SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 - For the fiscal year ended December 31, 2005

Commission file number 1-31763

KRONOS WORLDWIDE, INC.

(Exact name of Registrant as specified in its charter)

Delaware	76-0294959
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
5430 LBJ Freeway, Suite 1700, Dallas, Texas	75240-2697
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (972) 233-1700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock ($.01 par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark:

If the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ___ No X

If the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ___ No X

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 ___

If disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ___ No X

Whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Act). Large accelerated filer ___ Accelerated filer X Non-accelerated filer ___

Whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ___ No X

The aggregate market value of the 3.5 million shares of voting stock held by nonaffiliates of Kronos Worldwide, Inc. as of June 30, 2005 (the last business day of the Registrant's most recently-completed second fiscal quarter) approximated $104 million.

As of February 28, 2006, 48,949,549 shares of the Registrant's common stock were outstanding.

Documents incorporated by reference

The information required by Part III is incorporated by reference from the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

PART I

ITEM 1. BUSINESS

Kronos Worldwide, Inc., (NYSE: KRO) organized as a Delaware corporation, is a leading global producer and marketer of value-added titanium dioxide pigments ("TiO_2"). Approximately one-half of the Company's 2005 sales volumes were attributable to markets in Europe. The Company believes it is the second largest producer of TiO_2 in Europe with an estimated 20% share of European TiO_2 sales

volumes. The Company has an estimated 15% share of North American TiO2 sales volume. Kronos has production facilities throughout Europe and North America. Kronos and its consolidated subsidiaries are sometimes referred to herein collectively as the "Company."

At December 31, 2005, (i) Valhi, Inc (NYSE: VHI) held approximately 57% of the Company's common stock and NL Industries, Inc. (NYSE: NL) held an additional 36% of the outstanding common stock of the Company, (ii) Valhi held 83% of NL's outstanding common stock and (iii) Contran Corporation and its subsidiaries held approximately 92% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons of which Mr. Simmons is sole trustee, or is held by Mr. Simmons or persons or other entities related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control such companies.

As provided by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions that the statements in this Annual Report on Form 10-K relating to matters that are not historical facts, including, but not limited to, statements found in this Item 1 - "Business," Item 1A - "Risk Factors," Item 3 - "Legal Proceedings," Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A - "Quantitative and Qualitative Disclosures About Market Risk," are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "should," "could," "anticipates," "expected" or comparable terminology, or by discussions of strategies or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such forward-looking statements. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially from those described herein are the risks and uncertainties discussed in this Annual Report and those described from time to time in the Company's other filings with the SEC including, but not limited to, the following:

- Future supply and demand for the Company's products,
- The extent of the dependence of certain of the Company's businesses on certain market sectors,
- The cyclicality of the Company's businesses,
- Customer inventory levels (such as the extent to which the Company's customers may, from time to time, accelerate purchases of TiO2 in advance of anticipated price increases or defer purchases of TiO2 in advance of anticipated price decreases),
- Changes in raw material and other operating costs (such as energy costs),
- The possibility of labor disruptions,
- General global economic and political conditions (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for TiO2),
- Competitive products and substitute products,
- Customer and competitor strategies,
- The impact of pricing and production decisions,
- Competitive technology positions,
- The introduction of trade barriers,
- Fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro, the Norwegian kroner and the Canadian dollar),
- Operating interruptions (including, but not limited to, labor disputes, leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime and transportation interruptions),
- The timing and amounts of insurance recoveries,
- The ability of the Company to renew or refinance credit facilities,
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters,
- The ultimate ability to utilize income tax attributes, the benefits of which have been recognized under the "more-likely-than-not" recognition criteria,
- Environmental matters (such as those requiring compliance with emission and discharge standards for existing and new facilities),
- Government laws and regulations and possible changes therein,
- The ultimate resolution of pending litigation, and
- Possible future litigation.

Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those currently forecasted or expected. The Company disclaims any intention or obligation to update or revise any forward-looking statement whether as a result of changes in information, future events or otherwise.

Industry. Titanium dioxide pigments are inorganic chemical products used for imparting whiteness, brightness and opacity to a diverse range of customer applications and end-use markets, including coatings, plastics, paper, fibers, food, ceramics and cosmetics. TiO2 is considered a "quality-of-life" product with demand affected by gross domestic product in various regions of the world. TiO2, the largest commercially used whitening pigment by volume, derives its value from its whitening properties and opacifying ability (commonly referred to as hiding power). As a result of TiO2's high refractive index rating, it can provide more hiding power than any other commercially produced white pigment. In addition, TiO2 demonstrates excellent resistance to chemical attack, good thermal stability and resistance to ultraviolet degradation. TiO2 is supplied to customers in either a powder or slurry form.

Per capita consumption of TiO2 in the United States and Western Europe far exceeds that in other areas of the world and these regions are expected to

continue to be the largest consumers of TiO2. Significant markets for TiO2 consumption could emerge in Eastern Europe, the Far East or China as the economies in these regions develop to the point that quality-of-life products, including TiO2, experience greater demand. Geographic information is contained in Note 2 to the Consolidated Financial Statements.

Products and operations. TiO2 is produced in two crystalline forms: rutile and anatase. Both the chloride and sulfate production processes (discussed below) produce rutile TiO2. Chloride process rutile is preferred for the majority of customer applications. From a technical standpoint, chloride process rutile has a bluer undertone and higher durability than sulfate process rutile TiO2. Although many end-use applications can use either form of TiO2, chloride process rutile TiO2 is the preferred form for use in coatings and plastics, the two largest end-use markets. Anatase TiO2, which is produced only through the sulfate production process, represents a much smaller percentage of annual global TiO2 production and is preferred for use in selected paper, ceramics, rubber tires, man-made fibers, food and cosmetics.

The Company believes that there are no effective substitutes for TiO2. Extenders, such as kaolin clays, calcium carbonate and polymeric opacifiers, are used in a number of end-use markets as white pigments, however the opacity in these products is not able to duplicate the performance characteristics of TiO2, and the Company believes these products are unlikely to replace TiO2.

The Company currently produces over 40 different TiO2 grades, sold under the Kronos trademark, which provide a variety of performance properties to meet customers' specific requirements. The Company's major customers include domestic and international paint, plastics and paper manufacturers.

The Company and its distributors and agents sell and provide technical services for its products to over 4,000 customers in over 100 countries with the majority of sales in Europe and North America. TiO2 is distributed by rail and truck in either dry or slurry form and by ocean carrier in dry form. The Company and its predecessors have produced and marketed TiO2 in North America and Europe for over 80 years. The Company believes that it has developed considerable expertise and efficiency in the manufacture, sale, shipment and service of its products in domestic and international markets.

Sales of TiO2 represented about 90% of Kronos' total sales in 2005. Sales of other products, complementary to Kronos' TiO2 business, are comprised of the following:

- Kronos owns an ilmenite mine in Norway and operated pursuant to a governmental concession with an unlimited term. Ilmenite is a raw material used directly as a feedstock by some sulfate-process TiO2 plants, including all of Kronos' European sulfate-process plants. The mine has estimated reserves that are expected to last at least 50 years. Ilmenite sales to third-parties represented approximately 5% of the Company's consolidated net sales in 2005.
- Kronos manufactures and sells iron-based chemicals, which are by-products and processed by-products of the TiO2 pigment production process. These co-product chemicals are marketed through Kronos' Ecochem division, and are used primarily as treatment and conditioning agents for industrial effluents and municipal wastewater as well as in the manufacture of iron pigments, cement and agricultural products. Sales of iron-based chemical products were about 4% of sales in 2005.
- Kronos manufactures and sells certain titanium chemical products (titanium oxychloride and titanyl sulfate), which are side-stream products from the production of TiO2. Titanium oxychloride is used in specialty applications in the formulation of pearlescent pigments, production of electroceramic capacitors for cell phones and other electronic devices. Titanyl sulfate products are used primarily in pearlescent pigments. Sales of these products were about 1% of sales in 2005.

Manufacturing process and raw materials. TiO2 is manufactured by the Company using both the chloride process and the sulfate process. Approximately 73% of the Company's current production capacity is based on the chloride process. The chloride process is a continuous process in which chlorine is used to extract rutile TiO2. The chloride process typically has lower manufacturing costs than the sulfate process due to higher yield and production of less waste and lower energy requirements and labor costs. Because much of the chlorine is recycled and feedstock bearing a higher titanium content is used, the chloride process produces less waste than the sulfate process. The sulfate process is a batch chemical process that uses sulfuric acid to extract TiO2. Sulfate technology can produce either anatase or rutile pigment. Once an intermediate TiO2 pigment has been produced by either the chloride or sulfate process, it is "finished" into products with specific performance characteristics for particular end-use applications through proprietary processes involving various chemical surface treatments and intensive micronizing (milling). Due to environmental factors and customer considerations, the proportion of TiO2 industry sales represented by chloride-process pigments has increased relative to sulfate-process pigments and, in 2005, chloride-process production facilities represented approximately 64% of industry capacity.

Kronos produced a new Company record 492,000 metric tons of TiO2 in 2005, compared to the prior records of 484,000 metric tons in 2004 and 476,000 metric tons in 2003. Such production amounts include the Company's one-half interest in the joint-venture owned Louisiana plant discussed below. The Company's average production capacity utilization rates were near full capacity in 2003, 2004 and 2005. Kronos' production capacity has increased by approximately 30% over the past ten years due to debottlenecking programs, with only moderate capital expenditures. The Company believes its annual attainable production capacity for 2006 is approximately 510,000 metric tons, with some slight additional capacity available in 2007 through Kronos' continued debottlenecking efforts.

The primary raw materials used in the TiO2 chloride production process are titanium-containing feedstock, chlorine and coke. Chlorine and coke are available from a number of suppliers. Titanium-containing feedstock suitable for use in the chloride process is available from a limited but increasing number of

suppliers around the world, principally in Australia, South Africa, Canada, India and the United States. The Company purchased approximately 430,000 metric tons of chloride feedstock in 2005, of which the vast majority was slag. The Company purchased chloride process grade slag in 2005 from a subsidiary of Rio Tinto plc UK - Richards Bay Iron and Titanium Limited South Africa under a long-term supply contract that expires at the end of 2007. Natural rutile ore is purchased primarily from Iluka Resources, Limited (Australia) under a long-term supply contract that expires at the end of 2009. The Company does not expect to encounter difficulties obtaining long-term extensions to existing supply contracts prior to the expiration of the contracts. Raw materials purchased under these contracts and extensions thereof are expected to meet the Company's chloride process feedstock requirements over the next several years.

The primary raw materials used in the TiO2 sulfate production process are titanium-containing feedstock, derived primarily from rock and beach sand ilmenite, and sulfuric acid. Sulfuric acid is available from a number of suppliers. Titanium-containing feedstock suitable for use in the sulfate process is available from a limited number of suppliers around the world. Currently, the principal active sources are located in Norway, Canada, Australia, India and South Africa. As one of the few vertically integrated producers of sulfate-process pigments, the Company owns and operates a rock ilmenite mine in Norway, which provided all of the Company's feedstock for its European sulfate-process pigment plants in 2005. The Company produced approximately 816,000 metric tons of ilmenite in 2005 of which approximately 317,000 metric tons were used internally with the remainder sold to third parties. For its Canadian sulfate-process plant, the Company also purchases sulfate grade slag (approximately 29,000 metric tons in 2005) primarily from Q.I.T. Fer et Titane Inc. Canada, a subsidiary of Rio Tinto plc UK, under a long-term supply contract that expires at the end of 2009. Raw materials purchased under these contracts and extensions thereof are expected to meet the Company's sulfate process feedstock requirements over the next several years.

The contracts contain fixed quantities that Kronos is required to purchase, although these contracts allow for an upward or downward adjustment in the quantity purchased. The quantities under these contracts do not require Kronos to purchase feedstock in excess of amounts that Kronos would reasonably consume in any given year. The pricing under these agreements is generally negotiated annually.

The number of sources of, and availability of, certain raw materials is specific to the particular geographic region in which a facility is located. As noted above, Kronos purchases titanium-bearing ore from three different suppliers in different countries under multiple-year contracts. Political and economic instability in certain countries from which Kronos purchases its raw material supplies could adversely affect the availability of such feedstock. Should Kronos' vendors not be able to meet their contractual obligations or should Kronos be otherwise unable to obtain necessary raw materials, Kronos may incur higher costs for raw materials or may be required to reduce production levels, which may have a material adverse effect on Kronos' consolidated financial position, results of operations or liquidity.

The following table summarizes our raw materials procured or mined in 2005.

Production Process/Raw Material	Quantities of Raw Materials Procured or Mined (In thousands of metric tons)
Chloride process plants - purchased slag or natural rutile ore	433
Sulfate process plants:	
Raw ilmenite ore mined internally	317
Purchased slag	29

TiO2 manufacturing joint venture. Subsidiaries of the Company and Huntsman Holdings LLC ("Huntsman") each own a 50%-interest in a manufacturing joint venture, Louisiana Pigment Company ("LPC"). LPC owns and operates a chloride-process TiO2 plant located in Lake Charles, Louisiana. Production from the plant is shared equally by the Company and Huntsman (the "Partners") pursuant to separate offtake agreements.

A supervisory committee, composed of four members, two of whom are appointed by each Partner, directs the business and affairs of LPC, including production and output decisions. Two general managers, one appointed and compensated by each Partner, manage the operations of the joint venture acting under the direction of the supervisory committee.

Kronos is required to purchase one-half of the TiO2 produced by the joint venture. Because Kronos does not control the joint venture, the joint venture is not consolidated in the Company's financial statements. The Company accounts for its interest in the joint venture by the equity method. The manufacturing joint venture operates on a break-even basis and, accordingly, the Company reports no equity in earnings of the joint venture. With the exception of raw material and packaging costs for the pigment grades produced, Kronos and Huntsman share all costs and capital expenditures of the joint venture equally. The Company's share of net costs is reported as cost of sales as the related TiO2 acquired from the joint venture is sold. See Notes 6 and 15 to the Consolidated Financial Statements.

Competition. The TiO2 industry is highly competitive. The Company competes primarily on the basis of price, product quality and technical service, and the availability of high performance pigment grades. Although certain TiO2 grades are considered specialty pigments, the majority of the Company's grades and substantially all of the Company's production are considered commodity pigments with price generally being the most significant competitive factor. The Company believes that it is the leading seller of TiO2 in several countries, including

Germany, with an estimated 12% share of worldwide Ti02 sales volume in 2005. Overall, Kronos is the world's fifth largest producer of TiO2.

The Company's principal competitors are E.I. du Pont de Nemours & Co. ("DuPont"); Millennium Chemicals, Inc.; Tronox Incorporated; Huntsman; and Ishihara Sangyo Kaisha, Ltd. The Company's five largest competitors have estimated individual shares of TiO2 production capacity ranging from 24% to 4%, and an estimated aggregate 70% share of worldwide TiO2 production volume. DuPont has about one-half of total North American TiO2 production capacity and is the Company's principal North American competitor.

Worldwide capacity additions in the TiO2 market resulting from construction of greenfield plants require significant capital expenditures and substantial lead time (typically three to five years in Kronos' experience). The Company is not aware of any greenfield plant under construction in the United States, Europe or any other part of the world. However, a competitor has announced its intention to build a greenfield facility in China, but it is not clear when construction will begin and it is not likely that any product would be available until 2010, at the earliest. During 2004, certain competitors either idled or shut down facilities. However, Kronos does expect that industry capacity will increase as Kronos and its competitors continue to debottleneck their existing facilities. Based on the factors described above, Kronos expects that the average annual increase in industry capacity from announced debottlenecking projects will be less than the average annual demand growth for TiO2 during the next three to five years. However, no assurance can be given that future increases in the TiO2 industry production capacity and future average annual demand growth rates for TiO2 will conform to Kronos' expectations. If actual developments differ from Kronos' expectations, Kronos' and the TiO2 industry's performances could be unfavorably affected.

Research and development. The Company's expenditures for research and development, process technology and quality assurance activities were approximately $7 million in 2003, $8 million in 2004 and $9 million in 2005. Research and development activities are conducted principally at the Leverkusen, Germany facility. Such activities are directed primarily toward improving both the chloride and sulfate production processes, improving product quality and strengthening the Company's competitive position by developing new pigment applications.

Kronos continually seeks to improve the quality of its grades, and has been successful at developing new grades for existing and new applications to meet the needs of customers and increase product life cycle. Since 1999, thirteen new grades have been added for plastics, coatings, fiber and paper laminate applications.

Patents and trademarks. Patents held for products and production processes are important to Kronos and its continuing business activities. Kronos seeks patent protection for its technical developments, principally in the United States, Canada and Europe, and from time to time enters into licensing arrangements with third parties. Kronos' existing patents generally have a term of 20 years from the date of filing, and have remaining terms ranging from one to 20 years. Kronos seeks to protect its intellectual property rights, including its patent rights, and from time to time Kronos will be involved in disputes relating to the protection and use of intellectual property relating to its products.

Kronos' major trademarks, including Kronos, are protected by registration in the United States and elsewhere with respect to those products it manufactures and sells. Kronos also relies on unpatented proprietary know-how and continuing technological innovation and other trade secrets to develop and maintain its competitive position. Kronos' proprietary chloride production process is an important part of Kronos' technology, and Kronos' business could be harmed if Kronos should fail to maintain confidentiality of its trade secrets used in this technology.

Foreign operations. The Company's chemical businesses have operated in non-U.S. markets since the 1920s. Most of the Company's current production capacity is located in Europe and Canada with non-U.S. net property and equipment aggregating approximately $416 million at December 31, 2005. Kronos' European operations include production facilities in Germany, Belgium and Norway. Approximately $844 million (71%) of the Company's 2005 consolidated sales were to non-U.S. customers, including $101 million (8%) to customers in areas other than Europe and Canada. Foreign operations are subject to, among other things, currency exchange rate fluctuations, and the Company's results of operations have, in the past, been both favorably and unfavorably affected by fluctuations in currency exchange rates. Effects of fluctuations in currency exchange rates on the Company's results of operations are discussed in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A. "Quantitative and Qualitative Disclosures about Market Risk."

