact studies as required by a governmental agency. Construction began in the first quarter of 2007.

In the first quarter of 2007, construction began on the Serra do Facao hydroelectric power project. The implementation of construction activities had been temporarily suspended in 2004 due to the temporary suspension of the project s installation permit by legal injunction issued by the Brazilian Judicial Department (Public Ministry). Since 2004, this project was placed on hold due to unattractive market conditions. In mid-2006, market conditions became favorable and Aluminio proceeded with plans to begin construction. In September of 2006, the national environmental agency renewed the installation permit allowing construction to commence. Aluminio s share of the Serra do Facao project is 34.97%, which decreased by 4.53% in the first quarter of 2007 due to the approval of a new shareholder structure, and entitles Aluminio to approximately 65 megawatts of assured power.

In 2004, Alcoa acquired a 20% interest in a consortium, which subsequently purchased the Dampier to Bunbury Natural Gas Pipeline (DBNGP) in Western Australia, in exchange for an initial cash investment of $17. This investment was classified as an equity investment. Alcoa has made additional contributions of $76, including $9 in the third quarter of 2007 and $11 in both the first and second quarter of 2007, and committed to invest an additional $32 to be paid as the pipeline expands through 2009. In the 2007 first quarter, the remaining commitment was reduced by $5 from December 31, 2006 based on a revision in the consortium s forecast of equity requirements related to the future expansion of the DBNGP. In the third quarter of 2007, this reduction was completely offset by a $5 foreign currency translation adjustment as a result of the significant weakening of the U.S. dollar as these contributions are transacted in Australian dollars. The investment in the DBNGP was made in order to secure a competitively priced long-term supply of natural gas to Alcoa s refineries in Western Australia. In addition to its equity ownership, Alcoa has an agreement to purchase gas transmission services from the DBNGP. Alcoa s maximum exposure to loss on the investment and the related contract is approximately $385 as of September 30, 2007.

In July 2006, the European Commission (EC) announced that it has opened an investigation to establish whether an extension of the regulated preferential electricity tariff granted by Italy to some energy-intensive industries complies with European Union state aid rules. The new Italian power tariff modifies the preferential tariff that was in force until December 31, 2005 and extends it through 2010. Alcoa has been operating in Italy for more than 10 years under a power supply structure approved by the EC in 1996. That measure, like the new one, was based on Italian state legislation that provides a competitive power supply to the primary aluminum industry and is not considered state aid by the Italian Government. The EC s announcement states that it has doubts about the measure s compatibility with European Union legislation and concerns about distortion of competition in the European market of primary aluminum, where energy is an important part of the production costs. The opening of an in-depth investigation gives interested parties the opportunity to comment on the proposed measures; it does not prejudge the outcome of the procedure. It is Alcoa s understanding that the Italian Government s continuation of the electricity tariff was done in conformity with all applicable laws and regulations. Alcoa believes that the total potential impact from a loss of the tariff would be approximately $20 (pre-tax) per month in higher power costs at its Italian smelters. The total estimated potential impact has increased since the second quarter of 2007 due to a combination of the weakening of the U.S. dollar, as the liability would be payable in Euros in the event of a negative outcome, and an increase in the estimated cost of power. While Alcoa believes that any additional cost would only be assessed prospectively from the date of the EC s decision on this matter, it is possible that the EC could rule that the assessment must be retroactively applied to January 2006. A decision by the EC is not expected until 2008. On November 29, 2006, Alcoa filed an appeal before the European Court of First Instance seeking the annulment of the decision of the EC to open the investigation alleging that such decision did not follow the applicable procedural rules. This appeal, which may be withdrawn by Alcoa at any time, is expected to be resolved in 2008 as well.

On January 25, 2007, the EC announced that it has opened an investigation to establish whether the regulated electricity tariffs granted by Spain comply with European Union state aid rules. Alcoa has been operating in Spain for more than nine years under a power supply structure approved by the Spanish Government in 1986, an equivalent tariff having been granted in 1983. The investigation is limited to the year 2005 and it is focused both on the energy-intensive consumers and the distribution companies. The investigation provided 30 days to any interested party to submit observations and comments to the EC. With respect to the energy-intensive consumers, the EC is opening the investigation on the assumption that prices paid under the tariff in 2005 were lower than the pool price mechanism, therefore being, in principle, artificially below market conditions. Alcoa has submitted comments in which the company has provided evidence that prices paid by energy-intensive consumers were in line with the market, in addition to various legal arguments defending the legality of the Spanish tariff system. Therefore, it is Alcoa s understanding that the Spanish tariff system for electricity is in conformity with all applicable laws and regulations, and therefore no state aid is present in that tariff system. Alcoa believes that the total potential impact from an unfavorable decision would be approximately $11 (pre-tax). While Alcoa believes that any additional cost would only be assessed for the year 2005, it is possible that the EC could extend its investigation to later years. A decision by the EC is not expected until late in 2008. If the EC s investigation concludes that the regulated electricity tariffs for industries are unlawful, Alcoa will have an opportunity to challenge the decision in the European Union courts.

L. Comprehensive Income

	Third quarter ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net income	$ 555	$ 537	$ 1,932	$ 1,889
Other comprehensive income (loss), net of tax and minority interests:				
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains (losses)	305	(58)	748	(70)
Net amount reclassified to income	(1,160)		(1,160)	
Net change in unrealized gains on available-for-sale securities	(855)	(58)	(412)	(70)
Foreign currency translation adjustments	459	120	860	323
Change in additional minimum pension liability				94
Change in unrecognized losses and prior service cost related to pension and postretirement benefit plans	55		132	
Unrecognized (losses) gains on derivatives:				
Net change from periodic revaluations	(3)	24	(63)	(281)
Net amount reclassified to income	(10)	(10)	(5)	(63)
Net unrecognized (losses) gains on derivatives	(13)	14	(68)	(344)
Comprehensive income	$ 201	$ 613	$ 2,444	$ 1,892

Alcoa recognized unrealized holding gains of $465 ($302 after tax) and $1,147 ($745 after tax) in the third quarter and nine-month period of 2007, respectively, related to its investment in the Aluminum Corporation of China Limited (Chalco). Also, Alcoa reclassified $1,159 (after tax) in cumulative unrealized holding gains related to Chalco from other comprehensive income to net income, as these gains were realized due to the sale of this investment (see Note O for additional information).

M. Segment Information Alcoa s reportable segments, as reclassified for discontinued operations and assets held for sale, are as follows (differences between segment totals and consolidated totals are in Corporate):

Third quarter ended September 30, 2007	**Alumina**	**Primary Metals**	**Flat-Rolled Products**	**Extruded and End Products**	**Engineered Solutions**	**Packaging and Consumer**	**Total**
Sales:							
Third-party sales	$ 664	$ 1,600	$ 2,309	$ 563	$ 1,407	$ 828	$ 7,371
Intersegment sales	631	1,171	59	13			1,874
Total sales	$ 1,295	$ 2,771	$ 2,368	$ 576	$ 1,407	$ 828	$ 9,245
Profit and loss:							
Equity (loss) income	$ (1)	$ 11	$	$ (2)	$	$	$ 8
Depreciation, depletion, and amortization	76	102	58	11	46	29	322
Income taxes	89	80	31	5	38	17	260
After-tax operating income (ATOI)	215	283	61	13	60	36	668
Third quarter ended September 30, 2006							
Sales:							
Third-party sales	$ 733	$ 1,476	$ 2,115	$ 1,146	$ 1,345	$ 815	$ 7,630
Intersegment sales	524	1,467	65	20			2,076
Total sales	$ 1,257	$ 2,943	$ 2,180	$ 1,166	$ 1,345	$ 815	$ 9,706
Profit and loss:							
Equity (loss) income	$ (2)	$ 16	$	$	$ 1	$	$ 15
Depreciation, depletion, and amortization	47	100	57	29	43	30	306
Income taxes	108	140	19	7	35	8	317
ATOI	271	346	48	16	75	24	780

Nine months ended September 30, 2007	Alumina	Primary Metals	Flat-Rolled Products	Extruded and End Products	Engineered Solutions	Packaging and Consumer	Total
Sales:							
Third-party sales	$ 2,021	$ 4,979	$ 6,928	$ 2,703	$ 4,334	$ 2,401	$ 23,366
Intersegment sales	1,797	3,931	182	81			5,991
Total sales	$ 3,818	$ 8,910	$ 7,110	$ 2,784	$ 4,334	$ 2,401	$ 29,357
Profit and loss:							
Equity income	$	$ 51	$	$ 7	$	$	$ 58
Depreciation, depletion, and amortization	194	299	168	30	129	89	909
Income taxes	291	490	90	45	129	41	1,086
ATOI	751	1,249	216	93	258	92	2,659
Nine months ended September 30, 2006							
Sales:							
Third-party sales	$ 2,074	$ 4,473	$ 6,170	$ 3,349	$ 4,110	$ 2,398	$ 22,574
Intersegment sales	1,594	4,684	180	74			6,532
Total sales	$ 3,668	$ 9,157	$ 6,350	$ 3,423	$ 4,110	$ 2,398	$ 29,106
Profit and loss:							
Equity (loss) income	$ (3)	$ 64	$ (1)	$	$ 1	$	$ 61
Depreciation, depletion, and amortization	136	298	164	87	125	92	902
Income taxes	313	546	70	16	116	22	1,083
ATOI	791	1,280	193	33	258	69	2,624

The following table reconciles total segment ATOI to consolidated net income:

	Third quarter ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Total segment ATOI	$ 668	$ 780	$ 2,659	$ 2,624
Unallocated amounts (net of tax):				
Impact of LIFO	10	(19)	(33)	(104)
Interest income	10	23	30	44
Interest expense	(98)	(66)	(208)	(189)
Minority interests	(76)	(109)	(301)	(338)
Corporate expense	(101)	(64)	(288)	(235)
Restructuring and other charges	(311)	2	(308)	7
Discontinued operations	(3)	(3)	(15)	(14)
Other	456	(7)	396	94
Consolidated net income	$ 555	$ 537	$ 1,932	$ 1,889

The following table details segment assets:

	September 30, 2007	December 31, 2006
Alumina	$ 6,358	$ 5,250
Primary Metals	11,315	10,530
Flat-Rolled Products	5,446	5,192
Extruded and End Products	2,046	1,178
Engineered Solutions	6,121	5,847
Total segment assets	$ 31,286	$ 27,997

N. Acquisitions and Divestitures On May 7, 2007, Alcoa announced an offer to purchase all of the outstanding common shares of Alcan Inc. (Alcan), for a combination of cash and stock. On July 12, 2007, Alcan s board of directors agreed to recommend a takeover offer by Rio Tinto plc, and Alcoa effectively withdrew its offer for Alcan due to said agreement. In the third quarter and nine-month period of 2007, Alcoa recorded $19 ($12 after tax) and $45 ($29 after tax), respectively, in transaction costs (investment banking, legal, audit-related, and other third-party expenses) related to the offer for Alcan in Selling, general administrative, and other expenses on the accompanying Condensed Statement of Consolidated Income. In addition, early in the third quarter, Alcoa fully amortized $30 ($19 after tax) in commitment fees that were paid and capitalized in June 2007 and expensed $37 ($24 after tax) in commitment fees that were paid in July 2007. These commitment fees were paid to secure an 18-month $30,000 senior unsecured credit facility, which was to be used to pay for shares of Alcan. The $67 in commitment fees was recorded in Interest expense on the accompanying Condensed Statement of Consolidated Income.

On April 25, 2007, Alcoa announced it was exploring strategic alternatives for the potential disposition of the businesses within the Packaging and Consumer segment (P&C), the Automotive Castings business (AC), and the Electrical and Electronic Solutions business (EES) (formerly the Alcoa Fujikura Limited wire harness business). On September 28, 2007, management completed its review of strategic alternatives and determined that the best course of action is to sell the P&C and AC businesses, and to significantly restructure the EES business in order to improve its returns and profitability.

As a result of this decision, the assets and related liabilities of the P&C and AC businesses have been classified as held for sale for all periods presented on the accompanying Condensed Consolidated Balance Sheet (see Note H for additional information). The results of operations of the P&C and AC businesses will continue to be reflected in the Packaging and Consumer segment and the Engineered Solutions segment, respectively, until their eventual disposition, unless facts and circumstances change. In the third quarter of 2007, Alcoa recorded impairment charges of $215 ($140 after tax) related to the P&C businesses and $68 ($51 after tax) for the AC business to reflect the write-down of the carrying value of the assets of these businesses to their respective estimated fair values. These impairment charges were recorded in Restructuring and other charges on the accompanying Condensed Statement of Consolidated Income. In addition, Alcoa recorded a $464 discrete income tax charge related to goodwill associated with the planned sale of the P&C businesses that is non-deductible for tax purposes. Severance and other exit costs may be incurred subsequent to the third quarter of 2007 as Alcoa negotiates the sale of the P&C and AC businesses with potential buyers. Alcoa has received indicative offers from several potential buyers for the P&C businesses, and plans to complete the transaction by late 2007 or early 2008. Alcoa is also near a definitive agreement to sell its AC business and expects to close the transaction by the end of the year.

The following is a description of the AC business and the four businesses within P&C:

Automotive Castings, producers of cast aluminum components including steering knuckles, swing arms and control arms through a Vacuum Riserless Casting/Pressure Riserless Casting (VRC/PRC) process, and has approximately 550 employees in two locations, Fruitport, Michigan and Farsund, Norway. This business generated approximately $150 in sales in 2006;

Flexible Packaging, manufacturers of laminated, printed, and extruded non-rigid packaging materials such as pouch, blister packaging, unitizing films, high quality shrink labels and foil lidding for the pharmaceutical, food and beverage, tobacco and industrial markets;

Closure Systems International, a global manufacturer leader of plastic and aluminum packaging closures and capping equipment for beverage, food and personal care customers;

Consumer Products, a leading manufacturer of branded and private label foil, wraps and bags, and includes the Reynolds® and Baco® branded products;

Food Packaging, makers of stock and customer products for the foodservice, supermarket, food processor and agricultural markets, including foil, film, and both plastic and foil food containers.

The Packaging and Consumer segment generated sales of approximately $3,200 in 2006 and has approximately 10,000 employees in 22 countries.

The EES business manufactures and designs electrical and electronic systems, wire harnesses and components for the ground transportation industry worldwide. In the third quarter of 2007, Alcoa recorded severance charges of $53 ($36 after tax) related to restructurings at various facilities in North America and Europe associated with the EES business. Alcoa anticipates recognizing an additional $5 or less ($4 after-tax) of costs, such as contract termination costs, retention payments, legal fees and other exit costs, associated with these restructuring actions in future periods. The majority of the severance associated with the North American and European facilities is anticipated to be complete by the end of 2008, and the remaining portions of the plan are expected to be complete no later than the first half of 2009. Also in the third quarter of 2007, Alcoa recorded impairment charges of $133 ($93 after tax) for goodwill and $74 ($60 after tax) for various fixed assets, as the forecasted future earnings and cash flows of the EES business no longer supported the carrying values of such assets. The severance and fixed asset impairment charges were recorded in Restructuring and other charges on the accompanying Condensed Statement of Consolidated Income.

In connection with the 2005 acquisition of the Belaya Kalitva and Samara fabricating facilities located in Russia, Alcoa entered into a long-term aluminum supply contract with the seller of these facilities and made a prepayment of $93. In January 2007, this $93 was repaid to Alcoa as provided for in the contract, and is reflected in the cash from operations section on the accompanying Condensed Statement of Consolidated Cash Flows. The long-term aluminum supply contract is still in place and none of the provisions of the contract changed due to the receipt of the $93.

In the first quarter of 2007, Alcoa made a final contingent payment of $13 related to its 2002 acquisition of Fairchild Fasteners (Fairchild). This payment was made to the seller of Fairchild due to the achievement of certain 2006 operating targets. The payment was accrued for in the fourth quarter of 2006 as an adjustment to goodwill, and is included in the investing activities section on the accompanying Condensed Statement of Consolidated Cash Flows.

O. Investments Effective June 1, 2007, Alcoa completed the formation of a joint venture with Orkla ASA s Sapa Group (Sapa) combining Alcoa s soft alloy extrusion business (excluding three facilities each in the U.S. and Brazil) with Sapa s Profiles extruded aluminum business. The new joint venture, Sapa AB, is expected to have annual sales of approximately $4,500 and 12,000 employees, and is majority-owned and operated by Sapa. As of September 30, 2007, Alcoa s ownership percentage in the joint venture was 46% and the carrying value of the investment was approximately $800, which is accounted for as an equity method investment. The equity income from Alcoa s 46% ownership share is reflected in the Extruded and End Products segment. Prior to June 1, 2007, the assets and liabilities of Alcoa s soft alloy extrusion business (excluding three facilities in Brazil that Alcoa is retaining) were classified as held for sale. As of September 30, 2007, the net assets of the three U.S. facilities not contributed to the joint venture continue to be classified as held for sale on the accompanying Condensed Consolidated Balance Sheet (see Note H) (In October 2007, Alcoa completed the sale of two of the three U.S. facilities for approximately $15 while the third such U.S. facility has ceased operations). In the second quarter of 2007, in conjunction with the contribution of the soft alloy extrusion business to the joint venture, Alcoa recorded a $65 ($27 after tax) adjustment to the original impairment charge recorded in the fourth quarter of 2006. This adjustment was primarily the result of a higher estimated fair value of the soft alloy extrusion business than what was reflected in the original impairment charge, and was recorded as income in Restructuring and other charges on the accompanying Condensed Statement of Consolidated Income (see Note D). In the third quarter of 2007, Alcoa recorded a $6 ($5 after tax) charge in Restructuring and other charges on the accompanying Condensed Statement of Consolidated Income for various post-closing adjustments related to the formation of the joint venture. The carrying value and ownership percentage of Alcoa s investment as of September 30, 2007 are subject to further post-closing adjustments based upon certain provisions in the joint venture agreement and the finalization of financial statement audits of the businesses contributed to the joint venture by both partners.

On September 12, 2007, Alcoa sold its investment in Chalco for $1,942 in cash proceeds, net of transaction fees, which is reflected in Sales of investments on the accompanying Condensed Statement of Consolidated Cash Flows. Prior to its sale, the Chalco investment was classified as an available-for-sale security and was carried at fair value, with unrealized gains/losses recorded in other comprehensive income. Alcoa s original cost basis of its seven percent interest in Chalco was $184 and this transaction resulted in a gain of $1,754 ($1,140 after tax), net of transaction fees and other expenses, which was recorded in Other income, net on the accompanying Condensed Statement of Consolidated Income and is reflected in Gains from investing activities asset sales on the accompanying Condensed Statement of Consolidated Cash Flows. Alcoa reclassified $1,159 (after tax) in cumulative unrealized holding gains from other comprehensive income to net income (see Note L), as these gains were realized through the sale transaction.

P. Subsequent Event On October 2, 2007, Alcoa entered into a Five-Year Revolving Credit Agreement, dated as of October 2, 2007 (the Credit Agreement), with a syndicate of lenders and issuers named therein. The Credit Agreement provides a $3,250 senior unsecured revolving credit facility (the Credit Facility), the proceeds of which are to be used to provide working capital or for other general corporate purposes of Alcoa, including support of Alcoa s commercial paper program. Subject to the terms and conditions of the Credit Agreement, Alcoa may from time to time request increases in lender commitments under the Credit Facility, not to exceed $500 in aggregate principal amount, and may also request the issuance of letters of credit, subject to a letter of credit sub-limit of $500 under the Credit Facility.

The Credit Facility matures on October 2, 2012, unless extended or earlier terminated in accordance with the provisions of the Credit Agreement. Alcoa may make two one-year extension requests during the term of the Credit Facility, with any extension being subject to the lender consent requirements set forth in the Credit Agreement.

The Credit Facility is unsecured and amounts payable under it will rank *pari passu* with all other unsecured, unsubordinated indebtedness of Alcoa. Borrowings under the Credit Facility may be denominated in U.S. dollars or Euros. Loans will bear interest at (i) a base rate or (ii) a rate equal to LIBOR plus an applicable margin based on the credit ratings of Alcoa s outstanding senior unsecured long-term debt. Based on Alcoa s current long-term debt ratings, the applicable margin on LIBOR loans will be 0.24% per annum. Loans may be prepaid without premium or penalty, subject to customary breakage costs.

The Credit Facility replaces $3,000 in aggregate principal amount of revolving credit facilities maintained by Alcoa under the following credit agreements, which were terminated effective October 2, 2007: (i) $1,000 Five-Year Revolving Credit Agreement dated as of April 22, 2005, (ii) $1,000 Five-Year Revolving Credit Agreement dated as of April 23, 2004, as amended, and (iii) $1,000 Five-Year Revolving Credit Agreement dated as of April 25, 2003, as amended (collectively, the Former Credit Agreements).

The Credit Agreement includes covenants substantially similar to those in the Former Credit Agreements, including, among others, (a) a leverage ratio, (b) limitations on Alcoa s ability to incur liens securing indebtedness for borrowed money, (c) limitations on Alcoa s ability to consummate a merger, consolidation or sale of all or substantially all of its assets and (d) limitations on Alcoa s ability to change the nature of its business.

The obligation of Alcoa to pay amounts outstanding under the Credit Facility may be accelerated upon the occurrence of an Event of Default as defined in the Credit Agreement. Such Events of Default include, among others, (a) Alcoa s failure to pay the principal of, or interest on, borrowings under the Credit Facility, (b) any representation or warranty of Alcoa in the Credit Agreement proving to be materially false or misleading, (c) Alcoa s breach of any of its covenants contained in the Credit Agreement, and (d) the bankruptcy or insolvency of Alcoa.

Report of Independent Registered Public Accounting Firm*

To the Shareholders and Board of Directors of Alcoa Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Alcoa Inc. and its subsidiaries (Alcoa) as of September 30, 2007, and the related condensed statement of consolidated income for each of the three-month and nine-month periods ended September 30, 2007 and 2006 and the condensed statement of consolidated cash flows for the nine-month periods ended September 30, 2007 and 2006. These interim financial statements are the responsibility of Alcoa s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2006, and the related statements of consolidated income, shareholders equity and cash flows for the year then ended (not presented herein), and in our report dated February 15, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2006, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
October 25, 2007

* This report should not be considered a report within the meanings of Sections 7 and 11 of the 1933 Act and the independent registered public accounting firm s liability under Section 11 does not extend to it.

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

(dollars in millions, except per share amounts and ingot prices; production and shipments in thousands of metric tons [kmt])

Forward-Looking Statements

Certain statements in this report under this caption and elsewhere relate to future events and expectations and, as such, constitute forward-looking statements. Forward-looking statements include those containing such words as anticipates, believes, estimates, expects, hop targets, should, will, will likely result, forecast, outlook, projects or similar expressions. Such forward-looking statements involve kno unknown risks, uncertainties and other factors that may cause actual results, performance, or achievements of Alcoa to be different from those expressed or implied in the forward-looking statements. For a discussion of some of the specific factors that may cause such a difference, see Note K to the Condensed Consolidated Financial Statements; the disclosures included below under Segment Information, Environmental Matters, and Quantitative and Qualitative Disclosures about Market Risks; and Alcoa s Form 10-K, Part I, Item 1A, for the year ended December 31, 2006. Alcoa disclaims any intention or obligation (other than as required by law) to update or revise any forward-looking statements.

Results of Operations

***Selected Financial Data*:**

	Third quarter ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Sales	$ 7,387	$ 7,631	$ 23,361	$ 22,539
Income from continuing operations	$ 558	$ 540	$ 1,947	$ 1,903
Loss from discontinued operations	(3)	(3)	(15)	(14)
Net income	$ 555	$ 537	$ 1,932	$ 1,889
Earnings per common share:				
Diluted Income from continuing operations	$ .64	$ .62	$ 2.22	$ 2.17
Diluted Net income	.63	.61	2.20	2.16
Shipments of aluminum products (kmt)	1,328	1,396	4,057	4,146
Shipments of alumina (kmt)	1,937	2,205	5,804	6,336
Alcoa s average realized price per metric ton of aluminum	$ 2,734	$ 2,620	$ 2,835	$ 2,628
Average 3-month LME price per metric ton	2,605	2,527	2,717	2,551

Income from continuing operations was $558, or $0.64 per diluted share, in the third quarter of 2007 compared with $540, or $0.62 per share, in the third quarter of 2006. Income from continuing operations in the 2007 third quarter increased $18, or 3%, compared to the corresponding 2006 period primarily due to: higher realized prices; increased demand in the aerospace, packaging, and industrial markets; the gain on the sale of the investment in the Aluminum Corporation of China Limited (Chalco); and a decrease in the charge recorded for LIFO. These positive impacts were mostly offset by continued higher energy, raw materials, and other input costs; net unfavorable foreign currency movements due to a significantly weaker U.S. dollar; asset impairments and restructuring charges associated with the Packaging and Consumer businesses, the Electrical and Electronic Solutions business, and the Automotive Castings business, as well as a discrete income tax charge related to the Packaging and Consumer businesses; smelter curtailment costs associated with the power outage in Tennessee and the shutdown of one of the potlines in Rockdale, Texas; startup costs at the Iceland smelter; transaction costs and interest charges associated with the offer for Alcan Inc. (Alcan); stock-based compensation expense for reloaded options; and the absence of a 2006 favorable legal settlement related to a former Reynolds distribution business.

Income from continuing operations was $1,947, or $2.22 per share, in the 2007 nine-month period compared with $1,903, or $2.17 per share, in the 2006 nine-month period. Income from continuing operations in the 2007 nine-month period increased $44, or 2%, compared to the corresponding 2006 period primarily due to: the positive impacts discussed for the third quarter of 2007 above; a favorable adjustment related to the estimated fair value of the soft alloy extrusion business; the absence of labor contract and strike preparation costs recognized in 2006; and a non-recurring foreign currency gain in Russia; partially offset by the negative impacts discussed for the third quarter of 2007 above; and costs associated with the labor strike in Guinea and the restart of one of Intalco s smelter lines.

Net income for the 2007 third quarter and nine-month period was $555, or $0.63 per share, and $1,932, or $2.20 per share, respectively, compared with $537, or $0.61 per share, and $1,889, or $2.16 per share, for the corresponding periods of 2006. Net income in 2007 included a loss from discontinued operations of $3 in the third quarter, primarily due to the write-off of the carrying value of assets related to the Hawesville, KY automotive casting facility, and $15 in the nine-month period, primarily related to working capital and other adjustments associated with the 2006 fourth quarter sale of the home exteriors business and the previously mentioned write-off of the carrying value of assets related to the Hawesville, KY automotive casting facility. Net income in 2006 included a loss from discontinued operations of $3 in the third quarter and $14 in the nine-month period consisting primarily of net operating losses. The loss from discontinued operations in the 2006 nine-month period also included a loss of $3 related to the 2005 fourth quarter sale of the imaging and graphics communications business.

Sales for the third quarter and nine-month period of 2007 decreased $244, or 3%, and increased $822, or 4%, respectively, compared with the corresponding periods in 2006. The decrease in the 2007 third quarter was driven by the absence of revenue of the soft alloy extrusion business, partially offset by higher realized prices, an increase in primary aluminum volume, and higher demand in the aerospace, packaging, and industrial markets. The increase in the nine-month period of 2007 was the result of higher realized prices; an increase in primary aluminum volume; higher demand in the aerospace, packaging, and industrial markets; and a more favorable product mix associated with aerospace; all of which were partially offset by the absence of four months of revenue due to the completion of the soft alloy extrusions joint venture.

Cost of goods sold (COGS) as a percentage of sales was 80.0% in the third quarter of 2007 compared with 78.8% in the third quarter of 2006. COGS as a percentage of sales was 77.5% in the 2007 nine-month period compared to 76.3% in the 2006 nine-month period. The percentage increase in both periods was negatively impacted by continued increases in energy, raw materials, and other input costs, as a result of global cost inflation; unfavorable foreign currency movements due to a significantly weaker U.S. dollar; smelter curtailment costs associated with the power outage in Tennessee and the shutdown of one of the potlines in Rockdale; repair costs at the Jamalco refinery due to the damage caused by Hurricane Dean; startup costs at the Iceland smelter; and the absence of a 2006 favorable legal settlement related to a former Reynolds distribution business. The decrease in sales also contributed to the percentage increase in the 2007 third quarter while costs associated with the labor strike in Guinea and the restart of one of Intalco s smelter lines contributed to the higher percentage in the 2007 nine-month period. All of these items were partially offset in both periods by the absence of the soft alloy extrusion business and a decrease in the charge recorded for LIFO. The 2007 nine-month period was also positively impacted by the increase in sales and the absence of labor contract and strike preparation costs that occurred in 2006.