Political and economic uncertainties in certain of the countries in which the Company operates may expose it to risk of loss. The Company does not believe that there is currently any likelihood of material loss through political or economic instability, seizure, nationalization or similar event. The Company cannot predict, however, whether events of this type in the future could have a material effect on its operations. The Company's manufacturing and mining operations are also subject to extensive and diverse environmental regulation in each of the foreign countries in which they operate. See "Regulatory and Environmental Matters."

Customer base and annual seasonality. The Company believes that neither its aggregate sales nor those of any of its principal product groups are concentrated in or materially dependent upon any single customer or small group of customers. The Company's largest ten customers accounted for approximately 26% of sales in 2005. Neither the Company's business as a whole nor that of any of its principal product groups is seasonal to any significant extent. Due in part to the increase in paint production in the spring to meet the spring and summer painting season demand, TiO2 sales are generally higher in the first half

of the year than in the second half of the year.

Employees. As of December 31, 2005, Kronos employed approximately 2,415 persons (excluding employees of the Louisiana joint venture), with 50 employees in the United States, 420 employees in Canada and 1,945 employees in Europe.

Hourly employees in production facilities worldwide, including the TiO2 joint venture, are represented by a variety of labor unions, with labor agreements having various expiration dates. In Europe, Kronos' union employees are covered by master collective bargaining agreements in the chemicals industry that are renewed annually. In Canada, Kronos' union employees are covered by a collective bargaining agreement that expires in June 2007. Kronos believes its labor relations are good.

Regulatory and environmental matters. Kronos' operations are governed by various environmental laws and regulations. Certain of Kronos' operations are, or have been, engaged in the handling, manufacture or use of substances or compounds that may be considered toxic or hazardous within the meaning of applicable environmental laws and regulations. As with other companies engaged in similar businesses, certain past and current operations and products of Kronos have the potential to cause environmental or other damage. Kronos has implemented and continues to implement various policies and programs in an effort to minimize these risks. Kronos' policy is to maintain compliance with applicable environmental laws and regulations at all its facilities and to strive to improve its environmental performance. It is possible that future developments, such as stricter requirements in environmental laws and enforcement policies thereunder, could adversely affect Kronos' production, handling, use, storage, transportation, sale or disposal of such substances as well as Kronos' consolidated financial position, results of operations or liquidity.

Kronos' U.S. manufacturing operations are governed by federal environmental and worker health and safety laws and regulations, principally the Resource Conservation and Recovery Act ("RCRA"), the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act, the Safe Drinking Water Act, the Toxic Substances Control Act and the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA"), as well as the state counterparts of these statutes. Kronos believes the TiO2 plant owned by the LPC joint venture and a TiO2 slurry facility owned by Kronos in Lake Charles, Louisiana are in substantial compliance with applicable requirements of these laws or compliance orders issued thereunder. Kronos has no other U.S. plants.

While the laws regulating operations of industrial facilities in Europe vary from country to country, a common regulatory framework is provided by the European Union (the "EU"). Germany and Belgium are members of the EU and follow its initiatives. Norway, although not a member of the EU, generally patterns its environmental regulatory actions after the EU. Kronos believes that it has obtained all required permits and is in substantial compliance with applicable EU requirements.

At its sulfate plant facilities in Leverkusen and Nordenham, Germany, Kronos recycles weak sulfuric acid either through contracts with third parties or using its own facilities. At Kronos' Fredrikstad, Norway plant, Kronos ships its spent acid to a third party location where it is treated and disposed. Kronos' Canadian sulfate plant neutralizes its spent acid and sells its gypsum by-product to a local wallboard manufacturer. Kronos has a contract with a third party to treat certain sulfate-process effluents at its German sulfate plants. With regard to the German plants, either party may terminate the contract after giving three or four years advance notice, depending on the contract.

From time to time, Kronos' facilities may be subject to environmental regulatory enforcement under U.S. and foreign statutes. Resolution of such matters typically involves the establishment of compliance programs. Occasionally, resolution may result in the payment of penalties, but to date such penalties have not involved amounts having a material adverse effect on Kronos' consolidated financial position, results of operations or liquidity. Kronos believes that all its plants are in substantial compliance with applicable environmental laws.

Kronos' capital expenditures related to its ongoing environmental protection and improvement programs in 2005 were approximately $4 million, and are currently expected to be approximately $6 million in 2006.

Website and other available information. The Company files reports, proxy and information statements and other information with the SEC. The Company maintains a website on the Internet with the address of www.kronostio2.com. Copies of this Annual Report on Form 10-K for the year ended December 31, 2005, copies of the Company's Quarterly Reports on Form 10-Q for 2004 and 2005 and any Current Reports on Form 8-K for 2004 and 2005, and any amendments thereto, are or will be available free of charge at such website as soon as reasonably practical after they are filed with the SEC. Additional information regarding the Company, including the Company's Audit Committee charter and the Company's Code of Business Conduct and Ethics, can also be found at this website as required. Information contained on the Company's website is not part of this report. The Company will also provide to anyone without charge copies of such documents upon written request to the Company. Such requests should be directed to the attention of the Corporate Secretary at the Company's address on the cover page of this Form 10-K.

The general public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company is an electronic filer, and the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including the Company. The Internet address of the SEC's website is www.sec.gov.

ITEM 1A. RISK FACTORS

Listed below are certain risk factors associated with the Company and its businesses. In addition to the potential effect of these risk factors discussed below, any risk factor which could result in reduced earnings or operating losses, or reduced liquidity, could in turn adversely affect our ability to service our liabilities or pay dividends on our common stock or adversely affect the quoted market prices for our securities.

Demand for, and prices of, certain of our products are cyclical and we may experience prolonged depressed market conditions for our products, which may result in reduced earnings or operating losses. Approximately 90% of our revenues is attributable to sales of TiO_2. Pricing within the global TiO_2 industry over the long term is cyclical, and changes in industry economic conditions, especially in Western industrialized nations, can significantly impact our earnings and operating cash flows. This may result in reduced earnings or operating losses.

Historically, the markets for many of our products have experienced alternating periods of tight supply, causing prices and profit margins to increase, followed by periods of capacity additions, and demand reductions resulting in oversupply and declining prices and profit margins. Selling prices (in billing currencies) for TiO_2 were generally: increasing during the first quarter of 2003, flat during the second quarter of 2003, decreasing during the last half of 2003 and the first quarter of 2004, flat during the second quarter of 2004, increasing in the last half of 2004 and the first six months of 2005 and decreasing during the second half of 2005.

Our overall average TiO_2 selling prices in billing currencies:

- were 3% higher in 2003 as compared to 2002;
- were 2% lower in 2004 as compared to 2003; and
- were 8% higher in 2005 as compared to 2004.

Future growth in demand for TiO_2 may not be sufficient to alleviate any future conditions of excess industry capacity, and such conditions may not be sustained or may be further aggravated by anticipated or unanticipated capacity additions or other events. The demand for TiO_2 during a given year is also subject to annual seasonal fluctuations. TiO_2 sales are generally higher in the first half of the year than in the second half of the year due in part to the increase in paint production in the spring to meet the spring and summer painting season demand.

As a global business, we are exposed to local business risks in different countries, which could result in operating losses. We conduct a substantial portion of our businesses in several jurisdictions outside of the United States and are subject to risks normally associated with international operations, which include trade barriers, tariffs, exchange controls, national and regional labor strikes, social and political risks, general economic risks, seizures, nationalizations, compliance with a variety of foreign laws, including tax laws, and the difficulty in enforcing agreements and collecting receivables through foreign legal systems. For example, we have substantial net operating loss carryforwards in Germany, and any change in German tax law that adversely impacts our ability to fully utilize such carryforwards could adversely affect us.

We may incur losses from fluctuations in currency exchange rates. We operate our businesses in several different countries, and sell our products worldwide. Therefore, we are exposed to risks related to the prices that we receive for our products and the need to convert currencies that we may receive for some of our products into the currencies required to pay some of our debt, or into currencies in which we may purchase certain raw materials or pay for certain services, all of which could result in future losses depending on fluctuations in foreign currency exchange rates.

We sell several of our products in mature and highly competitive industries and face price pressures in the markets in which we operate, which may result in reduced earnings or operating losses. The global markets in which we operate our business are highly competitive. Competition is based on a number of factors, such as price, product quality and service. Some of our competitors may be able to drive down prices for our products because their costs are lower than our costs. In addition, some of our competitors' financial, technological and other resources may be greater than our resources, and such competitors may be better able to withstand changes in market conditions. Our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Further, consolidation of our competitors or customers may result in reduced demand for our products. In addition, new competitors could emerge by modifying their existing production facilities so they could manufacture products that compete with our products. The occurrence of any of these events could result in reduced earnings or operating losses.

Higher costs or limited availability of our raw materials may decrease our liquidity. The number of sources for, and availability of, certain raw materials is specific to the particular geographical region in which a facility is located. For example, titanium-containing feedstocks suitable for use in our TiO_2 facilities are available from a limited number of suppliers around the world. Political and economic instability in the countries from which we purchase our raw material supplies could adversely affect their availability. Should our vendors not be able to meet their contractual obligations or should we be otherwise unable to obtain necessary raw materials, we may incur higher costs for raw materials or may be required to reduce production levels, either of which may decrease our liquidity as we may be unable to offset such higher costs with increased selling prices for our products.

We are subject to many environmental and safety regulations with respect to our operating facilities that may result in unanticipated costs or liabilities. Our facilities are subject to extensive laws, regulations, rules and ordinances

relating to the protection of the environment, including those governing the discharge of pollutants in the air and water and the generation, management and disposal of hazardous substances and wastes or other materials. We may incur substantial costs, including fines, damages and criminal penalties or civil sanctions, or experience interruptions in our operations for actual or alleged violations or compliance requirements arising under environmental laws. Our operations could result in violations under environmental laws, including spills or other releases of hazardous substances to the environment. Some of our operating facilities are in densely populated urban areas or in industrial areas adjacent to other operating facilities. In the event of an accidental release or catastrophic incident, we could incur material costs as a result of addressing such an event and in implementing measures to prevent such incidents. Given the nature of our business, violations of environmental laws may result in restrictions imposed on our operating activities or substantial fines, penalties, damages or other costs, including as a result of private litigation.

Our production facilities have been used for a number of years to manufacture products or conduct mining operations. We may incur additional costs related to compliance with environmental laws applicable to our historic operations and these facilities. In addition, we may incur significant expenditures to comply with existing or future environmental laws. Costs relating to environmental matters will be subject to evolving regulatory requirements and will depend on the timing of promulgation and enforcement of specific standards that impose requirements on our operations. Costs beyond those currently anticipated may be required under existing and future environmental laws.

If our patents are declared invalid or our trade secrets become known to competitors, our ability to compete may be adversely affected. Protection of our proprietary processes and other technology is important to our competitive position. Consequently, we rely on judicial enforcement for protection of our patents, and our patents may be challenged, invalidated, circumvented or rendered unenforceable. Furthermore, if any pending patent application filed by us does not result in an issued patent, or if patents are issued to us but such patents do not provide meaningful protection of our intellectual property, then the use of any such intellectual property by our competitors could result in decreasing our cash flows. Additionally, our competitors or other third parties may obtain patents that restrict or preclude our ability to lawfully produce or sell our products in a competitive manner, which could have the same effects.

We also rely on certain unpatented proprietary know-how and continuing technological innovation and other trade secrets to develop and maintain our competitive position. Although it is our practice to enter into confidentiality agreements to protect our intellectual property, because these confidentiality agreements may be breached, such agreements may not provide sufficient protection for our trade secrets or proprietary know-how, or adequate remedies may not be available in the event of an unauthorized use or disclosure of such trade secrets and know-how. In addition, others could obtain knowledge of such trade secrets through independent development or other access by legal means.

Loss of key personnel or our ability to attract and retain new qualified personnel could hurt our businesses and inhibit our ability to operate and grow successfully. Our success in the highly competitive markets in which we operate will continue to depend to a significant extent on the leadership teams of our businesses and other key management personnel. We generally do not have binding employment agreements with any of these managers. This increases the risks that we may not be able to retain our current management personnel and we may not be able to recruit qualified individuals to join our management team, including recruiting qualified individuals to replace any of our current personnel that may leave in the future.

Our relationships with our union employees could deteriorate. At December 31, 2005, we employed approximately 2,415 persons worldwide in our various businesses. A significant number of our employees are subject to collective bargaining or similar arrangements. We may not be able to negotiate labor agreements with respect to these employees on satisfactory terms or at all. If our employees were to engage in a strike, work stoppage or other slowdown, we could experience a significant disruption of our operations or higher ongoing labor costs.

Our leverage may impair our financial condition or limit our ability to operate our businesses. We currently have a significant amount of debt. As of December 31, 2005, our total consolidated debt was approximately $465 million, substantially all of which relates to KII's Senior Secured Notes. Our level of debt could have important consequences to our stockholders and creditors, including:

- making it more difficult for us to satisfy our obligations with respect to our liabilities;

- increasing our vulnerability to adverse general economic and industry conditions;

- requiring that a portion of our cash flow from operations be used for the payment of interest on our debt, therefore reducing our ability to use our cash flow to fund working capital, capital expenditures, dividends on our common stock acquisitions and general corporate requirements;

- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions and general corporate requirements;

- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

- placing us at a competitive disadvantage relative to other less leveraged competitors.

In addition to our indebtedness, we are party to various lease and other

agreements pursuant to which, along with our indebtedness, we are committed to pay approximately $272.1 million in 2006. Our ability to make payments on and refinance our debt, and to fund planned capital expenditures, depends on our future ability to generate cash flow. To some extent, this is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, our ability to borrow funds under our subsidiaries' credit facilities in the future will in some instances depend in part on these subsidiaries' ability to maintain specified financial ratios and satisfy certain financial covenants contained in the applicable credit agreement. Our business may not generate cash flows from operating activities sufficient to enable us to pay our debts when they become due and to fund our other liquidity needs. As a result, we may need to refinance all or a portion of our debt before maturity. We may not be able to refinance any of our debt on favorable terms, if at all. Any inability to generate sufficient cash flows or to refinance our debt on favorable terms could have a material adverse effect on our financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES

During 2005, the Company operated four TiO2 plants in Europe (one in each of Leverkusen, Germany, Nordenham, Germany, Langerbrugge, Belgium, and Fredrikstad, Norway). In North America, the Company has a TiO2 plant in Varennes, Quebec, Canada and, through the manufacturing joint venture described above, a one-half interest in a TiO2 plant in Lake Charles, Louisiana. See Note 6 to the Consolidated Financial Statements. TiO2 is produced using the chloride process at the Leverkusen, Langerbrugge, Varennes and Lake Charles facilities and is manufactured using the sulfate process in Nordenham, Leverkusen, Fredrikstad and Varennes. The Company owns an ilmenite ore mine in Hauge i Dalane, Norway and operates it pursuant to a governmental concession with an unlimited term, and Kronos also owns a TiO2 slurry plant in Lake Charles, Louisiana. Kronos' co-products are produced at its Norwegian, Belgian and German facilities and its titanium chemicals are produced at its Belgian and Canadian facilities.

The Company owns all of its principal production facilities described above, except for the land under the Fredrikstad and Leverkusen facilities. The Norwegian plant is located on public land and is leased until 2013, with an option to extend the lease for an additional 50 years. The Company's principal German operating subsidiary leases the land under its Leverkusen TiO2 production facility pursuant to a lease with Bayer AG that expires in 2050. The Leverkusen facility, which is owned by the Company and which represents approximately one-third of the Company's current TiO2 production capacity, is located within an extensive manufacturing complex. Rent for such land lease associated with the Leverkusen facility is periodically established by agreement with Bayer for periods of at least two years at a time. Under a separate supplies and services agreement expiring in 2011, Bayer provides some raw materials, including chlorine, auxiliary and operating materials, utilities and services necessary to operate the Leverkusen facility.

The Company has under lease various corporate and administrative offices located in the U.S. and various sales offices located in the U.S., France, the Netherlands, Denmark and the U.K.

The Company believes the transportation access to its facilities, which are generally maintained by the applicable local government, are adequate for the Company's purposes.

ITEM 3. LEGAL PROCEEDINGS

Kronos is involved in various environmental, contractual, product liability and other claims and disputes incidental to its business. Certain information called for by this Item is included in Note 16 to the Consolidated Financial Statements, which information is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 2005.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is listed and traded on the New York Stock Exchange (symbol: KRO). As of February 28, 2006, there were approximately 5,100 holders of record of common stock. The following table sets forth the high and low closing per share sales price for Kronos common stock for the periods indicated according to Bloomberg, and dividends paid during such periods. On February 28, 2006 the closing price of Kronos common stock according to the NYSE Composite Tape was $29.10.

	High	Low	Cash dividends paid
Year ended December 31, 2004			
First Quarter	$33.25	$22.22	$ .25
Second Quarter	34.20	29.11	.25
Third Quarter	39.70	30.80	.25

Fourth Quarter	48.48	38.50	.25
Year ended December 31, 2005			
First Quarter	$48.56	$40.27	$ .25
Second Quarter	43.06	29.37	.25
Third Quarter	33.05	27.60	.25
Fourth Quarter	33.26	29.01	.25

The Company paid four quarterly $.25 per share cash dividends in each of 2004 and 2005. On February 21, 2006, the Company's Board of Directors declared a regular quarterly dividend of $.25 per share to stockholders of record as of March 10, 2006 to be paid on March 27, 2006. However, the declaration and payment of future dividends, and the amount thereof, is discretionary, and the amount, if any, will be dependent upon the Company's results of operations, financial condition, contractual restrictions and other factors deemed relevant by the Company's Board of Directors. The amount and timing of past dividends is not necessarily indicative of the amount and timing of any future dividends which might be paid.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Company's Consolidated Financial Statements and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations." The earnings per share and cash dividends per share data presented below has been restated to give effect to the September 2003 change in Kronos' capital structure discussed in Note 1 to Kronos' Consolidated Financial Statements in which the 1,000 shares of Kronos' common stock previously outstanding were reclassified in the form of a stock split into approximately 48.9 million shares of Kronos' common stock.

	Years ended December 31,				
	2001	2002	2003	2004	2005
	(In millions, except per share data and TiO2 operating statistics)				
STATEMENTS OF OPERATIONS DATA:					
Net sales	$ 835.1	$ 875.2	$1,008.2	$1,128.6	$1,196.7
Net income	154.5	66.3	87.5	314.9	71.0
Net income per share	3.16	1.35	1.79	6.43	1.45
Cash dividends per share (1)	.62	2.27	.14	1.00	1.00
BALANCE SHEET DATA (at year end):					
Total assets	910.1	988.5	1,121.9	1,353.3	1,298.9
Notes payable and long-term debt including current maturities	242.7	370.5	556.7	533.2	465.3
Common stockholders' equity	378.5	314.2	159.4	470.8	410.0
STATEMENTS OF CASH FLOW DATA:					
Net cash provided (used) by:					
Operating activities	$ 135.7	$ 111.1	$ 107.7	$ 151.0	$ 97.8
Investing activities	(33.7)	(34.6)	(35.4)	(39.8)	(39.7)
Financing activities	(99.0)	(93.9)	(61.8)	(108.8)	(44.8)
TiO2 OPERATING STATISTICS:					
Average selling price Index (1990=100)	89	81	84	82	89
Sales volume*	402	455	462	500	478
Production volume*	412	442	476	484	492
Production capacity at beginning of year*	450	455	470	480	495
Production rate as a percentage of capacity	91%	96%	Full	Full	99%

* Metric tons in thousands

(1) Excludes Kronos' December 2003 dividend to NL in the form of a $200 million long-term note payable. See Note 10 to the Consolidated Financial Statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical accounting policies and estimates

The accompanying "Management's Discussion and Analysis of Financial Condition and Results of Operations" are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reported period. On an on-going basis, the Company evaluates its estimates, including those related to bad debts, inventory reserves, impairments of investments in marketable securities and investments accounted for by the equity method, the recoverability of other long-lived assets (including goodwill and other intangible assets), pension and other post-retirement benefit obligations and the underlying actuarial assumptions related thereto, the realization of deferred income tax assets and accruals for litigation, income tax and other

contingencies. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from previously-estimated amounts under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements:

- The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments and other factors. The Company takes into consideration the current financial condition of its customers, the age of the outstanding balance and the current economic environment when assessing the adequacy of the allowance. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. During 2003, 2004 and 2005 the net amount written off against the allowance for doubtful accounts as a percentage of the balance of the allowance for doubtful accounts as of the beginning of the year ranged from 17% to 38%.

- The Company provides reserves for estimated obsolescence or unmarketable inventories equal to the difference between the cost of inventory and the estimated net realizable value using assumptions about future demand for its products and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory reserves may be required. The Company also provides reserves for tools and supplies inventory based generally on both historical and expected future usage requirements.

- The Company recognizes an impairment charge associated with its long-lived assets, including property and equipment, whenever it determines that recovery of such long-lived asset is not probable. Such determination is made in accordance with the applicable GAAP requirements associated with the long-lived asset, and is based upon, among other things, estimates of the amount of future net cash flows to be generated by the long-lived asset and estimates of the current fair value of the asset. Adverse changes in such estimates of future net cash flows or estimates of fair value could result in an inability to recover the carrying value of the long-lived asset, thereby possibly requiring an impairment charge to be recognized in the future.

  Under applicable GAAP (SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"), property and equipment is not assessed for impairment unless certain impairment indicators, as defined, are present. During 2005, no such impairment indicators, as defined, were present.

- The Company maintains various defined benefit pension plans and postretirement benefits other than pensions ("OPEB"). The amounts recognized as defined benefit pension and OPEB expenses, and the reported amounts of prepaid and accrued pension costs and accrued OPEB costs, are actuarially determined based on several assumptions, including discount rates, expected rates of returns on plan assets and expected health care trend rates. Variances from these actuarially assumed rates will result in increases or decreases, as applicable, in the recognized pension and OPEB obligations, pension and OPEB expenses and funding requirements. These assumptions are more fully described below under " Assumptions on defined benefit pension plans and OPEB plans."

- The Company records a valuation allowance to reduce its deferred income tax assets to the amount that is believed to be realized under the "more-likely-than-not" recognition criteria. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance, it is possible that in the future the Company may change its estimate of the amount of the deferred income tax assets that would "more-likely-than-not" be realized in the future, resulting in an adjustment to the deferred income tax asset valuation allowance that would either increase or decrease, as applicable, reported net income in the period such change in estimate was made. For example, the Company has substantial net operating loss carryforwards in Germany (the equivalent of $593 million for German corporate purposes and $104 million for German trade tax purposes at December 31, 2005). During 2004, the Company concluded that the more-likely-than-not recognition criteria had been met with respect to the income tax benefit associated with the Company's net operating loss carryforwards in Germany. Prior to the complete utilization of such carryforwards, it is possible that the Company might conclude in the future that the benefit of such carryforwards would no longer meet the more-likely-than-not recognition criteria, at which point the Company would be required to recognize a valuation allowance against the then-remaining tax benefit associated with the carryforwards.

  In addition, the Company makes an evaluation at the end of each reporting period as to whether or not some or all of the undistributed earnings of its foreign subsidiaries are permanently reinvested (as that term is defined in GAAP). While the Company may have concluded in the past that some of such undistributed earnings are permanently reinvested, facts and circumstances can change in the future, and it is possible that a change in facts and circumstances, such as a change in the expectation regarding the capital needs of its foreign subsidiaries, could result in a conclusion that some or all of such undistributed earnings are no longer permanently reinvested. In such an event, the Company would be required to recognize a deferred income tax liability in an amount equal to the estimated incremental U.S. income tax and withholding tax liability that would be generated if all of such previously-considered permanently reinvested undistributed earnings were distributed to the U.S.

- The Company records accruals for legal, income tax and other contingencies and commitments when estimated future expenditures associated with such contingencies become probable, and the amounts can be reasonably estimated. However, new information may become available, or circumstances (such as applicable laws and regulations) may change, thereby resulting in an increase or decrease in the amount required to be accrued for such matters (and therefore a decrease or increase in reported net income in the period of such change).

Income from operations are impacted by certain of these significant judgments and estimates, such as allowance for doubtful accounts, reserves for obsolete or unmarketable inventories, impairment of equity method investees, and other long-lived assets, defined benefit pension and OPEB plans and loss accruals. In addition, other income and expense items are impacted by the significant judgments and estimates for deferred income tax asset valuation allowances and loss accruals.

Executive summary

The Company reported net income of $71.0 million, or $1.45 per diluted share, in 2005 compared to $314.9 million, or $6.43 per diluted share, in 2004 and $87.5 million, or $1.79 per diluted share, in 2003. The Company's diluted earnings per share increased from 2003 to 2004 as the unfavorable effect of lower income from operations and higher interest expense in 2004 was more than offset by the favorable effect of a non-cash income tax benefit in 2004. The Company's diluted earnings per share decreased from 2004 to 2005 as the favorable effect of higher income from operations and lower interest expense in 2005 was more than offset by the favorable effect of the non-cash income tax benefit recognized in 2004.

Net income in 2005 includes (i) a third quarter non-cash income tax charge of $.13 per diluted share for recent developments with respect to ongoing non-U.S. income tax audits, primarily in Germany, Belgium and Canada and (ii) a second quarter securities transaction gain of $.07 per diluted share related to the sale of the Company's passive interest in a Norwegian smelting operation. Net income in 2004 includes (i) a second quarter income tax benefit related to the reversal of Kronos' deferred income tax asset valuation allowance in Germany of $5.49 per diluted share and (ii) income in the second quarter related to Kronos' contract dispute settlement of $.08 per diluted share. Net income in 2003 includes an income tax benefit relating to the refund of prior year German income taxes of $.50 per diluted share. Each of these items is more fully discussed below and/or in the notes to the Consolidated Financial Statements.

The Company currently expects income from operations will be lower in 2006 compared to 2005, as the favorable effect of anticipated modest improvements in sales volumes and average TiO_2 selling prices are expected to be more than offset by the effect of higher production costs, particularly raw material and energy costs.

Relative changes in the Company's TiO_2 sales and operating income during the past three years are primarily due to (i) relative changes in TiO_2 sales and production volumes, (ii) relative changes in TiO_2 average selling prices and (iii) relative changes in foreign currency exchange rates.

Selling prices (in billing currencies) for TiO_2, the Company's principal product, were generally: increasing during the first quarter of 2003, flat during the second quarter of 2003, decreasing during the third and fourth quarters of 2003 and the first quarter of 2004, flat during the second quarter of 2004, increasing during the last half of 2004 and first half of 2005 and decreasing during the last half of 2005.

Results of operations

	Years ended December 31,			% Change	
	2003	2004	2005	2003-04	2004-05
(In millions, except selling price data)					
Net sales	$1,008.2	$1,128.6	$1,196.7	+12%	+6%
Cost of sales	739.2	866.3	869.9	+17%	**
Gross margin	269.0	262.3	326.8	- 2%	+25%
Selling, general and administrative expense	(124.4)	(145.4)	(150.7)	+17%	+4%
Currency transaction gains (losses), net	(7.7)	(3.9)	5.2		
Contract dispute settlement	-	6.3	-		
Corporate expense	(4.2)	(3.5)	(5.0)		
Other operating income (expense), net	(.2)	(.8)	(1.0)		
Income from operations	$ 132.5	$ 115.0	$ 175.3	-13%	+52%
TiO_2 operating statistics:					
Percent change in average selling prices:					
Using actual foreign currency exchange rates				+ 4%	+ 9%
Impact of changes in foreign currency exchange rates				- 6%	- 1%
In billing currencies				- 2%	+ 8%

Sales volumes*	462	500	478	+ 8%	- 4%
Production volumes*	476	484	492	+ 2%	+ 2%
Production rate as percent of capacity	Full	Full	99%		

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* Thousands of metric tons
** less than 1%

Year ended December 31, 2005 compared to year ended December 31, 2004

Kronos' sales increased $68.1 million (6%) in 2005 as compared to 2004 due primarily to the net effects of higher average TiO2 selling prices, lower TiO2 sales volumes and the favorable effect of fluctuations in foreign currency exchange rates, which increased sales by approximately $16 million as further discussed below. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, Kronos' average TiO2 selling prices in billing currencies were 8% higher in 2005 as compared to 2004. When translated from billing currencies into U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods, Kronos' average TiO2 selling prices in 2005 increased 9% as compared to 2004. See " - Effects of foreign currency exchange rates" below for a discussion of the impact of relative changes in currency exchange rates on Kronos' operations.

Kronos' TiO2 sales volumes in 2005 decreased 4% compared to 2004, with volumes lower in all regions of the world. Approximately one-half of Kronos' 2005 TiO2 sales volumes were attributable to markets in Europe, with 38% attributable to North America and the balance to export markets. Overall worldwide demand for TiO2 in 2005 is estimated to have declined by approximately 5% from the exceptionally strong demand levels in 2004. The Company attributes the decline in overall sales and its own sales to slower overall economic growth in 2005 and inventory destocking by its customers. Kronos' income from operations comparisons were favorably impacted by higher production levels, which increased 2%. Kronos' operating rates were near full capacity in both periods, and Kronos' production volumes in 2005 set a new record for Kronos, which was the fourth consecutive year record production volumes were achieved.

The Company's cost of sales increased $3.6 million (less than 1%) in 2005 compared to 2004 as the effect of lower sales volumes was offset by higher raw material and maintenance costs. However, the Company's cost of sales, as a percentage of net sales, decreased from 77% in 2004 to 73% in 2005 due primarily to the effects of higher average selling prices which more than offset higher costs.

The Company's gross margins increased $64.5 million (25%) from 2004 to 2005 due to the net effects of the aforementioned changes in sales and cost of sales during such periods.

As a percentage of net sales, selling, general and administrative expenses were relatively consistent at 13% for both 2004 and 2005.

Kronos' income from operations increased $60.3 million (52%) in 2005 as compared to 2004, as the effect of higher average TiO2 selling prices and higher production volumes more than offset the impact of lower sales volumes, higher raw material and maintenance costs in 2005 and the $6.3 million of income related to a contract dispute settlement with a customer recognized in 2004, as further discussed below. See also " - Effects of foreign currency exchange rates" below for a discussion of the impact of relative changes in currency exchange rates on Kronos' operations.

On September 22, 2005, the chloride-process TiO2 facility operated by Kronos' 50%-owned joint venture, Louisiana Pigment Company ("LPC"), temporarily halted production due to Hurricane Rita. Although storm damage to core processing facilities was not extensive, a variety of factors, including loss of utilities, limited access and availability of employees and raw materials, prevented the resumption of partial operations until October 9, 2005 and full operations until late 2005. The joint venture expects the majority of its property damage and unabsorbed fixed costs for periods in which normal production levels were not achieved will be covered by insurance, and Kronos believes insurance will cover its lost profits (subject to applicable deductibles) resulting from its share of the lost production from LPC. Insurance proceeds from the lost profit for product that Kronos was not able to sell as a result of the loss of production from LPC, are expected to be recognized by Kronos during 2006, although the amount and timing of such insurance recoveries is not presently determinable. The effect on Kronos' financial results will depend on the timing and amount of insurance recoveries.

Year ended December 31, 2004 compared to year ended December 31, 2003

Kronos' sales increased $120.4 million (12%) in 2004 as compared to 2003 as higher sales volumes and the favorable effect of fluctuations in foreign currency exchange rates, which increased sales by approximately $60 million as further discussed below, more than offset the impact of lower average TiO2 selling prices. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, Kronos' average TiO2 selling prices in billing currencies were 2% lower in 2004 as compared to 2003. When translated from billing currencies into U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods, Kronos' average TiO2 selling prices in 2004 increased 4% as compared to 2003. See " - Effects of foreign currency exchange rates" below for a discussion of the impact of relative changes in currency exchange rates on Kronos' operations.

Kronos' TiO2 sales volumes in 2004 increased 8% compared to 2003, as higher volumes in European and export markets more than offset lower volumes in Canada. Approximately one-half of Kronos' 2004 TiO2 sales volumes were attributable to markets in Europe, with 38% attributable to North America and the balance to export markets. Demand for TiO2 has remained strong throughout 2004, and while Kronos believes that the strong demand is largely attributable to the end-use

demand of its customers, it is possible that some portion of the strong demand resulted from customers increasing their inventory levels of TiO2 in advance of implementation of announced or anticipated price increases. Kronos' income from operations comparisons were also favorably impacted by higher production levels, which increased 2%. Kronos' operating rates were near full capacity in both periods, and Kronos' sales and production volumes in 2004 were both new records for Kronos.

The Company's cost of sales increased $127.1 million (17%) in 2004 compared to 2003 due to higher raw material and maintenance costs as well as higher sales volumes and related effects of translating foreign currencies into the U.S. dollar. The Company's cost of sales, as a percentage of net sales, increased from 73% in 2003 to 77% in 2004 due primarily to the effects of lower average selling prices and higher costs.

The Company's gross margins decreased $6.7 million (2%) from 2003 to 2004 due to the net effects of the aforementioned changes in sales and cost of sales during such periods.

As a percentage of net sales, selling, general and administrative expenses were relatively consistent from 2003 to 2004, increasing marginally from 12% to 13%, and increasing proportionately with the increased sales and production volume.

Kronos' income from operations in 2004 includes $6.3 million of income related to the settlement of a contract dispute with a customer. As part of the settlement, the customer agreed to make payments to Kronos through 2007 aggregating $7.3 million. The $6.3 million gain recognized represents the present value of the future payments to be made by the customer to Kronos. The dispute with the customer concerned the customer's alleged past failure to purchase the required amount of TiO2 from Kronos under the terms of Kronos' contract with the customer. Under the settlement, the customer agreed to pay an aggregate of $7.3 million to Kronos through 2007 to resolve such dispute. See Note 12 to the Consolidated Financial Statements.

Kronos' income from operations decreased $17.5 million (13%) in 2004 as compared to 2003, as the effect of lower average TiO2 selling prices and higher raw material and maintenance costs more than offset the impact of higher sales and production volumes and the income from the contract dispute settlement. See also " - Effects of foreign currency exchange rates" below for a discussion of the impact of relative changes in currency exchange rates on Kronos' operations.

Effects of foreign currency exchange rates

Kronos' sales are denominated in various currencies, including the U.S. dollar, the euro, other major European currencies and the Canadian dollar. The disclosure of the percentage change in Kronos' average TiO2 selling prices in billing currencies (which excludes the effects of fluctuations in the value of the U.S. dollar relative to other currencies) is considered a "non-GAAP" financial measure under regulations of the SEC. The disclosure of the percentage change in Kronos' average TiO2 selling prices using actual foreign currency exchange rates prevailing during the respective periods is considered the most directly comparable financial measure presented in accordance with GAAP ("GAAP measure"). Kronos discloses percentage changes in its average TiO2 prices in billing currencies because Kronos believes such disclosure provides useful information to investors to allow them to analyze such changes without the impact of changes in foreign currency exchange rates, thereby facilitating period-to-period comparisons of the relative changes in average selling prices in the actual various billing currencies. Generally, when the U.S. dollar either strengthens or weakens against other currencies, the percentage change in average selling prices in billing currencies will be higher or lower, respectively, than such percentage changes would be using actual exchange rates prevailing during the respective periods. The difference between the 4% and 9% increases in Kronos' average TiO2 selling prices during 2004 and 2005, respectively, as compared to the respective prior year using actual foreign currency exchange rates prevailing during the respective periods (the GAAP measure), and the 2% decrease and 8% increase in Kronos' average TiO2 selling prices in billing currencies (the non-GAAP measure) during such periods is due to the effect of changes in foreign currency exchange rates. The above table presents (i) the percentage change in Kronos' average TiO2 selling prices using actual foreign currency exchange rates prevailing during the respective periods (the GAAP measure), (ii) the percentage change in Kronos' average TiO2 selling prices in billing currencies (the non-GAAP measure) and (iii) the percentage change due to changes in foreign currency exchange rates (or the reconciling item between the non-GAAP measure and the GAAP measure).