Selling, general administrative, and other expenses (SG&A) increased $39 in the third quarter of 2007 and $54 in the 2007 nine-month period compared with the corresponding periods of 2006. The increase in both periods was primarily due to $19 and $45, respectively, in transaction costs (investment banking, legal, audit-related, and other third-party expenses) related to the offer for Alcan and an increase in stock-based compensation expense as a result of reload features of exercised stock options, partially offset by the absence of expenses related to the soft alloy extrusion business. SG&A as a percentage of sales increased from 4.3% in the third quarter of 2006 to 4.9% in the third quarter of 2007. SG&A as a percentage of sales increased from 4.6% in the 2006 nine-month period to 4.7% in the 2007 nine-month period.

Restructuring and other charges consisted of charges of $444 ($311 after tax and minority interests) and $413 ($308 after tax and minority interests) in the third quarter and nine-month period of 2007, respectively. The net charge in both periods included $357 ($251 after tax) in asset impairments related to the Packaging and Consumer businesses, the Electrical and Electronic Solutions business, and the Automotive Castings business; $53 ($36 after tax) in severance charges associated with the Electrical and Electronic Solutions business; and $34 ($24 after tax and minority interests) in net charges, primarily for severance charges and asset impairments of various other facilities. The 2007 nine-month period also includes net charges, primarily for accelerated depreciation associated with the shutdown of certain facilities in 2007, of $34 ($24 after tax and minority interests) related to the restructuring program initiated in the fourth quarter of 2006. All of these amounts were slightly offset in the nine-month period of 2007 by a $65 ($27 after tax) adjustment to the original impairment charge recorded in the fourth quarter of 2006 related to the estimated fair value of the soft alloy extrusion business, which was contributed to a joint venture effective June 1, 2007. Restructuring and other charges consisted of income of $3 ($2 after tax and minority interests) and $11 ($7 after tax and minority interests) in the third quarter and nine-month period of 2006, respectively, primarily resulting from adjustments to prior year severance and other exit cost reserves due to changes in facts and circumstances.

As of September 30, 2007, approximately 3,100 of the 6,200 employees associated with the 2006 restructuring program have been terminated. Also, the terminations associated with the 2005 restructuring program are essentially complete.

In the 2007 nine-month period, cash payments of $72 and $18 were made against total reserves related to the 2006 and 2005 restructuring programs, respectively. The remaining reserves are expected to be paid in cash through 2007, with the exception of approximately $50 to $55, which is expected to be paid over the next several years for ongoing site remediation work and special termination benefit payments.

Restructuring and other charges are not included in the segment results. The pre-tax impact of allocating restructuring and other charges to the segment results would have been as follows:

	Third quarter ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Alumina	$	$	$ 1	$
Primary Metals	1	1	1	1
Flat-Rolled Products	(17)	2	(37)	7
Extruded and End Products	(13)	(1)	50	(3)
Engineered Solutions	(195)		(203)	2
Packaging and Consumer	(215)	1	(220)	3
Segment total	(439)	3	(408)	10
Corporate	(5)		(5)	1
Total restructuring and other charges	$ (444)	$ 3	$ (413)	$ 11

Interest expense increased $50, or 50%, in the third quarter of 2007, and $29, or 10%, in the 2007 nine-month period as compared with the corresponding periods in 2006. The increase in both periods was primarily due to the amortization of $30 in commitment fees paid and capitalized in June 2007 and an expense of $37 for additional commitment fees paid in July 2007, both of which were paid to secure an 18-month $30,000 senior unsecured credit facility to be used to pay for shares of Alcan; and a higher weighted-average effective interest rate, principally due to significantly lower average levels of commercial paper in the debt portfolio; partially offset by an increase in the amount of interest capitalized related to ongoing construction projects. The 2007 nine-month period was also negatively impacted by higher average debt levels, mainly due to the new debt issued in January 2007.

Other income, net increased by $1,683 and $1,691 in the 2007 third quarter and nine-month period, respectively, compared with the corresponding periods of 2006. The increase in the third quarter of 2007 was principally due to the sale of Alcoa s investment in Chalco, which resulted in a gain of $1,754, net of transaction fees and other expenses, and a dividend received from Chalco that did not occur in the third quarter of 2006, slightly offset by unfavorable foreign currency movements and the absence of interest income associated with interest earned on a 2006 Brazilian court settlement. The improvement in the 2007 nine-month period was primarily due to the gain on the sale of Chalco and a non-recurring foreign currency gain in Russia, slightly offset by a decrease in the amount of dividends received from Chalco between periods, the absence of the previously mentioned 2006 interest income, and unfavorable foreign currency movements.

The effective tax rate for the third quarter of 2007 and 2006 was 63.0% and 24.7%, respectively. The rate for the third quarter of 2007 differs from the U.S. federal statutory rate of 35% primarily due to a discrete income tax charge of $464 related to goodwill that is non-deductible for tax purposes associated with the planned sale of the Packaging and Consumer businesses. The rate for the third quarter of 2006 differs from the U.S. federal statutory rate of 35% primarily due to lower taxes on foreign income and a discrete tax benefit of $18 related to the cumulative correction of Alcoa s deferred tax assets attributable to an international location.

The effective tax rate for the 2007 and 2006 nine-month periods was 44.0% and 27.2%, respectively. The rate for the 2007 nine-month period differs from the U.S. federal statutory rate of 35% primarily due to the aforementioned $464 discrete income tax charge, partially offset by foreign income being taxed in lower rate jurisdictions. The rate for the 2006 nine-month period differs from the U.S. federal statutory rate of 35% primarily due to foreign income being taxed in lower rate jurisdictions.

Minority interests share of income from continuing operations for the 2007 third quarter and nine-month period decreased $33, or 30%, and $37, or 11%, respectively, compared with the same periods in 2006. The decline in both periods was principally due to lower earnings at Alcoa World Alumina and Chemicals driven mainly by unfavorable foreign currency movements due to a weaker U.S. dollar and increased energy costs.

Segment Information

I. Alumina

	Third quarter ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Alumina production (kmt)	3,775	3,890	11,229	11,338
Third-party alumina shipments (kmt)	1,937	2,205	5,804	6,336
Third-party sales	$ 664	$ 733	$ 2,021	$ 2,074
Intersegment sales	631	524	1,797	1,594
Total sales	$ 1,295	$ 1,257	$ 3,818	$ 3,668
After-tax operating income (ATOI)	$ 215	$ 271	$ 751	$ 791

Third-party sales for the Alumina segment decreased 9% in the third quarter of 2007 and 3% in the 2007 nine-month period compared with the corresponding periods of 2006. The decrease in the 2007 third quarter was primarily due to a 12% decrease in volume, partially offset by a 4% increase in realized prices driven by higher LME prices. In the nine-month period of 2007, the decline was principally due to an 8% decrease in volume, mostly offset by a 9% increase in realized prices driven by higher LME prices. Intersegment sales increased 20% and 13% in the 2007 third quarter and nine-month period, respectively, compared with the corresponding periods of 2006 primarily due to an increase in realized prices and higher volumes.

ATOI for this segment declined 21% in the third quarter of 2007 compared with the same period in 2006 primarily due to unfavorable foreign currency exchange movements due to a strong Australian dollar, continued higher energy costs, and an increase in depreciation related to assets of the Pinjarra, Australia efficiency upgrade and the Early Works Program in Jamaica that were not in service in the prior quarter, partially offset by higher realized prices. ATOI decreased 5% in the 2007 nine-month period compared with the corresponding 2006 period principally due to the same unfavorable impacts that affected the third quarter of 2007, mostly offset by higher realized prices.

In the fourth quarter of 2007, an increase in production is expected and continued energy cost pressures are anticipated.

II. Primary Metals

	Third quarter ended September 30, 2007	2006	Nine months ended September 30, 2007	2006
Aluminum production (kmt)	934	895	2,734	2,644
Third-party aluminum shipments (kmt)	584	535	1,667	1,531
Alcoa s average realized price per metric ton of aluminum	$ 2,734	$ 2,620	$ 2,835	$ 2,628
Third-party sales	$ 1,600	$ 1,476	$ 4,979	$ 4,473
Intersegment sales	1,171	1,467	3,931	4,684
Total sales	$ 2,771	$ 2,943	$ 8,910	$ 9,157
ATOI	$ 283	$ 346	$ 1,249	$ 1,280

Third-party sales for the Primary Metals segment increased 8% in the third quarter of 2007 and 11% in the 2007 nine-month period compared with the corresponding 2006 periods. The increase in both periods was primarily due to an increase in realized prices driven by higher LME prices and improved volumes, mainly due to shipments made in 2007 to the newly formed soft alloy extrusions joint venture, which is majority-owned and operated by a third party; prior to June 2007, shipments to the Extruded and End Products segment s soft alloy extrusion business were included in intersegment sales. Third-party shipments increased 9% in both the third quarter and nine-month period of 2007 compared with the corresponding 2006 periods primarily due to the shipments made to the soft alloy extrusions joint venture, as well as the Intalco smelter s completed restart of one potline in the second quarter of 2007. Intersegment sales decreased 20% and 16% in the third quarter and the nine-month period of 2007, respectively, compared with the corresponding periods of 2006 primarily as the result of the absence of shipments to the soft alloy extrusion business that occurred in 2006 and production curtailments associated with the Tennessee and Rockdale smelters that occurred in the second quarter of 2007, partially offset by an increase in realized prices.

ATOI for this segment decreased 18% and 2% in the third quarter and nine-month period of 2007, respectively, compared with the corresponding 2006 periods. The decline of 18% was primarily due to unfavorable foreign currency impacts related to the strong Australian dollar, Euro, and Brazilian real; costs associated with the Rockdale and Tennessee smelter curtailments; continued increases in raw material costs; and Iceland smelter start-up costs; partially offset by higher third-party volumes and realized prices. The decrease in the 2007 nine-month period was primarily due to the same unfavorable impacts that affected the third quarter of 2007, mostly offset by higher third-party volumes and realized prices.

Alcoa has 456,000 metric tons per year (mtpy) of idle capacity on a base capacity of 4,209,000 mtpy. Idle capacity did not change in the third quarter of 2007 as compared to the second quarter of 2007.

In the fourth quarter of 2007, costs should decline as the Tennessee and Rockdale smelters are expected to be completely online by the end of 2007. In addition, it is anticipated that start-up costs at the Iceland smelter, which is expected to reach full production capacity during the first quarter of 2008, will be approximately $29 (after tax).

III. Flat-Rolled Products

	Third quarter ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Third-party aluminum shipments (kmt)	602	568	1,753	1,709
Third-party sales	$ 2,309	$ 2,115	$ 6,928	$ 6,170
Intersegment sales	59	65	182	180
Total sales	$ 2,368	$ 2,180	$ 7,110	$ 6,350
ATOI	$ 61	$ 48	$ 216	$ 193

Third-party sales for the Flat-Rolled Products segment increased 9% in the third quarter of 2007 and 12% in the 2007 nine-month period compared with the corresponding periods of 2006. The increase in both periods was primarily due to favorable pricing, higher volumes in packaging and industrial products markets, favorable product mix associated with aerospace and foreign currency exchange movements in Europe. These increases were somewhat offset by a loss of sales associated with the shutdown of the Swansea, U.K. can sheet facility in the first quarter of 2007, and lower volumes in automotive, commercial transportation and distribution markets.

ATOI for this segment increased 27% and 12% in the third quarter and nine-month period of 2007, respectively, compared with the corresponding periods in 2006. The increase in both periods was primarily due to favorable pricing and product mix, the increase in volumes noted above, and productivity gains, partially offset by higher direct materials and other cost inflation, and higher costs in Russia and China.

In the fourth quarter of 2007, Alcoa anticipates the continued short-term impact of distributor de-stocking of inventories, as well as seasonal weakness in the North American and European distribution markets.

IV. Extruded and End Products

	Third quarter ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Third-party aluminum shipments (kmt)	78	220	437	674
Third-party sales	$ 563	$ 1,146	$ 2,703	$ 3,349
Intersegment sales	13	20	81	74
Total sales	$ 576	$ 1,166	$ 2,784	$ 3,423
ATOI	$ 13	$ 16	$ 93	$ 33

Third-party sales for the Extruded and End Products segment decreased 51% in the third quarter of 2007 and 19% in the 2007 nine-month period compared with the corresponding 2006 periods. The decrease in both periods was primarily due to the absence of revenues, which averaged approximately $200 per month, associated with the contribution of the soft alloy extrusion business to a joint venture effective June 1, 2007. This was also the cause of the significant decline in third-party shipments. These declines were somewhat offset by higher volumes, prices and favorable foreign currency exchange movements in the building and construction business.

ATOI for this segment decreased 19% in the third quarter of 2007 and increased 182% in the 2007 nine-month period compared with the corresponding periods of 2006. The decline in the third quarter of 2007 was primarily due to softening in the U.S. and European markets for soft alloy extrusions in 2007, combined with stronger market demand for soft alloy extrusions experienced in 2006. In the 2007 nine-month period, the increase was primarily due to the absence of depreciation on assets held for sale prior to the formation of the soft alloy extrusions joint venture, a gain on the sale of a building and higher volumes in the building and construction business, and favorable product mix in hard alloy extrusions.

In the fourth quarter of 2007, hard alloy extrusions and building and construction are expected to remain strong.

V. Engineered Solutions

	Third quarter ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Third-party aluminum shipments (kmt)	27	34	88	109
Third-party sales	$ 1,407	$ 1,345	$ 4,334	$ 4,110
ATOI	$ 60	$ 75	$ 258	$ 258

Third-party sales for the Engineered Solutions segment increased 5% in both the third quarter and nine-month period of 2007 compared with the 2006 corresponding periods. The increase in both periods was primarily due to share gains in all target markets, the impact of escalating material prices, which are passed on to certain customers, and continued robust demand in the aerospace and industrial gas turbine markets. These positive impacts were partially offset by weakness in North American light vehicle production, which has dipped to its lowest seasonally adjusted rate in almost a decade, and a continued decrease in commercial vehicle Class 8 truck builds in North America which were down 54% and 42% in the 2007 third quarter and nine-month period, respectively.

ATOI for this segment decreased 20% in the third quarter of 2007 and was flat in the 2007 nine-month period compared with the corresponding 2006 periods. The decrease in the third quarter was primarily due to the decline in the North American automotive markets, a tax rate change in Germany, and write-offs associated with the restructuring action and pricing reductions in the Electrical and Electronic Solutions business, all of which was partially offset by productivity improvements in the fasteners business. In the 2007 nine-month period, productivity improvements in the fasteners business were offset by the previously mentioned tax rate change and write-offs, higher costs for raw materials and the decline in the North American automotive markets.

In the fourth quarter of 2007, the downturn in the North American commercial vehicle Class 8 truck builds is expected to be more pronounced. On the other hand, positive impacts are anticipated from restructuring activities associated with the Electrical and Electronic Solutions business.

VI. Packaging and Consumer

	Third quarter ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Third-party aluminum shipments (kmt)	37	39	112	123
Third-party sales	$ 828	$ 815	$ 2,401	$ 2,398
ATOI	$ 36	$ 24	$ 92	$ 69

Third-party sales for the Packaging and Consumer segment increased 2% in the third quarter of 2007 and were flat in the 2007 nine-month period compared with the corresponding 2006 periods. The increase in the third quarter of 2007 was primarily due to increases in volume and favorable mix, partially offset by a decline in prices. In the 2007 nine-month period, favorable mix was offset by a decline in volume and prices.

ATOI for this segment increased 50% and 33% in the third quarter and nine-month period of 2007, respectively, compared with the corresponding periods in 2006. The increase in both periods was primarily due to productivity improvements among all businesses and improved mix, partially offset by increased costs. Higher volumes also contributed to the increase in the 2007 third quarter while volumes declined in the 2007 nine-month period.

In the fourth quarter of 2007, continued productivity improvements are anticipated and a normal seasonal upturn is expected in the consumer products business, while a normal seasonal decrease is expected in the closures business. Also, depreciation expense will no longer be recorded on the assets of the Packaging and Consumer businesses, as such assets were reflected as held for sale and were written down to their current estimated fair value in the third quarter of 2007 due to management s recently announced decision to sell these businesses.

Reconciliation of ATOI to Consolidated Net Income

Items required to reconcile segment ATOI to consolidated net income include: the impact of LIFO inventory accounting; interest income and expense; minority interests; corporate expense, comprised of general administrative and selling expenses of operating the corporate headquarters and other global administrative facilities, along with depreciation and amortization on corporate-owned assets; restructuring and other charges; discontinued operations; and other, which includes intersegment profit and other metal adjustments, differences between estimated tax rates used in the segments and the corporate effective tax rate, and other nonoperating items such as foreign currency translation gains/losses.

The following table reconciles total segment ATOI to consolidated net income:

	Third quarter ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Total segment ATOI	$ 668	$ 780	$ 2,659	$ 2,624
Unallocated amounts (net of tax):				
Impact of LIFO	10	(19)	(33)	(104)
Interest income	10	23	30	44
Interest expense	(98)	(66)	(208)	(189)
Minority interests	(76)	(109)	(301)	(338)
Corporate expense	(101)	(64)	(288)	(235)
Restructuring and other charges	(311)	2	(308)	7
Discontinued operations	(3)	(3)	(15)	(14)
Other	456	(7)	396	94
Consolidated net income	$ 555	$ 537	$ 1,932	$ 1,889

The significant changes in the reconciling items between total segment ATOI and consolidated net income for the 2007 third quarter and nine-month period compared with the corresponding periods of 2006 (unless otherwise noted) consisted of:

a decrease in the Impact of LIFO due to lower metal prices;

a decrease in Interest income, primarily due to the absence of interest earned on a 2006 Brazilian court settlement;

an increase in Interest expense, principally due to $43 in credit facility commitment fees related to the Alcan offer, partially offset by an increase in capitalized interest;

a decrease in Minority interests primarily due to lower earnings at Alcoa World Alumina and Chemicals driven mainly by unfavorable foreign currency movements due to a weaker U.S. dollar and increased energy costs;

an increase in Corporate expense, mostly due to $12 and $29 in transaction costs related to the offer for Alcan in the 2007 third quarter and nine-month period, respectively, and an increase in stock-based compensation expense as a result of reload features of exercised stock options;

an increase in Restructuring and other charges, mostly due to asset impairment charges of $140 and $51 related to the Packaging and Consumer businesses and the Automotive Castings business, respectively, and asset impairment charges of $60 and severance charges of $36 associated with the Electrical and Electronic Solutions business; in the 2007 nine-month period, the increase was also partially due to accelerated depreciation associated with the shutdown of certain facilities in 2007 related to the restructuring program initiated in the fourth quarter of 2006; a $27 favorable adjustment to the estimated fair value of the soft alloy extrusion business slightly offset all of these charges in the nine-month period of 2007; and

an increase in Other, principally due to a $1,140 gain on the sale of the Chalco investment, partially offset by a $464 discrete income tax charge related to goodwill that is non-deductible for tax purposes associated with the planned sale of the Packaging and Consumer businesses, a $93 goodwill impairment charge related to the restructuring actions of the Electrical and Electronic Solutions business; and an increase in income taxes in order to reconcile the estimated tax rates used in the segments with Alcoa s effective tax rate.

Segment Assets

The following table details segment assets:

	September 30, 2007	December 31, 2006
Alumina	$ 6,358	$ 5,250
Primary Metals	11,315	10,530
Flat-Rolled Products	5,446	5,192
Extruded and End Products	2,046	1,178
Engineered Solutions	6,121	5,847
Total segment assets*	$ 31,286	$ 27,997

* The difference between total segment assets and consolidated assets is in Corporate.

The increase in segment assets for the Alumina and Primary Metals segments in the 2007 nine-month period was primarily due to capital spending, most of which was on growth projects, including the Sao Luis and Jamalco refinery expansions; the development of the Juruti bauxite mine; and the construction of the smelter in Iceland and the anode facility in Norway. The increase in segment assets for the Extruded and End Products segment in the 2007 nine-month period was the result of Alcoa s equity investment in the soft alloy extrusions joint venture on June 1, 2007. Prior to the formation of the joint venture, the assets of Alcoa s soft alloy extrusions business were classified as held for sale, and, therefore, were reflected in Corporate instead of the Extruded and End Products segment.

Statement of Financial Position

Comprehensive income was $201 in the third quarter of 2007, and consisted of $555 in net income; a $305 unrealized gain on available-for-sale securities, primarily related to the Chalco investment prior to the sale of this investment; a $1,160 reclassification adjustment due to the realization of $1,159 in cumulative unrealized holding gains as a result of the sale of Chalco; $459 in foreign currency translation adjustments, primarily due to a stronger Australian dollar, Brazilian real, and Euro against the U.S. dollar; a $55 reduction in unrecognized losses and prior service cost related to pension and postretirement benefit plans, principally due to scheduled amortization and expense recognition of these items; and net unrecognized losses on derivatives of $13, primarily related to the decline in the fair value of aluminum cash flow hedges.

Comprehensive income was $2,444 in the 2007 nine-month period, and consisted of $1,932 in net income; a $748 unrealized gain on available-for-sale securities, primarily related to the Chalco investment prior to the sale of this investment; a $1,160 reclassification adjustment due to the realization of $1,159 in cumulative unrealized holding gains as a result of the sale of Chalco; $860 in foreign currency translation adjustments, principally due to a stronger Australian dollar, Brazilian real, and Euro against the U.S. dollar; a $132 reduction in unrecognized losses and prior service cost related to pension and postretirement benefit plans, primarily due to scheduled amortization and expense recognition of these items; and net unrecognized losses on derivatives of $68, principally due to the decrease in the fair value of aluminum cash flow hedges, partially offset by an increase in the fair value of energy-related hedges.

Liquidity and Capital Resources

Cash From Operations

Cash provided from operations was $2,468 in the 2007 nine-month period compared with cash provided from operations of $1,234 in the same period of 2006. The improvement of $1,234 is principally due to a $1,699 positive change associated with working capital, primarily due to improvements in receivables, inventories, and accounts payable and accrued expenses; $93 in cash received related to a long-term aluminum supply contract; and higher net income of $43; partially offset by a significant increase in non-cash adjustments related to the sale of the Chalco investment; the asset impairments, including goodwill, and severance charges associated with the Packaging and Consumer businesses, the Electrical and Electronics business, and the Automotive Castings business; and the discrete income tax charge for goodwill of the Packaging and Consumer businesses that is non-deductible for tax purposes.

Financing Activities

Cash used for financing activities was $979 in the 2007 nine-month period, a decline of $1,592 compared with cash provided from financing activities of $613 in the corresponding period of 2006. The decrease was primarily due to a $2,397 change in commercial paper, mostly due to the repayment of commercial paper with the majority of the proceeds from the issuance of new long-term debt in 2007 and a reduction in the need to fund capital expenditures with commercial paper between periods; a $1,258 increase in the repurchase of common stock due to a significant increase in the number of shares repurchased and a higher average market price paid for such repurchases; an $816 increase in payments of long-term debt, primarily related to Alcoa s purchase in the 2007 first quarter of $333 of its outstanding 4.25% Notes due August 2007 and the repayment of the remaining $459 of outstanding 4.25% Notes in August 2007; $126 in payments for debt issuance costs, including a commitment fee of $30 paid to secure a credit facility related to the offer for Alcan; and a $55 increase in dividends paid to shareholders as a result of the two cents per share quarterly increase approved in January 2007. These cash outflows were partially offset by a $2,029 increase in additions to long-term debt, principally due to proceeds received of $1,994 (net of $6 in original issue discounts) from the issuance of new 5.55% Notes due 2017, 5.9% Notes due 2027, and 5.95% Notes due 2037; a $678 increase in cash received for the exercise of stock options; and a $305 increase in minority interest contributions received from Elkem ASA, related to the smelter in Mosjoen, Norway, and Alumina Limited, related to their share of capital spending at the Sao Luis and Juruti, Brazil facilities.

On October 2, 2007, Alcoa entered into a Five-Year Revolving Credit Agreement, dated as of October 2, 2007 (the Credit Agreement), with a syndicate of lenders and issuers named therein. The Credit Agreement provides a $3,250 senior unsecured revolving credit facility (the Credit Facility), the proceeds of which are to be used to provide working capital or for other general corporate purposes of Alcoa, including support of Alcoa s commercial paper program. Subject to the terms and conditions of the Credit Agreement, Alcoa may from time to time request increases in lender commitments under the Credit Facility, not to exceed $500 in aggregate principal amount, and may also request the issuance of letters of credit, subject to a letter of credit sub-limit of $500 under the Credit Facility.

The Credit Facility matures on October 2, 2012, unless extended or earlier terminated in accordance with the provisions of the Credit Agreement. Alcoa may make two one-year extension requests during the term of the Credit Facility, with any extension being subject to the lender consent requirements set forth in the Credit Agreement.

The Credit Facility is unsecured and amounts payable under it will rank *pari passu* with all other unsecured, unsubordinated indebtedness of Alcoa. Borrowings under the Credit Facility may be denominated in U.S. dollars or Euros. Loans will bear interest at (i) a base rate or (ii) a rate equal to LIBOR plus an applicable margin based on the credit ratings of Alcoa s outstanding senior unsecured long-term debt. Based on Alcoa s current long-term debt ratings, the applicable margin on LIBOR loans will be 0.24% per annum. Loans may be prepaid without premium or penalty, subject to customary breakage costs.

The Credit Facility replaces $3,000 in aggregate principal amount of revolving credit facilities maintained by Alcoa under the following credit agreements, which were terminated effective October 2, 2007: (i) $1,000 Five-Year Revolving Credit Agreement dated as of April 22, 2005, (ii) $1,000 Five-Year Revolving Credit Agreement dated as of April 23, 2004, as amended, and (iii) $1,000 Five-Year Revolving Credit Agreement dated as of April 25, 2003, as amended (collectively, the Former Credit Agreements).

The Credit Agreement includes covenants substantially similar to those in the Former Credit Agreements, including, among others, (a) a leverage ratio, (b) limitations on Alcoa s ability to incur liens securing indebtedness for borrowed money, (c) limitations on Alcoa s ability to consummate a merger, consolidation or sale of all or substantially all of its assets and (d) limitations on Alcoa s ability to change the nature of its business.

The obligation of Alcoa to pay amounts outstanding under the Credit Facility may be accelerated upon the occurrence of an Event of Default as defined in the Credit Agreement. Such Events of Default include, among others, (a) Alcoa s failure to pay the principal of, or interest on, borrowings under the Credit Facility, (b) any representation or warranty of Alcoa in the Credit Agreement proving to be materially false or misleading, (c) Alcoa s breach of any of its covenants contained in the Credit Agreement, and (d) the bankruptcy or insolvency of Alcoa.

Investing Activities

Cash used for investing activities was $706 in the 2007 nine-month period compared with $2,072 in the 2006 nine-month period. The decrease in cash used of $1,366 was mostly due to a $1,974 increase in sales of investments, principally related to the $1,942 in proceeds received from the sale of the Chalco investment, partially offset by a $557 increase in capital expenditures, primarily related to higher spending on certain growth projects, including the Sao Luis refinery expansion; the development of the Juruti bauxite mine; and projects at various facilities in Russia, Hungary, and Bohai; all of which were partially offset by a decrease in capital expenditures related to the Pinjarra, Australia refinery upgrade and the Early Works Program in Jamaica, as these two projects were completed in 2006.

Recently Issued and Recently Adopted Accounting Standards

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115, (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). SFAS 159 becomes effective for Alcoa on January 1, 2008. Management is currently evaluating the potential impact of SFAS 159 on the Financial Statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157 becomes effective for Alcoa on January 1, 2008. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. The adoption of SFAS 157 is not expected to have a material impact on the Financial Statements.

In April 2007, the FASB issued FASB Staff Position (FSP) No. FIN 39-1, Amendment of FASB Interpretation No. 39, (FSP FIN 39-1). FSP FIN 39-1 amends FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts, by permitting entities that enter into master netting arrangements as part of their derivative transactions to offset in their financial statements net derivative positions against the fair value of amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral or the obligation to return cash collateral under those arrangements. FSP FIN 39-1 becomes effective for Alcoa on January 1, 2008. Management is currently evaluating the potential impact of FSP FIN 39-1 on the Financial Statements.

In March 2007, the Emerging Issues Task Force (EITF) issued EITF Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements, (EITF 06-10). Under the provisions of EITF 06-10, an employer is required to recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, or Accounting Principles Board Opinion No. 12, Omnibus Opinion 1967, if the employer has agreed to maintain a life insurance policy during the employee s retirement or provide the employee with a death benefit based on the substantive arrangement with the employee. The provisions of EITF 06-10 also require an employer to recognize and measure the asset in a collateral assignment split-dollar life insurance arrangement based on the nature and substance of the arrangement. EITF 06-10 becomes effective for Alcoa on January 1, 2008. Management is currently evaluating the potential impact of EITF 06-10 on the Financial Statements.

On January 1, 2007, Alcoa adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements, uncertain tax positions that it has taken or expects to take on a tax return. This Interpretation requires that a company recognize in its financial statements the impact of tax positions that meet a more likely than not threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The adoption of FIN 48 did not have an impact on the accompanying Financial Statements. In accordance with the disclosure provisions of FIN 48, the following information is presented as of the date of adoption.

Alcoa has $23 of unrecognized tax benefits, all of which, if recorded, would change the 2007 annual effective tax rate by less than one percent. The company s results of operations were not materially impacted during the nine-month period ended September 30, 2007 from changes in its unrecognized tax benefits, nor does the company anticipate such an impact during the fourth quarter of 2007.

It is Alcoa s policy to recognize interest and penalties related to income taxes as a component of the provision for income taxes on the accompanying Condensed Statement of Consolidated Income. The amount of interest and penalties accrued at the date of adoption is approximately $5.

Alcoa and its subsidiaries file income tax returns in the U.S., various states and foreign jurisdictions. With few exceptions, Alcoa is no longer subject to income tax examinations by tax authorities for years prior to 2001. All U.S. tax years prior to 2006 have been audited by the Internal Revenue Service. Various state and foreign jurisdiction tax authorities are in the process of examining Alcoa s income tax returns for various tax years ranging from 2001 to 2005.

Effective January 1, 2007, Alcoa adopted FSP No. FIN 48-1, Definition of Settlement in FASB Interpretation No. 48, (FSP FIN 48-1), which was issued on May 2, 2007. FSP FIN 48-1 amends FIN 48 to provide guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The term effectively settled replaces the term ultimately settled when used to describe recognition, and the terms settlement or settled replace the terms ultimate settlement or ultimately settled when used to describe measurement of a tax position under FIN 48. FSP FIN 48-1 clarifies that a tax position can be effectively settled upon the completion of an examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open. The adoption of FSP FIN 48-1 did not have an impact on the accompanying Financial Statements.

Environmental Matters

Alcoa continues to participate in environmental assessments and cleanups at a number of locations. These include approximately 32 owned or operating facilities and adjoining properties, approximately 33 previously owned or operating facilities and adjoining properties, and approximately 66 waste sites, including Superfund sites. A liability is recorded for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated.

As assessments and cleanups proceed, the liability is adjusted based on progress made in determining the extent of remedial actions and related costs and damages. The liability can change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements, and technological changes. Therefore, it is not possible to determine the outcomes or to estimate with any degree of accuracy the potential costs for certain of these matters.

The following discussion provides additional details regarding the current status of Alcoa s significant sites where the final outcome cannot be determined or the potential costs in the future cannot be estimated.

Massena, NY. Alcoa has been conducting investigations and studies of the Grasse River, adjacent to Alcoa s Massena, NY plant site, under order from the U.S. Environmental Protection Agency (EPA) issued under the Comprehensive Environmental Response, Compensation and Liability Act, also known as Superfund. Sediments and fish in the river contain varying levels of polychlorinated biphenyls (PCBs).

In 2002, Alcoa submitted an Analysis of Alternatives Report that detailed a variety of remedial alternatives with estimated costs ranging from $2 to $525. Because the selection of the $2 alternative (natural recovery) was considered remote, Alcoa adjusted the reserve for the Grasse River in 2002 to $30 representing the low end of the range of possible alternatives, as no single alternative could be identified as more probable than the others.

In June of 2003, based on river observations during the spring of 2003, the EPA requested that Alcoa gather additional field data to assess the potential for sediment erosion from winter river ice formation and breakup. The results of these additional studies, submitted in a report to the EPA in April of 2004, suggest that this phenomenon has the potential to occur approximately every 10 years and may impact sediments in certain portions of the river under all remedial scenarios. The EPA informed Alcoa that a final remedial decision for the river could not be made without substantially more information, including river pilot studies on the effects of ice formation and breakup on each of the remedial techniques. Alcoa submitted to the EPA, and the EPA approved, a Remedial Options Pilot Study (ROPS) to gather this information. The scope of this study includes sediment removal and capping, the installation of an ice control structure, and significant monitoring.

In May of 2004, Alcoa agreed to perform the study at an estimated cost of $35. Most of the construction work was completed in 2005 with monitoring work proposed through 2008. The findings will be incorporated into a revised Analysis of Alternatives Report, which is expected to be submitted in 2008. This information will be used by the EPA to propose a remedy for the entire river. Alcoa adjusted the reserves in the second quarter of 2004 to include the $35 for the ROPS. This was in addition to the $30 previously reserved.

The reserves for the Grasse River were re-evaluated in the fourth quarter of 2006 and an adjustment of $4 was made. This adjustment is to cover commitments made to the EPA for additional investigation work, for the on-going monitoring program, including that associated with the ROPS program, to prepare a revised Analysis of Alternatives Report, and for an interim measure that involves, annually, the mechanical ice breaking of the river to prevent the formation of ice jams until a permanent remedy is selected. This reserve adjustment is intended to cover these commitments through 2008 when the revised Analysis of Alternatives report will be submitted.

With the exception of the natural recovery remedy, none of the existing alternatives in the 2002 Analysis of Alternatives Report is more probable than the others and the results of the ROPS are necessary to revise the scope and estimated cost of many of the current alternatives.

The EPA s ultimate selection of a remedy could result in additional liability. Alcoa may be required to record a subsequent reserve adjustment at the time the EPA s Record of Decision is issued, which is expected in 2008 or later.

Sherwin, TX. In connection with the sale of the Sherwin alumina refinery in Texas, which was required to be divested as part of the Reynolds merger in 2000, Alcoa has agreed to retain responsibility for the remediation of the then existing environmental conditions, as well as a pro rata share of the final closure of the active waste disposal areas, which remain in use. Alcoa s share of the closure costs is proportional to the total period of operation of the active waste disposal areas. Alcoa estimated its liability for the active disposal areas by making certain assumptions about the period of operation, the amount of material placed in the area prior to closure, and the appropriate technology, engineering, and regulatory status applicable to final closure. The most probable cost for remediation has been reserved. It is reasonably possible that an additional liability, not expected to exceed $75, may be incurred if actual experience varies from the original assumptions used.

East St. Louis, IL. In response to questions regarding environmental conditions at the former East St. Louis, IL operations, Alcoa entered into an administrative order with the EPA in December 2002 to perform a remedial investigation and feasibility study of an area used for the disposal of bauxite residue from historic alumina refining operations. A draft feasibility study was submitted to the EPA in April 2005. The feasibility study includes remedial alternatives that range from no further action at $0 to significant grading, stabilization, and water management of the bauxite residue disposal areas at $75. Because the selection of the $0 alternative was considered remote, Alcoa increased the environmental reserve for this location by $15 in the second quarter of 2005, representing the low end of the range of possible alternatives, which met the remedy selection criteria, as no alternative could be identified as more probable than the others. Recently, the EPA temporarily suspended their final review of the feasibility study based on Alcoa s request for additional time to fully explore site redevelopment and material use options. Ultimately, the EPA s selection of a remedy could result in additional liability, and Alcoa may be required to record a subsequent reserve adjustment at the time the EPA s Record of Decision is issued, which is expected in 2008 or later.

Based on the foregoing, it is possible that Alcoa s results of operations, in a particular period, could be materially affected by matters relating to these sites. However, based on facts currently available, management believes that adequate reserves have been provided and that the disposition of these matters will not have a material adverse effect on the financial position, liquidity, or the results of operations of the company.

Alcoa s remediation reserve balance was $293 and $332 at September 30, 2007 and December 31, 2006 (of which $54 and $49 was classified as a current liability), respectively, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. In the 2007 nine-month period, the remediation reserve was decreased by $17 consisting of a $15 adjustment for the liabilities associated with a previously owned smelter site and a $5 adjustment for liabilities at the Russian rolling mills and extrusion plants, both of which were slightly offset by a net increase of $3 in liabilities associated with various locations. The $15 and $5 adjustments, which were recorded as a credit to Cost of goods sold on the accompanying Condensed Statement of Consolidated Income, were made after further investigations were completed whereby Alcoa was able to obtain additional information about the environmental condition and the associated liabilities related to these sites. Payments related to remediation expenses applied against the reserve were $22 in the 2007 nine-month period. These amounts include expenditures currently mandated, as well as those not required by any regulatory authority or third party.

Included in annual operating expenses are the recurring costs of managing hazardous substances and environmental programs. These costs are estimated to be approximately 2% of cost of goods sold.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

In addition to the risks inherent in its operations, Alcoa is exposed to financial, market, political, and economic risks. The following discussion provides information regarding Alcoa s exposure to the risks of changing commodity prices, interest rates, and foreign currency exchange rates.

Alcoa s commodity and derivative activities are subject to the management, direction, and control of the Strategic Risk Management Committee (SRMC). The SRMC is composed of the chief executive officer, the chief financial officer, and other officers and employees that the chief executive officer selects. The SRMC reports to the Board of Directors on the scope of its activities.

The interest rate, foreign currency, aluminum, and other commodity contracts are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility, and to cover underlying exposures. The company is not involved in energy-trading activities, weather derivatives, or other nonexchange commodity trading activities.

Commodity Price Risks Alcoa is a leading global producer of primary aluminum and aluminum fabricated products. As a condition of sale, customers often require Alcoa to enter into long-term, fixed-price commitments. These commitments expose Alcoa to the risk of higher aluminum prices between the time the order is committed and the time that the order is shipped. Alcoa also sells aluminum products to third parties at then-current market prices and is exposed to the risk of lower market prices at the time of shipment. Alcoa uses futures contracts, totaling approximately 849 kmt at September 30, 2007, to reduce the aluminum price risk associated with a portion of these fixed-price firm commitments. The effects of this hedging activity will be recognized in earnings over the designated hedge periods in 2007 to 2009.

Alcoa has also entered into futures and option contracts, totaling approximately 652 kmt at September 30, 2007, to hedge a portion of future production. The effect of this hedging activity will be recognized in earnings over the designated hedge periods in 2007 to 2011.

Alcoa has also entered into futures contracts to minimize its price risk related to other customer sales and pricing arrangements. Alcoa has not qualified these contracts for hedge accounting treatment, and therefore, the fair value gains and losses on these contracts are recorded in earnings. These contracts totaled 190 kmt at September 30, 2007. In addition, Alcoa has power supply and other contracts that contain pricing provisions related to the LME aluminum price. The LME-linked pricing features are considered embedded derivatives. A majority of these embedded derivatives have been designated as hedges of future sales of aluminum. Gains and losses on the remainder of these embedded derivatives are recognized in earnings.

The net mark-to-market pre-tax earnings impact from aluminum derivative and hedging activities were losses of approximately $26 and $13 in the 2007 third quarter and nine-month period, respectively.

Alcoa purchases natural gas, fuel oil, and electricity to meet its production requirements and believes it is highly likely that such purchases will continue in the future. These purchases expose the company to the risk of higher prices. To hedge a portion of these risks, Alcoa uses futures and forward contracts. The effects of this hedging activity will be recognized in earnings over the designated hedge periods in 2007 to 2011.

Financial Risk

Interest rates Alcoa uses interest rate swaps to help maintain a strategic balance between fixed- and floating-rate debt and to manage overall financing costs. For a portion of its fixed-rate debt, the company has entered into pay floating, receive fixed interest rate swaps to effectively change the fixed interest rates to floating interest rates.

Currencies Alcoa is subject to exposure from fluctuations in foreign currency exchange rates. Foreign currency exchange contracts may be used from time to time to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency. These contracts cover periods consistent with known or expected exposures through 2008.

Fair values The following table shows the fair values of outstanding derivative contracts at September 30, 2007:

	Fair value (loss)/gain
Aluminum	$ (811)
Interest rates	(54)
Other commodities, principally energy related	(55)
Currencies	70

Aluminum consists primarily of losses on hedge contracts, embedded derivatives in power contracts in Iceland and Brazil, and Alcoa s share of losses on hedge contracts of Norwegian smelters that are accounted for under the equity method.

Material Limitations The disclosures with respect to commodity prices, interest rates, and foreign currency exchange risk do not take into account the underlying commitments or anticipated transactions. If the underlying items were included in the analysis, the gains or losses on the futures contracts may be offset. Actual results will be determined by a number of factors that are not under Alcoa s control and could vary significantly from those factors disclosed.

Alcoa is exposed to credit loss in the event of nonperformance by counterparties on the above instruments, as well as credit or performance risk with respect to its hedged customers commitments. Although nonperformance is possible, Alcoa does not anticipate nonperformance by any of these parties. Contracts are with creditworthy counterparties and are further supported by cash, treasury bills, or irrevocable letters of credit issued by carefully chosen banks. In addition, various master netting arrangements are in place with counterparties to facilitate settlement of gains and losses on these contracts.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Alcoa s Chief Executive Officer and Chief Financial Officer have evaluated the company s disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this report, and they have concluded that these controls and procedures are effective.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in Alcoa s internal control over financial reporting during the nine-month period ended September 30, 2007, that have materially affected, or are reasonably likely to materially affect, the registrant s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

As previously reported, in August 2005, Dany Lavoie, a resident of Baie Comeau in the Canadian Province of Quebec, filed a Motion for Authorization to Institute a Class Action and for Designation of a Class Representative against Alcoa Canada Inc., Alcoa Limitee, Societe Canadienne de Metaux Reynolds Limitee and Canadian British Aluminum in the Superior Court of Quebec in the District of Baie Comeau. The case is styled Regroupment Des Citoyens Du Quartier St. Georges Inc., plaintiff; and Lavoie, Dany, Designated Person v. Alcoa Canada Ltd. et al. Plaintiff seeks to institute the class action on behalf of a putative class consisting of all past, present and future owners, tenants and residents of Baie Comeau s St. Georges neighborhood. He alleges that defendants, as the present and past owners and operators of an aluminum smelter in Baie Comeau, have negligently allowed the emission of certain contaminants from the smelter, specifically Polycyclic Aromatic Hydrocarbons or PAHs , that have been deposited on the lands and houses of the St. Georges neighborhood and its environs causing damage to the property of the putative class and causing health concerns for those who inhabit that neighborhood. Plaintiff seeks to compel additional remediation to be conducted by the defendants beyond that already undertaken by them voluntarily, seeks an injunction against further emissions in excess of a limit to be determined by the court in consultation with an independent expert, and seeks money damages on behalf of all class members. A hearing on plaintiff s motion for class certification was held on April 24-26, 2007. On May 23, 2007, the court issued its ruling which granted the motion in part and authorized a class action to include only people who suffered property damage or personal injury damages caused by the emission of PAHs from the smelter. On September 13, 2007, the plaintiff filed its claim against the original defendants, which the court had authorized in May. This litigation is in its preliminary stages and the company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss. The company intends to defend this action vigorously.

As previously reported, in the 2006 second quarter, Alcoa Aluminio S.A. (Alcoa Aluminio) received a Notice of Violation and Fine from Brazil s Federal Revenue Department seeking payment of an isolated fine for alleged non-anticipation of payment of annual Corporate Income (CI) and Social Contribution Taxes (SCT), calculated under the presumed monthly taxable income mechanism. The claim is based on Alcoa Aluminio not qualifying for the alternative method of anticipation of payment of CI and SCT used by the company, consisting of calculating such anticipations based on the actual taxable income mechanism, in accordance with applicable legislation. The claim seeks payment of Brazilian Real $669 million (equivalent to approximately US$304 million in the 2006 second quarter; as of September 30, 2007, this amount has increased to approximately Brazilian Real $765 million, or US$415 million, due to accrued interest, which is based on Brazil s central bank s benchmark lending rate known as the Selic rate, on the original claim amount) and encompasses fiscal years from 2000 to 2005. Alcoa Aluminio believes that the claim is without merit and will present its defenses at all appropriate levels administrative or judicial of the Brazilian legal system. On September 4, 2006, a favorable first administrative level decision was rendered finding the claim against Alcoa Aluminio to be without merit. On September 12, 2007, a favorable second administrative level decision was rendered finding the claim against Alcoa Aluminio to be without merit. The Federal Revenue Department may appeal to the third and final administrative level.

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

(c) Issuer Purchases of Equity Securities:

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plans or Programs (b)	Maximum Number ofp;	6,999	5,620	836	3,030
Letters of credit and guarantees	40,717		321		2,774	4	508	4,414
Capital projects	63,872		559					
Exit of phosphorus flame retardants business	16,870		7,217					
Total	$ 200,274	$	64,290		$ 359,320	$ 24,173	$ 19,316	$ 418,835

* These amounts are based on interest rates of 5.1% for the 2015 senior notes and 4.5% for the 2020 senior notes. A weighted average interest rate of 2.85% was used for our remaining long-term debt obligations.

** These amounts primarily relate to contracts entered into with certain third party vendors in the normal course of business to secure raw materials for our production processes. In order to secure materials, sometimes for long durations, these contracts mandate a minimum amount of product to be purchased at predetermined rates over a set timeframe.

Amounts in the table above exclude required employer pension contributions. We believe that the expected 2013 contributions to our domestic and foreign qualified and nonqualified pension plans, including our SERP, should approximate $4 million. We may choose to make additional pension contributions in excess of this amount. We have made contributions of $4.2 million to our domestic and foreign pension plans (both qualified and nonqualified) and $14.1 million to our SERP in connection with the retirement of our former CEO and executive chairman during the year ended December 31, 2012.

The liability related to uncertain tax positions, including interest and penalties, recorded in Other noncurrent liabilities totaled $29.2 million and $30.7 million at December 31, 2012 and 2011, respectively. Related assets for corresponding offsetting benefits recorded in Other assets totaled $25.8 million and $21.8 million at December 31, 2012 and 2011, respectively. We cannot estimate the amounts of any cash payments during the next twelve months associated with these liabilities and are unable to estimate the timing of any such cash payments in the future at this time.

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 any capital expenditures and share repurchases, 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, decline funding under existing but uncommitted lines of credit, not renew their extensions of credit or not provide new financing. While the corporate bond market remains strong, availability of bank debt is more limited than in prior years due to a variety of factors, including tighter bank regulations and more stringent bank capital requirements in the wake of the financial crisis, and continued unease regarding fallout from the European sovereign debt concerns, particularly relating to Greece and Spain. 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 in future periods 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. If the U.S. Federal Reserve or similar national reserve banks in other countries decide to tighten the monetary supply in response, for example, to improving economic conditions, we may incur increased borrowing costs as our interest rates increase on our variable rate credit facilities, as our various credit facilities mature or as we refinance any maturing fixed rate debt obligations.

At December 31, 2012, we had the ability to borrow in excess of $986 million under our September 2011 credit agreement and other existing lines of credit, subject to various financial covenants under our September 2011 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.

Albemarle Corporation and Subsidiaries

We had cash and cash equivalents totaling $477.7 million as of December 31, 2012, which represent 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.

Safety and Environmental Matters

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 capital expenditures, earnings or our competitive position, but the costs associated with increased legal or regulatory requirements could have an adverse effect on our results.

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

Our environmental and safety operating costs charged to expense were $39.0 million, $35.4 million and $34.8 million in 2012, 2011 and 2010, respectively, excluding depreciation of previous capital expenditures, and are expected to be in the same range in the next few years. Costs for remediation have been accrued and payments related to sites are charged against accrued liabilities, which at December 31, 2012 totaled approximately $20.3 million, an increase of $7.9 million from $12.4 million at December 31, 2011. During the second quarter of 2012, the Company recorded $8.7 million in estimated site remediation liabilities at our Avonmouth, United Kingdom site as part of the charges associated with our exit of the phosphorus flame retardant business.

We believe that any sum we may be required to pay in connection with environmental remediation and asset retirement obligation 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. See also Item 3.   Legal Proceedings   on page 22.

Capital expenditures for pollution-abatement and safety projects, including such costs that are included in other projects, were approximately $25.4 million, $16.1 million and $7.8 million in 2012, 2011 and 2010, respectively. In the future, capital expenditures for these types of projects may increase due to more stringent environmental regulatory requirements and our efforts in reaching sustainability goals. Management s estimates of the effects of compliance with governmental pollution-abatement and safety regulations are subject to (i) the possibility of changes in the applicable statutes and regulations or in judicial or administrative construction of such statutes and regulations and (ii) uncertainty as to whether anticipated solutions to pollution problems will be successful, or whether additional expenditures may prove necessary.

Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued additional authoritative guidance relating to fair value measurement and disclosure requirements. For fair value measurements categorized in Level 3 of the fair value hierarchy, the new guidance requires:
(1) disclosure of quantitative information about unobservable inputs; (2) a description of the valuation processes used by the entity; and (3) a qualitative discussion about the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between

those unobservable inputs, if any. Entities must report the level in the fair value hierarchy of assets and liabilities that are not recorded at fair value in the statement of financial position but for which fair value is disclosed. The new requirements clarify that the concepts of *highest and best use* and *valuation premise* only apply to measuring the fair value of nonfinancial assets. The new requirements also specify that in the absence of a Level 1 input, a reporting entity should incorporate a premium or a discount in a fair value measurement if a market participant would take into account such an input in pricing an asset or liability. Additionally, the new guidance introduces an option to measure certain financial assets and financial liabilities with offsetting positions on a net basis if certain criteria are met. These amendments became effective for us on January 1, 2012 and did not have a material impact on our consolidated financial statements.

Albemarle Corporation and Subsidiaries

In June 2011, the FASB issued new accounting guidance which eliminated the option to present other comprehensive income and its components in the statement of changes in equity. However, under the guidance, comprehensive income and its components must still be presented under one of two new alternatives. Under the first alternative, the components of other comprehensive income and the components of net income may be presented in one continuous statement referred to as the statement of comprehensive income. Under the second alternative, a statement of other comprehensive income would immediately follow the statement of net income and must be shown with equal prominence as the other primary financial statements. Under either alternative, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The Company adopted these new financial statement presentation requirements effective January 1, 2012 with retrospective application to all prior periods presented.

In September 2011, the FASB issued new accounting guidance intended to simplify how entities test goodwill for impairment. The new guidance gives entities the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test under existing accounting guidance is required to be performed. Otherwise, no further testing is required. These new provisions became effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this new guidance did not have a material effect on our consolidated financial statements.

In December 2011, the FASB issued new accounting guidance that will require entities to disclose information about financial instruments (including derivatives) and transactions eligible for offset in the statement of financial position or subject to an agreement similar to a master netting arrangement. In January 2013, the FASB issued additional guidance that limits the scope of these new requirements to certain derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and lending transactions. These new provisions are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, and should be applied retrospectively for all comparative periods presented. We do not expect this new guidance to have a material effect on our consolidated financial statements.

In February 2013, the FASB issued new accounting guidance that requires companies to present either in a single note or on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income, and the income statement line items affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, companies would instead cross reference to the related footnote for additional information. These new provisions are effective for annual and interim reporting periods beginning after December 15, 2012. We do not expect this new guidance to have a material effect on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The primary currencies to which we have foreign currency exchange rate exposure are the European Union Euro, Japanese Yen, British Pound Sterling, Korean Won, Chinese Renminbi and the U.S. Dollar (in certain of our foreign locations). In response to greater fluctuations in foreign currency exchange rates in recent periods, we have increased the degree of exposure risk management activities to minimize the potential impact on earnings.

We manage our foreign currency exposures by balancing certain assets and liabilities denominated in foreign currencies and through the use, from time to time, of foreign currency forward contracts. The principal objective of such contracts is to minimize the risks and/or costs associated with global operating activities. The counterparties to these contractual agreements are major financial institutions with which we generally have other financial relationships. We are exposed to credit loss in the event of nonperformance by these counterparties. However, we do not anticipate nonperformance by the counterparties. We do not utilize financial instruments for trading or other speculative purposes.

The primary method we use to reduce foreign currency exposure is to identify natural hedges, in which the operating activities denominated in respective currencies across various subsidiaries balance in respect to timing and the underlying exposures. In the event a natural hedge is not available, we may employ a forward contract to reduce exposure, generally expiring within one year. While these contracts are subject to fluctuations in value, such fluctuations are generally offset by the value of the underlying exposures being hedged. Gains and losses on foreign currency forward contracts are recognized currently in income but do not have a significant impact on results of operations.

Our financial instruments, which are subject to foreign currency exchange risk, consist of foreign currency forward contracts with an aggregate notional value of $274.0 million and with a fair value representing a net liability position of $0.5 million at December 31, 2012. 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 December 31, 2012, 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 $17.0 million in the fair value of our foreign currency forward contracts. A 10% depreciation of the U.S. Dollar against these foreign currencies would result in an increase of approximately $11.2 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 December 31, 2012, 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.

We are exposed to changes in interest rates that could impact our results of operations and financial condition. We manage global interest rate and foreign exchange exposure as part of our regular operational and financing strategies. We had variable interest rate borrowings of $7.0 million and $64.3 million outstanding at December 31, 2012 and 2011, respectively. These borrowings represented 1% and 8% of total outstanding debt and bore average interest rates of 1.74% and 5.15% at December 31, 2012 and 2011, respectively. A hypothetical 10% increase (approximately 17 basis points) in the average interest rate applicable to these borrowings would change our annualized interest expense by less than $0.1 million as of December 31, 2012. 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 raw materials are subject to price volatility caused by weather, supply conditions, political and economic variables and other unpredictable factors. Historically, we have not used futures, options or swap contracts to manage the volatility related to the above exposures. However, the refinery catalysts business has used financing arrangements to provide long-term protection against changes in metals prices. We seek to limit our exposure by entering into long-term contracts when available, and we seek price increase limitations through contracts. These contracts do not have a significant impact on our results of operations.

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 December 31, 2012 and 2011, we had no natural gas hedge contracts outstanding.

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Albemarle Corporation and Subsidiaries

Item 8. Financial Statements and Supplementary Data.
MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with management s and our directors authorizations; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

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 our internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria for effective internal control over financial reporting described in the Internal Control-Integrated Framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, management concluded that, as of December 31, 2012, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal control. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ LUTHER C. KISSAM IV

Luther C. Kissam IV
Chief Executive Officer and Director

(principal executive officer)

February 15, 2013

/s/ SCOTT A. TOZIER

Scott A. Tozier

Senior Vice President, Chief Financial Officer, Chief Accounting Officer and Chief Risk Officer (principal financial and accounting officer)

February 15, 2013

Albemarle Corporation and Subsidiaries

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Albemarle Corporation:

In our opinion, the accompanying consolidated financial statements listed in the index appearing under Item 15(a) (1) present fairly, in all material respects, the financial position of Albemarle Corporation and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, in 2012 the Company has changed its accounting principle for pension and other postretirement benefits.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
New Orleans, Louisiana
February 15, 2013

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Albemarle Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In Thousands) **December 31**	**2012**	**2011**
Assets		
Current assets:		
Cash and cash equivalents	$ 477,696	$ 469,416
Trade accounts receivable, less allowance for doubtful accounts (2012 $1,641; 2011 $2,709)	378,973	355,372
Other accounts receivable	43,844	36,199
Inventories:		
Finished goods	325,762	311,869
Raw materials	57,245	74,809
Stores, supplies and other	45,138	44,817
	428,145	431,495
Other current assets	78,655	63,138
Total current assets	1,407,313	1,355,620
Property, plant and equipment, at cost	2,818,604	2,619,428
Less accumulated depreciation and amortization	1,522,033	1,489,948
Net property, plant and equipment	1,296,571	1,129,480
Investments	207,141	198,427
Other assets	154,836	116,871
Goodwill	276,966	273,145
Other intangibles, net of amortization	94,464	130,281
Total assets	$ 3,437,291	$ 3,203,824
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 172,866	$ 184,472
Accrued expenses	177,546	175,257
Current portion of long-term debt	12,700	14,416
Dividends payable	17,471	15,237
Income taxes payable	4,426	11,796
Total current liabilities	385,009	401,178
Long-term debt	686,588	749,257
Postretirement benefits	60,815	57,588
Pension benefits	195,481	127,964
Other noncurrent liabilities	114,022	111,107
Deferred income taxes	63,368	77,903

Commitments and contingencies (Note 15)		
Equity:		
Albemarle Corporation shareholders equity:		
Common stock, $.01 par value (authorized 150,000 shares), issued and outstanding 88,899 in 2012 and 88,841 in 2011	889	888
Additional paid-in capital	2,761	15,194
Accumulated other comprehensive income	85,264	60,329
Retained earnings	1,744,684	1,514,866
Total Albemarle Corporation shareholders equity	1,833,598	1,591,277
Noncontrolling interests	98,410	87,550
Total equity	1,932,008	1,678,827
Total liabilities and equity	$ 3,437,291	$ 3,203,824

See accompanying notes to the consolidated financial statements.