Kronos has substantial operations and assets located outside the United States (primarily in Germany, Belgium, Norway and Canada). A significant amount of Kronos' sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, principally the euro, other major European currencies and the Canadian dollar. A portion of Kronos' sales generated from its non-U.S. operations are denominated in the U.S. dollar. Certain raw materials, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of Kronos' foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or adversely impact reported earnings and may affect the comparability of period-to-period operating results. Overall, fluctuations in the value of the U.S. dollar relative to other currencies, primarily the euro, increased TiO2 sales by a net $16 million in 2005 as compared to 2004, and increased sales by a net $60 million in 2004 as compared to 2003. Fluctuations in the value of the U.S. dollar relative to other currencies similarly impacted Kronos' foreign currency-denominated operating expenses. Kronos' operating costs that are not denominated in the U.S. dollar, when translated into U.S. dollars, were higher in 2005, 2004 and 2003 compared to the same periods of the respective prior years. Overall, currency exchange rate fluctuations resulted in net increases of $6 million in Kronos' income from operations in each of 2004 and 2005 as compared to the respective prior year.

Outlook

Kronos expects its income from operations in 2006 will be somewhat lower than 2005, as the favorable effect of anticipated modest improvements in sales volumes and average TiO2 selling prices are expected to be more than offset by the effect of higher production costs, particularly raw material and energy costs. Kronos' expectations as to the future prospects of Kronos and the TiO2 industry are based upon a number of factors beyond Kronos' control, including worldwide growth of gross domestic product, competition in the marketplace, unexpected or earlier-than-expected capacity additions and technological advances. If actual developments differ from Kronos' expectations, Kronos' results of operations could be unfavorably affected.

Kronos' efforts to debottleneck its production facilities to meet long-term demand continue to prove successful. Such debottlenecking efforts included, among other things, the addition of finishing capacity in the German facility and equipment upgrades and enhancements in several locations to allow for reduced downtime for maintenance activities. Kronos' production capacity has increased by approximately 30% over the past ten years due to debottlenecking programs, with only moderate capital expenditures. Kronos believes its annual attainable production capacity for 2006 is approximately 510,000 metric tons, with some slight additional capacity expected to be available in 2007 through its continued debottlenecking efforts.

Other income (expense).

The following table sets forth certain information regarding other income and expense items.

	Years ended December 31,			Change	
	2003	2004	2005	2003-04	2004-05
			(In millions)		
Interest income from affiliates	$ .7	$ -	$ -	$ (.7)	$ -
Trade interest income	.7	1.1	1.2	.4	.1
Other interest income	.2	1.0	.9	.8	(.1)
Securities transaction gain	-	-	5.4	-	5.4
Interest expense to affiliates	(1.8)	(15.2)	-	(13.4)	15.2
Other interest expense	(33.0)	(37.4)	(44.7)	(4.4)	(7.3)
	$(33.2)	$(50.5)	$(37.2)	$(17.3)	$ 13.3

Interest income fluctuates in part based upon the amount of funds invested and yields thereon. Aggregate interest income decreased slightly in 2005 compared to 2004 due to lower average funds available for investment. As compared to 2003, aggregate interest income in 2004 increased $500,000 due to higher average yields on invested funds. The Company expects interest income will be slightly higher in 2006 than 2005 due to higher average yields expected on invested funds.

Securities transaction gain in 2005 relates to the sale of the Company's passive interest in a Norwegian smelting operation, which had a nominal carrying value for financial reporting purposes, for aggregate consideration of approximately $5.4 million consisting of cash of $3.5 million and inventory with a value of $1.9 million. See Note 12 to the Consolidated Financial Statements.

The Company has a significant amount of indebtedness denominated in the euro, including KII's euro-denominated 8.875% Senior Secured Notes ("Senior Secured Notes"). Accordingly, the reported amount of interest expense will vary depending on relative changes in foreign currency exchange rates. Interest expense on indebtedness to third parties in 2005 was higher than 2004 due primarily to higher levels of outstanding indebtedness resulting from the issuance of an additional euro 90 million principal amount of KII Senior Secured Notes in November 2004. In addition, the increase in interest expense was due to relative changes in foreign currency exchange rates, which increased the U.S. dollar equivalent of interest expense on the euro 285 million principal amount of KII Senior Secured Notes outstanding during all of 2003, 2004 and 2005 by approximately $3 million and by approximately $1 million in 2005 as compared to 2004.

The Company did not report any interest expense to affiliates in 2005 as the $200 million long-term note payable to affiliates was fully repaid in 2004. See Note 10 to the Consolidated Financial Statements. The Company does not currently expect to report any material interest expense to affiliates in 2006. Assuming interest rates and foreign currency exchange rates do not increase significantly from current levels, interest expense on third party indebtedness in 2006 is expected to be comparable to 2005.

At December 31, 2005, approximately $454 million of consolidated indebtedness, principally KII's Senior Secured Notes, bears interest at fixed interest rates averaging 8.9% (2004 - $519 million with a weighted average interest rate of 8.9%; 2003 - $356 million with a weighted average fixed interest rate of 8.9%). The weighted average interest rate on $12 million of outstanding variable rate borrowings at December 31, 2005 was 7.0% (2004 - $14 million outstanding at 3.9%; 2003 - none outstanding). See Note 8 to the Consolidated Financial Statements.

As noted above, KII has a significant amount of indebtedness denominated in currencies other than the U.S. dollar. See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

Provision for income taxes. The principal reasons for the difference

between the Company's effective income tax rates and the U.S. federal statutory income tax rates are explained in Note 13 to the Consolidated Financial Statements.

The Company's income tax expense in 2005 includes the net non-cash effects of (i) the aggregate favorable effects of recent developments with respect to certain non-U.S. income tax audits of Kronos, principally in Belgium and Canada, of $11.5 million ($.23 per diluted share) and (ii) the unfavorable effect with respect to the loss of certain income tax attributes of Kronos in Germany of $17.5 million ($.36 per diluted share).

At December 31, 2005, Kronos had the equivalent of $593 million and $104 million of income tax loss carryforwards for German corporate and trade tax purposes, respectively, all of which have no expiration date. As more fully described in Note 13 to the Consolidated Financial Statements, Kronos had previously provided a deferred income tax asset valuation allowance against substantially all of these tax loss carryforwards and other deductible temporary differences in Germany because Kronos did not believe they met the "more-likely-than-not" recognition criteria. During the first six months of 2004, Kronos reduced its deferred income tax asset valuation allowance by approximately $8.7 million, primarily as a result of utilization of these German net operating loss carryforwards, the benefit of which had not previously been recognized. At June 30, 2004, after considering all available evidence, Kronos concluded that these German tax loss carryforwards and other deductible temporary differences now met the "more-likely-than-not" recognition criteria. Under applicable GAAP related to accounting for income taxes at interim periods, a change in estimate at an interim period resulting in a decrease in the valuation allowance is segregated into two components, the portion related to the remaining interim periods of the current year and the portion related to all future years. The portion of the valuation allowance reversal related to the former is recognized over the remaining interim periods of the current year, and the portion of the valuation allowance related to the latter is recognized at the time the change in estimate is made. Accordingly, as of June 30, 2004, Kronos reversed $268.6 million of the valuation allowance (the portion related to future years), and Kronos reversed the remaining $3.4 million during the last six months of 2004. Prior to the complete utilization of such carryforwards, it is possible that the Company might conclude in the future that the benefit of such carryforwards would no longer meet the "more-likely-than-not" recognition criteria, at which point the Company would be required to recognize a valuation allowance against the then-remaining tax benefit associated with the carryforwards.

In January 2004, the German federal government enacted new tax law amendments that limit the annual utilization of income tax loss carryforwards effective January 1, 2004 to 60% of taxable income after the first euro 1 million of taxable income. The new law will have a significant effect on Kronos' cash tax payments in Germany going forward, the extent of which will be dependent upon the level of taxable income earned in Germany.

During 2003, Kronos reduced its deferred income tax asset valuation allowance by an aggregate of approximately $6.7 million, primarily as a result of utilization of certain income tax attributes for which the benefit had not previously been recognized. In addition, Kronos recognized a $38.0 million income tax benefit related to the net refund of certain prior year German income taxes.

In October 2004, the American Jobs Creation Act of 2004 was enacted into law. The new law provided for a special 85% deduction for certain dividends received from a controlled foreign corporation in 2005. In the third quarter of 2005, the Company completed its evaluation of this new provision and determined that it would not benefit from such special dividends received deduction.

Related party transactions. The Company is a party to certain transactions with related parties. See Note 15 to the Consolidated Financial Statements. It is the policy of the Company to engage in transactions with related parties on terms, in the opinion of the Company, no less favorable to the Company than could be obtained from unrelated parties.

Accounting principles newly adopted in 2003 and 2004. See Note 19 to the Consolidated Financial Statements.

Accounting principles not yet adopted. See Note 20 to the Consolidated Financial Statements.

Defined benefit pension plans. The Company maintains various defined benefit pension plans in the U.S., Europe and Canada. See Note 14 to the Consolidated Financial Statements.

The Company accounts for its defined benefit pension plans using SFAS No. 87, "Employer's Accounting for Pensions." Under SFAS No. 87, defined benefit pension plan expense and prepaid and accrued pension costs are each recognized based on certain actuarial assumptions, principally the assumed discount rate, the assumed long-term rate of return on plan assets and the assumed increase in future compensation levels. The Company recognized consolidated defined benefit pension plan expense of $8.4 million in 2003, $13.2 million in 2004 and $14.1 million in 2005. The amount of funding requirements for these defined benefit pension plans is generally based upon applicable regulations (such as ERISA in the U.S.), and will generally differ from pension expense recognized under SFAS No. 87 for financial reporting purposes. Contributions made by the Company to all of its plans aggregated $13.6 million in 2003, $17.1 million in 2004 and $18.6 million in 2005.

The discount rates the Company utilizes for determining defined benefit pension expense and the related pension obligations are based on current interest rates earned on long-term bonds that receive one of the two highest ratings given by recognized rating agencies in the applicable country where the defined benefit pension benefits are being paid. In addition, the Company receives advice about appropriate discount rates from the Company's third-party actuaries, who may in some cases utilize their own market indices. The discount

rates are adjusted as of each valuation date (September 30th) to reflect then-current interest rates on such long-term bonds. Such discount rates are used to determine the actuarial present value of the pension obligations as of December 31st of that year, and such discount rates are also used to determine the interest component of defined benefit pension expense for the following year.

At December 31, 2005, approximately 65%, 14%, 14% and 4% of the projected benefit obligation related to Company plans in Germany, Norway, Canada and the U.S., respectively. The Company uses several different discount rate assumptions in determining its consolidated defined benefit pension plan obligations and expense because the Company maintains defined benefit pension plans in several different countries in North America and Europe and the interest rate environment differs from country to country.

The Company used the following discount rates for its defined benefit pension plans:

	Discount rates used for:		
	Obligations at December 31, 2003 and expense in 2004	Obligations at December 31, 2004 and expense in 2005	Obligations at December 31, 2005 and expense in 2006
Germany	5.3%	5.0%	4.0%
Norway	5.5%	5.0%	4.5%
Canada	6.3%	6.0%	5.0%
U.S.	5.9%	5.8%	5.5%

The assumed long-term rate of return on plan assets represents the estimated average rate of earnings expected to be earned on the funds invested or to be invested in the plans' assets provided to fund the benefit payments inherent in the projected benefit obligations. Unlike the discount rate, which is adjusted each year based on changes in current long-term interest rates, the assumed long-term rate of return on plan assets will not necessarily change based upon the actual, short-term performance of the plan assets in any given year. Defined benefit pension expense each year is based upon the assumed long-term rate of return on plan assets for each plan and the actual fair value of the plan assets as of the beginning of the year. Differences between the expected return on plan assets for a given year and the actual return are deferred and amortized over future periods based either upon the expected average remaining service life of the active plan participants (for plans for which benefits are still being earned by active employees) or the average remaining life expectancy of the inactive participants (for plans for which benefits are not still being earned by active employees).

At December 31, 2005, approximately 51%, 19%, 18% and 7% of the plan assets related to the Company's plans in the Germany, Norway, Canada and the U.S., respectively. The Company uses several different long-term rates of return on plan asset assumptions in determining its consolidated defined benefit pension plan expense because the Company maintains defined benefit pension plans in several different countries in North America and Europe, the plan assets in different countries are invested in a different mix of investments and the long-term rates of return for different investments differ from country to country.

In determining the expected long-term rate of return on plan asset assumptions, the Company considers the long-term asset mix (e.g. equity vs. fixed income) for the assets for each of its plans and the expected long-term rates of return for such asset components. In addition, the Company receives advice about appropriate long-term rates of return from the Company's third-party actuaries. Such assumed asset mixes are summarized below:

- In Germany, the composition of the Company's plan assets is established to satisfy the requirements of the German insurance commissioner. The plan asset allocation at December 31, 2005 was 23% to equity managers, 48% to fixed income managers and 29% to real estate (2004 - 23%, 48% and 29%, respectively).
- In Norway, the Company currently has a plan asset target allocation of 14% to equity managers and 64% to fixed income managers and the remainder primarily to cash and liquid investments. The expected long-term rate of return for such investments is approximately 8% and 4.5% to 6% and 2.5%, respectively. The plan asset allocation at December 31, 2005 was 16% to equity managers and 62% to fixed income managers and the remainder primarily to cash and liquid investments (2004 - 16%, 64% and 20%, respectively).
- In Canada, the Company currently has a plan asset target allocation of 65% to equity managers and 35% to fixed income managers, with an expected long-term rate of return for such investments to average approximately 125 basis points above the applicable equity or fixed income index. The current plan asset allocation at December 31, 2005 was 64% to equity managers, 32% to fixed income managers and 4% to other investments (2004 - 60%, 40% and nil, respectively).
- During 2005, the plan assets in the U.S. were invested in the Combined Master Retirement Trust ("CMRT"), a collective investment trust sponsored by Contran to permit the collective investment by certain master trusts which fund certain employee benefits plans sponsored by Contran and certain of its affiliates. Harold Simmons is the sole trustee of the CMRT. The CMRT's long-term investment objective is to provide a rate of return exceeding a composite of broad market equity and fixed income indices (including the S&P 500 and certain Russell indices) utilizing both third-party investment managers as well as investments directed by Mr. Simmons. During the 18-year history of the CMRT through December 31, 2005, the average annual rate of return has been approximately 14% (with a 36% return for 2005). At December 31, 2005 the asset mix of the CMRT was 86% in

U.S. equity securities, 3% in U.S. fixed income securities, 7% in international equity securities and 4% in cash and other investments. At December 31, 2004, the asset mix of the CMRT was 77% in U.S. equity securities, 14% in U.S. fixed income securities, 7% in international equity securities and 2% in cash and other investments.

The Company regularly reviews its actual asset allocation for each of its plans, and will periodically rebalance the investments in each plan to more accurately reflect the targeted allocation when considered appropriate.

The Company's assumed long-term rates of return on plan assets for 2003, 2004 and 2005 were as follows:

	2003	2004	2005
Germany	6.5%	6.0%	5.5%
Norway	6.0%	6.0%	5.5%
Canada	7.0%	7.0%	7.0%
U.S.	10.0%	10.0%	10.0%

The Company currently expects to utilize the same long-term rate of return on plan asset assumptions in 2006 as it used in 2005 for purposes of determining the 2006 defined benefit pension plan expense.

To the extent that a plan's particular pension benefit formula calculates the pension benefit in whole or in part based upon future compensation levels, the projected benefit obligations and the pension expense will be based in part upon expected increases in future compensation levels. For all of the Company's plans for which the benefit formula is so calculated, the Company generally bases the assumed expected increase in future compensation levels upon average long-term inflation rates for the applicable country.

In addition to the actuarial assumptions discussed above, because the Company maintains defined benefit pension plans outside the U.S., the amount of recognized defined benefit pension expense and the amount of prepaid and accrued pension costs will vary based upon relative changes in foreign currency exchange rates.

As discussed above, assumed discount rates and rate of return on plan assets are re-evaluated annually. A reduction in the assumed discount rate generally results in an actuarial loss, as the actuarially-determined present value of estimated future benefit payments will increase. Conversely, an increase in the assumed discount rate generally results in an actuarial gain. In addition, an actual return on plan assets for a given year that is greater than the assumed return on plan assets results in an actuarial gain, while an actual return on plan assets that is less than the assumed return results in an actuarial loss. Other actual outcomes that differ from previous assumptions, such as individuals living longer or shorter than assumed in mortality tables which are also used to determine the actuarially-determined present value of estimated future benefit payments, changes in such mortality table themselves or plan amendments, will also result in actuarial losses or gains. Under GAAP, all of such actuarial gains and losses are not recognized in earnings currently, but instead are deferred and amortized into income in the future as part of net periodic defined benefit pension cost. However, any actuarial gains generated in future periods would reduce the negative amortization effect of any cumulative unrecognized actuarial losses, while any actuarial losses generated in future periods would reduce the favorable amortization effect of any cumulative unrecognized actuarial gains.

During 2005, all of the Company's defined benefit pension plans generated a net actuarial loss of $95.3 million. This actuarial loss resulted primarily from the general overall reduction in the assumed discount rates as well as the unfavorable effect of using updated mortality tables (which generally reflect individuals living longer than prior mortality tables used), partially offset by an actual return on plan assets in excess of the assumed return.