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Albemarle Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Amounts) **Year Ended December 31**	**2012**	**2011**	**2010**
Net sales	$ 2,745,420	$ 2,869,005	$ 2,362,764
Cost of goods sold	1,835,425	1,914,058	1,620,854
Gross profit	909,995	954,947	741,910
Selling, general and administrative expenses (Note 19)	313,227	360,070	274,615
Research and development expenses	78,919	77,083	58,394
Restructuring and other charges, net (Note 19)	111,685		6,958
Operating profit	406,164	517,794	401,943
Interest and financing expenses	(32,800)	(37,574)	(25,533)
Other income, net	1,229	357	2,788
Income before income taxes and equity in net income of unconsolidated investments	374,593	480,577	379,198
Income tax expense	82,533	104,134	87,756
Income before equity in net income of unconsolidated investments	292,060	376,443	291,442
Equity in net income of unconsolidated investments (net of tax)	38,067	43,754	37,975
Net income	$ 330,127	$ 420,197	$ 329,417
Net income attributable to noncontrolling interests	(18,591)	(28,083)	(13,639)
Net income attributable to Albemarle Corporation	$ 311,536	$ 392,114	$ 315,778
Basic earnings per share	$ 3.49	$ 4.33	$ 3.46
Diluted earnings per share	$ 3.47	$ 4.28	$ 3.43
Weighted-average common shares outstanding basic	89,189	90,522	91,393
Weighted-average common shares outstanding diluted	89,884	91,522	92,184
Cash dividends declared per share of common stock	$ 0.80	$ 0.67	$ 0.56

See accompanying notes to the consolidated financial statements.

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Albemarle Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands) **Year Ended December 31**	**2012**	**2011**	**2010**
Net income	$ 330,127	$ 420,197	$ 329,417
Other comprehensive income (loss), net of tax:			
Foreign currency translation	28,769	(13,565)	(62,629)
Pension and postretirement benefits	(4,071)	(1,362)	(1,870)
Other	134	162	105
Total other comprehensive income (loss), net of tax	24,832	(14,765)	(64,394)
Comprehensive income	354,959	405,432	265,023
Comprehensive income attributable to non-controlling interests	(18,488)	(27,878)	(13,639)
Comprehensive income attributable to Albemarle Corporation	$ 336,471	$ 377,554	$ 251,384

See accompanying notes to the consolidated financial statements.

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Albemarle Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousands, Except Share Data)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	Total Albemarle Shareholders	Non-controlling	Total
	Shares	Amounts	Capital	Income	Earnings	Equity	Interests	Equity
Balance at January 1, 2010	91,509,099	$ 915	$ 8,658	$ 139,283	$ 1,056,840	$ 1,205,696	$ 47,622	$ 1,253,318
Net income for 2010					315,778	315,778	13,639	329,417
Other comprehensive loss				(64,394)		(64,394)		(64,394)
Deconsolidation of Stannica LLC							(8,121)	(8,121)
Cumulative dividend adjustment on JBC noncontrolling interest							8,017	8,017
Cash dividends declared for 2010					(51,184)	(51,184)	(1,485)	(52,669)
Stock-based compensation and other			13,995			13,995		13,995
Exercise of stock options	494,559	5	7,130			7,135		7,135
Shares repurchased	(400,356)	(4)	(14,941)			(14,945)		(14,945)
Tax benefit related to stock plans			7,981			7,981		7,981
Issuance of common stock, net	81,864	1	(1)					
Shares withheld for withholding taxes associated with common stock issuances	(91,182)	(1)	(3,987)			(3,988)		(3,988)
Balance at December 31, 2010	91,593,984	$ 916	$ 18,835	$ 74,889	$ 1,321,434	$ 1,416,074	$ 59,672	$ 1,475,746
Balance at January 1, 2011	91,593,984	$ 916	$ 18,835	$ 74,889	$ 1,321,434	$ 1,416,074	$ 59,672	$ 1,475,746
Net income for 2011					392,114	392,114	28,083	420,197
Other comprehensive loss				(14,560)		(14,560)	(205)	(14,765)
Cash dividends declared for 2011					(60,450)	(60,450)		(60,450)
Stock-based compensation and other			26,556			26,556		26,556
Exercise of stock options	169,350	2	2,228			2,230		2,230
Shares repurchased	(3,000,000)	(30)	(39,870)		(138,232)	(178,132)		(178,132)
Tax benefit related to stock plans			10,574			10,574		10,574
Issuance of common stock, net	131,713	1	(1)					
Shares withheld for withholding taxes associated with common stock issuances	(53,807)	(1)	(3,128)			(3,129)		(3,129)
Balance at December 31, 2011	88,841,240	$ 888	$ 15,194	$ 60,329	$ 1,514,866	$ 1,591,277	$ 87,550	$ 1,678,827
Balance at January 1, 2012	88,841,240	$ 888	$ 15,194	$ 60,329	$ 1,514,866	$ 1,591,277	$ 87,550	$ 1,678,827
Net income for 2012					311,536	311,536	18,591	330,127
Other comprehensive income (loss)				24,935		24,935	(103)	24,832
Cash dividends declared for 2012					(71,347)	(71,347)	(7,628)	(78,975)

Stock-based compensation and other			13,939			13,939		13,939
Exercise of stock options	949,170	9	21,139			21,148		21,148
Shares repurchased	(1,092,767)	(11)	(53,193)		(10,371)	(63,575)		(63,575)
Tax benefit related to stock plans			14,809			14,809		14,809
Issuance of common stock, net	341,620	4	(4)					
Shares withheld for withholding taxes associated with common stock issuances	(140,054)	(1)	(9,123)			(9,124)		(9,124)
Balance at December 31, 2012	88,899,209	$ 889	$ 2,761	$ 85,264	$ 1,744,684	$ 1,833,598	$ 98,410	$ 1,932,008

See accompanying notes to the consolidated financial statements.

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Albemarle Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands) **Year Ended December 31**	**2012**	**2011**	**2010**
Cash and cash equivalents at beginning of year	$ 469,416	$ 529,650	$ 308,791
Cash flows from operating activities:			
Net income	330,127	420,197	329,417
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	99,020	96,753	95,578
Non-cash charges associated with restructuring and other, net	61,809		
Stock-based compensation	15,211	27,069	15,694
Excess tax benefits realized from stock-based compensation arrangements	(14,809)	(10,574)	(7,981)
Equity in net income of unconsolidated investments (net of tax)	(38,067)	(43,754)	(37,975)
Dividends received from unconsolidated investments and nonmarketable securities	26,908	23,685	16,414
Pension and postretirement expense	77,442	97,207	33,898
Pension and postretirement contributions	(21,610)	(59,773)	(80,105)
Unrealized gain on investments in marketable securities	(1,872)	(688)	(1,532)
Deferred income taxes	(14,587)	(11,198)	42,136
Change in current assets and liabilities:			
Increase in accounts receivable	(25,992)	(16,435)	(57,414)
Decrease (increase) in inventories	7,364	(41,749)	(58,582)
(Increase) decrease in other current assets excluding deferred income taxes	(19,590)	4,499	(14,511)
(Decrease) increase in accounts payable	(16,798)	(11,971)	13,463
Increase in accrued expenses and income taxes payable	7,306	28,229	39,092
Other, net	16,904	(14,138)	3,717
Net cash provided by operating activities	488,766	487,359	331,309
Cash flows from investing activities:			
Capital expenditures	(280,873)	(190,574)	(75,478)
Cash payments related to acquisitions and other	(3,360)	(13,164)	(11,978)
Cash impact from deconsolidation of Stannica LLC, net			(12,649)
Cash proceeds from divestitures	9,646		8,600
(Investments in) sales of marketable securities, net	(1,615)	1,670	652
Long-term advances to joint ventures	(24,959)		
Investments in equity and other corporate investments		(10,868)	(1,338)
Net cash used in investing activities	(301,161)	(212,936)	(92,191)
Cash flows from financing activities:			
Proceeds from issuance of senior notes			346,853
Proceeds from other borrowings		9,415	125,797
Repayments of long-term debt	(63,811)	(109,591)	(424,123)
Dividends paid to shareholders	(69,113)	(57,759)	(49,643)
Repurchases of common stock	(63,575)	(178,132)	(14,945)
Proceeds from exercise of stock options	21,148	2,230	7,135
Excess tax benefits realized from stock-based compensation arrangements	14,809	10,574	7,981

Withholding taxes paid on stock-based compensation award distributions	(9,124)	(3,129)	(3,988)
Dividends paid to noncontrolling interests	(7,628)		
Debt financing costs		(2,727)	(3,005)
Net cash used in financing activities	(177,294)	(329,119)	(7,938)
Net effect of foreign exchange on cash and cash equivalents	(2,031)	(5,538)	(10,321)
Increase (decrease) in cash and cash equivalents	8,280	(60,234)	220,859
Cash and cash equivalents at end of year	$ 477,696	$ 469,416	$ 529,650

See accompanying notes to the consolidated financial statements.

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Albemarle Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Summary of Significant Accounting Policies:

Basis of Consolidation

The consolidated financial statements include the accounts and operations of Albemarle Corporation and our wholly owned, majority owned and controlled subsidiaries. Unless the context otherwise indicates, the terms Albemarle, we, us, our or the Company mean Albemarle Corporati and our consolidated subsidiaries. We apply the equity method of accounting for investments in which we have an ownership interest from 20% to 50% or where we exercise significant influence over the related investee s operations. All significant intercompany accounts and transactions are eliminated in consolidation.

Estimates, Assumptions and Reclassifications

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States (U.S.) requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Certain amounts in the accompanying consolidated financial statements and notes thereto have been reclassified to conform to the current presentation.

Change in accounting principle regarding pension and other postretirement benefits

During 2012, we elected to change our method of accounting for actuarial gains and losses relating to our global pension and other postretirement benefit (OPEB) plans. Previously, we recognized actuarial gains and losses from our pension and OPEB plans in our consolidated balance sheets as Accumulated other comprehensive income (loss) within shareholders equity, with amortization of these gains and losses that exceed 10 percent of the greater of plan assets or projected benefit obligations recognized each quarter in our consolidated statements of income over the average future service period of active employees. Under the new method of accounting, referred to as mark-to-market accounting, these gains and losses will be recognized annually in our consolidated statements of income in the fourth quarter and whenever a plan is determined to qualify for a remeasurement during a fiscal year. The remaining components of pension and OPEB plan expense, primarily service cost, interest cost and expected return on assets, will be recorded on a quarterly basis. The gain/loss subject to amortization and expected return on assets components of our pension expense has historically been calculated using a five-year smoothing of asset gains and losses referred to as the market-related value. Under mark-to-market accounting, the market-related value of assets will equal the actual market value as of the date of measurement. While our historical policy of recognizing pension and OPEB plan expense is considered acceptable under U.S. GAAP, we believe that the new policy is preferable as it eliminates the delay in recognizing gains and losses within operating results. This change will also improve transparency within our operating results by immediately recognizing the effects of economic and interest rate trends on plan investments and assumptions in the year these gains and losses are actually incurred. This change in accounting principle has been applied retrospectively, adjusting all prior periods presented.

The impact of this accounting policy change on Albemarle s consolidated financial statements is summarized below:

Consolidated Balance Sheets

December 31, 2012 *(In Thousands)*	**Previous Method**	**Effect of Accounting Change**	**As Adjusted**
Accumulated other comprehensive (loss) income	$ (218,200)	$ 303,464	$ 85,264
Retained earnings	2,048,148	(303,464)	1,744,684

December 31, 2011 *(In Thousands)*	**As Previously Reported**	**Effect of Accounting Change**	**As Adjusted**
Accumulated other comprehensive (loss) income	$ (222,922)	$ 283,251	$ 60,329
Retained earnings	1,798,117	(283,251)	1,514,866

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Albemarle Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Income

Year Ended December 31, 2012 *(In Thousands, Except Per Share Amounts)*	**Previous Method**	**Effect of Accounting Change**	**As Adjusted**
Net sales	$ 2,745,420	$	$ 2,745,420
Cost of goods sold	1,822,261	13,164	1,835,425
Gross profit	923,159	(13,164)	909,995
Selling, general and administrative expenses	288,367	24,860	313,227
Research and development expenses	78,919		78,919
Restructuring and other charges, net	118,193	(6,508)	111,685
Operating profit	437,680	(31,516)	406,164
Interest and financing expenses	(32,800)		(32,800)
Other income, net	1,229		1,229
Income before income taxes and equity in net income of unconsolidated investments	406,109	(31,516)	374,593
Income tax expense	93,836	(11,303)	82,533
Income before equity in net income of unconsolidated investments	312,273	(20,213)	292,060
Equity in net income of unconsolidated investments (net of tax)	38,067		38,067
Net income	$ 350,340	$ (20,213)	$ 330,127
Net income attributable to noncontrolling interests	(18,591)		(18,591)
Net income attributable to Albemarle Corporation	$ 331,749	$ (20,213)	$ 311,536
Basic earnings per share	$ 3.72	$ (0.23)	$ 3.49
Diluted earnings per share	$ 3.69	$ (0.22)	$ 3.47
Weighted-average common shares outstanding basic	89,189		89,189
Weighted-average common shares outstanding diluted	89,884		89,884
Cash dividends declared per share of common stock	$ 0.80	$	$ 0.80

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Albemarle Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2011 *(In Thousands, Except Per Share Amounts)*	**As Previously Reported**	**Effect of Accounting Change**	**As Adjusted**
Net sales	$ 2,869,005	$	$ 2,869,005
Cost of goods sold	1,891,946	22,112	1,914,058
Gross profit	977,059	(22,112)	954,947
Selling, general and administrative expenses	312,136	47,934	360,070
Research and development expenses	77,083		77,083
Operating profit	587,840	(70,046)	517,794
Interest and financing expenses	(37,574)		(37,574)
Other income, net	357		357
Income before income taxes and equity in net income of unconsolidated investments	550,623	(70,046)	480,577
Income tax expense	130,014	(25,880)	104,134
Income before equity in net income of unconsolidated investments	420,609	(44,166)	376,443
Equity in net income of unconsolidated investments (net of tax)	43,754		43,754
Net income	$ 464,363	$ (44,166)	$ 420,197
Net income attributable to noncontrolling interests	(28,083)		(28,083)
Net income attributable to Albemarle Corporation	$ 436,280	$ (44,166)	$ 392,114
Basic earnings per share	$ 4.82	$ (0.49)	$ 4.33
Diluted earnings per share	$ 4.77	$ (0.49)	$ 4.28
Weighted-average common shares outstanding basic	90,522		90,522
Weighted-average common shares outstanding diluted	91,522		91,522
Cash dividends declared per share of common stock	$ 0.67	$	$ 0.67

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Albemarle Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2010 *(In Thousands, Except Per Share Amounts)*	**As Previously Reported**	**Effect of Accounting Change**	**As Adjusted**
Net sales	$ 2,362,764	$	$ 2,362,764
Cost of goods sold	1,616,842	4,012	1,620,854
Gross profit	745,922	(4,012)	741,910
Selling, general and administrative expenses	265,722	8,893	274,615
Research and development expenses	58,394		58,394
Restructuring and other charges, net	6,958		6,958
Operating profit	414,848	(12,905)	401,943
Interest and financing expenses	(25,533)		(25,533)
Other income, net	2,788		2,788
Income before income taxes and equity in net income of unconsolidated investments	392,103	(12,905)	379,198
Income tax expense	92,719	(4,963)	87,756
Income before equity in net income of unconsolidated investments	299,384	(7,942)	291,442
Equity in net income of unconsolidated investments (net of tax)	37,975		37,975
Net income	$ 337,359	$ (7,942)	$ 329,417
Net income attributable to noncontrolling interests	(13,639)		(13,639)
Net income attributable to Albemarle Corporation	$ 323,720	$ (7,942)	$ 315,778
Basic earnings per share	$ 3.54	$ (0.08)	$ 3.46
Diluted earnings per share	$ 3.51	$ (0.08)	$ 3.43
Weighted-average common shares outstanding basic	91,393		91,393
Weighted-average common shares outstanding diluted	92,184		92,184
Cash dividends declared per share of common stock	$ 0.56	$	$ 0.56

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Albemarle Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Comprehensive Income

Year Ended December 31, 2012 *(In Thousands)*	**Previous Method**	**Effect of Accounting Change**	**As Adjusted**
Net income	$ 350,340	$ (20,213)	$ 330,127
Other comprehensive income (loss), net of tax:			
Foreign currency translation	28,769		28,769
Pension and postretirement benefits	(24,284)	20,213	(4,071)
Other	134		134
Total other comprehensive income, net of tax	4,619	20,213	24,832
Comprehensive income	354,959		354,959
Comprehensive income attributable to non-controlling interests	(18,488)		(18,488)
Comprehensive income attributable to Albemarle Corporation	$ 336,471	$	$ 336,471

Year Ended December 31, 2011 *(In Thousands)*	**Previous Method**	**Effect of Accounting Change**	**As Adjusted**
Net income	$ 464,363	$ (44,166)	$ 420,197
Other comprehensive income (loss), net of tax:			
Foreign currency translation	(13,565)		(13,565)
Pension and postretirement benefits	(45,528)	44,166	(1,362)
Other	162		162
Total other comprehensive loss, net of tax	(58,931)	44,166	(14,765)
Comprehensive income	405,432		405,432
Comprehensive income attributable to non-controlling interests	(27,878)		(27,878)
Comprehensive income attributable to Albemarle Corporation	$ 377,554	$	$ 377,554

Year Ended December 31, 2010 *(In Thousands)*	**Previous Method**	**Effect of Accounting Change**	**As Adjusted**
Net income	$ 337,359	$ (7,942)	$ 329,417

Other comprehensive income (loss), net of tax:			
Foreign currency translation	(62,629)		(62,629)
Pension and postretirement benefits	(9,812)	7,942	(1,870)
Other	105		105
Total other comprehensive loss, net of tax	(72,336)	7,942	(64,394)
Comprehensive income	265,023		265,023
Comprehensive income attributable to non-controlling interests	(13,639)		(13,639)
Comprehensive income attributable to Albemarle Corporation	$ 251,384	$	$ 251,384

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Albemarle Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Changes In Equity

Year Ended December 31, 2012 *(In Thousands)*	**Previous Method**	**Effect of Accounting Change**	**As Adjusted**
Accumulated other comprehensive (loss) income:			
Balance at January 1, 2012	$ (222,922)	$ 283,251	$ 60,329
Other comprehensive income	4,722	20,213	24,935
Balance at December 31, 2012	$ (218,200)	$ 303,464	$ 85,264
Retained earnings:			
Balance at January 1, 2012	$ 1,798,117	$ (283,251)	$ 1,514,866
Net income for 2012	331,749	(20,213)	311,536
Cash dividends declared for 2012	(71,347)		(71,347)
Shares repurchased	(10,371)		(10,371)
Balance at December 31, 2012	$ 2,048,148	$ (303,464)	$ 1,744,684

Year Ended December 31, 2011 *(In Thousands)*	**As Previously Reported**	**Effect of Accounting Change**	**As Adjusted**
Accumulated other comprehensive (loss) income:			
Balance at January 1, 2011	$ (164,196)	$ 239,085	$ 74,889
Other comprehensive loss	(58,726)	44,166	(14,560)
Balance at December 31, 2011	$ (222,922)	$ 283,251	$ 60,329
Retained earnings:			
Balance at January 1, 2011	$ 1,560,519	$ (239,085)	$ 1,321,434
Net income for 2011	436,280	(44,166)	392,114
Cash dividends declared for 2011	(60,450)		(60,450)
Shares repurchased	(138,232)		(138,232)
Balance at December 31, 2011	$ 1,798,117	$ (283,251)	$ 1,514,866

Year Ended December 31, 2010 *(In Thousands)*	**As Previously Reported**	**Effect of Accounting Change**	**As Adjusted**

Accumulated other comprehensive (loss) income:			
Balance at January 1, 2010	$ (91,860)	$ 231,143	$ 139,283
Other comprehensive loss	(72,336)	7,942	(64,394)
Balance at December 31, 2010	$ (164,196)	$ 239,085	$ 74,889
Retained earnings:			
Balance at January 1, 2010	$ 1,287,983	$ (231,143)	$ 1,056,840
Net income for 2010	323,720	(7,942)	315,778
Cash dividends declared for 2010	(51,184)		(51,184)
Balance at December 31, 2010	$ 1,560,519	$ (239,085)	$ 1,321,434

Albemarle Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Cash Flows

Year Ended December 31, 2012 *(In Thousands)*	**Previous Method**	**Effect of Accounting Change**	**As Adjusted**
Cash flows from operating activities:			
Net income	$ 350,340	$ (20,213)	$ 330,127
Non-cash charges associated with restructuring and other, net	68,317	(6,508)	61,809
Pension and postretirement expense	39,418	38,024	77,442
Deferred income taxes	(3,284)	(11,303)	(14,587)

Year Ended December 31, 2011 *(In Thousands)*	**As Previously Reported**	**Effect of Accounting Change**	**As Adjusted**
Cash flows from operating activities:			
Net income	$ 464,363	$ (44,166)	$ 420,197
Pension and postretirement expense	27,161	70,046	97,207
Deferred income taxes	14,682	(25,880)	(11,198)

Year Ended December 31, 2010 *(In Thousands)*	**As Previously Reported**	**Effect of Accounting Change**	**As Adjusted**
Cash flows from operating activities:			
Net income	$ 337,359	$ (7,942)	$ 329,417
Pension and postretirement expense	20,993	12,905	33,898
Deferred income taxes	47,099	(4,963)	42,136

Revenue Recognition

We recognize sales when the revenue is realized or realizable, and has been earned, in accordance with authoritative accounting guidance. We recognize net sales as risk and title to the product transfer to the customer, which usually occurs at the time shipment is made. Significant portions of our sales are sold free on board (FOB) shipping point or on an equivalent basis, and other transactions are based upon specific contractual arrangements. Our standard terms of delivery are generally included in our contracts of sale, order confirmation documents and invoices. We recognize revenue from services when performance of the services has been completed. We have a limited amount of consignment sales that are billed to the customer upon monthly notification of amounts used by the customers under these contracts. Where the Company incurs pre-production design and development costs under long-term supply contracts, these costs are expensed where they relate to the products sold unless contractual guarantees for reimbursement exist. Conversely, these costs are capitalized if they pertain to equipment that we will own and use in producing the products to be supplied and expect to utilize for future revenue generating activities.

Performance and Life Cycle Guarantees

We provide customers certain performance guarantees and life cycle guarantees. These guarantees entitle the customer to claim compensation if the product does not conform to performance standards originally agreed upon. Performance guarantees relate to minimum technical specifications that products produced with the delivered product must meet, such as yield and product quality. Life cycle guarantees relate to minimum periods for which performance of the delivered product is guaranteed. When either performance guarantees or life cycle guarantees are contractually agreed upon, an assessment of the appropriate revenue recognition treatment is evaluated. When testing or modeling of historical results predict that the performance or life cycle criteria will be satisfied, revenue is recognized in accordance with shipping terms at the time of delivery. When testing or modeling of historical results predict that the performance or life cycle criteria may not be satisfied, we bill the customer upon shipment and defer the related revenue and cost associated with these products. These deferrals are released to earnings when the contractual period expires.

Albemarle Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Shipping and Handling Costs

Amounts billed to customers in a sales transaction related to shipping and handling have been classified as net sales and the cost incurred by us for shipping and handling has been classified as cost of goods sold in the accompanying consolidated statements of income. In addition, taxes billed to customers in a sales transaction are presented in the consolidated statements of income on a net basis.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with insignificant interest rate risks and original maturities of three months or less.

Inventories

Inventories are stated at lower of cost or market with cost determined primarily on the first-in, first-out basis. Cost is determined on the weighted-average basis for a small portion of our inventories at foreign plants and our stores, supplies and other inventory. A portion of our domestic produced finished goods and raw materials are determined on the last-in, first-out basis.

Property, Plant and Equipment

Property, plant and equipment include costs of assets constructed, purchased or leased under a capital lease, related delivery and installation costs and interest incurred on significant capital projects during their construction periods. Expenditures for renewals and betterments also are capitalized, but expenditures for normal repairs and maintenance are expensed as incurred. Costs associated with yearly planned major maintenance are deferred and amortized over 12 months. The cost and accumulated depreciation applicable to assets retired or sold are removed from the respective accounts, and gains or losses thereon are included in income. Depreciation is computed by the straight-line method based on the estimated useful lives of the assets. We have a policy where our internal engineering group provides asset life guidelines for book purposes. These guidelines are reviewed against the economic life of the business for each project and asset life is determined as the lesser of the manufacturing life or the business life. The engineering guidelines are reviewed periodically.

We evaluate historical and expected undiscounted operating cash flows of our business segments to determine the future recoverability of any property, plant and equipment recorded. Property, plant and equipment is re-evaluated whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The costs of brine wells, leases and royalty interests are primarily amortized over the estimated average life of the field on a straight-line basis. On a yearly basis for all fields, this approximates a units-of-production method based upon estimated reserves and production volumes.

Investments

Investments are accounted for using the equity method of accounting if the investment gives us the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if we have an ownership interest in the voting stock of the investee between 20% and 50%, although other factors, such as representation on the investee s board of directors and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, we record our investments in equity-method investees in the consolidated balance sheets as Investments and our share of investees earnings or losses together with other-than temporary impairments in value as Equity in net income of unconsolidated investments in the consolidated statements of income.

Certain mutual fund investments are accounted for as trading equities and are marked-to-market on a monthly basis through the consolidated statements of income. Investments in joint ventures and nonmarketable securities of immaterial entities are estimated based upon the overall performance of the entity where financial results are not available on a timely basis.

Environmental Compliance and Remediation

Environmental compliance costs include the cost of purchasing and/or constructing assets to prevent, limit and/or control pollution or to monitor the environmental status at various locations. These costs are capitalized and depreciated based on estimated useful lives. Environmental compliance costs also include maintenance and operating costs with respect to pollution prevention and control facilities and other administrative costs. Such operating costs are expensed as incurred. Environmental remediation costs of facilities used in current operations are generally immaterial and are expensed as incurred.

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Albemarle Corporation and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On an undiscounted basis, we accrue for environmental remediation costs and post-remediation costs that relate to existing conditions caused by past operations at facilities or off-plant disposal sites in the accounting period in which responsibility is established and when the related costs are estimable. In developing these cost estimates, we evaluate currently available facts regarding each site, with consideration given to existing technology, presently enacted laws and regulations, prior experience in remediation of contaminated sites, the financial capability of other potentially responsible parties and other factors, subject to uncertainties inherent in the estimation process. Additionally, these estimates are reviewed periodically, with adjustments to the accruals recorded as necessary.

Research and Development Expenses

Our research and development expenses related to present and future products are expensed as incurred. These expenses consist primarily of personnel-related costs and other overheads, as well as outside service and consulting costs incurred for specific programs. Our U.S. facilities in Michigan, Pennsylvania, South Carolina, Texas and Louisiana and our global facilities in the Netherlands, Germany, Belgium, China and Korea form the capability base for our contract research and custom manufacturing businesses. These business areas provide research and scale-up services primarily to innovative life science companies.

Goodwill and Other Intangible Assets

We account for goodwill and other intangibles acquired in a business combination in conformity with current accounting guidance that requires that goodwill and indefinite-lived intangible assets not be amortized.

We test goodwill for impairment by comparing the estimated fair value of our reporting units to the related carrying value. We measure the fair value based on present value techniques involving future cash flows. Future cash flows include assumptions for sales volumes, selling prices, raw material prices, labor and other employee benefit costs, capital additions and other economic or market related factors. Significant management judgment is involved in estimating these variables and they include inherent uncertainties since they are forecasting future events. We use a Weighted Average Cost of Capital (WACC) approach to determine our discount rate for goodwill recoverability testing. Our WACC calculation incorporates industry-weighted average returns on debt and equity from a market perspective. The factors in this calculation are largely external to our company, and therefore, are beyond our control. We test our recorded goodwill balances for impairment in the fourth quarter of each year or upon the occurrence of events or changes in circumstances that would more likely than not reduce the fair value of our reporting units below their carrying amounts. The Company performed its annual goodwill impairment test as of October 31, 2012 and concluded there was no impairment as of that date.

Definite-lived intangible assets, such as purchased technology, patents, customer lists and trade names are amortized over their estimated useful lives, generally for periods ranging from three to fifty years. We continually evaluate the reasonableness of the useful lives of these assets and test for impairment in accordance with current accounting guidance. See Note 10, Goodwill and Other Intangibles.

Pension Plans and Other Postretirement Benefits

Under authoritative accounting standards, assumptions are made regarding the valuation of benefit obligations and the performance of plan assets. As required, we recognize a balance sheet asset or liability for each of the pension or postretirement benefit plans equal to the plan s funded status as of the measurement date. The primary assumptions are as follows:

Discount Rate The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future.

Expected Return on Plan Assets We project the future return on plan assets based on prior performance and future expectations for the types of investments held by the plans, as well as the expected long-term allocation of plan assets for these investments. These projected returns reduce the net benefit costs recorded currently.

Rate of Compensation Increase For salary-related plans, we project employees annual pay increases, which are used to project employees pension benefits at retirement.

Rate of Increase in the Per Capita Cost of Covered Health Care Benefits We project the expected increases in the cost of covered health care benefits.

During 2012, we made changes to the assumptions related to the discount rate, expected return on assets, mortality and salary scales. We consider available information that we deem relevant when selecting each of these assumptions.