While actuarial gains and losses are deferred and amortized into income in future periods, as discussed above, GAAP also requires that a minimum amount of accrued pension cost be recognized in a statement of financial position for any plans for which the accumulated benefit obligation is less than the fair value of plan assets. To the extent GAAP accounting would otherwise result in an accrued pension cost balance for such plans that was less than the excess of the aggregate accumulated benefit obligation over the value of the related plan assets, GAAP then requires that such excess be recognized as a component of the consolidated accrued pension cost, with the offset to such additional accrued pension cost (commonly referred to as an "additional minimum liability") recognized (i) first as an intangible asset up to specified amounts (referred to as "unrecognized net pension obligations" in the Company's balance sheet and then (ii) second as part of accumulated other comprehensive income (loss). At December 31, 2005, and primarily as a result of the aggregate $95.3 million actuarial loss generated during 2005 as discussed above, the amount of the additional minimum liability required to be recognized by the Company increased by approximately $87 million at December 31, 2005 as compared to December 31, 2004, resulting in the Company recognized aggregate accrued pension cost (current and noncurrent) of $140.2 million at December 31, 2005 as compared to $57.0 million at December 31, 2004.

Based on the actuarial assumptions described above and the Company's current expectation for what actual average foreign currency exchange rates will be during 2006, the Company expects its defined benefit pension expense will approximate $19 million in 2006. In comparison, the Company expects to be required to make approximately $18 million of contributions to such plans during 2006.

As noted above, defined benefit pension expense and the amounts recognized

as accrued pension costs are based upon the actuarial assumptions discussed above. The Company believes all of the actuarial assumptions used are reasonable and appropriate. If the Company had lowered the assumed discount rate by 25 basis points for all of its plans as of December 31, 2005, the Company's aggregate projected benefit obligations would have increased by approximately $15.2 million at that date, and the Company's defined benefit pension expense would be expected to increase by approximately $2.0 million during 2006. Similarly, if the Company lowered the assumed long-term rate of return on plan assets by 25 basis points for all of its plans, the Company's defined benefit pension expense would be expected to increase by approximately $600,000 during 2006.

OPEB plans. Certain subsidiaries of the Company in the U.S. and Canada currently provide certain health care and life insurance benefits for eligible retired employees. See Note 14 to the Consolidated Financial Statements. The Company accounts for such OPEB costs under SFAS No. 106, "Employers Accounting for Postretirement Benefits other than Pensions." Under SFAS No. 106, OPEB expense and accrued OPEB costs are based on certain actuarial assumptions, principally the assumed discount rate and the assumed rate of increases in future health care costs. The Company recognized consolidated OPEB income of approximately $133,000 in 2003 and consolidated OPEB cost of approximately $455,000 in 2004 and $239,000 in 2005. Similar to defined benefit pension benefits, the amount of funding will differ from the expense recognized for financial reporting purposes, and contributions to the plans to cover benefit payments aggregated $1.0 million in each of 2003 and 2004 and approximately $1.3 million in 2005. Substantially all of the Company's accrued OPEB cost relates to benefits being paid to current retirees and their dependents, and no material amount of OPEB benefits are being earned by current employees. As a result, the amount recognized for OPEB expense for financial reporting purposes has been, and is expected to continue to be, significantly less than the amount of OPEB benefit payments made each year. Accordingly, the amount of accrued OPEB expense has been, and is expected to continue to, decline gradually.

The assumed discount rates the Company utilizes for determining OPEB expense and the related accrued OPEB obligations are generally based on the same discount rates the Company utilizes for its U.S. and Canadian defined benefit pension plans.

In estimating the health care cost trend rate, the Company considers its actual health care cost experience, future benefit structures, industry trends and advice from its third-party actuaries. During each of the past three years, the Company has assumed that the relative increase in health care costs will generally trend downward over the next several years, reflecting, among other things, assumed increases in efficiency in the health care system and industry-wide cost containment initiatives. For example, at December 31, 2005, the expected rate of increase in future health care costs ranges from 9% in 2006, declining to 5% to 5.5% in 2009 and thereafter.

Based on the actuarial assumptions described above and the Company's current expectation for what actual average foreign currency exchange rates will be during 2006, the Company expects its consolidated OPEB expense will approximate $800,000 in 2006. In comparison, the Company expects to be required to make approximately $790,000 of contributions to such plans during 2006.

As noted above, OPEB expense and the amount recognized as accrued OPEB costs are based upon the actuarial assumptions discussed above. The Company believes all of the actuarial assumptions used are reasonable and appropriate. If the Company had lowered the assumed discount rate by 25 basis points for all of its OPEB plans as of December 31, 2005, the Company's aggregate projected benefit obligations would have increased by approximately $400,000 at that date, and the Company's OPEB expense would be expected to increase by less than $50,000 during 2006. Similarly, if the assumed future health care cost trend rate had been increased by 100 basis points, the Company's accumulated OPEB obligations would have increased by approximately $1.4 million at December 31, 2005, and OPEB expense would have increased by $100,000 in 2005.

LIQUIDITY AND CAPITAL RESOURCES

Summary

The Company's primary source of liquidity on an ongoing basis is its cash flows from operating activities, which is generally used to (i) fund capital expenditures, (ii) repay short-term indebtedness incurred primarily for working capital purposes and (iii) provide for the payment of dividends. In addition, from time-to-time the Company will incur indebtedness, generally to (i) fund short-term working capital needs, (ii) refinance existing indebtedness or (iii) fund major capital expenditures or the acquisition of other assets outside the ordinary course of business. Also, the Company may from time-to-time sell assets outside the ordinary course of business, the proceeds of which are generally used to (i) repay existing indebtedness (including indebtedness which may have been collateralized by the assets sold), (ii) fund major capital expenditures or the acquisition of other assets outside the ordinary course of business or (iii) pay dividends.

At December 31, 2005, the Company's indebtedness was substantially comprised of $449 million related to KII's Senior Secured Notes due in 2009 and $11.5 million related to Kronos' U.S. $50 million revolving credit facility ("U.S. Credit Facility") due in September 2008. Accordingly, the Company does not currently expect that a significant amount of its cash flows from operating activities generated during 2006 will be required to be used to repay indebtedness during 2006.

Consolidated cash flows

The Company's consolidated cash flows for each of the past three years are presented below:

	Years ended December 31,		
	2003	2004	2005
	(in millions)		
Operating activities	$ 107.6	$ 151.0	$ 97.8
Investing activities	(35.4)	(39.8)	(39.6)
Financing activities	(61.8)	(108.8)	(44.8)
Net cash provided by operating, investing and financing activities	$ 10.4	$ 2.4	$ 13.4

Operating cash flows. Trends in cash flows from operating activities (excluding the impact of significant asset dispositions and relative changes in assets and liabilities) are generally similar to trends in the Company's earnings. However, certain items included in the determination of net income are non-cash, and therefore such items have no impact on cash flows from operating activities. Non-cash items included in the determination of net income include depreciation and amortization expense, non-cash interest expense and deferred income taxes. Non-cash interest expense relates to amortization of original issue discount or premium on certain indebtedness and amortization of deferred financing costs.

Certain other items included in the determination of net income may have an impact on cash flows from operating activities, but the impact of such items on cash flows from operating activities will differ from their impact on net income. For example, the amount of periodic defined benefit pension plan expense and periodic OPEB expense depends upon a number of factors, including certain actuarial assumptions, and changes in such actuarial assumptions will result in a change in the reported expense. In addition, the amount of such periodic expense generally differs from the outflows of cash required to be currently paid for such benefits.

Certain other items included in the determination of net income have no impact on cash flows from operating activities, but such items do impact cash flows from investing activities (although their impact on such cash flows differs from their impact on net income). For example, realized gains and losses from the disposal of long-lived assets are included in the determination of net income, although the proceeds from any such disposal are shown as part of cash flows from investing activities.

Changes in product pricing, production volumes and customer demand, among other things, can significantly affect the liquidity of the Company. Relative changes in assets and liabilities generally result from the timing of production, sales, purchases and income tax payments. Such relative changes can significantly impact the comparability of cash flow from operations from period to period, as the income statement impact of such items may occur in a different period from when the underlying cash transaction occurs. For example, raw materials may be purchased in one period, but the payment for such raw materials may occur in a subsequent period. Similarly, inventory may be sold in one period, but the cash collection of the receivable may occur in a subsequent period. Relative changes in accounts receivable are affected by, among other things, the timing of sales and the collection of the resulting receivable. Relative changes in inventories, accounts payable and accrued liabilities are affected by, among other things, the timing of raw material purchases and the payment for such purchases and the relative difference between production volumes and sales volumes.

Cash flows provided from operating activities decreased from $151.0 million in 2004 to $97.8 million in 2005. This $53.2 million decrease was due primarily to the net effect of (i) lower net income of $243.8 million, (ii) higher deferred income taxes of $289.8 million, (iii) lower depreciation and amortization expense of approximately $500,000, (iv) lower net distributions from Kronos' TiO2 manufacturing joint venture of $3.8 million, (v) a higher amount of net cash used to fund changes in the Company's inventories, receivables, payables, accruals and accounts with affiliates of $67.9 million and (vi) higher cash paid for income taxes of $53.7 million, due primarily to aggregate income tax refunds of $44.7 million received in 2004.

Cash flows from operating activities increased from $107.7 million in 2003 to $151.0 million in 2004. This $43.3 million increase was due primarily to the effect of (i) higher net income of $227.3 million, (ii) a larger deferred income tax benefit of $299.8 million, (iii) higher depreciation and amortization expense of $4.6 million, (iv) higher net distributions from the TiO2 manufacturing joint venture of $7.7 million, (v) a higher amount of net cash generated from relative changes in the Company's inventories, receivables, payables and accruals and accounts with affiliates of $34.9 million in 2004 as compared to 2003 and (vi) higher cash received for income taxes of $25.3 million.

The Company's average days sales outstanding ("DSO") decreased from 60 days at December 31, 2004 to 55 days at December 31, 2005, due to the timing of collections. At December 31, 2005, the average number of days in inventory ("DII") increased to 102 days from 97 days at December 31, 2004 due to the effects of higher production volume and lower sales volume.

Investing cash flows. The Company's capital expenditures were $35.2 million, $39.3 million and $43.4 million in 2003, 2004 and 2005, respectively. In addition, the Company purchased additional shares of its majority-owned French subsidiary for $575,000 in 2004, and the Company received $3.5 million in 2005 from the sale of its passive interest in a Norwegian smelting operations.

The Company's capital expenditures during the past three years include an aggregate of approximately $15 million ($4 million in 2005) for the Company's ongoing environmental protection and compliance programs. The Company's estimated 2006 capital expenditures are $41 million and include approximately $6 million in the area of environmental protection and compliance.

Financing cash flows. During 2005, the Company (i) repaid euro 10 million ($12.9 million when repaid) under its European Credit Facility, (ii) borrowed $47.3 million and repaid $35.8 million under its U.S. credit facility and (iii) entered into additional capital lease agreements for certain mining equipment for the equivalent of approximately $4.4 million. During 2004, (i) KII issued an additional euro 90 million principal amount of it Senior Secured Notes at 107% of par (equivalent to $130 million when issued) and (ii) KII's operating subsidiaries in Germany and Belgium borrowed an aggregate of euro 90 million ($112 million when borrowed) of borrowings under its European Credit Facility, of which euro 80 million ($100 million when repaid) were subsequently repaid.

On September 24, 2004, NL completed the acquisition of the shares of common stock of CompX International Inc. previously held by Valhi and Valcor, Inc., a wholly-owned subsidiary of Valhi. The purchase price for these shares was paid by NL's transfer to Valhi and Valcor of an aggregate $168.6 million of NL's $200 million long-term note receivable from Kronos. In October 2004, Valcor distributed its note receivable from Kronos to Valhi, and subsequently Kronos prepaid $100.0 million on the note payable to Valhi (including accrued interest) principally using available cash on hand. In November 2004, the remaining balances due under these notes were repaid primarily using the funds raised from the issuance of euro 90 million principal amount of KII's Senior Secured Notes, and the notes were cancelled.

In March 2003, the Company's operating subsidiaries in Germany, Belgium and Norway borrowed euro 15 million ($16.1 million when borrowed), in April 2003, repaid NOK 80 million ($11.0 million when repaid) and in the third quarter of 2003, repaid euro 30.0 million ($33.9 million when repaid) under its European Credit Facility.

Deferred financing costs of $2.0 million paid in 2004 for the Senior Secured Notes, the European Credit Facility and the Company's U.S. revolving credit facility are being amortized over the life of the respective agreements and are included in other noncurrent assets as of December 31, 2005.

Cash dividends paid during 2003, 2004 and 2005 totaled $7.0 million, $48.9 million and $48.9 million, respectively. On February 21, 2006, the Company's Board of Directors declared a regular quarterly dividend of $.25 per share to stockholders of record as of March 10, 2006 to be paid on March 27, 2006. The declaration and payment of future dividends is discretionary, and the amount, if any, will be dependent upon the Company's results of operations, financial condition, contractual restrictions and other factors deemed relevant by the Company's Board of Directors.

Cash flows related to capital contributions and other transactions with affiliates aggregated a net cash inflow of $19.7 million in 2003. Such amounts related principally to loans that Kronos made to affiliates (such notes receivable from affiliates being reported as reductions to Kronos' stockholders' equity, and therefore considered financing cash flows). Additionally, settlement of the above-mentioned notes receivable from affiliates was not then currently contemplated in the foreseeable future.

Provisions contained in certain of Kronos' credit agreements could result in the acceleration of the applicable indebtedness prior to its stated maturity. For example, certain credit agreements allow the lender to accelerate the maturity of the indebtedness upon a change of control (as defined) of the borrower. In addition, certain credit agreements could result in the acceleration of all or a portion of the indebtedness following a sale of assets outside the ordinary course of business.

KII's assets consist primarily of investments in its operating subsidiaries, and its ability to service its parent level obligations, including the Senior Secured Notes, depends in large part upon the distribution of earnings of its subsidiaries, whether in the form of dividends, advances or payments on account of intercompany obligation, or otherwise. None of its subsidiaries have guaranteed the Senior Secured Notes, although KII has pledged 65% of the common stock or other ownership interest of certain of its first-tier operating subsidiaries as collateral of such Senior Secured Notes.

Off-balance sheet financing. Other than operating lease commitments disclosed in Note 16 to the Consolidated Financial Statements, the Company is not party to any material off-balance sheet financing arrangements.

Cash, cash equivalents, restricted cash and restricted marketable debt securities and borrowing availability. At December 31, 2005, the Company had current cash and cash equivalents aggregating $72.0 million ($67.5 million held by non-U.S. subsidiaries). At December 31, 2005, the Company's U.S. and non-U.S. subsidiaries had current restricted cash equivalents of $1.4 million and noncurrent restricted marketable debt securities of $2.6 million. At December 31, 2005, certain of the Company's subsidiaries had approximately $139 million available for borrowing with approximately $105 million available under non-U.S. credit facilities (including approximately $92 million under the European Credit Facility and $13 million under its Canadian credit facility) and approximately $34 million available under the U.S. Credit Facility (based on borrowing availability). At December 31, 2005, KII had approximately $92 million available for payment of dividends and other restricted payments as defined in the indenture for the Senior Secured Notes.

Based upon the Company's expectations for the TiO2 industry and anticipated demands on the Company's cash resources as discussed herein, (including debt refinancing expectations) the Company expects to have sufficient liquidity to meet its short-term obligations (defined as the twelve-month period ending December 31, 2006) and its long-term obligations (defined as the five-year period ending December 31, 2010, the time period for which the Company generally

does long-term budgeting), including operations, capital expenditures, debt service and current dividend policy. To the extent that actual developments differ from the Company's expectations, the Company's liquidity could be adversely affected.

Legal proceedings and environmental matters. See Note 16 to the Consolidated Financial Statements for certain legal proceedings and environmental matters with respect to the Company.

Foreign operations. As discussed above, the Company has substantial operations located outside the United States for which the functional currency is not the U.S. dollar. As a result, the reported amount of the Company's assets and liabilities related to its non-U.S. operations, and therefore the Company's consolidated net assets, will fluctuate based upon changes in currency exchange rates. At December 31, 2005, the Company had substantial net assets denominated in the euro, Canadian dollar, Norwegian kroner and United Kingdom pound sterling.

Other. The Company periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, its dividend policy, its debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, the Company in the past has sought, and in the future may seek, to reduce, refinance, repurchase or restructure indebtedness; raise additional capital; issue additional securities; repurchase shares of its common stock; modify its dividend policy; restructure ownership interests; sell interests in subsidiaries or other assets; or take a combination of such steps or other steps to manage its liquidity and capital resources. In the normal course of its business, the Company may review opportunities for the acquisition, divestiture, joint venture or other business combinations in the chemicals or other industries, as well as the acquisition of interests in related companies. In the event of any such transaction, the Company may consider using available cash, issuing equity securities or increasing its indebtedness to the extent permitted by the agreements governing the Company's existing debt. See Note 8 to the Consolidated Financial Statements.

Non-GAAP financial measures. In an effort to provide investors with additional information regarding the Company's results as determined by GAAP, Kronos has disclosed certain non-GAAP information which the Company believes provides useful information to investors. As discussed above, the Company discloses percentage changes in its average TiO_2 prices in billing currencies, which excludes the effects of foreign currency translation. Such disclosure of the percentage change in Kronos' average TiO_2 selling price in billing currencies is considered a "non-GAAP" financial measure under regulations of the SEC. The disclosure of the percentage change in the Company's average TiO_2 selling prices using actual foreign currency exchange rates prevailing during the respective periods is considered the most directly comparable GAAP measure. The Company discloses percentage changes in its average TiO_2 prices in billing currencies because the Company believes such disclosure provides useful information to investors to allow them to analyze such changes without the impact of changes in foreign currency exchange rates, thereby facilitating period-to-period comparisons of the relative changes in average selling prices in the actual various billing currencies. Generally, when the U.S. dollar either strengthens or weakens against other currencies, the percentage change in average selling prices in billing currencies will be higher or lower, respectively, than such percentage changes using actual exchange rates prevailing during the respective periods.

Summary of debt and other contractual commitments

As more fully described in the notes to the Consolidated Financial Statements, the Company is a party to various debt, lease and other agreements which contractually and unconditionally commit the Company to pay certain amounts in the future. See Notes 8, 15 and 16 to the Consolidated Financial Statements. The Company's obligation for the purchase of TiO_2 feedstock is more fully described in Note 16 to the Consolidated Financial Statements and above in "Business - raw materials." The following table summarizes such contractual commitments of the Company and its consolidated subsidiaries as of December 31, 2005 by the type and date of payment.

	Payment due date				
Contractual commitment	2006	2007/2008	2009/2010	2011 and after	Total
			(In millions)		
Third-party indebtedness(1)	$ 1.0	$ 13.2	$ 451.1	$ -	$ 465.3
Interest payments on third-party indebtedness	39.9	79.2	38.8	-	157.9
Operating leases	4.8	6.6	3.7	21.1	36.2
Fixed asset acquisitions	7.4	-	-	-	7.4
Long-term supply contracts for the purchase of TiO_2 feedstock	194.6	312.7	173.5	-	680.8
Estimated tax obligations	24.4	-	-	-	24.4
	$ 272.1	$ 411.7	$ 667.1	$ 21.1	$1,372.0

(1) Primarily relates to KII's Senior Secured Notes. See Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" and Note 8 to the Consolidated Financial Statements.

The timing and amount shown for the Company's commitments related to indebtedness (principal and interest), operating leases, fixed asset acquisitions, long-term supply contracts and other are based upon the contractual payment amount and the contractual payment date for such commitments. With respect to revolving credit facilities, the amount shown for indebtedness is based upon the actual amount outstanding at December 31, 2005, and the amount shown for interest for any outstanding variable-rate indebtedness is based upon the December 31, 2005 interest rate and assumes that such variable-rate indebtedness remains outstanding until the maturity of the facility. The amount shown for income taxes is the consolidated amount of income taxes payable at December 31, 2005, which is assumed to be paid during 2006. A significant portion of the amount shown for indebtedness relates to KII's Senior Secured Notes ($449.3 million at December 31, 2005). Such indebtedness is denominated in euro. See Item 7A - "Quantitative and Qualitative Disclosures About Market Risk" and Note 8 to the Consolidated Financial Statements.

Kronos' contracts for the purchase of TiO2 feedstock contain fixed quantities that Kronos is required to purchase, although certain of these contracts allow for an upward or downward adjustment in the quantity purchased, generally no more than 10%, based on the Company's feedstock requirements. The pricing under these agreements is generally based on a fixed price with price escalation clauses primarily based on consumer price indices, as defined in the respective contracts. The timing and amount shown for the Company's commitments related to the long-term supply contracts for TiO2 feedstock is based upon the Company's current estimate of the quantity of material that will be purchased in each time period shown, and the payment that would be due based upon such estimated purchased quantity and an estimate of the effect of the price escalation clause. The actual amount of material purchased, and the actual amount that would be payable by the Company, may vary from such estimated amounts.

The above table does not reflect any amounts that the Company might pay to fund its defined benefit pension plans and OPEB plans, as the timing and amount of any such future fundings are unknown and dependent on, among other things, the future performance of defined benefit pension plan assets, interest rate assumptions and actual future retiree medical costs. Such defined benefit pension plans and OPEB plans are discussed above in greater detail. The table also does not reflect any amounts that the Company might pay related to its asset retirement obligations as the terms and amounts of such future fundings are unknown. See Notes 14 and 19 to the Consolidated Financial Statements.

The above table also does not reflect any amounts the Company might pay to acquire TiO2 from its TiO2 manufacturing joint venture, as the timing and amount of such purchases are unknown and dependent on, among other things, the amount of TiO2 produced by the joint venture in the future and the joint venture's future cost of producing such TiO2. However, the table does include amounts related to Kronos' share of the joint venture's ore requirements necessary to produce TiO2 for Kronos. See Item 1, "Business" and Note 6 to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General. The Company is exposed to market risk from changes in foreign currency exchange rates, interest rates and equity security prices. In the past, the Company has periodically entered into currency forward contracts, interest rate swaps or other types of contracts in order to manage a portion of its interest rate market risk. Otherwise, the Company does not generally enter into forward or option contracts to manage such market risks, nor does the Company enter into any such contract or other type of derivative instrument for trading or speculative purposes. Other than as described below, the Company was not a party to any material forward or derivative option contract related to foreign exchange rates, interest rates or equity security prices at December 31, 2004 and 2005. See Notes 1 and 17 to the Consolidated Financial Statements.

Interest rates. The Company is exposed to market risk from changes in interest rates, primarily related to indebtedness. At December 31, 2004 and 2005, substantially all of the Company's aggregate indebtedness was comprised of fixed-rate instruments. The large percentage of fixed-rate debt instruments minimizes earnings volatility that would result from changes in interest rates. The following table presents principal amounts and weighted average interest rates for the Company's aggregate outstanding indebtedness at December 31, 2005. At December 31, 2004 and 2005, all outstanding fixed-rate indebtedness was denominated in U.S. dollars or the euro and the outstanding variable rate borrowings were denominated in euros. Information shown below for such foreign currency denominated indebtedness is presented in its U.S. dollar equivalent at December 31, 2005 using an exchange rate of 1.18 U.S. dollars per euro. Certain Norwegian kroner denominated capital leases totaling $4.5 million in 2005 have been excluded from the table below.

Indebtedness	Amount: Carrying value	Amount: Fair value	Interest rate	Maturity date
	(In millions)			
Fixed-rate indebtedness - euro-denominated KII				
Senior Secured Notes	$ 449.3	$ 463.6	8.9%	2009
	========	========		
Variable rate indebtedness - dollar-denominated U.S.				

Credit Facility	$ 11.5	$ 11.5	7.0%	2008
	========	========		

At December 31, 2004, fixed rate indebtedness aggregated $519.2 million (fair value - $549.1 million) with a weighted-average interest rate of 8.9%. All of such fixed rate indebtedness was denominated in euros. Variable indebtedness at December 31, 2004 was $13.6 million with a weighted-average interest rate of 3.99%.

Foreign currency exchange rates. The Company is exposed to market risk arising from changes in foreign currency exchange rates as a result of manufacturing and selling its products worldwide. Earnings are primarily affected by fluctuations in the value of the U.S. dollar relative to the euro, the Canadian dollar, the Norwegian kroner and the United Kingdom pound sterling.

As described above, at December 31, 2005, the Company had the equivalent of $449.3 million of outstanding euro-denominated indebtedness (2004 - the equivalent of $532.8 million of euro-denominated indebtedness). The potential increase in the U.S. dollar equivalent of the principal amount outstanding resulting from a hypothetical 10% adverse change in exchange rates at such date would be approximately $44.4 million at December 31, 2005 (2004 - $52.4 million).

Certain of the Company's sales generated by its non-U.S. operations are denominated in U.S. dollars. The Company periodically uses currency forward contracts to manage a very nominal portion of foreign exchange rate risk associated with receivables denominated in a currency other than the holder's functional currency or similar exchange rate risk associated with future sales. The Company has not entered into these contracts for trading or speculative purposes in the past, nor does the Company currently anticipate entering into such contracts for trading or speculative purposes in the future. Derivatives used to hedge forecasted transactions and specific cash flows associated with foreign currency denominated financial assets and liabilities which meet the criteria for hedge accounting are designated as cash flow hedges. Consequently, the effective portion of gains and losses is deferred as a component of accumulated other comprehensive income and is recognized in earnings at the time the hedged item affects earnings. Contracts that do not meet the criteria for hedge accounting are marked-to-market at each balance sheet date with any resulting gain or loss recognized in income currently as part of net currency transactions. During 2004 and 2005, the Company has not used hedge accounting for any of its contracts. At December 31, 2005, the Company held a series of short-term currency forward contracts, which mature at various dates through March 31, 2006, to exchange an aggregate of U.S. $7.5 million for an equivalent amount of Canadian dollars at an exchange rate of Cdn. $1.19 per U.S. dollar. At December 31, 2005, the actual exchange rate was Cdn. $1.16 per U.S. dollar. The estimated fair value of such foreign currency forward contracts was not material at December 31, 2005. The Company held no such currency forward contracts at December 31, 2004 and held no other significant derivative contracts at December 31, 2004 or 2005.

Other. The Company believes there may be a certain amount of incompleteness in the sensitivity analyses presented above. For example, the hypothetical effect of changes in exchange rates discussed above ignores the potential effect on other variables which affect the Company's results of operations and cash flows, such as demand for the Company's products, sales volumes and selling prices and operating expenses. Accordingly, the amounts presented above are not necessarily an accurate reflection of the potential losses the Company would incur assuming the hypothetical changes in exchange rates were actually to occur.

The above discussion and estimated sensitivity analysis amounts include forward-looking statements of market risk which assume hypothetical changes in currency exchange rates. Actual future market conditions will likely differ materially from such assumptions. Accordingly, such forward-looking statements should not be considered to be projections by the Company of future events, gains or losses.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this Item is contained in a separate section of this Annual Report. See "Index of Financial Statements and Schedules" (page F-1).

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. The Company maintains a system of disclosure controls and procedures. The term "disclosure controls and procedures," as defined by Exchange Act Rule 13a-15(e), means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits to the SEC under the Securities Exchange Act of 1934, as amended (the "Act"), is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits to the SEC under the Act is accumulated and communicated to the Company's management, including its principal executive officer and its principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Harold C. Simmons, the Company's Chief Executive Officer, and Gregory M. Swalwell, the Company's Vice President, Finance and Chief Financial Officer, have evaluated the Company's disclosure controls and procedures as of December 31, 2005. Based upon their evaluation, these executive officers have concluded that the Company's disclosure controls

and procedures are effective as of December 31, 2005.

Scope of Management's Report on Internal Control Over Financial Reporting. The Company also maintains internal control over financial reporting. The term "internal control over financial reporting," as defined by Exchange Act Rule 13a-15(f), means a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company,
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and
- 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 Company's Consolidated Financial Statements.

Section 404 of the Sarbanes-Oxley Act of 2002 requires the Company to include a management report on internal control over financial reporting in this Annual Report on Form 10-K for the year ended December 31, 2005. The Company's independent registered public accounting firm is also required to audit the Company's internal control over financial reporting as of December 31, 2005.

As permitted by the SEC, the Company's assessment of internal control over financial reporting excludes (i) internal control over financial reporting of its equity method investees and (ii) internal control over the preparation of the Company's financial statement schedules required by Article 12 of Regulation S-X. See Note 6 to the Consolidated Financial Statements and the index of financial statements and schedules on page F-1 of this Annual Report. However, our assessment of internal control over financial reporting with respect to the Company's equity method investees did include our controls over the recording of amounts related to our investments that are recorded in our consolidated financial statements, including controls over the selection of accounting methods for our investments, the recognition of equity method earnings and losses and the determination, valuation and recording of our investment account balances.

Changes in Internal Control Over Financial Reporting. There has been no change to the Company's internal control over financial reporting during the quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company's evaluation of the effectiveness of its internal control over financial reporting is based upon the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (commonly referred to as the "COSO" framework). Based on the Company's evaluation under that framework, management of the Company has concluded that the Company's internal control over financial reporting was effective as of December 31, 2005.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that has audited the Company's consolidated financial statements included in this Annual Report, has audited management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, as stated in their report which is included in this Annual Report on Form 10-K.

Certifications. The Company's chief executive officer is required to annually file a certification with the New York Stock Exchange ("NYSE"), certifying the Company's compliance with the corporate governance listing standards of the NYSE. During 2005, the Company's chief executive officer filed such annual certification with the NYSE. The 2005 certification was qualified in that, while the Company had publicly disclosed in its latest proxy statement that the audit committee chairman presided at meetings of its independent directors and how its stockholders might communicate directly with the audit committee chairman, it had not publicly disclosed how other interested parties could communicate with the presiding director of the non-management directors and had not established procedures as to who presided at meeting of the non-management directors. The Company remediated this qualification by amending its corporate governance guidelines on October 20, 2005 and filing a Current Report on Form 8-K with the SEC on November 30, 2005 disclosing that the audit committee chairman presided at meetings of the non-management directors and how stockholders and other interested parties might communicate with the presiding director. The Company's chief executive officer and chief financial officer are also required to, among other things, quarterly file certifications with the SEC regarding the quality of the Company's public disclosures, as required by Section 302 of the Sarbanes-Oxley Act of 2002. The certifications for the quarter ended December 31, 2005 have been filed as exhibits 31.1 and 31.2 to this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to the Company's definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report (the "Kronos Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Kronos Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the Kronos Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the Kronos Proxy Statement. See also Note 15 to the Consolidated Financial Statements.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by the Item is incorporated by reference to the Kronos Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) and (c) Financial Statements and Schedules

The Registrant

The consolidated financial statements and schedules of the Registrant listed on the accompanying Index of Financial Statements and Schedules (see page F-1) are filed as part of this Annual Report.

(b) Exhibits

Included as exhibits are the items listed in the Exhibit Index. The Company will furnish a copy of any of the exhibits listed below upon payment of $4.00 per exhibit to cover the costs to the Company of furnishing the exhibits. Pursuant to Item 601(b)(4)(iii) of Regulation S-K, any instrument defining the rights of holders of long-term debt issues and other agreements related to indebtedness which do not exceed 10% of consolidated total assets as of December 31, 2005 will be furnished to the Commission upon request.

The Company will also furnish, without charge, a copy of its Code of Business Conduct and Ethics, as adopted by the board of directors on February 19, 2004, upon request. Such requests should be directed to the attention of the Company's Corporate Secretary at the Company's corporate offices located at 5430 LBJ Freeway, Suite 1700, Dallas, TX 75240.

Item No.	Exhibit Index
2.1	Form of Distribution Agreement between NL Industries, Inc. and Kronos Worldwide, Inc. - incorporated by reference to Exhibit 2.1 of the Registration Statement on Form 10 of the Registrant (File No. 001-31763).
3.1	First Amended and Restated Certificate of Incorporation of Kronos Worldwide, Inc. - incorporated by reference to Exhibit 3.1 of the Registration statement on Form 10 of the Registrant (File No. 001-31763).
3.2	Amended and Restated Bylaws of Kronos Worldwide, Inc. - incorporated by reference to Exhibit 3.2 of the Registration statement on Form 10 of the Registrant (File No. 001-31763).
4.1	Indenture governing the 8.875% Senior Secured Notes due 2009 dated as of June 28, 2002, between Kronos International, Inc. and The Bank of New York, as trustee - incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.
4.2	Form of certificate of 8.875% Senior Secured Note due 2009 (included as Exhibit A to Exhibit 4.1) - incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q of NL Industries, Inc. (File No. 1-640) for the quarter ended June 30, 2002.
4.3	Form of certificate of 8.875% Senior Secured Note due 2009 (included as Exhibit B to Exhibit 4.1) - incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q of NL Industries, Inc. (File No. 1-640) for the quarter ended June 30, 2002.
4.4	Purchase Agreement, dated as of June 19, 2002, among Kronos International, Inc., Deutsche Bank AG London, Dresdner Bank AG, London Branch, and Commerzbank Aktiengesellschaft, London Branch - incorporated by reference to Exhibit 4.4 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.