In selecting the discount rates for the U.S. plans, we establish a range of reasonable rates based on methods developed by subject matter experts that reflect current market conditions. For 2012, we relied on methods developed by Citigroup and

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Milliman to establish a range of acceptable discount rates based on authoritative accounting guidance. These methods calculate discount rates based on high-quality bond data and the projected plan cash flows. We believe our selected discount rates accurately reflect market conditions as of the December 31, 2012 measurement date.

In selecting the discount rates for the foreign plans, we relied on AonHewitt methods, including the AonHewitt Top-Quartile and a yield curve derived from fixed-income security yields. The yield curve is generally based on a universe containing Aa-graded corporate bonds in the Euro zone without special features or options, which could affect the duration. In some countries, the yield curve is based on local government bond rates with a premium added to reflect corporate bond risk. Payments we expect to be made from our retirement plans are applied to the resulting yield curve. For each plan, the discount rate was developed as the level equivalent rate that would produce the same present value as that using spot rates aligned with the projected benefit payments.

In estimating the expected return on plan assets, we consider past performance and future expectations for the types of investments held by the plan as well as the expected long-term allocation of plan assets to these investments.

In projecting the rate of compensation increase, we consider past experience in light of movements in inflation rates. In selecting the rate of increase in the per capita cost of covered health care benefits, we consider past performance and forecasts of future health care cost trends in relation to the employer-paid premium cap.

Employee Savings Plans

Certain of our employees participate in our defined contribution 401(k) employee savings plan, which is generally available to all U.S. full-time salaried and non-union hourly employees and to employees who are covered by a collective bargaining agreement that provides for such participation. With respect to our foreign subsidiaries, we also have a defined contribution pension plan for employees in the United Kingdom and a plan in the Netherlands similar to a collective defined contribution plan.

Deferred Compensation Plan

We maintain an Executive Deferred Compensation Plan (EDCP) that was adopted in 2001 and subsequently amended. The purpose of the EDCP is to provide current tax planning opportunities as well as supplemental funds upon the retirement or death of certain of our employees. The EDCP is intended to aid in attracting and retaining employees of exceptional ability by providing them with these benefits. We also maintain a Benefit Protection Trust (the Trust) that was created to provide a source of funds to assist in meeting the obligations of the EDCP, subject to the claims of our creditors in the event of our insolvency. Assets of the Trust are consolidated in accordance with authoritative guidance. The assets of the Trust consist primarily of mutual fund investments (which are accounted for as trading securities and are marked-to-market on a monthly basis through the consolidated statement of income) and cash and cash equivalents.

Stock-based Compensation Expense

The fair value of restricted stock awards and performance unit awards is determined based on the number of shares or units granted and the quoted price of our common stock at grant date, and the fair value of stock options is determined using the Black-Scholes valuation model. The fair value of these awards is determined after giving effect to estimated forfeitures. Such value is recognized as expense over the service period, which is generally the vesting period of the equity grant. To the extent restricted stock awards, performance unit awards and stock options are forfeited prior to vesting in excess of the estimated forfeiture rate, the corresponding previously recognized expense is reversed as an offset to operating expenses.

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Income Taxes

We use the liability method for determining our income taxes, under which current and deferred tax liabilities and assets are recorded in accordance with enacted tax laws and rates. Under this method, the amounts of deferred tax liabilities and assets at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not.

Deferred income taxes are provided for the estimated income tax effect of temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred tax assets are also provided for operating losses, capital losses and certain tax credit carryovers. A valuation allowance, reducing deferred tax assets, is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of such deferred tax assets is dependent upon the generation of sufficient future taxable income of the appropriate character. Although realization is not assured, we do not establish a valuation allowance when we believe it is more likely than not that a net deferred tax asset will be realized.

We only recognize a tax benefit after concluding that it is more likely than not that the benefit will be sustained upon audit by the respective taxing authority based solely on the technical merits of the associated tax position. Once the recognition threshold is met, we recognize a tax benefit measured as the largest amount of the tax benefit that, in our judgment, is greater than 50% likely to be realized. Interest and penalties related to income tax liabilities under current accounting guidance for uncertain tax positions are included in income tax expense.

We have designated the undistributed earnings of substantially all of our foreign operations as permanently reinvested and as a result we do not provide for deferred income taxes on the unremitted earnings of these subsidiaries. Our foreign earnings are computed under U.S. federal tax earnings and profits, or E&P, principles. In general, to the extent our financial reporting book basis over tax basis of a foreign subsidiary exceeds these E&P amounts, deferred taxes have not been provided as they are essentially permanent in duration. The determination of the amount of such unrecognized deferred tax liability is not practicable. We provide for deferred income taxes on our undistributed earnings of foreign operations that are not deemed to be permanently reinvested.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income is comprised principally of foreign currency translation adjustments and net prior service benefit for our defined benefit plans and related deferred income taxes in accordance with current accounting guidance.

Foreign Currency Translation

The assets and liabilities of all foreign subsidiaries were prepared in their respective functional currencies and translated into U.S. Dollars based on the current exchange rate in effect at the balance sheet dates, while income and expenses were translated at average exchange rates for the periods presented. Translation adjustments are reflected as a separate component of equity.

Our consolidated statements of income include foreign exchange transaction (losses) gains of $(4.9) million, $(3.6) million and $1.0 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Derivative Financial Instruments

We manage our foreign currency exposures by balancing certain assets and liabilities denominated in foreign currencies and through the use of foreign currency forward contracts from time to time, which generally expire within one year. The principal objective of such contracts is to minimize the financial risks and costs associated with global operating activities. While these contracts are subject to fluctuations in value, such fluctuations are generally offset by the value of the underlying foreign currency exposures being hedged. Gains and losses on foreign currency forward contracts are recognized currently in income, but generally do not have a significant impact on results of operations.

The counterparties to these contractual agreements are major financial institutions with which we generally have other financial relationships. We are exposed to credit loss in the event of nonperformance by these counterparties. However, we do not anticipate nonperformance by the counterparties. We do not utilize financial instruments for trading or other speculative purposes.

At December 31, 2012 and 2011, we had outstanding foreign currency forward contracts with notional values totaling $274.0 million and $148.7 million, respectively.

In 2004, we entered into treasury lock agreements, or T-locks, with a notional value of $275.0 million, to fix the yield on the U.S. Treasury security used to set the yield for approximately 85% of our January 2005 public offering of senior notes. The T-locks fixed the yield on the U.S. Treasury security at approximately 4.25%. The value of the T-locks resulted from the difference between (i) the

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yield-to-maturity of the 10-year U.S. Treasury security that had the maturity date most comparable to the maturity date of the senior notes issued and (ii) the fixed rate of approximately 4.25%. The cumulative loss effect of the T-lock agreements was $2.2 million and is being amortized over the life of the senior notes as an adjustment to the interest expense of the senior notes. At December 31, 2012 and 2011, there were unrealized losses of approximately $0.5 million ($0.3 million after income taxes) and $0.7 million ($0.4 million after income taxes), respectively, in accumulated other comprehensive income.

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 December 31, 2012 and 2011, we had no natural gas hedge contracts outstanding.

Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued additional authoritative guidance relating to fair value measurement and disclosure requirements. For fair value measurements categorized in Level 3 of the fair value hierarchy, the new guidance requires: (1) disclosure of quantitative information about unobservable inputs; (2) a description of the valuation processes used by the entity; and (3) a qualitative discussion about the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any. Entities must report the level in the fair value hierarchy of assets and liabilities that are not recorded at fair value in the statement of financial position but for which fair value is disclosed. The new requirements clarify that the concepts of *highest and best use* and *valuation premise* only apply to measuring the fair value of nonfinancial assets. The new requirements also specify that in the absence of a Level 1 input, a reporting entity should incorporate a premium or a discount in a fair value measurement if a market participant would take into account such an input in pricing an asset or liability. Additionally, the new guidance introduces an option to measure certain financial assets and financial liabilities with offsetting positions on a net basis if certain criteria are met. These amendments became effective for us on January 1, 2012 and did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued new accounting guidance which eliminated the option to present other comprehensive income and its components in the statement of changes in equity. However, under the guidance, comprehensive income and its components must still be presented under one of two new alternatives. Under the first alternative, the components of other comprehensive income and the components of net income may be presented in one continuous statement referred to as the statement of comprehensive income. Under the second alternative, a statement of other comprehensive income would immediately follow the statement of net income and must be shown with equal prominence as the other primary financial statements. Under either alternative, an entity is required to present each component of net income along with total net income, each component of other comprehensive

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income along with a total for other comprehensive income, and a total amount for comprehensive income. The Company adopted these new financial statement presentation requirements effective January 1, 2012 with retrospective application to all prior periods presented.

In September 2011, the FASB issued new accounting guidance intended to simplify how entities test goodwill for impairment. The new guidance gives entities the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test under existing accounting guidance is required to be performed. Otherwise, no further testing is required. These new provisions became effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this new guidance did not have a material effect on our consolidated financial statements.

In December 2011, the FASB issued new accounting guidance that will require entities to disclose information about financial instruments (including derivatives) and transactions eligible for offset in the statement of financial position or subject to an agreement similar to a master netting arrangement. In January 2013, the FASB issued additional guidance that limits the scope of these new requirements to certain derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and lending transactions. These new provisions are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, and should be applied retrospectively for all comparative periods presented. We do not expect this new guidance to have a material effect on our consolidated financial statements.

In February 2013, the FASB issued new accounting guidance that requires companies to present either in a single note or on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income, and the income statement line items affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, companies would instead cross reference to the related footnote for additional information. These new provisions are effective for annual and interim reporting periods beginning after December 15, 2012. We do not expect this new guidance to have a material effect on our consolidated financial statements.

NOTE 2 Supplemental Cash Flow Information:

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

	Year Ended December 31,		
	2012	**2011**	**2010**
Cash paid during the year for:			
Income taxes (net of refunds of $1,849, $4,339 and $2,611 in 2012, 2011 and 2010, respectively)	$ 112,442	$ 123,341	$ 34,808
Interest (net of capitalization)	$ 31,144	$ 33,127	$ 21,905
Supplemental non-cash disclosures related to exit of phosphorus flame retardants business:			
Decrease in property, plant and equipment	$ (41,120)	$	$
Decrease in accumulated depreciation	(17,870)		
Decrease in other intangibles, net of amortization	(27,384)		
Increase in accumulated other comprehensive income	12,268		
Supplemental non-cash disclosures related to defined benefit pension plan net curtailment gain:			
Decrease in accumulated other comprehensive income	$ (4,507)	$	$

Supplemental non-cash disclosures related to other restructuring charges:						
Decrease in property, plant and equipment	$	(5,002)	$		$	
Decrease in accumulated depreciation		(1,588)				

In the fourth quarter of 2012, we revised our presentation of Restructuring and other charges in our consolidated statements of cash flows. The corrected presentation is reflected in Non-cash charges associated with restructuring and other, net, to report the non-cash portion of such charges separately from the portion which affects working capital. We believe this presentation better reflects the impacts of restructuring events in our financial statements. The change in presentation had no impact on Net cash provided by operating activities, Net cash used in investing activities or Net cash used in financing activities for years ended December 31, 2012, 2011 or 2010 or any interim periods within those years. Non-cash charges associated with restructuring and other, net for both the six months ended June 30, 2012 and the nine months ended September 30, 2012 were approximately $71 million.

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NOTE 3 Earnings Per Share:

Basic and diluted earnings per share are calculated as follows (in thousands, except per share amounts):

	Year Ended December 31,		
	2012	**2011**	**2010**
Basic earnings per share			
Numerator:			
Net income attributable to Albemarle Corporation	$ 311,536	$ 392,114	$ 315,778
Denominator:			
Weighted-average common shares for basic earnings per share	89,189	90,522	91,393
Basic earnings per share	$ 3.49	$ 4.33	$ 3.46
Diluted earnings per share			
Numerator:			
Net income attributable to Albemarle Corporation	$ 311,536	$ 392,114	$ 315,778
Denominator:			
Weighted-average common shares for basic earnings per share	89,189	90,522	91,393
Incremental shares under stock compensation plans	695	1,000	791
Total shares	89,884	91,522	92,184
Diluted earnings per share	$ 3.47	$ 4.28	$ 3.43

The Company s policy on how to determine windfalls and shortfalls for purposes of calculating assumed stock award proceeds under the treasury stock method when determining the denominator for diluted earnings per share is to exclude the impact of pro forma deferred tax assets (i.e. the windfall or shortfall that would be recognized in the financial statements upon exercise of the award). At December 31, 2012, there were 222,700 common stock equivalents not included in the computation of diluted earnings per share.

We have the authority to issue 15,000,000 shares of preferred stock in one or more classes or series. As of December 31, 2012, no shares of preferred stock have been issued.

On October 13, 2011, our Board of Directors authorized an increase in the number of shares the Company is permitted to repurchase under our stock repurchase plan up to a maximum of five million shares. During the years ended December 31, 2012, 2011 and 2010, we repurchased 1,092,767, 3,000,000 and 400,356 shares of our common stock, respectively, pursuant to the terms of our share repurchase program. As of December 31, 2012, there were 3,907,233 shares available for repurchase under our authorized share repurchase plan. On February 12, 2013, our Board of Directors authorized another increase in the number of shares, pursuant to which the Company is now permitted to repurchase up to a maximum of fifteen million shares under the plan, including those shares previously authorized, but not yet repurchased.

NOTE 4 Other Accounts Receivable:

Other accounts receivable consist of the following at December 31, 2012 and 2011 (in thousands):

	December 31, 2012	December 31, 2011
Value added tax/consumption tax	$ 22,398	$ 16,236
Other	21,446	19,963
Total	$ 43,844	$ 36,199

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NOTE 5 Inventories:

Approximately 30% and 26% of our inventories are valued using the last-in, first-out (LIFO) method at December 31, 2012 and 2011, respectively. The portion of our domestic inventories stated on the LIFO basis amounted to $126.6 million and $111.7 million at December 31, 2012 and 2011, respectively, which are below replacement cost by approximately $51.4 million and $56.8 million, respectively.

NOTE 6 Other Current Assets:

Other current assets consist of the following at December 31, 2012 and 2011 (in thousands):

	December 31,	
	2012	**2011**
Deferred income taxes current[a]	$ 4,197	$ 9,383
Income tax receivables	26,208	8,303
Prepaid expenses	48,250	45,452
Total	$ 78,655	$ 63,138

(a) See Note 18, Income Taxes.

NOTE 7 Property, Plant and Equipment:

Property, plant and equipment, at cost, consist of the following at December 31, 2012 and 2011 (in thousands):

	Useful Lives (Years)	December 31,	
		2012	**2011**
Land		$ 61,123	$ 59,137
Land improvements	5 30	51,218	50,302
Buildings and improvements	10 45	198,260	194,731
Machinery and equipment[a]	3 19	1,603,533	1,552,557
Machinery and equipment (major plant components)[b]	20 45	586,433	533,666
Property, plant and equipment under capital lease	19 50		24,652
Long-term mineral rights and production equipment costs	7 60	83,089	62,245
Construction in progress		234,948	142,138
Total		$ 2,818,604	$ 2,619,428

(a)

Consists primarily of (1) short-lived production equipment components, office and building equipment and other equipment with estimated lives ranging 3 7 years, and (2) production process equipment (intermediate components) with estimated lives ranging 8 19 years.

(b) Consists primarily of (1) production process equipment (major unit components) with estimated lives ranging 20 29 years, and (2) production process equipment (infrastructure and other) with estimated lives ranging 30 45 years.

The cost of property, plant and equipment is depreciated generally by the straight-line method. Depreciation expense amounted to $88.3 million, $83.6 million and $82.5 million during the years ended December 31, 2012, 2011 and 2010, respectively. Interest capitalized on significant capital projects in 2012, 2011 and 2010 was $5.8 million, $2.4 million and $1.1 million, respectively.

In 2012 we announced our plan to exit the phosphorus flame retardants business, whose products were sourced mainly at our Avonmouth, United Kingdom and Nanjing, China manufacturing sites. In connection with our exit of this business, net property, plant and equipment was written down by $30.9 million, and in the fourth quarter of 2012 we received cash proceeds of $7.7 million from the sale of our Nanjing, China manufacturing site, which resulted in the recognition of a gain of approximately $2 million. See Note 2 Supplemental Cash Flow Information and Note 19 Special Items for additional details about our exit of the phosphorus flame retardants business.

In 2012, we repaid in full our capital lease obligation associated with certain plant equipment and the related carrying values of $4.3 million and $20.3 million were transferred to buildings and improvements and machinery and equipment, respectively.

In the fourth quarter of 2012, we received proceeds of $1.9 million in connection with the sale of land adjacent to our regional offices in Belgium. In the third quarter of 2010, we sold our Teesport, UK manufacturing site for net proceeds of approximately $8.6 million.

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In the third quarter of 2010, we purchased certain property and equipment in Yeosu, South Korea in connection with our plans for building a metallocene polyolefin catalyst and trimethyl gallium manufacturing site. Cash payments related to this acquisition were $6.5 million and $8.0 million in 2011 and 2010, respectively.

NOTE 8 Investments:

Investments include our share of unconsolidated joint ventures, nonmarketable securities and marketable equity securities. The following table details our investment balances at December 31, 2012 and 2011 (in thousands).

	December 31,	
	2012	**2011**
Joint ventures	$ 185,928	$ 180,437
Nonmarketable securities	923	1,187
Marketable equity securities	20,290	16,803
Total	$ 207,141	$ 198,427

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 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 $6.6 million and $7.3 million at December 31, 2012 and 2011, respectively.

At December 31, 2012 and 2011, the carrying amount of our investments in unconsolidated joint ventures exceeded the amount of underlying equity in net assets by approximately $12.1 million and $9.7 million, respectively. These amounts represent the differences between the value of certain assets of the joint ventures and our related valuation on a U.S. GAAP basis. As of December 31, 2012 and 2011, $1.8 million and $2.3 million, respectively, remained to be amortized over the remaining useful lives of the assets with the balance of the difference representing primarily our share of the joint ventures goodwill.

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Our ownership positions in significant unconsolidated investments are shown below:

		December 31,		
		2012	**2011**	**2010**
*	Nippon Aluminum Alkyls a joint venture with Mitsui Chemicals, Inc. that produces aluminum alkyls	50%	50%	50%
*	Magnifin Magnesiaprodukte GmbH & Co. KG a joint venture with Radex Heraklith Industriebeteiligung AG that produces specialty magnesium hydroxide products	50%	50%	50%
*	Nippon Ketjen Company Limited a joint venture with Sumitomo Metal Mining Company Limited that produces refinery catalysts	50%	50%	50%
*	Eurecat S.A. a joint venture with IFP Investissements for refinery catalysts regeneration services	50%	50%	50%
*	Fábrica Carioca de Catalisadores S.A. a joint venture with Petrobras Quimica S.A. PETROQUISA that produces catalysts and includes catalysts research and product development activities	50%	50%	50%
*	Stannica, LLC a joint venture with PMC Group, Inc. that produces tin stabilizers	50%	50%	50%

Our investment in the significant unconsolidated joint ventures above amounted to $170.6 million and $165.4 million as of December 31, 2012 and 2011, respectively, and the amount included in Equity in net income of unconsolidated investments (net of tax) in the consolidated statements of income totaled $37.0 million, $43.3 million and $37.1 million for the years ended December 31, 2012, 2011 and 2010, respectively. All of the unconsolidated joint ventures in which we have investments are private companies and accordingly do not have a quoted market price available. The following summary lists our assets, liabilities and results of operations for our significant unconsolidated joint ventures presented herein (in thousands):

	December 31,	
	2012	**2011**
Summary of Balance Sheet Information:		
Current assets	$ 343,129	$ 307,358
Noncurrent assets	212,587	174,431
Total assets	$ 555,716	$ 481,789
Current liabilities	$ 129,105	$ 112,589
Noncurrent liabilities	76,422	42,850
Total liabilities	$ 205,527	$ 155,439

	Year Ended December 31,		
	2012	**2011**	**2010**
Summary of Statements of Income Information:			
Net sales	$ 601,233	$ 672,859	$ 557,372

Gross profit	$ 165,650	$ 189,691	$ 161,273
Income before income taxes	$ 105,329	$ 132,399	$ 100,853
Net income	$ 71,561	$ 88,414	$ 69,974

We have evaluated each of the unconsolidated investments pursuant to current accounting guidance and none qualify for consolidation. Dividends received from our significant unconsolidated investments were $25.6 million, $22.8 million and $15.8 million in 2012, 2011 and 2010, respectively.

Assets of the Benefit Protection Trust, in conjunction with our EDCP, are accounted for as trading securities in accordance with authoritative accounting guidance. The assets of the Trust consist primarily of mutual fund investments and are marked-to-market on a monthly basis through the consolidated statements of income. As of December 31, 2012 and 2011, these marketable securities amounted to $20.3 million and $16.8 million, respectively.

During the year ended December 31, 2012, we and our joint venture partner each advanced $22.5 million to our 50%-owned joint venture, Saudi Organometallic Chemicals Company (SOCC), pursuant to a long-term loan arrangement. Our loan bears quarterly interest at the London Inter-Bank Offered Rate (LIBOR) plus 1.275% per annum (1.58% as of December 31, 2012), with interest

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receivable on a semi-annual basis on January 1 and July 1. Principal repayments on amounts outstanding under this arrangement are required as mutually agreed upon by the joint venture partners, but with any outstanding balances receivable in full no later than December 31, 2021. This loan receivable outstanding at December 31, 2012 has been recorded in Other assets in our consolidated balance sheet. The recorded value of this receivable approximates fair value as it bears interest based on prevailing variable market rates. Also during the year ended December 31, 2012, we and our joint venture partner each advanced 1.9 million Euros (approximately $2.5 million at December 31, 2012) to our 50%-owned joint venture, Eurecat S.A., pursuant to a long-term loan arrangement.

During the years ended December 31, 2011 and 2010, we made capital contributions of approximately $10.9 million and $1.3 million, respectively, to SOCC, which is expected to be operational in early 2013.

During the second quarter of 2010, we finalized an agreement with our joint venture partner to adjust the allocation of profits and dividends in connection with our consolidated investment in Jordan Bromine Company Limited (JBC). As a result of this agreement, we recorded $8.0 million in cumulative dividend adjustments to noncontrolling interests as reported in the consolidated statement of changes in equity for the year ended December 31, 2010.

NOTE 9 Other Assets:

Other assets consist of the following at December 31, 2012 and 2011 (in thousands):

	December 31,	
	2012	**2011**
Deferred income taxes noncurrent[(a)]	$ 64,512	$ 50,957
Assets related to unrecognized tax benefits[(a)]	25,788	21,794
Long-term advances to joint ventures[(b)]	25,017	
Other	39,519	44,120
Total	$ 154,836	$ 116,871

(a) See Note 18, Income Taxes.
(b) See Note 8, Investments.

NOTE 10 Goodwill and Other Intangibles:

Goodwill and other intangibles consist principally of goodwill, customer lists, trade names, patents and other intangibles.

The following table summarizes the changes in goodwill by operating segment for the years ended December 31, 2012 and 2011 (in thousands):

	Polymer Solutions	**Catalysts**	**Fine Chemistry**	**Total**
Balance at December 31, 2010	$ 36,210	$ 211,423	$ 24,605	$ 272,238
Acquisitions[(a)]		3,672		3,672

Foreign currency translation adjustments	953	(3,885)	167	(2,765)
Balance at December 31, 2011	37,163	211,210	24,772	273,145
Foreign currency translation adjustments	452	3,361	8	3,821
Balance at December 31, 2012	$ 37,615	$ 214,571	$ 24,780	$ 276,966

(a) Relates to our acquisition of Catilin, Inc. as discussed in Note 22 Acquisitions.

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Other intangibles consist of the following at December 31, 2012 and 2011 (in thousands):

	Customer Lists and Relationships	Trade Names[d]	Patents and Technology	Land Use Rights	Manufacturing Contracts and Supply/Service Agreements	Other	Total
Gross Asset Value							
Balance at December 31, 2010	$ 100,509	$ 44,800	$ 44,592	$ 7,318	$ 12,087	$ 20,318	$ 229,624
Acquisitions[a]			1,400				1,400
Foreign currency translation adjustments and other	(431)	599	(19)	780	1,695	3,843	6,467
Balance at December 31, 2011	100,078	45,399	45,973	8,098	13,782	24,161	237,491
Acquisitions[b]			1,500				1,500
Exit of phosphorus flame retardants business[c]	(16,189)	(19,441)		(1,915)	(5,470)	(1,122)	(44,137)
Foreign currency translation adjustments and other	1,278	985	403	20	211	373	3,270
Balance at December 31, 2012	$ 85,167	$ 26,943	$ 47,876	$ 6,203	$ 8,523	$ 23,412	$ 198,124
Accumulated Amortization							
Balance at December 31, 2010	$ (27,050)	$ (10,497)	$ (30,539)	$ (484)	$ (10,467)	$ (15,823)	$ (94,860)
Amortization	(4,780)	(1,658)	(4,982)	(176)	(551)	(1,002)	(13,149)
Foreign currency translation adjustments and other	1,549	(65)	309	(458)	(95)	(441)	799
Balance at December 31, 2011	(30,281)	(12,220)	(35,212)	(1,118)	(11,113)	(17,266)	(107,210)
Amortization	(4,499)	(1,307)	(3,176)	(183)	(658)	(900)	(10,723)
Exit of phosphorus flame retardants business[c]	4,134	5,791		236	5,470	1,122	16,753
Foreign currency translation adjustments and other	(838)	(750)	(390)	(14)	(211)	(277)	(2,480)
Balance at December 31, 2012	$ (31,484)	$ (8,486)	$ (38,778)	$ (1,079)	$ (6,512)	$ (17,321)	$ (103,660)
Net Book Value at December 31, 2011	$ 69,797	$ 33,179	$ 10,761	$ 6,980	$ 2,669	$ 6,895	$ 130,281
Net Book Value at December 31, 2012	$ 53,683	$ 18,457	$ 9,098	$ 5,124	$ 2,011	$ 6,091	$ 94,464

(a)

The increase of $1.4 million in Patents and Technology relates to our acquisition of Catilin, Inc. in 2011 as discussed in Note 22 Acquisitions.

(b) The increase of $1.5 million in Patents and Technology relates to our acquisition of certain patents in 2012 related to catalysts useful in the production of fuel products from renewable feedstocks.

(c) In 2012 we reduced intangible assets by $44.1 million and related accumulated amortization by $16.8 million in connection with our exit of the phosphorus flame retardants business. See Note 19 Special Items.

(d) Trade names include a gross carrying amount of $10.3 million for an indefinite-lived intangible asset.

Useful lives range from 15 25 years for customer lists and relationships; 11 35 years for trade names; 8 20 years for patents and technology; 37 40 years for land use rights; 6 12 years for manufacturing contracts and supply/service agreements; and 6 35 years for other.

Amortization of other intangibles amounted to $10.7 million, $13.1 million and $13.1 million for the years ended December 31, 2012, 2011 and 2010, respectively. Total estimated amortization expense of other intangibles for the next five fiscal years is as follows (in thousands):

	Estimated Amortization Expense
2013	$ 7,732
2014	$ 7,726
2015	$ 7,086
2016	$ 6,148
2017	$ 5,830

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NOTE 11 Accrued Expenses:

Accrued expenses consist of the following at December 31, 2012 and 2011 (in thousands):

	December 31, 2012	December 31, 2011
Employee benefits, payroll and related taxes	$ 39,442	$ 67,452
Taxes other than income taxes and payroll taxes	25,025	19,862
Deferred revenue	13,955	18,819
Accrued sales commissions	7,893	9,525
Accrued interest payable	7,816	8,075
Accrued utilities	9,108	7,493
Reduction in force accruals[(a)]	14,428	2,843
Other	59,879	41,188
Total	$ 177,546	$ 175,257

(a) See Note 19, Special Items.

NOTE 12 Long-Term Debt:

Long-term debt consists of the following at December 31, 2012 and 2011 (in thousands):

	December 31, 2012	December 31, 2011
5.10% Senior notes, net of unamortized discount of $70 at December 31, 2012 and $103 at December 31, 2011	$ 324,930	$ 324,897
4.50% Senior notes, net of unamortized discount of $2,500 at December 31, 2012 and $2,814 at December 31, 2011	347,500	347,186
Fixed rate foreign borrowings	19,458	24,778
Capital lease obligation		2,006
Variable-rate foreign bank loans	7,006	64,326
Miscellaneous	394	480
Total long-term debt	699,288	763,673
Less amounts due within one year	12,700	14,416
Long-term debt, less current portion	$ 686,588	$ 749,257

Aggregate annual maturities of long-term debt as of December 31, 2012 are as follows (in millions): 2013 $12.7; 2014 $6.0; 2015 $327.1; 2016 $0; 2017 $0.1; thereafter $356.0.