4.5	Purchase Agreement dated November 18, 2004 between Kronos International, Inc. and Deutsche Bank AG London (incorporated by reference to Exhibit 4.4 to the Current Report on Form 8-K of Kronos International, Inc. (File No. 333-100047) dated November 24, 2004.
4.6	Form of Registration Rights Agreement, dated as of November 26, 2004 between Kronos International, Inc. and Deutsche Bank AG London (incorporated by reference to Exhibit 4.5 to the Current Report on Form 8-K of Kronos International, Inc. (File No. 333-100047) dated November 24, 2004.
4.7	Collateral Agency Agreement, dated as of June 28, 2002, among The Bank of New York, U.S. Bank, N.A. and Kronos International, Inc. (filed herewith only with respect to Sections 2, 5, 6 and 8 thereof) - incorporated by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.
4.8	Security Over Shares Agreement (shares of Kronos Limited), dated June 28, 2002, between Kronos International, Inc. and The Bank of New York, U.S., as trustee - incorporated by reference to Exhibit 4.7 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.
4.9	Pledge of Shares (shares of Kronos Denmark ApS), dated June 28, 2002, between Kronos International, Inc. and U.S. Bank, N.A., as collateral agent - incorporated by reference to Exhibit 4.8 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.
4.10	Pledge Agreement (pledge of shares of Societe Industrielle du Titane, S.A.), dated June 28, 2002, between Kronos International, Inc. and U.S. Bank, N.A., as collateral agent - incorporated by reference to Exhibit 4.9 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.
4.11	Partnership Interest Pledge Agreement (pledge of fixed capital contribution in Kronos Titan GmbH & Co. OHG), dated June 28, 2002, between Kronos International, Inc. and U.S. Bank, N.A., as collateral agent - incorporated by reference to Exhibit 4.10 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.
10.1	Form of Tax Agreement between Valhi, Inc. and Kronos Worldwide, Inc. - incorporated by reference to Exhibit 10.1 of the Registration statement on Form 10 of the Registrant (File No. 001-31763).
10.2	Intercorporate Services Agreement by and between Contran Corporation and Kronos Worldwide, Inc., effective as of January 1, 2004 - incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of the Registrant (File No. 001-31763) for the quarter ended March 31, 2004.
10.3	Promissory Note, dated September 24, 2004, made by Kronos Worldwide, Inc. in favor of NL Industries, Inc. - incorporated by reference to Exhibit 10.2 to a Current Report on Form 8-K of NL Industries, Inc. (File No. 1-640) dated September 24, 2004.
10.4	Promissory Note, dated September 24, 2004, made by Kronos Worldwide, Inc. in favor of Valcor, Inc. - incorporated by reference to Exhibit 99.1 to a Current Report on Form 8-K of NL Industries, Inc. (File No. 1-640) dated September 24, 2004.
10.5	Promissory Note, dated September 24, 2004, made by Kronos Worldwide, Inc. in favor of Valhi, Inc. - incorporated by reference to Exhibit 99.2 to a Current Report on Form 8-K of NL Industries, Inc. (File No. 1-640) dated September 24, 2004.
10.6**	Form of Kronos Worldwide, Inc. Long-Term Incentive Plan - incorporated by reference to Exhibit 10.4 of the Registration statement on Form 10 of the Registrant (File No. 001-31763).
10.7	Euro 80,000,000 Facility Agreement, dated June 25, 2002, among Kronos Titan GmbH & Co. OHG, Kronos Europe S.A./N.V., Kronos Titan A/S and Titania A/S, as borrowers, Kronos Titan GmbH & Co. OHG, Kronos Europe S.A./N.V. and Kronos Norge AS, as guarantors, Kronos Denmark ApS, as security provider, Deutsche Bank AG, as mandated lead arranger, Deutsche Bank Luxembourg S.A., as agent and security agent, and KBC Bank NV, as fronting bank, and the financial institutions listed in Schedule 1 thereto, as lenders - incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.
10.8	First Amendment Agreement, dated September 3, 2004, Relating to a Facility Agreement dated June 25, 2002 among Kronos Titan GmbH, Kronos Europe S.A./N.V., Kronos Titan AS and Titania A/S, as borrowers, Kronos Titan GmbH, Kronos Europe S.A./N.V. and Kronos Norge AS, as guarantors, Kronos Denmark ApS, as security provider, with Deutsche Bank Luxembourg S.A., acting as agent - incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K of the Registrant dated November 17, 2004 (File No. 333-119639).
10.9	Second Amendment Agreement Relating to a Facility Agreement dated June 25, 2002 executed as of June 14, 2005 by and among Deutsche Bank AG, as mandated lead arranger, Deutsche Bank Luxembourg S.A. as agent, the participating lenders, Kronos Titan GmbH, Kronos Europe S.A./N.V, Kronos Titan AS, Kronos Norge AS, Titania AS and Kronos Denmark ApS - incorporated by reference to Exhibit 10.1 of Kronos International, Inc.s' Form 8-K dated June 14, 2005. Certain schedules, exhibits, annexes and similar attachments to this Exhibit 10.9 have not been

filed; upon request, the Reporting Persons will furnish supplementally to the Commission a copy of any omitted exhibit, annex or attachment.

10.10 Lease Contract, dated June 21, 1952, between Farbenfabrieken Bayer Aktiengesellschaft and Titangesellschaft mit beschrankter Haftung (German language version and English translation thereof)- incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-K of NL Industries, Inc. for the year ended December 31, 1985.

10.11 Contract on Supplies and Services, dated as of June 30, 1995, among Bayer AG, Kronos Titan-GmbH & Co. OHG and Kronos International, Inc. (English translation from German language document) - incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended September 30, 1995.

10.12 Amendment dated August 11, 2003 to the Contract on Supplies and Services among Bayer AG, Kronos Titan-GmbH & Co. OHG and Kronos International (English translation of German language document) - incorporated by reference to Exhibit 10.32 of the Registration statement on Form 10 of the Registrant (File No. 001-31763).

10.13 Master Technology Exchange Agreement, dated as of October 18, 1993, among Kronos Worldwide, Inc. (f/k/a Kronos, Inc.), Kronos Louisiana, Inc., Kronos International, Inc., Tioxide Group Limited and Tioxide Group Services Limited - incorporated by reference to Exhibit 10.8 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended September 30, 1993.

10.14 Form of Assignment and Assumption Agreement, dated as of January 1, 1999, between Kronos Inc. (formerly known as Kronos (USA), Inc.) and Kronos International, Inc. - incorporated by reference to Exhibit 10.9 to Kronos International, Inc.'s Registration Statement on Form S-4 (File No. 333-100047).

10.15 Form of Cross License Agreement, effective as of January 1, 1999, between Kronos Inc. (formerly known as Kronos (USA), Inc.) and Kronos International, Inc. - incorporated by reference to Exhibit to Kronos International, Inc.'s Registration Statement on Form S-4 (File No. 333-100047).

10.16* Richards Bay Slag Sales Agreement dated May 1, 1995, between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc. - incorporated by reference to Exhibit 10.17 to the Annual Report on Form 10-K for NL Industries, Inc. for the year ended December 31, 1995.

10.17* Amendment to Richards Bay Slag Sales Agreement, dated May 1, 1999, between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc. - incorporated by reference to Exhibit 10.4 to the Annual Report on Form 10-K for NL Industries, Inc. for the year ended December 31, 1999.

10.18* Amendment to Richards Bay Slag Sales Agreement, dated June 1, 2001, between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc. - incorporated by reference to Exhibit 10.5 to the Annual Report on Form 10-K for NL Industries, Inc. for the year ended December 31, 2001.

10.19* Amendment to Richards Bay Slag Sales Agreement dated December 20, 2002 between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc. - incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-K for NL Industries, Inc. for the year ended December 31, 2002.

10.20* Amendment to Richards Bay Slag Sales Agreement dated October 31, 2003 between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc. - incorporated by reference to Exhibit 10.17 to the Annual Report on Form 10-K of Kronos Worldwide, Inc. (File No. 001-31763) for the year ended December 31, 2003.

10.21 Agreement between Sachtleben Chemie GmbH and Kronos Titan-GmbH effective December 30, 1986 - incorporated by reference to Exhibit 10.1 of Kronos International, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

10.22 Supplementary Agreement to the Agreement of December 30, 1986 between Sachtleben Chemie GmbH and Kronos Titan-GmbH dated May 3, 1996 - incorporated by reference to Exhibit 10.2 of Kronos International, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

10.23 Second Supplementary Agreement to the Contract dated December 30, 1986 between Sachtleben Chemie GmbH and Kronos Titan-GmbH dated January 8, 2002 - incorporated by reference to Exhibit 10.3 of Kronos International, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

10.24 Formation Agreement dated as of October 18, 1993 among Tioxide Americas Inc., Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.2 to NL Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.25 Joint Venture Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.3 to NL Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.26 Kronos Offtake Agreement dated as of October 18, 1993 between Kronos

Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.4 to NL Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.27 Amendment No. 1 to Kronos Offtake Agreement dated as of December 20, 1995 between Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.22 to NL Industries, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1995.

10.28 Tioxide Americas Offtake Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.5 to NL Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.29 Amendment No. 1 to Tioxide Americas Offtake Agreement dated as of December 20, 1995 between Tioxide Americas Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.24 to NL Industries, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1995.

10.30 TCI/KCI Output Purchase Agreement dated as of October 18, 1993 between Tioxide Canada Inc. and Kronos Canada, Inc. - incorporated by reference to Exhibit 10.6 to NL Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.31 TAI/KLA Output Purchase Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.7 to NL Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.32 Master Technology Exchange Agreement dated as of October 18, 1993 among Kronos Worldwide, Inc. (f/k/a Kronos, Inc.), Kronos Louisiana, Inc., Kronos International, Inc., Tioxide Group Limited and Tioxide Group Services Limited - incorporated by reference to Exhibit 10.8 to NL Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.33 Parents' Undertaking dated as of October 18, 1993 between ICI American Holdings Inc. and Kronos Worldwide, Inc. (f/k/a Kronos, Inc.) - incorporated by reference to Exhibit 10.9 to NL Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.34 Allocation Agreement dated as of October 18, 1993 between Tioxide Americas Inc., ICI American Holdings, Inc., Kronos Worldwide, Inc. (f/k/a Kronos, Inc.) and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.10 to NL Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.

10.35 Insurance sharing agreement dated October 30, 2003 by and among CompX International Inc., Contran Corporation, Keystone Consolidated Industries, Inc., Titanium Metals Corp., Valhi, Inc., NL Industries, Inc. and Kronos Worldwide, Inc. - incorporated by reference to Exhibit 10.48 to NL Industries, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003.

10.36** Summary of Consulting Arrangement beginning on August 1, 2003, as amended between Lawrence A. Wigdor and Kronos Worldwide, Inc. - incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended March 31, 2004.

21.1 Subsidiaries.

23.1 Consent of PricewaterhouseCoopers LLP.

31.1 Certification.

31.2 Certification.

32.1 Certification.

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* Portions of the exhibit have been omitted pursuant to a request for confidential treatment.

** Management contract, compensatory plan or arrangement

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.

Kronos Worldwide, Inc.
(Registrant)

By:/s/ Harold C. Simmons
Harold C. Simmons
March 16, 2006
(Chairman of the Board and Chief Executive Officer)

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 and on the dates indicated:

/s/ Harold C. Simmons
Harold C. Simmons, March 16, 2006
(Chairman of the Board and Chief Executive Officer)

/s/ Steven L. Watson
Steven L. Watson, March 16, 2006
(Director)

/s/ George E. Poston
George E. Poston, March 16, 2006
(Director)

/s/ Glenn R. Simmons
Glenn R. Simmons, March 16, 2006
(Director)

/s/ C. H. Moore, Jr.
C. H. Moore, Jr., March 16, 2006
(Director)

/s/ Keith R. Coogan
Keith R. Coogan, March 16, 2006
(Director)

/s/ R. Gerald Turner
R. Gerald Turner, March 16, 2006
(Director)

/s/ Gregory M. Swalwell
Gregory M. Swalwell, March 16, 2006
(Vice President, Chief Financial Officer, Principal Financial Officer)

/s/ James W. Brown
James W. Brown, March 16, 2006
(Vice President, Controller, Principal Accounting Officer)

KRONOS WORLDWIDE, INC.

Annual Report on Form 10-K

Items 8, 15(a) and 15(d)

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Schedules III and IV are omitted because they are not applicable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Kronos Worldwide, Inc.:

We have completed integrated audits of Kronos Worldwide, Inc.'s 2004 and 2005 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions on Kronos Worldwide, Inc.'s 2003, 2004 and 2005 consolidated financial statements and on its internal control over financial reporting as of December 31, 2005, based on our audits, are presented below.

Consolidated financial statements and financial statement schedules

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Kronos Worldwide, Inc. and its subsidiaries at December 31, 2004 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes 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. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audits of internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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.

PricewaterhouseCoopers LLP

Dallas, Texas
March 16, 2006

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2005

(In thousands, except per share data)

ASSETS	2004	2005
Current assets:		
Cash and cash equivalents	$ 60,790	$ 72,029
Restricted cash	1,529	1,355
Accounts and other receivables	190,319	184,584
Receivables from affiliate	16	2
Refundable income taxes	3,272	1,053
Inventories	233,858	259,844
Prepaid expenses	4,529	4,290
Deferred income taxes	1,205	2,187
Total current assets	495,518	525,344
Other assets:		
Investment in TiO2 manufacturing joint venture	120,251	115,308
Deferred income taxes	238,284	213,722
Other	32,340	25,638
Total other assets	390,875	354,668
Property and equipment:		
Land	35,511	31,678
Buildings	196,983	184,800
Equipment	857,714	786,953
Mining properties	71,980	68,165
Construction in progress	16,753	13,457
	1,178,941	1,085,053
Less accumulated depreciation and amortization	712,051	666,133
Net property and equipment	466,890	418,920
	$1,353,283	$1,298,932

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

December 31, 2004 and 2005

(In thousands, except per share data)

LIABILITIES AND STOCKHOLDERS' EQUITY	2004	2005
Current liabilities:		
Current maturities of long-term debt	$ 13,792	$ 958
Accounts payable and accrued liabilities	170,009	165,545
Payable to affiliates	9,231	10,382
Income taxes	17,129	24,014
Deferred income taxes	2,722	4,211
Total current liabilities	212,883	205,110
Noncurrent liabilities:		
Long-term debt	519,403	464,365
Deferred income taxes	60,081	53,383
Accrued pension cost	61,300	139,786
Accrued postretirement benefits cost	11,288	10,174
Other	17,407	16,055

Total noncurrent liabilities	669,479	683,763
Minority interest	76	75
Stockholders' equity:		
Preferred stock, $.01 par value; 100 shares authorized; no shares issued or outstanding	-	-
Common stock, $.01 par value; 60,000 shares authorized; 48,946 and 48,950 shares issued	489	489
Additional paid-in capital	1,060,643	1,061,539
Retained deficit	(463,352)	(441,295)
Accumulated other comprehensive loss:		
Currency translation	(88,181)	(114,930)
Pension liabilities	(38,754)	(95,819)
Total stockholders' equity	470,845	409,984
	$1,353,283	$1,298,932

Commitments and contingencies (Notes 13 and 16)

See accompanying notes to consolidated financial statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2003, 2004 and 2005

(In thousands, except per share data)

	2003	2004	2005
Net sales	$1,008,177	$1,128,600	$1,196,729
Cost of sales	739,237	866,313	869,877
Gross margin	268,940	262,287	326,852
Selling, general and administrative expense	124,446	145,433	150,729
Other operating income (expense):			
Currency transaction gains (losses), net	(7,743)	(3,949)	5,235
Disposition of property and equipment	(480)	(1,120)	(1,506)
Other income	490	6,715	576
Corporate expense	(4,140)	(3,474)	(4,985)
Other expense	(128)	(73)	(108)
Income from operations	132,493	114,953	175,335
Other income (expense):			
Trade interest income	771	1,212	1,181
Interest income from affiliates	723	-	-
Other interest income	180	961	874
Securities transaction gain	-	-	5,439
Interest expense to affiliates	(1,887)	(15,210)	-
Other interest expense	(33,002)	(37,399)	(44,686)
Income before income taxes and minority interest	99,278	64,517	138,143
Provision (benefit) for income taxes	11,657	(250,389)	67,125
Income before minority interest	87,621	314,906	71,018
Minority interest	72	53	12
Net income	$ 87,549	$ 314,853	$ 71,006
Net income per basic and diluted share	$ 1.79	$ 6.43	$ 1.45
Basic and diluted weighted average shares used in the calculation of net income per share	48,943	48,945	48,948

See accompanying notes to consolidated financial statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Net income	$ 87,549	$ 314,853	$ 71,006
Other comprehensive income (loss), net of tax:			
Minimum pension liabilities adjustment	(25,545)	272	(57,065)
Currency translation adjustment	15,073	44,828	(26,749)
Total other comprehensive income (loss)	(10,472)	45,100	(83,814)
Comprehensive income (loss)	$ 77,077	$ 359,953	$ (12,808)

See accompanying notes to consolidated financial statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	Common stock	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)		Total
				Currency translation	Pension liabilities	
Balance at December 31, 2002	$489	$1,060,157	$(584,909)	$(148,082)	$(13,481)	$ 314,174
Net income	-	-	87,549	-	-	87,549
Other comprehensive income (loss), net of tax	-	-	-	15,073	(25,545)	(10,472)
Dividends declared:						
Cash - $.14 per share	-	-	(7,000)	-	-	(7,000)
Noncash	-	-	(224,900)	-	-	(224,900)
Balance at December 31, 2003	489	1,060,157	(729,260)	(133,009)	(39,026)	159,351
Net income	-	-	314,853	-	-	314,853
Other comprehensive income, net of tax	-	-	-	44,828	272	45,100
Issuance of common stock	-	90	-	-	-	90
Cash dividends declared - $1.00 per share	-	-	(48,945)	-	-	(48,945)
Other	-	396	-	-	-	396
Balance at December 31, 2004	489	1,060,643	(463,352)	(88,181)	(38,754)	470,845
Net income	-	-	71,006	-	-	71,006
Other comprehensive loss, net of tax	-	-	-	(26,749)	(57,065)	(83,814)
Issuance of common stock	-	108	-	-	-	108
Cash dividends declared - $1.00 per share	-	-	(48,949)	-	-	(48,949)

Other	-	788	-	-	-	788
Balance at December 31, 2005	$489	$1,061,539	$(441,295)	$(114,930)	$(95,819)	$ 409,984

See accompanying notes to consolidated financial statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Cash flows from operating activities:			
Net income	$ 87,549	$ 314,853	$ 71,006
Depreciation and amortization	39,421	44,053	43,539
Noncash interest expense	2,197	2,375	2,854
Deferred income taxes	36,489	(263,314)	26,467
Minority interest	72	53	12
Net loss from disposition of property and equipment	480	1,120	1,506
Securities transaction gain	-	-	(5,439)
Benefit plan expense greater (less) than cash funding:			
Defined benefit pension plans	(5,792)	(2,986)	(5,250)
Other postretirement benefit plans	(1,032)	(151)	(1,289)
Distributions from TiO2 manufacturing joint venture, net	875	8,600	4,850
Other, net	1,016	2,858	(1,935)
Change in assets and liabilities:			
Accounts and other receivable	1,264	(21,813)	(13,893)
Inventories	(26,041)	48,237	(47,922)
Prepaid expenses	1,494	(478)	(237)
Accounts payable and accrued liabilities	9,478	862	14,213
Income taxes	(38,706)	24,699	10,264
Accounts with affiliates	1,920	(5,771)	1,171
Other noncurrent assets	(3,919)	(1,103)	515
Other noncurrent liabilities	916	(1,089)	(2,606)
Net cash provided by operating activities	107,681	151,005	97,826
Cash flows from investing activities:			
Capital expenditures	(35,245)	(39,295)	(43,366)
Purchase of interest in subsidiary	-	(575)	-
Proceeds from disposal of interest in Norwegian smelting operation	-	-	3,542
Change in restricted cash equivalents and restricted marketable debt securities, net	(554)	(70)	129
Proceeds from disposition of property and equipment	381	99	37
Net cash used by investing activities	(35,418)	(39,841)	(39,658)

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Cash flows from financing activities:			
Indebtedness:			
Borrowings	$ 16,106	$ 241,648	$ 51,920

Principal payments	(46,006)	(100,073)	(48,959)
Deferred financing fees	-	(1,989)	-
Dividends paid	(7,000)	(48,945)	(48,949)
Loans from affiliates:			
Loans	8,000	-	-
Repayments	(52,600)	(200,000)	-
Other capital transactions with affiliates, net	19,700	396	1,214
Other, net	(14)	213	-
Net cash used by financing activities	(61,814)	(108,750)	(44,774)
Cash and cash equivalents - net change from:			
Operating, investing and financing activities	10,449	2,414	13,394
Currency translation	4,742	2,500	(2,155)
	15,191	4,914	11,239
Balance at beginning of year	40,685	55,876	60,790
Balance at end of year	$ 55,876	$ 60,790	$ 72,029
Supplemental disclosures - cash paid (received) for:			
Interest	$ 30,152	$ 49,206	$ 41,309
Income taxes	1,597	(23,657)	30,021
Inventories received as partial consideration for disposal of interest in Norwegian smelting operations	$ -	$ -	$ 1,897

See accompanying notes to consolidated financial statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of significant accounting policies:

Organization and basis of presentation. At December 31, 2005, (i) Valhi, Inc. (NYSE:VHI) held approximately 57% of Kronos' outstanding common stock and NL Industries, Inc. (NYSE:NL) held an additional 36% of Kronos' common stock, (ii) Valhi owned approximately 83% of NL's outstanding common stock and (iii) Contran Corporation and its subsidiaries held approximately 92% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee, or is held by Mr. Simmons or persons or other entities related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control each of such companies.