In September 2011, we amended and restated our previous $675.0 million credit facility. The amended and restated five-year, revolving, unsecured credit facility (hereinafter referred to as the September 2011 credit agreement) matures on September 22, 2016 and (i) increased the borrowing capacity to $750.0 million from $675.0 million; (ii) provides for an additional $250.0 million in credit, if needed, subject to the terms of the agreement; (iii) provides for the ability to extend the maturity date under certain conditions; (iv) eliminated the covenant that required a minimum level of consolidated tangible domestic assets; and (v) increased the interest rate spread and commitment fees applicable to the Company s borrowings under the credit facility. Fees and expenses of $2.7 million were incurred and paid in connection with this new agreement. Borrowings bear interest at variable rates based on the London Inter-Bank Offered Rate (LIBOR) for deposits in the relevant currency plus an applicable margin which ranges from 0.900% to 1.400%, depending on the Company s credit rating applicable from time to time. The applicable margin on the facility was 0.975% as of December 31, 2012. As of December 31, 2012 and 2011, we had no borrowings outstanding under the September 2011 credit agreement.

Borrowings under the September 2011 credit agreement are conditioned upon compliance with the following covenants: (i) consolidated funded debt, as defined in the agreement, must be less than or equal to 3.50 times consolidated EBITDA, as defined in the agreement, (which reflects adjustments for certain non-recurring or unusual items such as restructuring charges, facility divestiture charges and other significant non-recurring items), or herein consolidated adjusted EBITDA, as of the end of any fiscal quarter; (ii) with the exception of liens specified in our new credit facility, 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 September 2011 credit agreement, would exceed 20% of consolidated net worth, as defined in the agreement; and (iii) with the exception of indebtedness specified in the September 2011 credit agreement, subsidiary indebtedness may not exceed the difference between 20% of consolidated net worth, as defined in the agreement, and indebtedness secured by liens permitted under the agreement. We believe that as of December 31, 2012, we were, and currently are, in compliance with all of our debt covenants.

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We previously maintained a $675.0 million five-year unsecured revolving senior credit facility, which we referred to as the March 2007 credit agreement. The total spread and fees ranged from 0.32% to 0.675% over the LIBOR applicable to the currency of the borrowing and were based on our credit rating as determined by the major rating agencies.

Our $325.0 million aggregate principal amount of senior notes, issued on January 20, 2005, bear interest at a rate of 5.10%, payable semi-annually on February 1 and August 1 of each year. The effective interest rate on these senior notes is approximately 5.19%. These senior notes mature on February 1, 2015.

On December 10, 2010, we concluded the sale of $350.0 million aggregate principal amount of senior notes through a public offering at a price of 99.101% of par netting us $346.9 million in proceeds. We used $100.0 million of the net proceeds from the sale of these senior notes to fund pension obligations ($50.0 million of which was contributed in December 2010 and $50.0 million in January 2011), with the remainder used to repay other indebtedness. These senior notes bear an interest rate of 4.50%, which is payable semi-annually on June 15 and December 15 of each year, beginning June 15, 2011. The effective interest rate on these senior notes is approximately 4.70%. These senior notes mature on December 15, 2020.

We have additional agreements with financial institutions that provide for borrowings under uncommitted credit lines up to a maximum of $30.0 million. There were no outstanding borrowings under these agreements at either December 31, 2012 or December 31, 2011. The average interest rate on borrowings under these agreements during 2012 and 2011 was 1.49% and 1.43%, respectively.

On December 31, 2010, one of our foreign subsidiaries had an agreement with a foreign bank that provided an immediate, uncommitted credit line of up to 70 million Euros. At December 31, 2010, there were outstanding borrowings of 70 million Euros (approximately $92.2 million at December 31, 2010, based on applicable exchange rates) under this agreement. The average rate on borrowings under this agreement was 1.3% at December 31, 2010. This borrowing was repaid in January 2011, and the related credit line was cancelled.

We have an agreement with a foreign bank that provides immediate U.S Dollar or Euro-denominated borrowings under uncommitted credit lines up to a maximum of $48.0 million or the Euro equivalent. At December 31, 2012 and 2011, there were no outstanding borrowings under this agreement.

One of our foreign subsidiaries has agreements with several foreign banks, which provide immediate borrowings under uncommitted credit lines up to a maximum of 3.5 billion Japanese Yen (approximately $40.6 million at December 31, 2012, based on applicable exchange rates). At December 31, 2012 and 2011 there were no outstanding borrowings under these agreements. The weighted average interest rate on borrowings under these agreements during 2011 and 2010 was 1.07% and 1.19%, respectively.

Certain of our remaining foreign subsidiaries have additional agreements with foreign institutions that provide immediate uncommitted credit lines, on a short term basis, up to an aggregate maximum of approximately $93.9 million, of which $79.5 million supports foreign subsidiaries based in China. We have guaranteed these agreements. At December 31, 2012, there were no outstanding borrowings under these agreements, and at December 31, 2011, there were borrowings of $50.3 million under these agreements. The weighted average interest rate on borrowings under these agreements was 6.1% at December 31, 2011.

At December 31, 2012 and 2011, we had the ability to refinance our borrowings under our other existing credit lines with borrowings under the September 2011 credit agreement. Therefore, the amounts outstanding under those credit lines, if any, are classified as long-term debt at December 31, 2012 and 2011. At December 31, 2012, we had the ability to borrow $750.0 million under our September 2011 credit agreement, plus an additional $250.0 million if needed, subject to the terms of the September 2011 credit agreement.

Our consolidated joint venture JBC has foreign currency denominated debt, which amounted to $26.4 million and $40.8 million at December 31, 2012 and 2011, respectively, and principally includes (i) foreign plant-related construction borrowings maturing in April 2015 amounting to $13.5 million and $18.8 million at December 31, 2012 and 2011, respectively, which bore interest at rates ranging from 1.74% to 5.5% at

December 31, 2012, and (ii) a capitalized lease obligation amounting to $2.0 million at December 31, 2011, which matured in 2012, related to certain plant equipment, bearing interest at 5.5%. At December 31, 2012 and 2011, the JBC debt also included a $6.0 million unsecured non-interest bearing loan from its other shareholder. At December 31, 2012, JBC had additional borrowing capacity of approximately $24.1 million.

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NOTE 13 Other Noncurrent Liabilities:

Other noncurrent liabilities consist of the following at December 31, 2012 and 2011 (in thousands):

	December 31, 2012	December 31, 2011
Liabilities related to uncertain tax positions[(a)]	$ 29,179	$ 30,677
Executive deferred compensation plan obligation	20,265	16,786
Deferred revenue long-term	3,362	11,412
Environmental liabilities[(b)]	17,213	10,926
Asset retirement obligations[(b)]	16,517	14,865
Other	27,486	26,441
Total	$ 114,022	$ 111,107

(a) See Note 18, Income Taxes.
(b) See Note 15, Commitments and Contingencies.

NOTE 14 Stock-based Compensation Expense:

Incentive Plans

We have various share-based compensation plans that authorize the granting of (i) stock options to purchase shares of our common stock, (ii) restricted common stock awards, (iii) performance unit awards and (iv) stock appreciation rights (SARs) to employees and non-employee directors. The plans provide for payment of incentive awards in one or more of the following at our option: cash, shares of our common stock, qualified and non-qualified stock options, SARs, restricted stock awards and performance unit awards. The share-based awards granted by us generally contain vesting provisions ranging from one to five years, and with respect to stock options granted by us, have a term of not more than ten years from the date of grant. Stock options granted to employees generally vest over three years and have a term of ten years. Restricted common stock awards vest in periods ranging from one to five years from the date of grant. Performance unit awards are earned at a level ranging from zero to 200% contingent upon the achievement of specific performance criteria over periods ranging from one to two years. Distribution of the earned units occurs generally 50% upon completion of a two-year measurement period with the remaining 50% of the earned units distributed one year thereafter.

We granted 263,200, 401,500 and 389,000 stock options during 2012, 2011 and 2010, respectively. There were no significant modifications made to any share-based grants during these periods.

On April 20, 2010, the maximum number of shares available for issuance to participants under the Albemarle Corporation 2008 Incentive Plan (the Incentive Plan) increased by 4,470,000 shares to 7,470,000 shares. With respect to any awards, other than stock options or SARs, the number of shares available for awards under the Incentive Plan were reduced by 1.6 shares for each share covered by such award or to which such award related. Under the Albemarle Corporation 2008 Stock Compensation Plan for Non-Employee Directors (the Non-Employee Directors Plan), a maximum aggregate number of 100,000 shares of our common stock was authorized for issuance to the Company s non-employee directors. The fair market value of shares to be issued to each participant during a calendar year shall not exceed $100,000. At December 31, 2012, there were 4,207,621 shares available for grant under the Incentive Plan and 39,725 shares available for grant under the Non-Employee Directors Plan.

Total stock-based compensation expense associated with our incentive plans for the years ended December 31, 2012, 2011 and 2010 amounted to $15.2 million, $27.1 million and $15.7 million, respectively, and is included in cost of goods sold and selling, general and administrative (SG&A) expenses on the consolidated statements of income. Total related recognized tax benefits for the years ended December 31, 2012, 2011 and 2010 amounted to $5.6 million, $10.0 million and $5.8 million, respectively.

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The following table summarizes information about the Company s fixed-price stock options as of and for the year ended December 31, 2012:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2011	2,171,172	$ 30.82	7.1	$ 46,846
Granted	263,200	66.12		
Exercised	(949,170)	22.28		
Forfeited	(141,941)	49.62		
Outstanding at December 31, 2012	1,343,261	$ 41.78	7.2	$ 28,232
Exercisable at December 31, 2012	773,427	$ 30.39	6.4	$ 24,539

The fair value of each option granted during the years ended December 31, 2012, 2011 and 2010 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31, 2012	2011	2010
Dividend yield	1.59%	1.53%	1.66%
Volatility	34.04%	33.04%	33.13%
Average expected life (years)	6	6	6
Risk-free interest rate	2.05%	3.67%	3.92%
Fair value of options granted	$ 20.00	$ 18.42	$ 13.76

Dividend yield is the average of historical yields and those estimated over the average expected life. The stock volatility is based on historical volatilities of our common stock. The average expected life represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and our historical exercise patterns. The risk-free interest rate is based on the U.S. Treasury strip rate with stripped coupon interest for the period equal to the contractual term of the share option grant in effect at the time of grant.

The intrinsic value of options exercised during the years ended December 31, 2012, 2011 and 2010 was $37.4 million, $7.9 million and $15.1 million, respectively. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

Total compensation cost not yet recognized for nonvested stock options outstanding as of December 31, 2012 is approximately $5.1 million and is expected to be recognized over a remaining weighted-average period of 1.3 years. Cash proceeds from stock options exercised and tax benefits related to stock options exercised were $21.1 million and $13.6 million for the year ended December 31, 2012, respectively. The Company issues new shares of common stock upon exercise of stock options and vesting of restricted common stock awards.

The following table summarizes activity in performance unit awards:

	Year Ended December 31,					
	2012		2011		2010	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of period	370,150	$ 49.23	184,196	$ 41.88	7,500	$ 38.41
Granted	367,600	53.57	190,700	56.14	198,700	41.94
Vested	(276,250)	44.44	(2,946)	38.41	(2,947)	38.41
Forfeited	(97,400)	54.10	(1,800)	48.26	(19,057)	41.64
Nonvested, end of period	364,100	55.94	370,150	49.23	184,196	41.88

Total compensation cost not yet recognized for nonvested performance unit awards outstanding as of December 31, 2012 is approximately $4.0 million and is expected to be recognized over a remaining weighted-average period of approximately one year. Each performance unit represents one share of common stock. The fair value of the performance based restricted stock was estimated on the date of grant.

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The following table summarizes activity in non-performance based restricted stock awards:

	Year Ended December 31,					
	2012		2011		2010	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of period	228,265	$ 41.35	333,416	$ 34.38	535,625	$ 35.10
Granted	47,473	60.58	63,600	58.43	92,750	40.98
Vested	(116,586)	34.08	(159,751)	35.94	(250,126)	37.48
Forfeited	(16,347)	37.80	(9,000)	48.64	(44,833)	39.43
Nonvested, end of period	142,805	51.01	228,265	41.35	333,416	34.38

Total compensation cost not yet recognized for nonvested non-performance based restricted shares as of December 31, 2012 is approximately $3.9 million and is expected to be recognized over a remaining weighted-average period of 1.9 years. The fair value of the non-performance based restricted stock was estimated on the date of grant adjusted for a dividend factor, if necessary.

Deferred Directors Compensation

Under the 1996 Directors Deferred Compensation Plan (as amended and restated in 2005), a maximum aggregate number of 200,000 shares of our common stock is authorized for issuance to the Company s non-employee directors.

NOTE 15 Commitments and Contingencies:

In the ordinary course of business, we have commitments in connection with various activities, the most significant of which are as follows:

Environmental

We had the following activity in our recorded environmental liabilities for the years ended December 31, 2012, 2011 and 2010 (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Balance, beginning of year	$ 12,359	$ 13,806	$ 15,567
Expenditures	(1,451)	(1,081)	(1,128)
Changes in estimates recorded to earnings and other	227	(270)	419
Exit of phosphorus flame retardants business	8,700		
Foreign currency translation	487	(96)	(1,052)
Balance, end of year	20,322	12,359	13,806
Less amounts reported in Accrued expenses	3,109	1,433	1,661

Amounts reported in Other noncurrent liabilities	$ 17,213	$ 10,926	$ 12,145

The amounts recorded represent our future remediation and other anticipated environmental liabilities. These liabilities typically arise during the normal course of our operational and environmental management activities or at the time of acquisition of the site, and are based on internal analysis as well as input from outside consultants. As evaluations proceed at each relevant site, changes in risk assessment practices, remediation techniques and regulatory requirements can occur, therefore such liability estimates may be adjusted accordingly. The timing and duration of remediation activities at these sites will be determined when evaluations are completed. Although it is difficult to quantify the potential financial impact of these remediation liabilities, management estimates (based on the latest available information) that there is a reasonable possibility that future environmental remediation costs associated with our past operations, in excess of amounts already recorded, could be up to approximately $16 million before income taxes.

Approximately $8.0 million 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 liability is associated with sites that are being evaluated under governmental authority but for which final remediation plans have not yet been approved. 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 which has an estimated fair value of $5.9 million.

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During the second quarter of 2012, the Company recorded $8.7 million in estimated site remediation liabilities at our Avonmouth, United Kingdom site as part of the charges associated with our exit of the phosphorus flame retardant business. Included in these estimated charges are anticipated costs of site investigation, remediation and cleanup activities. We are in the process of reviewing our investigation and remediation plans with local government authorities. Based on current information about site conditions, we anticipate this investigation and remediation program to be completed during 2014.

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.

Rental Expense

Our rental expenses include a number of operating lease agreements, primarily for office space, transportation equipment and storage facilities. The following schedule details the future non-cancelable minimum lease payments for the next five years and thereafter (in thousands):

	Minimum Operating Lease Payments	
2013	$	7,080
2014	$	5,040
2015	$	3,916
2016	$	2,753
2017	$	2,176
Thereafter	$	8,141

Rental expense was approximately $33.1 million, $30.9 million, and $29.0 million for 2012, 2011 and 2010, respectively. Rental expense is shown net of rental income which was minimal during 2012, 2011 and 2010.

Litigation

On July 3, 2006, we received a Notice of Violation (the 2006 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 involve (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. In the second quarter of 2011, the Company was served with a complaint by the EPA in the U.S. District Court for the District of South Carolina, based on the alleged violations set out in the 2006 NOV seeking civil penalties and injunctive relief. The complaint was subsequently amended to add the State of South Carolina as a plaintiff. We intend to vigorously defend this action. 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 this litigation or the financial impact which may result therefrom. However, we do not expect any financial impact to have a material adverse effect on the Company s results of operations, financial condition or cash flows.

In addition, we are involved from time to time in legal proceedings of types regarded as common in our business, including administrative or judicial proceedings seeking remediation under environmental laws, such as the federal Comprehensive Environmental Response, Compensation and Liability Act, commonly known as CERCLA or Superfund, products liability, breach of contract liability and premises liability litigation. Where appropriate, we may establish financial reserves as estimated by our general counsel for such proceedings. We also maintain insurance to mitigate certain of such risks. Costs for legal services are generally expensed as incurred.

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Other

The Company has standby letters of credit and guarantees with various financial institutions. The following table summarizes our letters of credit and guarantee agreements (in thousands):

	2013	2014	2015	2016	2017	Thereafter
Letters of credit and guarantees	$ 40,717	$ 321	$ 2,774	$ 4	$ 508	$ 4,414

The outstanding letters of credit are primarily related to performance bonds, environmental guarantees and insurance claim payment guarantees with expiration dates ranging from 2013 to 2022. The majority of the Company s guarantees relate to custom and port authorities and have terms of one year. The guarantees arose during the ordinary course of business.

We do not have recorded reserves for the letters of credit and guarantees as of December 31, 2012. We are unable to estimate the maximum amount of the potential future liability under guarantees and letters of credit. However, we accrue for any potential loss for which we believe a future payment is probable and a range of loss can be reasonably estimated. We believe our liability under such obligations is immaterial.

Our estimated asset retirement obligations associated with certain property and equipment were $16.5 million and $14.9 million at December 31, 2012 and 2011, respectively. During 2012, we increased our asset retirement obligations by approximately $1.4 million due to revisions of estimates, with the remainder of the increase from December 31, 2011 primarily related to accretion expense recorded during 2012. We have not recognized conditional asset retirement obligations for which a fair value cannot be reasonably estimated in our consolidated financial statements. It is the opinion of our management that the possibility is remote that such conditional asset retirement obligations, when estimable, will have a material adverse impact on our consolidated financial statements based on current costs.

We currently, and are from time to time, subject to transactional audits in various taxing jurisdictions and to customs audits globally. We do not expect the financial impact of any of these audits to have a material adverse effect on the Company s results of operations, financial condition or cash flows.

NOTE 16 Accumulated Other Comprehensive Income:

The components and activity in Accumulated other comprehensive income (net of deferred income taxes) consisted of the following during the years ended December 31, 2012, 2011 and 2010 (in thousands):

	Foreign Currency Translation Adjustments[(a)]	Net Transition Asset	Net Prior Service Benefit[(b)]	Unrealized Gain (Loss) on Marketable Securities	Other	Total
Balance at December 31, 2009	$ 132,234	$ 6	$ 8,286	$ (4)	$ (1,239)	$ 139,283
Current period change	(56,620)	(9)	(2,987)	1	163	(59,452)
Tax benefit (expense)	(6,009)	3	1,123		(59)	(4,942)
Balance at December 31, 2010	69,605		6,422	(3)	(1,135)	74,889
Current period change	(17,269)		(2,156)	1	257	(19,167)
Tax benefit (expense)	3,909		794	(1)	(95)	4,607

Balance at December 31, 2011	56,245		5,060	(3)	(973)	60,329
Current period change	26,846		(6,533)	(5)	217	20,525
Tax benefit (expense)	2,026		2,462	2	(80)	4,410
Balance at December 31, 2012	$ 85,117	$	$ 989	$ (6)	$ (836)	$ 85,264

(a) Current period change for the year ended December 31, 2012 includes $12.3 million related to a non-cash write-off of foreign currency translation adjustments from Accumulated other comprehensive income in connection with our exit of the phosphorus flame retardants business (see Note 19) in accordance with current accounting guidance.

(b) Current period change for the year ended December 31, 2012 includes $6.5 million related to a supplemental executive retirement plan settlement in connection with the retirement of our former CEO and executive chairman, and ($4.5) million related to various amendments to certain of our U.S. pension and defined contribution plans that were approved by our Board of Directors in the fourth quarter of 2012.

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NOTE 17 Pension Plans and Other Postretirement Benefits:

As discussed in Note 1, during 2012, we elected to change our method of accounting for actuarial gains and losses relating to our global pension and OPEB plans. Previously, we recognized actuarial gains and losses from our pension and OPEB plans in our consolidated balance sheets as Accumulated other comprehensive income (loss) within shareholders equity, with amortization of these gains and losses that exceed 10 percent of the greater of plan assets or projected benefit obligations recognized each quarter in our consolidated statements of income over the average future service period of active employees. Under the new method of accounting, referred to as mark-to-market accounting, these gains and losses will be recognized annually in our consolidated statements of income in the fourth quarter and whenever a plan is determined to qualify for a remeasurement during a fiscal year. The remaining components of pension and OPEB plan expense, primarily service cost, interest cost and expected return on assets, will be recorded on a quarterly basis. The gain/loss subject to amortization and expected return on assets components of our pension expense has historically been calculated using a five-year smoothing of asset gains and losses referred to as the market-related value. Under mark-to-market accounting, the market-related value of assets will equal the actual market value as of the date of measurement. While our historical policy of recognizing pension and OPEB plan expense is considered acceptable under U.S. GAAP, we believe that the new policy is preferable as it eliminates the delay in recognizing gains and losses within operating results. This change will also improve transparency within our operating results by immediately recognizing the effects of economic and interest rate trends on plan investments and assumptions in the year these gains and losses are actually incurred. This change in accounting principle has been applied retrospectively, adjusting all prior periods presented.

We have certain noncontributory defined benefit pension plans covering certain U.S., German, Japanese and the Netherlands employees. We also have a contributory defined benefit plan covering certain Belgian employees. The benefits for these plans are based primarily on compensation and/or years of service. The funding policy for each plan complies with the requirements of relevant governmental laws and regulations. The pension information for all periods presented includes amounts related to salaried and hourly plans.

During 2009, the U.S. defined benefit pension plans were amended to be in compliance with the Pension Protection Act of 2006 (PPA), which was signed into law on August 16, 2006. This law amended the Employee Retirement Income Security Act of 1974 (ERISA) and included new rules regarding methods and assumptions, including measuring the benefit obligation and plan assets, use of interest rate assumptions, mortality tables, valuation date, credit balances for carryover and pre-funded balances, etc.

Our U.S. defined benefit plan for non-represented employees was closed to new participants effective March 31, 2004. On October 1, 2012, our Board of Directors approved certain plan amendments, such that effective December 31, 2014, no additional benefits shall accrue under this plan and participants accrued benefits shall be frozen as of that date. In addition, for participants who retire on or after December 31, 2012 and before December 31, 2013, final average earnings shall be determined as of December 31, 2012. For participants who retire on or after December 31, 2013 and before December 31, 2014, final average earnings shall be determined as of December 31, 2013. And for participants who retire on or after December 31, 2014, final average earnings shall be determined as of December 31, 2014. In addition to freezing the accrued benefits as of December 31, 2014, our Board of Directors also authorized application of a higher benefit formula for calculating accrued benefits in 2013 and 2014 only, as well as including an offset factor that would be applied to accrued benefits earned in 2013 and 2014. In connection with the plan amendments approved on October 1, 2012, we recorded a net curtailment gain of $4.5 million, which is included in Restructuring and other charges, net on our consolidated statements of income for the year ended December 31, 2012.

On March 31, 2004, a new defined contribution pension plan benefit was adopted under the qualified defined contribution plan for U.S. non-represented employees hired after March 31, 2004. The benefit was an annual contribution to the defined contribution plan based on 5% of eligible employee compensation, which was further amended on January 1, 2007 to increase the annual contributions to 6% or 7% for eligible employees, depending on specified levels of years of service. On October 1, 2012 our Board of Directors approved additional plan amendments, such that effective January 1, 2013, the defined contribution pension plan benefit is expanded to include non-represented employees hired prior to March 31, 2004, and the annual contribution to the defined contribution plan for all participants is based on 5% of eligible employee compensation. Furthermore, our Board of Directors approved a one-time contribution to be made in December 2012 for active participants still in the U.S. defined benefit plan; the one-time contribution, in the amount of $10.1 million, was made into the defined contribution pension plan and into the EDCP for the amount of the one-time contribution that exceeded U.S. Internal Revenue Service (IRS) limits. The employer portion of contributions to our U.S. defined contribution plan amounted to $14.8 million (including the one-time contribution made in the fourth quarter of 2012), $4.5 million and $3.9 million in 2012, 2011 and 2010, respectively.

We have a defined benefit plan covering employees in the Netherlands. This plan is a transitional arrangement in which benefits are based primarily on employee compensation and/or years of service. This plan is for certain individuals born on or before 1949 whom had a prior agreement, which we elected to honor, in connection with the refinery catalysts business acquisition in 2004.

Pension coverage for the employees of our other foreign subsidiaries is provided through separate plans. The plans are funded in conformity with the funding requirements of applicable governmental regulations. The pension cost, actuarial present value of benefit obligations and plan assets for all plans are combined in the other pension disclosure information presented.

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The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans, as well as a summary of significant assumptions for our pension benefit plans (in thousands):

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	Total Pension Benefits	Domestic Pension Benefits	Total Pension Benefits	Domestic Pension Benefits
Change in benefit obligations:				
Benefit obligation at January 1	$ 674,665	$ 634,184	$ 613,880	$ 572,963
Service cost	12,741	11,274	12,830	11,169
Interest cost	31,636	29,843	32,933	30,945
Plan amendments	1,123	1,123	508	508
Actuarial loss	90,336	83,428	49,729	48,977
Benefits paid	(49,234)	(45,694)	(35,249)	(30,378)
Employee contributions	294		299	
Foreign exchange loss (gain)	834		(265)	
Benefit obligation at December 31	$ 762,395	$ 714,158	$ 674,665	$ 634,184
Change in plan assets:				
Fair value of plan assets at January 1	$ 531,105	$ 522,408	$ 507,064	$ 498,967
Actual return on plan assets	62,577	62,167	3,107	2,662
Employer contributions	18,299	15,298	56,105	51,157
Benefits paid	(49,234)	(45,694)	(35,249)	(30,378)
Employee contributions	294		299	
Foreign exchange gain (loss)	262		(221)	
Fair value of plan assets at December 31	$ 563,303	$ 554,179	$ 531,105	$ 522,408
Funded status at December 31	$ (199,092)	$ (159,979)	$ (143,560)	$ (111,776)

	December 31, 2012		December 31, 2011	
	Total Pension Benefits	Domestic Pension Benefits	Total Pension Benefits	Domestic Pension Benefits
Amounts recognized in consolidated balance sheets:				
Current liabilities (accrued expenses)	$ (3,611)	$ (2,015)	$ (15,596)	$ (13,927)
Noncurrent liabilities (pension benefits)	(195,481)	(157,964)	(127,964)	(97,849)
Net pension liability	$ (199,092)	$ (159,979)	$ (143,560)	$ (111,776)
Amounts recognized in accumulated other comprehensive income:				

Prior service benefit	$ (759)	$ (1,181)	$ (7,193)	$ (7,616)
Net amount recognized	$ (759)	$ (1,181)	$ (7,193)	$ (7,616)
Weighted-average assumption percentages:				
Discount rate	4.04%	4.10%	5.04%	5.07%
Rate of compensation increase	3.37%	3.50%	3.96%	4.11%

The accumulated benefit obligation for all defined benefit pension plans was $738.7 million and $657.0 million at December 31, 2012 and 2011, respectively.

Postretirement medical benefits and life insurance is provided for certain groups of U.S. retired employees. Medical and life insurance benefit costs have been funded principally on a pay-as-you-go basis. Although the availability of medical coverage after retirement varies for different groups of employees, the majority of employees who retire before becoming eligible for Medicare can continue group coverage by paying a portion of the cost of a monthly premium designed to cover the claims incurred by retired employees subject to a cap on payments allowed. The availability of group coverage for Medicare-eligible retirees also varies by employee group with coverage designed either to supplement or coordinate with Medicare. Retirees generally pay a portion of the cost of the coverage. Plan assets for retiree life insurance are held under an insurance contract and are reserved for retiree life insurance benefits. In 2005, the postretirement medical benefit available to U.S. employees was changed to provide that employees who are under age 50 as of December 31, 2005 would no longer be eligible for a company-paid retiree medical premium subsidy. Employees who are of age 50 and above as of December 31, 2005 and who retire after January 1, 2006 will have their retiree medical premium subsidy capped. Effective January 1, 2008, our medical insurance for certain groups of U.S. retired employees is now insured through a medical carrier.

In connection with the acquisition of the refinery catalysts business in 2004, we assumed the obligation for postretirement medical benefits for employees in the Netherlands who will retire after August 2009. The benefit costs are funded principally on a pay-as-you-go basis. However, effective January 1, 2007, the Netherlands postretirement plan was terminated.

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The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans, as well as a summary of significant assumptions for our postretirement benefit plans (in thousands):

	Year Ended December 31,	
	2012 Total Other Postretirement Benefits	2011 Total Other Postretirement Benefits
Change in benefit obligations:		
Benefit obligation at January 1	$ 68,935	$ 66,436
Service cost	274	263
Interest cost	3,172	3,393
Actuarial loss	3,032	3,555
Benefits paid	(4,626)	(4,712)
Benefit obligation at December 31	$ 70,787	$ 68,935
Change in plan assets:		
Fair value of plan assets at January 1	$ 7,681	$ 7,985
Actual return on plan assets	358	740
Employer contributions	3,198	3,668
Benefits paid	(4,626)	(4,712)
Fair value of plan assets at December 31	$ 6,611	$ 7,681
Funded status at December 31	$ (64,176)	$ (61,254)

	December 31,	
	2012 Total Other Postretirement Benefits	2011 Total Other Postretirement Benefits
Amounts recognized in consolidated balance sheets:		
Current liabilities (accrued expenses)	$ (3,361)	$ (3,666)
Noncurrent liabilities (postretirement benefits)	(60,815)	(57,588)
Net postretirement liability	$ (64,176)	$ (61,254)
Amounts recognized in accumulated other comprehensive loss:		
Prior service benefit	(525)	(620)

Net amount recognized	$ (525)	$ (620)
Weighted-average assumption percentages:		
Discount rate	4.00%	5.10%
Rate of compensation increase	3.50%	4.00%

The components of pension benefits expense are as follows (in thousands):

	Year Ended December 31, 2012		Year Ended December 31, 2011		Year Ended December 31, 2010	
	Total Pension Benefits	Domestic Pension Benefits	Total Pension Benefits	Domestic Pension Benefits	Total Pension Benefits	Domestic Pension Benefits
Service cost	$ 12,741	$ 11,274	$ 12,830	$ 11,169	$ 11,271	$ 9,577
Interest cost	31,636	29,843	32,933	30,945	31,844	29,934
Expected return on assets	(44,752)	(44,342)	(42,186)	(41,776)	(40,213)	(39,903)
Actuarial loss	72,550	65,603	88,809	88,091	29,512	29,556
Amortization of net transition asset					(9)	(9)
Amortization of prior service benefit	(757)	(812)	(953)	(1,009)	(986)	(1,038)
Benefits expense	$ 71,418	$ 61,566	$ 91,433	$ 87,420	$ 31,419	$ 28,117
Weighted-average assumption percentages:						
Discount rate	5.04%	5.07%	5.40%	5.45%	5.77%	5.86%
Expected return on plan assets	8.19%	8.25%	8.19%	8.25%	8.19%	8.25%
Rate of compensation increase	3.96%	4.11%	3.93%	4.11%	3.90%	4.11%

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The estimated amounts to be amortized from accumulated other comprehensive income into net periodic pension costs during 2013 are as follows (in thousands):

	Total Pension Benefits	Domestic Pension Benefits
Amortization of prior service benefit	$ (686)	$ (741)

The components of postretirement benefits expense are as follows (in thousands):

	Year Ended December 31, 2012	2011	2010
	Total Other Postretirement Benefits	Total Other Postretirement Benefits	Total Other Postretirement Benefits
Service cost	$ 274	$ 263	$ 382
Interest cost	3,172	3,393	3,564
Expected return on assets	(488)	(509)	(526)
Actuarial loss	3,161	3,324	763
Amortization of prior service benefit	(95)	(697)	(1,704)
Benefits expense	$ 6,024	$ 5,774	$ 2,479
Weighted-average assumption percentages:			
Discount rate	5.10%	5.30%	5.70%
Expected return on plan assets	7.00%	7.00%	7.00%
Rate of compensation increase	4.00%	4.00%	4.00%

The estimated amounts to be amortized from accumulated other comprehensive income into net periodic postretirement costs during 2013 are as follows (in thousands):

	Total Other Postretirement Benefits
Amortization of prior service benefit	$ (95)

In estimating the expected return on plan assets, consideration is given to past performance and future performance expectations for the types of investments held by the plan, as well as the expected long-term allocations of plan assets to these investments. For the years 2012 and 2011, the weighted-average expected rate of return on domestic pension plan assets was 8.25%. The assumed rate of return on our domestic pension plan assets was changed to 7.25% effective January 1, 2013. The weighted-average expected rate of return on plan assets for our OPEB plan was 7.00% during 2012 and 2011. There has been no change to the assumed rate of return on OPEB plan assets effective January 1, 2013. The weighted-average expected rate of return on pension plan assets for foreign plans was 4.50% during 2012 and 2011.

In projecting the rate of compensation increase, we consider past experience in light of movements in inflation rates. At December 31, 2012, the assumed weighted-average rate of compensation increase changed to 3.37% from 3.96% for the pension plans. The assumed weighted-average rate of compensation increase changed to 3.50% from 4.00% for the OPEB plans at December 31, 2012.

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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. Investments for which market quotations are readily available are valued at the closing price on the last business day of the year. Listed securities for which no sale was reported on such date are valued at the mean between the last reported bid and asked price. Securities traded in the over-the-counter market are valued at the closing price on the last business day of the year or at bid price. The net asset value of shares or units is based on the quoted market value of the underlying assets. The market value of corporate bonds is based on institutional trading lots and is most often reflective of bid price. Government securities are valued at the mean between bid and ask prices. Holdings in private investment companies are typically valued using the net asset valuations provided by the underlying private investment companies.

The following table sets forth our financial assets that were accounted for at fair value on a recurring basis as of December 31, 2012 (in thousands):

	December 31, 2012	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)	Unobservable Inputs (Level 3)
Pension Assets:				
Domestic Equity[(a)]	$ 218,145	$ 153,465	$ 64,680	$
International Equity[(b)]	107,647	18,977	88,670	
Fixed Income[(c)]	142,967	51,306	91,661	
Absolute Return[(d)]	80,714	9,885		70,829
Cash	13,830	13,830		
Total Pension Assets	$ 563,303	$ 247,463	$ 245,011	$ 70,829
Postretirement Assets:				
Fixed Income[(c)]	$ 6,611	$	$ 6,611	$

(a) Consists primarily of U.S. equity securities covering a diverse group of companies and U.S. stock funds that primarily track or are actively managed and measured against indices including the S&P 500 and the Russell 2000.
(b) Consists primarily of international equity funds which include stocks and debt obligations of non-U.S. entities that primarily track or are actively managed and measured against various MSCI indices.
(c) Consists primarily of fixed income mutual funds, corporate bonds, U.S. Treasury notes, other government securities and insurance policies.
(d) Consists primarily of holdings in private investment companies. See additional information about the Absolute Return investments below.

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The table below sets forth a summary of changes in the fair value of the plans   Level 3 assets for the year ended December 31, 2012 (in thousands):

Absolute Return:	Year Ended December 31, 2012
Beginning Balance	$ 73,025
Total losses relating to assets sold during the period[a]	(31)
Total unrealized gains relating to assets still held at the reporting date[a]	2,311
Sales	(4,476)
Ending Balance	$ 70,829

(a) These gains (losses) are recognized in the consolidated balance sheets and are included as changes in plan assets in the tables above.
The following table sets forth our financial assets that were accounted for at fair value on a recurring basis as of December 31, 2011 (in thousands):

	December 31, 2011	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)	Unobservable Inputs (Level 3)
Pension Assets:				
Domestic Equity[a]	$ 229,842	$ 173,710	$ 56,132	$
International Equity[b]	90,056		90,056	
Fixed Income[c]	129,608	46,308	83,300	
Absolute Return[d]	78,432	5,407		73,025
Cash	3,167	3,167		
Total Pension Assets	$ 531,105	$ 228,592	$ 229,488	$ 73,025
Postretirement Assets:				
Fixed Income[c]	$ 7,681	$	$ 7,681	$

(a) Consists primarily of U.S. equity securities covering a diverse group of companies and U.S. stock funds that primarily track or are actively managed and measured against indices including the S&P 500 and the Russell 2000.

(b)

Consists primarily of international equity funds which include stocks and debt obligations of non-U.S. entities that primarily track or are actively managed and measured against various MSCI indices.

(c) Consists primarily of fixed income mutual funds, corporate bonds, U.S. Treasury notes, other government securities and insurance policies.

(d) Consists primarily of holdings in private investment companies. See additional information about the Absolute Return investments below.

The table below sets forth a summary of changes in the fair value of the plans Level 3 assets for the year ended December 31, 2011 (in thousands):

Absolute Return:	**Year Ended December 31, 2011**
Beginning Balance	$ 69,399
Total gains relating to assets sold during the period[a]	4,471
Total unrealized losses relating to assets still held at the reporting date[a]	(6,367)
Purchases	25,000
Sales	(19,478)
Ending Balance	$ 73,025

(a) These gains (losses) are recognized in the consolidated balance sheets and are included as changes in plan assets in the tables above.

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The investment objective of the U.S. pension plan assets is maximum return with a strong emphasis on preservation of capital. Assets should participate in rising markets, with defensive action in declining markets expected to an even greater degree. Target asset allocations include 65% in long equity holdings and the remaining 35% in asset classes that provide diversification from traditional long equity holdings. Depending on market conditions, the broad asset class targets may range up or down by approximately 10%. These asset classes include, but are not limited to hedge fund of funds, bonds and other fixed income vehicles, high yield equities and distressed debt. At December 31, 2012 and 2011, equity securities held by our pension and OPEB plans did not include Albemarle common stock.

Our Absolute Return investments consist primarily of our investments in hedge fund of funds. These are holdings in private investment companies with fair values that are based on significant unobservable inputs including assumptions where there is little, if any, market activity for the investment. Investment managers or fund managers associated with these investments provide valuations of the investments on a monthly basis utilizing the net asset valuation approach for determining fair values. These valuations are reviewed by the Company for reasonableness based on applicable sector, benchmark and company performance to validate the appropriateness of the net asset values as a fair value measurement. Where available, audited financial statements are obtained and reviewed for the investments as support for the manager s investment valuation. In general, the investment objective of these funds is high risk-adjusted returns with an emphasis on preservation of capital. The investment strategies of each of the funds vary; however, the objective of our Absolute Return investments is complementary to the overall investment objective of our U.S. pension plan assets.

We made contributions to our defined benefit pension and OPEB plans of $21.6 million, $59.8 million and $80.1 million during the years ended December 31, 2012, 2011 and 2010, respectively. Included in contributions for the year ended December 31, 2012 is a contribution of $14.1 million to our supplemental executive retirement plan (SERP) in connection with the retirement of our former CEO and executive chairman. We expect contributions to our domestic nonqualified and foreign qualified and nonqualified pension plans in 2013, to approximate $4 million. Also, we expect to pay approximately $5 million in premiums to our U.S. postretirement benefit plan in 2013. However, we may choose to make additional voluntary pension contributions in excess of these amounts.

The current forecast of benefit payments, which reflect expected future service, amounts to (in millions):

	Total Pension Benefits	Domestic Pension Benefits	Total Postretirement Benefits
2013	$ 37.1	$ 35.4	$ 4.7
2014	$ 39.8	$ 37.1	$ 4.9
2015	$ 40.4	$ 38.6	$ 5.0
2016	$ 41.7	$ 40.2	$ 5.1
2017	$ 43.9	$ 41.7	$ 5.0
2018-2022	$ 248.4	$ 237.1	$ 22.2

We have a SERP, which provides unfunded supplemental retirement benefits to certain management or highly compensated employees. The SERP provides for incremental pension benefits to offset the limitations imposed on qualified plan benefits by federal income tax regulations. Expenses relating to the SERP of $10.3 million, $4.7 million and $3.8 million were recorded for the years ended December 31, 2012, 2011 and 2010, respectively. The projected benefit obligation for the SERP recognized in the consolidated balance sheets at December 31, 2012 and 2011 was $30.9 million and $31.9 million, respectively. The benefit expenses and obligations of this SERP are included in the tables above. Benefits of $2.0 million are expected to be paid to SERP retirees in 2013. On October 1, 2012, our Board of Directors approved amendments to the SERP, such that effective December 31, 2014, no additional benefits shall accrue under this plan and participants accrued benefits shall be frozen as of that date to reflect the same changes as were made under the U.S. qualified defined benefit plan. For participants who retire on or after December 31, 2012, and before December 31, 2013, final average earnings shall be determined as of December 31, 2012. For participants who retire on or after December 31, 2013 and before December 31, 2014, final average earnings shall be determined as of December 31, 2013. And for participants who retire on or after December 31, 2014, final average earnings shall be determined as of December 31, 2014. In addition to freezing the accrued benefits as of December 31, 2014, our Board of Directors also authorized the application in 2013 and 2014 of the higher benefit formula approved for the U.S. qualified defined benefit plan and an offset factor that will be applied to accrued benefits earned in 2013 and 2014.

In selecting the rate of increase in the per capita cost of covered health care benefits, we consider past performance and forecasts of future health care cost trends in relation to the employer-paid premium cap. At December 31, 2012, the assumed rate of increase in the pre-65 and post-65 per capita cost of covered health care benefits for U.S. retirees was zero as the employer-paid premium caps (pre-65 and post-65) are met starting January 1, 2013.

A 1% increase or decrease in the U.S. health care cost trend rate would not have a material effect on the benefit obligation and service and interest benefit cost components.

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Employee Savings Plans

Certain of our employees participate in our defined contribution 401(k) employee savings plan, which is generally available to all U.S. full-time salaried and non-union hourly employees and to employees who are covered by a collective bargaining agreement that provides for such participation. This U.S. defined contribution plan is funded with contributions made by the participants and us. Our contributions to the 401(k) plan amounted to $9.5 million, $9.1 million and $8.4 million in 2012, 2011 and 2010, respectively. We amended our 401(k) plan in 2004 to allow pension contributions to be made by us to participants hired or rehired on or after April 1, 2004 as these participants are not eligible to participate in the Company s defined benefit pension plan.

We have a defined contribution pension plan for employees in the United Kingdom. The annual contribution to the United Kingdom defined contribution plan is based on a percentage of eligible employee compensation and amounted to $0.3 million, $0.3 million and $0.4 million for 2012, 2011 and 2010, respectively.

In 2006, we formalized a new plan in the Netherlands similar to a collective defined contribution plan. The collective defined contribution plan is supported by annuity contracts through an insurance company. The insurance company unconditionally undertakes the legal obligation to provide specific benefits to specific individuals in return for a fixed amount of premiums. Our obligation under this plan is limited to a variable calculated employer match for each participant plus an additional fixed amount of contributions to assist in covering estimated cost of living and salary increases (indexing) and administrative costs for the overall plan. We paid approximately $9.5 million, $9.9 million and $8.8 million in 2012, 2011 and 2010, respectively, in annual premiums and related costs pertaining to this plan.

Other Postemployment Benefits

Certain postemployment benefits to former or inactive employees who are not retirees are funded on a pay-as-you-go basis. These benefits include salary continuance, severance and disability health care and life insurance, which are accounted for in accordance with authoritative guidance. The accrued postemployment benefit liability was $0.6 million at December 31, 2012 and 2011.

NOTE 18 Income Taxes:

Income before income taxes and equity in net income of unconsolidated investments and current and deferred income tax expense (benefit) are composed of the following (in thousands):

	Year Ended December 31,		
	2012	**2011**	**2010**
Income before income taxes and equity in net income of unconsolidated investments:			
Domestic	$ 316,856	$ 209,714	$ 221,086
Foreign	57,737	270,863	158,112
Total	$ 374,593	$ 480,577	$ 379,198
Current income tax expense:			
Federal[(a)]	$ 71,930	$ 82,379	$ 14,620
State	6,478	4,774	5,224
Foreign	18,712	28,179	25,776

Total	$ 97,120	$ 115,332	$ 45,620
Deferred income tax expense (benefit):			
Federal	$ (2,632)	$ (23,060)	$ 52,246
State	477	(417)	(994)
Foreign	(12,432)	12,279	(9,116)
Total	$ (14,587)	$ (11,198)	$ 42,136
Total income tax expense	$ 82,533	$ 104,134	$ 87,756

(a) Current income tax expense Federal for the year ended December 31, 2010 is net of a tax benefit from an NOL carryforward of $9.6 million.

The significant differences between the U.S. federal statutory rate and the effective income tax rate are as follows:

	% of Income Before Income Taxes		
	2012	**2011**	**2010**
Federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal tax benefit	1.4	0.6	1.2
Change in valuation allowance[(a)]	3.4	(0.3)	(0.4)
Impact of foreign earnings, net[(b)]	(6.1)	(10.9)	(10.0)
Depletion	(1.3)	(0.9)	(1.0)
Revaluation of unrecognized tax benefits/reserve requirements[(c)]	(1.7)	(0.1)	0.1
Manufacturer tax deduction[(d)]	(3.8)	(1.2)	(1.6)
Undistributed earnings of foreign subsidiaries[(b)]	(4.9)	(0.4)	0.2
Other items, net		(0.1)	(0.4)
Effective income tax rate	22.0%	21.7%	23.1%

(a) During 2012, a valuation allowance was established for $15.9 million as a result of the planned shut-down of our Avonmouth, United Kingdom site in connection with our exit of the phosphorus flame retardants business. See Note 19, Special Items.

(b) In prior years, we designated the undistributed earnings of substantially all of our foreign subsidiaries as permanently reinvested. The benefit of the lower tax rates in the jurisdictions for which we made this designation have been reflected in our effective income tax rate. During 2012, 2011 and 2010, we received distributions of $56.9 million, $33.8 million and $68.7 million, respectively, from various foreign subsidiaries and joint ventures and realized a (benefit) expense, net of foreign tax credits, of $(1.8) million, $5.4 million and $2.7 million, respectively, related to the repatriation of these high taxed earnings. We have asserted for all periods being reported, permanent reinvestment of our share of the income of JBC, a Free Zones company under the laws of the Hashemite Kingdom of Jordan. The applicable provisions of the Jordanian law, and applicable regulations thereunder, do not have a termination provision and the exemption is permanent. As a Free Zones company, JBC is not subject to income taxes on the profits of products exported from Jordan, and currently, substantially all of the profits are from exports. Undistributed foreign subsidiary earnings were primarily impacted by a $17.4 million change related to the planned shut-down of our Avonmouth, United Kingdom site in connection with our exit of the phosphorus flame retardants business.

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(c) During 2012, we released various tax reserves primarily related to the expiration of the applicable U.S. federal statute of limitations for 2008 which provided a net benefit of $5.2 million.

(d) During 2012, we amended the calculation of the manufacturer tax deduction for the year 2010 and filed the 2011 tax return. As a result, in 2012 we recognized tax benefits of $1.5 million and $3.0 million related to the 2010 and 2011 tax years, respectively.

The deferred income tax assets and liabilities recorded on the consolidated balance sheets as of December 31, 2012 and 2011 consist of the following (in thousands):

	December 31,	
	2012	**2011**
Deferred tax assets:		
Postretirement benefits other than pensions	$ 14,900	$ 15,705
Accrued employee benefits	26,603	37,861
Operating loss carryovers	74,934	72,570
Pensions	74,521	45,213
Tax credit carryovers	37,684	49,999
Undistributed earnings of foreign subsidiaries	15,583	
Other	23,280	16,097
Gross deferred tax assets	267,505	237,445
Valuation allowance	(49,562)	(36,419)
Deferred tax assets	217,943	201,026
Deferred tax liabilities:		
Depreciation	(193,021)	(193,814)
Foreign currency translation adjustments	(4,933)	(6,979)
Undistributed earnings of foreign subsidiaries		(2,604)
Other	(20,348)	(17,197)
Deferred tax liabilities	(218,302)	(220,594)
Net deferred tax liabilities	$ (359)	$ (19,568)
Classification in the consolidated balance sheets:		
Current deferred tax assets	$ 4,197	$ 9,383
Current deferred tax liabilities	(5,700)	(2,005)
Noncurrent deferred tax assets	64,512	50,957
Noncurrent deferred tax liabilities	(63,368)	(77,903)
Net deferred tax liabilities	$ (359)	$ (19,568)

Changes in the balance of our deferred tax asset valuation allowance are as follows (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Balance at January 1	$ (36,419)	$ (39,802)	$ (41,355)
Additions	(20,182)	(6,155)	(3,205)
Deductions	7,039	9,538	4,758
Balance at December 31	$ (49,562)	$ (36,419)	$ (39,802)

At December 31, 2012, we had approximately $38.9 million of domestic credits available to offset future payments of income taxes, expiring in varying amounts between 2016 and 2022. We have established valuation allowances for $2.6 million of those domestic credits since we believe that it is more likely than not that the related deferred tax assets will not be realized. We believe that sufficient taxable income will be generated during the carryover period in order to utilize the other remaining credit carryovers.

At December 31, 2012, we have, on a pre-tax basis, $11.9 million of domestic net operating losses and $212.8 million of foreign net operating loss carryovers. We have established pre-tax valuation allowances for $9.3 million of domestic net operating losses, and

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$97.8 million of those foreign net operating loss carryovers since we believe that it is more likely than not that the related deferred tax assets will not be realized. For the same reason, we established pre-tax valuation allowances for $54.7 million related to foreign deferred tax assets not related to net operating losses. The realization of the deferred tax assets is dependent on the generation of sufficient taxable income in the appropriate tax jurisdictions. Although realization is not assured, we believe it is more likely than not that the remaining deferred tax assets will be realized. However, the amount considered realizable could be reduced if estimates of future taxable income change. We believe that it is more likely than not that our company will generate sufficient taxable income in the future to fully utilize all other deferred tax assets.

Liabilities related to uncertain tax positions were $29.2 million and $30.7 million at December 31, 2012 and 2011, respectively, inclusive of interest and penalties of $0.8 million and $0.9 million at December 31, 2012 and 2011, respectively, and are reported in Other noncurrent liabilities as provided in Note 13. These liabilities at December 31, 2012 and 2011 were reduced by $25.8 million and $21.8 million, respectively, for offsetting benefits from the corresponding effects of potential transfer pricing adjustments, state income taxes and rate arbitrage related to foreign structure. These offsetting benefits are recorded in Other assets as provided in Note 9. The resulting net liabilities of $2.6 million and $8.0 million at December 31, 2012 and 2011, respectively, if recognized and released, would favorably affect earnings.

The liabilities related to uncertain tax positions, exclusive of interest, were $28.4 million and $29.8 million at December 31, 2012 and 2011, respectively. The following is a reconciliation of our total gross liability related to uncertain tax positions for 2012, 2011 and 2010 (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Balance at January 1	$ 29,789	$ 20,949	$ 23,416
Additions for tax positions related to prior years	4,242		150
Reductions for tax positions related to prior years		(1,639)	
Additions for tax positions related to current year	3,639	10,802	463
Lapses in statutes of limitations	(10,057)	(323)	(3,080)
Foreign currency translation adjustment	785		
Balance at December 31	$ 28,398	$ 29,789	$ 20,949

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. We are no longer subject to U.S. federal income tax audits by tax authorities for years prior to 2009 since the IRS has completed a review of our income tax returns through 2007 and our statute of limitations expired for 2008. We also are no longer subject to any U.S. state income tax audits prior to 2004.

With respect to jurisdictions outside the U.S., we are no longer subject to income tax audits for years prior to 2005. During 2012, the German tax authorities have continued an audit of two of our German companies for 2006 through 2009, and the Chinese tax authorities have continued an audit of one of our Chinese subsidiaries for 2006 through 2010. During 2011, we completed tax audits for one of our Belgian companies for 2008 and 2009, our Japanese company for 2006 through 2010, and two of our Chinese companies through 2010. During 2010, we completed a tax audit for one of our Belgian companies for the 2007 tax year. No significant tax was assessed as a result of the completed audits.

While we believe we have adequately provided for all tax positions, amounts asserted by taxing authorities could be greater than our accrued position. Accordingly, additional provisions on federal and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.

Since the timing of resolutions and/or closure of tax audits is uncertain, it is difficult to predict with certainty the range of reasonably possible significant increases or decreases in the liability related to uncertain tax positions that may occur within the next twelve months. Our current view is that it is reasonably possible that we could record a decrease in the liability related to uncertain tax positions, relating to a number of issues, up to approximately $0.9 million as a result of closure of tax statutes.

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NOTE 19 Special Items:

Restructuring and other charges, net reported in the consolidated statements of income for the years ended December 31, 2012, 2011 and 2010 consist of the following (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Exit of phosphorus flame retardants business[a]	$ 100,777	$	$
Defined benefit pension plan curtailment gain, net[b]	(4,507)		
Employer contribution to defined contribution plan[b]	10,081		
Other[c]	5,334		6,958
Total Restructuring and other charges, net	$ 111,685	$	$ 6,958

(a) In the second quarter of 2012 we recorded net charges amounting to $94.7 million ($73.6 million after income taxes), and in the fourth quarter we recorded net charges amounting to $6.1 million ($2.5 million after income taxes), in connection with our exit of the phosphorus flame retardants business, whose products were sourced mainly at our Avonmouth, United Kingdom and Nanjing, China manufacturing sites. The charges are comprised mainly of non-cash items consisting of net asset write-offs of approximately $57 million and write-offs of foreign currency translation adjustments of approximately $12 million, as well as accruals for future cash costs associated with related severance programs of approximately $22 million, estimated site remediation costs of approximately $9 million, other estimated exit costs of approximately $3 million, partly offset by a gain of approximately $2 million related to the sale of our Nanjing, China manufacturing site. Payments under this restructuring plan are expected to occur through 2014.

(b) In the fourth quarter of 2012 we recorded a net curtailment gain of $4.5 million ($2.9 million after income taxes) and a one-time employer contribution to the Company s defined contribution plan of $10.1 million ($6.4 million after income taxes), both in connection with various amendments to certain of our U.S. pension and defined contribution plans that were approved by our Board of Directors in the fourth quarter of 2012. See Note 17, Pension Plans and Other Postretirement Benefits.

(c) In the fourth quarter of 2012 we recorded charges amounting to $5.3 million ($4.3 million after income taxes) related to changes in product sourcing and other items. The year ended December 31, 2010 included charges amounting to $7.0 million ($4.6 million after income taxes) that related principally to reductions in force at our Bergheim, Germany site.

We had the following activity in our recorded workforce reduction liabilities for the years ended December 31, 2012, 2011 and 2010 (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Balance, beginning of year	$ 4,780	$ 7,074	$ 4,880
Workforce reduction charges[a]	21,640	1,859	6,605
Payments	(10,929)	(4,292)	(3,568)
Amount reversed to income	(45)	19	(370)
Foreign currency translation	452	120	(473)
Balance, end of year	15,898	4,780	7,074

Less amounts reported in Accrued expenses	14,428	2,843	3,845
Amounts reported in Other noncurrent liabilities	$ 1,470	$ 1,937	$ 3,229

(a) The year ended December 31, 2012 includes charges amounting to $21.6 million relating to reduction in force liabilities associated with our exit of the phosphorus flame retardants business noted above.

The year ended December 31, 2011 includes charges of $1.9 million related to restructuring programs at various manufacturing locations which are reflected in Cost of goods sold. Payments under these programs have been completed.

The year ended December 31, 2010 includes a charge of $6.6 million related to reductions in force at our Bergheim, Germany site. Payments under this restructuring plan are expected to occur through 2014.

Also, the year ended December 31, 2012 includes a gain of $8.1 million ($5.1 million after income taxes) resulting from proceeds received in connection with the settlement of certain commercial litigation (net of estimated reimbursement of related legal fees of

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approximately $0.9 million). The litigation involved claims and cross-claims relating to alleged breaches of a purchase and sale agreement. The settlement resolves all outstanding issues and claims between the parties and they agreed to dismiss all outstanding litigation and release all existing and potential claims against each other that were or could have been asserted in the litigation. The year ended December 31, 2012 also includes an $8 million ($5.1 million after income taxes) charitable contribution to the Albemarle Foundation, a non-profit organization that sponsors grants, health and social projects, educational initiatives, disaster relief, matching gift programs, scholarships and other charitable initiatives in locations where our employees live and operate. These items are included in our consolidated Selling, general and administrative expenses for the year ended December 31, 2012.

NOTE 20 Fair Value of Financial Instruments:

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

Long-Term Debt The carrying value of long-term debt reported in the accompanying consolidated balance sheets at December 31, 2012 and 2011, with the exception of the 4.50% and 5.10% senior notes and the foreign currency denominated debt at JBC, 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. The fair values of the 4.50% and 5.10% senior notes are estimated using Level 1 inputs and account for the majority of the difference between the recorded amount and fair value of our long-term debt. See Note 12, Long-Term Debt.

	December 31,			
	2012		2011	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
	(In thousands)			
Long-term debt	$ 699,288	$ 764,784	$ 763,673	$ 819,854

Foreign Currency Forward Contracts We enter into foreign currency forward contracts in connection with our risk management strategies in an attempt to minimize the financial impact of changes in foreign currency exchange rates. These derivative financial instruments are used to manage risk and are not used for trading or other speculative purposes. The fair values of our foreign currency forward contracts are estimated based on current settlement values. At December 31, 2012 and December 31, 2011, we had outstanding foreign currency forward contracts with notional values totaling $274.0 million and $148.7 million, respectively. At December 31, 2012, $0.3 million was included in Other accounts receivable and $0.8 million was included in Accrued expenses associated with the fair value of our foreign currency forward contracts. At December 31, 2011, $0.9 million was included in Accrued expenses associated with the fair value of our foreign currency forward contracts.

Gains and losses on foreign currency forward contracts are recognized currently in Other income, net; further, fluctuations in the value of these contracts are generally offset by the changes in the value of the underlying exposures being hedged. For the years ended December 31, 2012, 2011 and 2010 we recognized gains (losses) of $5.1 million, $1.0 million and $(6.5) million, respectively, in Other income, net in our consolidated statements of income related to the change in the fair value of our foreign currency forward contracts. These amounts are substantially offset by changes in the value of the underlying exposures being hedged which are also reported in Other income, net. Also, for the years ended December 31, 2012, 2011 and 2010, we recorded $(5.1) million, $(1.0) million and $6.5 million, respectively, related to the change in the fair value of our foreign currency forward contracts, and cash settlements of $4.8 million, $(3.0) million and $(1.3) million, respectively, in Other, net in our consolidated statements of cash flows.

NOTE 21 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

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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 December 31, 2012 and 2011 (in thousands):

	December 31, 2012	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)	Unobservable inputs (Level 3)
Assets:				
Investments under executive deferred compensation plan [a]	$ 20,265	$ 20,265	$	$
Equity securities [b]	$ 25	$ 25	$	$
Foreign currency forward contracts [c]	$ 262	$	$ 262	$
Pension assets [d]	$ 563,303	$ 247,463	$ 245,011	$ 70,829
Postretirement assets [d]	$ 6,611	$	$ 6,611	$
Liabilities:				
Obligations under executive deferred compensation plan [a]	$ 20,265	$ 20,265	$	$
Foreign currency forward contracts [c]	$ 771	$	$ 771	$

	December 31, 2011	Quoted Prices in Active Markets for Identical Items (Level 1)	Quoted Prices in Active Markets for Similar Items (Level 2)	Unobservable inputs (Level 3)
Assets:				
Investments under executive deferred compensation plan [a]	$ 16,786	$ 16,786	$	$
Equity securities [b]	$ 17	$ 17	$	$
Pension assets [d]	$ 531,105	$ 228,592	$ 229,488	$ 73,025
Postretirement assets [d]	$ 7,681	$	$ 7,681	$
Liabilities:				
Obligations under executive deferred compensation plan [a]	$ 16,786	$ 16,786	$	$
Foreign currency forward contracts [c]	$ 869	$	$ 869	$

(a) We maintain an EDCP that was adopted in 2001 and subsequently amended. The purpose of the EDCP is to provide current tax planning opportunities as well as supplemental funds upon the retirement or death of certain of our employees. The EDCP is intended to aid in attracting and retaining employees of exceptional ability by providing them with these benefits. We also maintain a Benefit Protection Trust (the Trust) that was created to provide a source of funds to assist in meeting the obligations of the EDCP, subject to the claims of our creditors in the event of our insolvency. Assets of the Trust are consolidated in accordance with authoritative guidance. The assets of the Trust consist primarily of mutual fund investments (which are accounted for as trading securities and are marked-to-market on a monthly basis through the consolidated statements of income) and cash and cash equivalents. As such, these assets and obligations are classified within Level 1.

(b) 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 in our consolidated statements of comprehensive income. 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. 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.

(d) See Note 17 Pension Plans and Other Postretirement Benefits for further discussion on fair value measurements of our pension and postretirement assets.

NOTE 22 Acquisitions:

On May 11, 2011, we announced that we had expanded our presence in the biofuels market with the acquisition of Catilin Inc. Cash payments related to this acquisition were $4.5 million in 2011.

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In the third quarter of 2010, we purchased certain property and equipment in Yeosu, South Korea in connection with our plans for building a metallocene polyolefin catalyst and TMG manufacturing site. Cash payments related to this acquisition were $6.5 million and $8.0 million in 2011 and 2010, respectively.

NOTE 23 Operating Segments and Geographic Area Information:

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 performance catalyst solutions 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.

Summarized financial information concerning our reportable segments is shown in the following tables. The Corporate & other segment includes corporate-related items not allocated to the reportable segments. In connection with our change in method of accounting for actuarial gains and losses related to our global pension and OPEB plans in 2012, service costs (which represent the benefits earned by active employees during the period) and amortization of prior service costs/benefits will continue to be allocated to each segment. The remaining components of pension and OPEB plan expense are included in Corporate and other. Management believes this allocation will better reflect the operating results of each of its reporting segments. Prior year segment results have been retrospectively adjusted to reflect the change in accounting principle and change in allocation of pension and OPEB costs.

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	Year Ended December 31, 2012	2011	2010
		(In thousands)	
Net sales:			
Polymer Solutions	$ 892,232	$ 1,001,922	$ 903,745
Catalysts	1,067,948	1,116,863	890,007
Fine Chemistry	785,240	750,220	569,012
Total net sales	$ 2,745,420	$ 2,869,005	$ 2,362,764
Segment operating profit:			
Polymer Solutions	$ 198,426	$ 243,396	$ 197,981
Catalysts	260,544	290,065	220,795
Fine Chemistry	182,690	162,726	83,579
Total segment operating profit	641,660	696,187	502,355
Equity in net income of unconsolidated investments:			
Polymer Solutions	6,416	7,696	8,734
Catalysts	31,651	36,259	29,648
Fine Chemistry			
Corporate & other		(201)	(407)
Total equity in net income of unconsolidated investments	38,067	43,754	37,975
Net (income) loss attributable to noncontrolling interests:			
Polymer Solutions	(2,221)	(9,803)	(6,154)
Catalysts			
Fine Chemistry	(16,350)	(18,306)	(7,357)
Corporate & other	(20)	26	(128)
Total net income attributable to noncontrolling interests	(18,591)	(28,083)	(13,639)
Segment income:			
Polymer Solutions	202,621	241,289	200,561
Catalysts	292,195	326,324	250,443
Fine Chemistry	166,340	144,420	76,222
Total segment income	661,156	712,033	527,226
Corporate & other[a]	(123,831)	(178,568)	(93,989)
Restructuring and other charges[b]	(111,685)		(6,958)
Interest and financing expenses	(32,800)	(37,574)	(25,533)
Other income, net	1,229	357	2,788
Income tax expense	(82,533)	(104,134)	(87,756)

Net income attributable to Albemarle Corporation	$ 311,536	$ 392,114	$ 315,778

(a) For the years ended December 31, 2012, 2011 and 2010, Corporate and other expenses include $68.0 million, $89.2 million and $27.9 million, respectively, of pension and OPEB plan costs (including mark-to-market actuarial losses).

(b) See Note 19, Special Items.

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	As of December 31, 2012	2011	2010
		(In thousands)	
Identifiable assets:			
Polymer Solutions	$ 628,489	$ 692,924	$ 700,800
Catalysts	1,440,745	1,308,528	1,204,586
Fine Chemistry	613,655	512,676	424,527
Corporate & other	754,402	689,696	738,168
Total identifiable assets	$ 3,437,291	$ 3,203,824	$ 3,068,081
Goodwill:			
Polymer Solutions	$ 37,615	$ 37,163	$ 36,210
Catalysts	214,571	211,210	211,423
Fine Chemistry	24,780	24,772	24,605
Total goodwill	$ 276,966	$ 273,145	$ 272,238

	Year Ended December 31, 2012	2011	2010
		(In thousands)	
Depreciation and amortization:			
Polymer Solutions	$ 28,992	$ 30,436	$ 30,854
Catalysts	43,876	43,978	42,396
Fine Chemistry	24,238	21,004	21,570
Corporate & other	1,914	1,335	758
Total depreciation and amortization	$ 99,020	$ 96,753	$ 95,578
Capital expenditures:			
Polymer Solutions	$ 43,195	$ 51,186	$ 18,413
Catalysts	117,111	63,478	38,967
Fine Chemistry	119,088	60,679	17,193
Corporate & other	1,479	15,231	905
Total capital expenditures	$ 280,873	$ 190,574	$ 75,478

	Year Ended December 31, 2012	2011	2010
		(In thousands)	
Net Sales:[(a)]			
United States	$ 1,053,068	$ 1,106,580	$ 863,297

Foreign	1,692,352	1,762,425	1,499,467
Total	$ 2,745,420	$ 2,869,005	$ 2,362,764

(a) No sales in a foreign country exceed 10% of total net sales. Also, net sales are attributed to countries based upon shipments to final destination.

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	As of December 31, 2012	2011	2010
	(In thousands)		
Long-Lived Assets:			
United States	$ 735,269	$ 652,022	$ 582,763
Netherlands	192,540	185,799	186,960
Jordan	209,133	141,725	107,148
Brazil	85,353	83,452	75,816
Germany	72,797	70,051	67,579
China	39,542	64,449	63,672
France	32,305	28,652	25,075
Korea	81,962	25,008	12,074
United Kingdom		12,436	13,530
Other foreign countries	33,598	46,323	33,206
Total	$ 1,482,499	$ 1,309,917	$ 1,167,823

Net sales to external customers in each of the segments consists of the following:

	Year Ended December 31, 2012	2011	2010
	(In thousands)		
Polymer Solutions:			
Flame Retardants	$ 665,293	$ 780,541	$ 688,801
Stabilizers and Curatives	226,939	221,381	214,944
Total Polymer Solutions	$ 892,232	$ 1,001,922	$ 903,745
Catalysts:			
Performance Catalyst Solutions	$ 273,015	$ 265,381	$ 221,416
Refinery Catalysts	794,933	851,482	668,591
Total Catalysts	$ 1,067,948	$ 1,116,863	$ 890,007
Fine Chemistry:			
Performance Chemicals	$ 463,179	$ 460,026	$ 361,044
Fine Chemistry Services and Intermediates Business	322,061	290,194	207,968
Total Fine Chemistry	$ 785,240	$ 750,220	$ 569,012

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NOTE 24 Quarterly Financial Summary (Unaudited):

	First Quarter[(a)]	Second Quarter[(b)]	Third Quarter[(c)]	Fourth Quarter
	(In thousands, except per share amounts)			
2012				
Net sales	$ 711,704	$ 684,894	$ 661,226	$ 687,596
Gross profit	$ 250,980	$ 249,288	$ 217,750	$ 191,977
Restructuring and other charges, net [(d)]	$	$ 94,703	$	$ 16,982
Net income attributable to Albemarle Corporation	$ 114,262	$ 50,089	$ 109,459	$ 37,726
Basic earnings per share	$ 1.28	$ 0.56	$ 1.23	$ 0.42
Shares used to compute basic earnings per share	88,997	89,414	89,327	89,018
Diluted earnings per share	$ 1.27	$ 0.56	$ 1.22	$ 0.42
Shares used to compute diluted earnings per share	89,947	90,051	89,879	89,660

(a) As a result of our change in method of accounting relating to our global pension and OPEB plans in the fourth quarter of 2012, first quarter 2012 results were retrospectively adjusted resulting in increases to Gross profit of $3.1 million, Net income attributable to Albemarle Corporation of $6.2 million, Basic earnings per share of $0.07 and Diluted earnings per share of $0.07.

(b) As a result of our change in method of accounting relating to our global pension and OPEB plans in the fourth quarter of 2012, second quarter 2012 results were retrospectively adjusted resulting in increases to Gross profit of $6.6 million, Net income attributable to Albemarle Corporation of $12.4 million, Basic earnings per share of $0.14 and Diluted earnings per share of $0.14.

(c) As a result of our change in method of accounting relating to our global pension and OPEB plans in the fourth quarter of 2012, third quarter 2012 results were retrospectively adjusted resulting in increases to Gross profit of $3.0 million, Net income attributable to Albemarle Corporation of $10.2 million, Basic earnings per share of $0.12 and Diluted earnings per share of $0.12, and a decrease to Restructuring and other charges, net of $6.5 million.

(d) See Note 19, Special Items.

	First Quarter[(a)]	Second Quarter[(b)]	Third Quarter[(c)]	Fourth Quarter[(d)]
	(In thousands, except per share amounts)			
2011				
Net sales	$ 696,530	$ 742,108	$ 722,977	$ 707,390
Gross profit	$ 235,358	$ 252,377	$ 260,402	$ 206,810
Net income attributable to Albemarle Corporation	$ 111,061	$ 114,843	$ 120,662	$ 45,548
Basic earnings per share	$ 1.21	$ 1.25	$ 1.34	$ 0.51
Shares used to compute basic earnings per share	91,633	91,713	89,935	88,805
Diluted earnings per share	$ 1.20	$ 1.24	$ 1.33	$ 0.51
Shares used to compute diluted earnings per share	92,517	92,795	90,958	89,819

(a) As a result of our change in method of accounting relating to our global pension and OPEB plans in the fourth quarter of 2012, first quarter 2011 results were retrospectively adjusted resulting in increases to Gross profit of $2.3 million, Net income attributable to Albemarle Corporation of $4.5 million, Basic earnings per share of $0.05 and Diluted earnings per share of $0.05.

(b)

As a result of our change in method of accounting relating to our global pension and OPEB plans in the fourth quarter of 2012, second quarter 2011 results were retrospectively adjusted resulting in increases to Gross profit of $0.4 million, Net income attributable to Albemarle Corporation of $0.7 million, Basic earnings per share of $0.01 and Diluted earnings per share of $0.01.

(c) As a result of our change in method of accounting relating to our global pension and OPEB plans in the fourth quarter of 2012, third quarter 2011 results were retrospectively adjusted resulting in increases to Gross profit of $2.4 million, Net income attributable to Albemarle Corporation of $4.6 million, Basic earnings per share of $0.05 and Diluted earnings per share of $0.05.

(d) As a result of our change in method of accounting relating to our global pension and OPEB plans in the fourth quarter of 2012, fourth quarter 2011 results were retrospectively adjusted resulting in decreases to Gross profit of $27.3 million, Net income attributable to Albemarle Corporation of $53.9 million, Basic earnings per share of $0.61 and Diluted earnings per share of $0.60.

Albemarle Corporation and Subsidiaries

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

NONE

Item 9A. Controls and Procedures.

Evaluation of Disclosure 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 our principal financial officer concluded that, as of end of the period covered by this report, our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports filed or submitted 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.

Design and Evaluation of Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria for effective internal control over financial reporting described in the Internal Control-Integrated Framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, management concluded that, as of December 31, 2012, our internal control over financial reporting was effective based on those criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein. Management s report and the independent registered public accounting firm s attestation report are included in Item 8 under the captions entitled Management s Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm and are incorporated herein by reference.

Changes in Internal Control over Financial Reporting

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 December 31, 2012 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

NONE

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item 10 is contained in the Proxy Statement and is incorporated herein by reference. In addition, the information in Executive Officers of the Registrant appearing after Item 4 Part I of this Annual Report, is incorporated herein.

Code of Business Conduct

We have adopted a code of business conduct and ethics for directors, officers and employees, known as the Albemarle Code of Business Conduct. The Albemarle Code of Business Conduct is available on our website at http://www.albemarle.com. Shareholders may also request a free copy of the Albemarle Code of Business Conduct from: Albemarle Corporation, Attention: Investor Relations, 451 Florida Street, Baton Rouge, Louisiana 70801. We will disclose any amendments to, or waivers from, a provision of our Code of Business Conduct that applies to the principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions that relates to any element of the Code of Business Conduct as defined in Item 406 of Regulation S-K by posting such information on our website.

Albemarle Corporation and Subsidiaries

New York Stock Exchange Certifications

Because our common stock is listed on the New York Stock Exchange (NYSE), our Chief Executive Officer is required to make, and he has made, an annual certification to the NYSE stating that he was not aware of any violation by us of the corporate governance listing standards of the NYSE. Our Chief Executive Officer made his annual certification to that effect to the NYSE as of May 16, 2012. In addition, we have filed, as exhibits to this Annual Report on Form 10-K, the certifications of our principal executive officer and principal financial officer required under Sections 906 and 302 of the Sarbanes Oxley Act of 2002 to be filed with the Securities and Exchange Commission regarding the quality of our public disclosure.

Additional information is contained in the Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this Item 11 is contained in the Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item 12 is contained in the Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item 13 is contained in the Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information required by this Item 14 is contained in the Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) The following consolidated financial and informational statements of the registrant are included in Part II Item 8 on pages 51 to 101:

Management s Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2012 and 2011

Consolidated Statements of Income, Comprehensive Income, Changes in Equity and Cash Flows for the years ended December 31, 2012, 2011 and 2010

Notes to the Consolidated Financial Statements

(a)(2) No Financial Statement Schedules are provided in accordance with Item 15(a)(2) as the information is either not applicable, not required or has been furnished in the Consolidated Financial Statements or Notes thereto.

(a)(3) Exhibits

The following documents are filed as exhibits to this Form 10-K pursuant to Item 601 of Regulation S-K:

3.1 Amended and Restated Articles of Incorporation (including Amendment thereto) [filed as Exhibit 4.1 to the Company s Registration Statement on Form S-3 (Registration No. 333-119723) and incorporated herein by reference].

3.2 Amended and Restated Bylaws of the registrant effective as of July 12, 2012 [filed as Exhibit 3.2 to the Company s Current Report on Form 8-K (No. 1-12658) filed on July 12, 2012, and incorporated herein by reference].

4.1 Indenture, dated as of January 20, 2005, between the Company and The Bank of New York, as trustee [filed as Exhibit 4.1 to the Company s Current Report on Form 8-K (No. 1-12658) filed on January 20, 2005, and incorporated herein by reference].

Albemarle Corporation and Subsidiaries

4.2	First Supplemental Indenture, dated as of January 20, 2005, between the Company and The Bank of New York, as trustee [filed as Exhibit 4.2 to the Company s Current Report on Form 8-K (No. 1-12658) filed on January 20, 2005, and incorporated herein by reference].
4.3	Form of Global Security for the 5.10% Senior Notes due 2015 (included as Exhibit A to Exhibit 4.2 hereto).
4.4	Second Supplemental Indenture, dated as of December 10, 2010, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee [filed as Exhibit 4.2 to the Company s Current Report on Form 8-K (No. 1-12658) filed on December 10, 2010, and incorporated herein by reference].
4.5	Form of Global Security for the 4.50% Senior Notes due 2020 [filed as Exhibit 4.3 to the Company s Current Report on Form 8-K (No. 1-12658) filed on December 10, 2010, and incorporated herein by reference].
10.1	Amended and Restated Credit Agreement, dated as of September 22, 2011, among Albemarle Corporation and Albemarle Global Finance Company SCA, as borrowers, and certain of the Company s subsidiaries that from time to time become parties thereto, the several banks and other financial institutions as may from time to time become parties thereto, and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer [filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (No. 1-12658) filed on September 22, 2011, and incorporated herein by reference].
10.2	Albemarle Corporation 1994 Omnibus Stock Incentive Plan, adopted on February 8, 1994 [filed as Exhibit 10.1 to the Company s Registration Statement on Form S-1 (No. 33-77452), and incorporated herein by reference].
10.3	Amendment to the Albemarle Corporation 1994 Omnibus Stock Incentive Plan, adopted December 30, 2002 [filed as Exhibit 10.2.1 to the Company s Form 10-K for the year ended December 31, 2002 (No. 1-12658), and incorporated herein by reference].
10.4	Albemarle Corporation 1998 Incentive Plan, adopted April 22, 1998, and amended effective January 1, 2003 [filed as Exhibit 10.8 to the Company s Annual Report on Form 10-K for the year ended December 31, 2002 (No. 1-12658), and incorporated herein by reference].
10.5	Amendment to the Albemarle Corporation 1998 Omnibus Stock Incentive Plan, adopted as of October 1, 2003 [filed as Exhibit 10.7.1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2003 (No. 1-12658), and incorporated herein by reference].
10.6	Compensation Arrangement with Luther C. Kissam, IV, dated August 29, 2003 [filed as Exhibit 10.10 to the Company s Annual Report on Form 10-K for the year ended December 31, 2005 (No. 1-12658), and incorporated herein by reference].
10.7	Albemarle Corporation 2003 Incentive Plan, adopted January 31, 2003 and approved by the shareholders on March 26, 2003 [filed as Annex A to the Company s Definitive Proxy Statement on 14A (No. 1-12658) filed on February 26, 2003 and incorporated herein by reference].
10.8	First Amendment to the Albemarle Corporation 2003 Incentive Plan, dated as of December 13, 2006 [filed as Exhibit 10.3 to the Company s Current Report on Form 8-K (No. 1-12658) filed on December 18, 2006, and incorporated herein by reference].
10.9	Albemarle Corporation Directors Deferred Compensation Plan, approved by shareholders on April 24, 1996 [filed as Exhibit 10.11 to the Company s Annual Report on Form 10-K for the year ended December 31, 2003 (No. 1-12658), and incorporated herein by reference].
10.10	First Amendment to the Albemarle Corporation Directors Deferred Compensation Plan, dated as of December 13, 2006 [filed as Exhibit 10.7 to the Company s Current Report on Form 8-K (No. 1-12658) filed on December 18, 2006, and incorporated herein by reference].
10.11	First Amendment to the Albemarle Corporation Directors Deferred Compensation Plan, dated as of May 13, 2009 [filed as Exhibit 10.36 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (No. 1-12658), and incorporated herein by reference].

10.12	Form of Stock Option Agreement [filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (No. 1-12658), filed February 24, 2012, and incorporated herein by reference].
10.13	Form of Amendment to Outstanding Stock Option Agreements [filed as Exhibit 10.4 to the Company s Current Report on Form 8-K (No. 1-12658) filed on December 18, 2006, and incorporated herein by reference].

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10.14	Form of Restricted Stock Agreement [filed as Exhibit 10.3 to the Company s Current Report on Form 8-K (No. 1-12658), filed February 24, 2012, and incorporated herein by reference].
10.15	Form of Performance Stock Unit Agreement [filed as Exhibit 10.2 to the Company s Current Report on Form 8-K (No. 1-12658), filed February 24, 2012, and incorporated herein by reference].
10.16	Notice of Performance Unit Award [filed as Exhibit 10.2 to the Company s Current Report on Form 8-K/A (No. 1-12658) filed on February 13, 2008, and incorporated herein by reference].
10.17	Notice of Restricted Stock Unit Award [filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (No. 1-12658) filed on April 3, 2009, and incorporated herein by reference].
10.18	Notice of Option Grant [filed as Exhibit 10.2 to the Company s Current Report on Form 8-K (No. 1-12658) filed on April 3, 2009, and incorporated herein by reference].
10.19	Form of Amendment to Outstanding Performance Unit Agreements [filed as Exhibit 10.5 to the Company s Current Report on Form 8-K (No. 1-12658) filed on December 18, 2006, and incorporated herein by reference].
10.20	Amended and Restated Albemarle Corporation Supplemental Executive Retirement Plan, effective as of January 1, 2005 [filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (No. 1-12658) filed on December 14, 2005, and incorporated herein by reference].
10.21	Second Amendment to the Albemarle Corporation Supplemental Executive Retirement Plan, dated as of December 13, 2006 [filed as Exhibit 10.2 to the Company s Current Report on Form 8-K (No. 1-12658) filed on December 18, 2006, and incorporated herein by reference].
10.22	Amended and Restated Albemarle Corporation Executive Deferred Compensation Plan, effective as of January 1, 2005 [filed as Exhibit 10.2 to the Company s Current Report on Form 8-K (No. 1-12658) filed on December 14, 2005, and incorporated herein by reference].
10.23	First Amendment to the Albemarle Corporation Executive Deferred Compensation Plan, dated as of December 13, 2006 [filed as Exhibit 10.8 to the Company s Current Report on Form 8-K (No. 1-12658) filed on December 18, 2006, and incorporated herein by reference].
10.24	2006 Stock Compensation Plan for Non-Employee Directors of Albemarle Corporation [filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (No. 1-12658) filed on April 20, 2006, and incorporated herein by reference].
10.25	Share Purchase Agreement, among Albemarle Corporation, Albemarle Overseas Development Corporation and International Chemical Investors, SA, dated August 31, 2006 [filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 (No. 1-12658), and incorporated herein by reference].
10.26	Form of Severance Compensation Agreement [filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (No. 1-12658) filed on December 12, 2011, and incorporated herein by reference].
10.27	Albemarle Corporation Severance Pay Plan, as revised effective as of December 13, 2006 [filed as Exhibit 10.6 to the Company s Current Report on Form 8-K (No. 1-12658) filed on December 18, 2006, and incorporated herein by reference].
10.28	Amended and Restated Albemarle Corporation Benefits Protection Trust, effective as of December 13, 2006 [filed as Exhibit 10.9 to the Company s Current Report on Form 8-K (No. 1-12658) filed on December 18, 2006, and incorporated herein by reference].
10.29	Albemarle Corporation 2008 Incentive Plan [filed as Annex A to the Company s definitive Proxy Statement (No. 1-12658) filed on March 12, 2008, and incorporated herein by reference].
10.30	First Amendment to the Albemarle Corporation 2008 Incentive Plan [filed as Appendix A to the Company s definitive Proxy Statement (No. 1-12658) filed on March 31, 2009, and incorporated herein by reference].

10.31	2008 Stock Compensation Plan for Non-Employee Directors of Albemarle Corporation [filed as Annex B to the Company s definitive Proxy Statement (No. 1-12658) filed on March 12, 2008, and incorporated herein by reference].
10.32	Albemarle Corporation Employee Relocation Policy [filed as Exhibit 10.33 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (No. 1-12658) filed on August 7, 2008, and incorporated herein by reference].

Albemarle Corporation and Subsidiaries

10.33	Albemarle Corporation 2008 Incentive Plan, as amended and restated as of April 20, 2010 [filed as Exhibit 10.1 to the Company s Registration Statement on Form S-8 (No. 333-166828) filed on May 14, 2010, and incorporated herein by reference].
10.34	Second Amendment to the Albemarle Corporation 2008 Incentive Plan [filed as Appendix A to the Definitive Proxy Statement on Schedule 14A filed with the Commission on March 9, 2010 and incorporated herein by reference].
10.35	First Amendment to the Albemarle Corporation 2008 Stock Compensation Plan for Non-Employee Directors [filed as Appendix B to the Definitive Proxy Statement on Schedule 14A filed with the Commission on March 9, 2010 and incorporated herein by reference].
*10.36	Second Amendment to the Albemarle Corporation Executive Deferred Compensation Plan, dated as of December 28, 2007.
*10.37	Third Amendment to the Albemarle Corporation Executive Deferred Compensation Plan, dated as of April 16, 2010.
*10.38	Fourth Amendment to the Albemarle Corporation Executive Deferred Compensation Plan, dated as of October 20, 2010.
*10.39	Fifth Amendment to the Albemarle Corporation Executive Deferred Compensation Plan, dated as of December 27, 2012.
*10.40	Second Amendment to the Albemarle Corporation Director s Deferred Compensation Plan, dated as of December 12, 2012.
*12.1	Statement of Computation of Ratio of Earnings to Fixed Charges.
*18.1	PricewaterhouseCoopers LLP Preferability Letter Related to Change in Accounting Principle.
*21.1	Subsidiaries of the Company.
*23.1	Consent of PricewaterhouseCoopers LLP.
*31.1	Certification of Chief Executive Officer pursuant to Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act, as amended.
*31.2	Certification of Chief Financial Officer pursuant to Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act, as amended.
*32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*99.1	Five-Year Summary.
*101	Interactive Data Files (Annual Report on Form 10-K, for the fiscal year ended December 31, 2012, 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 fiscal years ended December 31, 2012, 2011 and 2010, (ii) the Consolidated Statements of Comprehensive Income for the fiscal years ended December 31, 2012, 2011 and 2010, (iii) the Consolidated Balance Sheets at December 31, 2012 and 2011, (iv) the Consolidated Statements of Changes in Equity for the fiscal years ended December 31, 2012, 2011 and 2010, (v) the Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2012, 2011 and 2010 and (vi) the Notes to Consolidated Financial Statements.

* Included with this filing.

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Albemarle Corporation and Subsidiaries

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

By: /s/ LUTHER C. KISSAM IV
(Luther C. Kissam IV)
Chief Executive Officer and Director

Dated: February 15, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of February 15, 2013.

Signature	Title
/s/ LUTHER C. KISSAM IV **(Luther C. Kissam IV)**	Chief Executive Officer and Director (principal executive officer)
/s/ SCOTT A. TOZIER **(Scott A. Tozier)**	Senior Vice President, Chief Financial Officer, Chief Accounting Officer and Chief Risk Officer (principal financial and accounting officer)
/s/ WILLIAM H. HERNANDEZ **(William H. Hernandez)**	Director
/s/ R. WILLIAM IDE III **(R. William Ide III)**	Director
/s/ JOSEPH M. MAHADY **(Joseph M. Mahady)**	Director
/s/ JIM W. NOKES **(Jim W. Nokes)**	Chairman of the Board
/s/ JAMES J. O BRIEN **(James J. O Brien)**	Director
/s/ BARRY W. PERRY **(Barry W. Perry)**	Director

/s/ JOHN SHERMAN, JR. **(John Sherman, Jr.)**	Director
/s/ HARRIETT TEE TAGGART **(Harriett Tee Taggart)**	Director
/s/ ANNE M. WHITTEMORE **(Anne M. Whittemore)**	Director