Prior to December 2003, Kronos was a wholly-owned subsidiary of NL. On December 8, 2003, NL completed a recaptialization and a pro-rata distribution to its stockholders of approximately 48.8% of Kronos' common stock (including Valhi and its wholly-owned subsidiary). Stockholders of NL received one share of Kronos common stock for every two shares of NL held. Immediately prior to NL's distribution of shares of Kronos' common stock, the Company distributed a $200 million dividend to NL in the form of a long-term note payable. See Note 10.

On September 26, 2003 Kronos amended and restated its articles of incorporation. Under the amended and restated articles of incorporation, among other things, (i) Kronos' authorized capital stock now consists of 60 million shares of common stock and 100,000 shares of preferred stock, each par value $.01 per share, and (ii) the 1,000 shares of Kronos' common stock previously outstanding were reclassified into an aggregate of 48.9 million shares. The accompanying Consolidated Financial Statements have been retroactively reclassified to reflect such changes in Kronos' capital structure for all periods prior to September 30, 2003, and earnings per share data for all periods prior to September 26, 2003 has been restated to reflect the 48.9 million shares of Kronos' common stock that was outstanding following effectiveness of the amended and restated articles of incorporation.

Management's estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results may differ significantly from previously-estimated amounts under different assumptions or conditions.

Principles of consolidation. The consolidated financial statements include the accounts of Kronos and its majority-owned subsidiaries. All material intercompany accounts and balances have been eliminated. Minority interest relates to the Company's majority-owned subsidiary in France, which conducts the Company's marketing and sales activities in that country. During 2004, the Company increased its ownership interest by approximately 5% to 99% in such

subsidiary by acquiring shares of such subsidiary previously held by certain of its other stockholders for an aggregate of $575,000.

Translation of foreign currencies. Assets and liabilities of subsidiaries whose functional currency is other than the U.S. dollar are translated at year-end rates of exchange and revenues and expenses are translated at average exchange rates prevailing during the year. Resulting translation adjustments are accumulated in stockholders' equity as part of accumulated other comprehensive income, net of related deferred income taxes and minority interest. Currency transaction gains and losses are recognized in income currently.

Derivatives and hedging activities. Derivatives are recognized as either assets or liabilities and measured at fair value in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The accounting for changes in fair value of derivatives depends upon the intended use of the derivative, and such changes are recognized either in net income or other comprehensive income. As permitted by the transition requirements of SFAS No. 133, the Company has exempted from the scope of SFAS No. 133 all host contracts containing embedded derivatives that were issued or acquired prior to January 1, 1999.

Cash and cash equivalents. Cash equivalents include bank time deposits and U.S. Treasury securities purchased under short-term agreements to resell with original maturities of three months or less.

Restricted marketable debt securities. Restricted marketable debt securities are primarily invested in corporate debt securities, and include amounts restricted in accordance with applicable Norwegian law regarding certain requirements of the Company's Norwegian defined benefit pension plans ($2.9 million and $2.6 million at December 31, 2004 and 2005, respectively). The restricted marketable debt securities are generally classified as either a current or noncurrent asset depending upon the maturity date of each such debt security and are carried at market which approximates cost.

Accounts receivable. The Company provides an allowance for doubtful accounts for known and estimated potential losses arising from sales to customers based on a periodic review of these accounts.

Investment in TiO_2 manufacturing joint venture. Investment in a 50%-owned manufacturing joint venture is accounted for by the equity method.

Property and equipment and depreciation. Property and equipment are stated at cost. The Company has a governmental concession with an unlimited term to operate an ilmenite mine in Norway. Mining properties consist of buildings and equipment used in the Company's Norwegian ilmenite mining operations. While the Company owns the land and ilmenite reserves associated with the mine, such land and reserves were acquired for nominal value and the Company has no material asset recognized for the land and reserves related to such mining operations. Depreciation of property and equipment for financial reporting purposes (including mining properties) is computed principally by the straight-line method over the estimated useful lives of ten to 40 years for buildings and three to 20 years for equipment. Accelerated depreciation methods are used for income tax purposes, as permitted. Upon sale or retirement of an asset, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized in income currently.

Expenditures for maintenance, repairs and minor renewals are expensed; expenditures for major improvements are capitalized. The Company performs planned major maintenance activities during the year. Repair and maintenance costs estimated to be incurred in connection with planned major maintenance activities are accrued in advance and are included in cost of sales. Accrued repair and maintenance costs, included in other current liabilities and consisting primarily of materials and supplies, was $5.4 million and $5.0 million at December 31, 2004 and 2005, respectively.

Interest costs related to major long-term capital projects and renewals are capitalized as a component of construction costs. Interest costs capitalized were not significant in 2003, 2004 or 2005.

When events or changes in circumstances indicate that assets may be impaired, an evaluation is performed to determine if an impairment exists. Such events or changes in circumstances include, among other things, (i) significant current and prior periods or current and projected periods with operating losses, (ii) a significant decrease in the market value of an asset or (iii) a significant change in the extent or manner in which an asset is used. All relevant factors are considered. The test for impairment is performed by comparing the estimated future undiscounted cash flows (exclusive of interest expense) associated with the asset to the asset's net carrying value to determine if a write-down to market value or discounted cash flow value is required. The Company assesses impairment of property and equipment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Long-term debt. Long-term debt is stated net of any unamortized original issue premium or discount. Amortization of deferred financing costs and any premium or discount associated with the issuance of indebtedness, all included in interest expense, is computed by the interest method over the term of the applicable issue.

Employee benefit plans. Accounting and funding policies for retirement plans are described in Note 14.

Income taxes. Prior to December 2003, Kronos and its qualifying subsidiaries were members of NL's consolidated U.S. federal income tax group (the "NL Tax Group"), and the NL Tax Group was included in the consolidated U.S. federal tax return of Contran (the "Contran Tax Group"). As a member of the NL Tax Group, the Company was a party to a tax sharing agreement (the "NL Tax Agreement"). As a member of the Contran Tax Group, NL was a party to a separate tax sharing agreement (the "Contran Tax Agreement"). The Contran Tax Agreement

provides that NL and its qualifying subsidiaries, including Kronos, compute provisions for U.S. income taxes on a separate-company basis using the tax elections made by Contran. Pursuant to the NL Tax Agreement and using the tax elections made by Contran, Kronos made payments to or received payments from NL in amounts it would have paid to or received from the U.S. Internal Revenue Service had it not been a member of NL's consolidated tax group but instead was a separate taxpayer. Refunds are limited to amounts previously paid under the NL Tax Agreement. The Company made net payments to NL under the terms of the NL Tax Agreement of $10.7 million in 2003, and received $1.2 million from NL in 2004. See Note 13.

Effective December 2003, following NL's distribution of 48.8% of the outstanding shares of Kronos common stock to NL stockholders, Kronos and its qualifying subsidiaries ceased being members of the NL Tax Group, but Kronos and its qualifying subsidiaries remained as members of the Contran Tax Group. Kronos entered into a new tax sharing agreement with Valhi and Contran, which contains similar terms to the NL Tax Agreement. The Company made net payments to Valhi of $.3 million in 2004 and $7.7 million in 2005 related to such tax agreement. As a member of the Contran Tax Group, Kronos is jointly and severally liable for the federal income tax liability of Contran and the other companies included in the Contran Tax Group for all periods in which the Company is included in the Contran Tax Group. See Note 16. Kronos is also included in Contran's consolidated unitary state income tax returns in certain qualifying U.S. jurisdictions. The terms of the Contran Tax Agreement also apply to state tax payments in these jurisdictions.

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the income tax and financial reporting carrying amounts of assets and liabilities, including investments in the Company's subsidiaries and affiliates who are not members of the Contran Tax Group and undistributed earnings of foreign subsidiaries which are not deemed to be permanently reinvested. Earnings of foreign subsidiaries deemed to be permanently reinvested aggregated $527 million at December 31, 2004 and $707 million at December 31, 2005. Determination of the amount of the unrecognized deferred income tax liability related to such earnings is not practicable due to the complexities associated with the U.S. taxation on earnings of foreign subsidiaries repatriated to the U.S. The Company periodically evaluates its deferred tax assets in the various taxing jurisdictions in which it operates and adjusts any related valuation allowance based on the estimate of the amount of such deferred tax assets that the Company believes does not meet the "more-likely-than-not" recognition criteria.

Net sales. Sales are recorded when products are shipped and title and other risks and rewards of ownership have passed to the customer, or when services are performed. Shipping terms of products shipped are generally FOB shipping point, although in some instances shipping terms are FOB destination point (for which sales are not recognized until the product is received by the customer). Amounts charged to customers for shipping and handling are included in net sales. Sales are stated net of price, early payment and distributor discounts and volume rebates.

Inventories and cost of sales. Inventories are stated at the lower of cost (principally average cost) or market, net of allowance for slow-moving inventories ($9.0 million and $8.3 million at December 31, 2004 and 2005, respectively). Amounts are removed from inventories at average cost. Cost of sales includes costs for materials, packing and finishing, utilities, salary and benefits, maintenance and depreciation.

Selling, general and administrative expense; shipping and handling costs. Selling, general and administrative expense include costs related to marketing, sales, distribution, shipping and handling, research and development, legal, and administrative functions such as accounting, treasury and finance, and includes costs for salaries and benefits, travel and entertainment, promotional materials and professional fees. Shipping and handling costs are included in selling, general and administrative expense and were $63 million in 2003, $70 million in 2004 and $76 million in 2005. Advertising costs are expensed as incurred and were $1 million in each of 2003, 2004 and 2005. Research, development and certain sales technical support costs are expensed as incurred and approximated $7 million in 2003, $8 million in 2004 and $9 million in 2005.

Stock options. The Company has not issued any stock options. However, certain employees of the Company have been granted options by NL to purchase NL common stock. The Company has elected the disclosure alternative prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," as amended, and to account for its stock-based employee compensation related to stock options in accordance with Accounting Principles Board Opinion ("APBO") No. 25, "Accounting for Stock Issued to Employees," and its various interpretations. Under APBO No. 25, no compensation cost is generally recognized for fixed stock options in which the exercise price is not less than the market price on the grant date. Prior to 2003, and following NL's cash settlement of options to purchase NL common stock held by certain individuals, NL and the Company commenced accounting for its stock options using the variable accounting method because NL could not overcome the presumption that it would not similarly cash settle its remaining stock options. Under the variable accounting method, the intrinsic value of all unexercised stock options (including those with an exercise price at least equal to the market price on the date of grant) are accrued as an expense over their vesting period, with subsequent increases (decreases) in NL's market price resulting in additional compensation expense (income). Upon exercise of such options to purchase NL common stock held by employees of the Company, the Company pays NL an amount equal to the difference between the market price of NL's common stock on the date of exercise and the exercise price of such stock option. Aggregate compensation expense related to NL stock options held by employees of the Company was $1.0 million in 2003 and $2.8 million in 2004 and compensation income was $1.0 million in 2005. The total income tax benefit related to such compensation cost recognized by the Company was approximately $.4 million in 2003 and $1.0 million in 2004 and the total income tax provision related to the compensation income was $.4 million in 2005. No compensation cost was capitalized as part of assets (inventory or fixed assets) during 2003, 2004 and 2005.

The following table presents what the Company's consolidated net income, and related per share amounts, would have been in 2003, 2004 and 2005 if the Company had applied the fair value-based recognition provisions of SFAS No. 123, for all awards granted subsequent to January 1, 1995.

	Years ended December 31,		
	2003	2004	2005
	(In millions, except per share amounts)		
Net income as reported	$ 87.5	$ 314.9	$ 71.0
Adjustments, net of applicable income tax effects and minority interest:			
Stock-based employee compensation expense (income) determined under APBO No. 25	.7	1.8	(.7)
Stock-based employee compensation expense determined under SFAS No. 123	(.3)	(.1)	-
Pro forma net income	$ 87.9	$ 316.6	$ 70.3
Basic and diluted earnings per share:			
As reported	$ 1.79	$ 6.43	$ 1.45
Pro forma	$ 1.80	$ 6.47	$ 1.44

Note 2 - Geographic information:

The Company's operations are associated with the production and sale of TiO_2. Titanium dioxide pigments are used to impart whiteness, brightness and opacity to a wide variety of products, including paints, plastics, paper, fibers and ceramics. At December 31, 2004 and 2005, the net assets of non-U.S. subsidiaries included in consolidated net assets approximated $293 million and $272 million, respectively.

For geographic information, net sales are attributed to the place of manufacture (point of origin) and the location of the customer (point of destination); property and equipment are attributed to their physical location.

	Years ended December 31,		
	2003	2004	2005
	(In thousands)		
Geographic areas			
Net sales - point of origin:			
Germany	$ 510,105	$ 576,138	$ 613,081
United States	310,694	449,351	495,538
Canada	173,297	170,309	202,077
Belgium	150,728	186,445	186,951
Norway	131,457	144,492	160,528
Eliminations	(268,104)	(398,135)	(461,446)
	$1,008,177	$1,128,600	$1,196,729
Net sales - point of destination:			
Europe	$ 567,496	$ 666,701	$ 690,884
North America	349,813	363,510	404,926
Other	90,868	98,389	100,919
	$1,008,177	$1,128,600	$1,196,729

	December 31,	
	2004	2005
	(In thousands)	
Identifiable assets - net property and equipment:		
Germany	$ 269,922	$ 235,932
Canada	68,048	67,480
Belgium	68,314	57,943
Norway	57,808	54,759
Other	2,798	2,806
	$ 466,890	$ 418,920

Note 3 - Accounts and other receivables:

	December 31, 2004	December 31, 2005
	(In thousands)	
Trade receivables	$ 176,332	$ 170,619
Recoverable VAT and other receivables	16,364	15,930
Allowance for doubtful accounts	(2,377)	(1,965)
	$ 190,319	$ 184,584

Note 4 - Inventories

	December 31, 2004	December 31, 2005
	(In thousands)	
Raw materials	$ 45,962	$ 52,343
Work in progress	16,612	17,959
Finished products	130,385	149,900
Supplies	40,899	39,642
	$ 233,858	$ 259,844

Note 5 - Other noncurrent assets:

	December 31, 2004	December 31, 2005
	(In thousands)	
Deferred financing costs, net	$ 10,921	$ 8,150
Restricted marketable debt securities	2,877	2,572
Unrecognized net pension obligation	13,518	11,916
Other	5,024	3,000
	$ 32,340	$ 25,638

Note 6 - Investment in TiO2 manufacturing joint venture:

Kronos Louisiana, Inc. ("KLA"), a wholly-owned subsidiary of Kronos, owns a 50% interest in Louisiana Pigment Company, L.P. ("LPC"). LPC is a manufacturing joint venture that is also 50%-owned by Tioxide Americas Inc. ("Tioxide"). Tioxide is a wholly-owned subsidiary of Huntsman Holdings LLC. LPC owns and operates a chloride-process TiO2 plant in Lake Charles, Louisiana.

KLA and Tioxide are both required to purchase one-half of the TiO2 produced by LPC. LPC operates on a break-even basis and, accordingly, the Company reports no equity in earnings of LPC. Each owner's acquisition transfer price for its share of the TiO2 produced is equal to its share of the joint venture's production costs and interest expense, if any. Kronos' share of net costs is reported as cost of sales as the related TiO2 acquired from LPC is sold. Distributions from LPC, which generally relate to excess cash generated by LPC from its non-cash production costs, and contributions to LPC, which generally relate to cash required by LPC when it builds working capital, are reported as part of cash generated by operating activities in the Company's Consolidated Statements of Cash Flows. Such distributions are reported net of any contributions made to LPC during the periods. Net distributions to Kronos of $.9 million in 2003, $8.6 million in 2004 and $4.9 million in 2005 are stated net of contributions of $13.1 million in 2003, $15.6 million in 2004 and $10.1 million in 2005.

LPC made net cash distributions of $1.8 million in 2003, $17.2 million in 2004 and $9.7 million in 2005, equally split between the partners.

Summary balance sheets of LPC are shown below:

	December 31, 2004	December 31, 2005
	(In thousands)	
ASSETS		
Current assets	$ 58,121	$ 62,878

Property and equipment, net	211,721	200,383
	$ 269,842	$ 263,261

LIABILITIES AND PARTNERS' EQUITY		
Other liabilities, primarily current	$ 26,590	$ 29,896
Partners' equity	243,252	233,365
	$ 269,842	$ 263,261

Summary income statements of LPC are shown below:

	Years ended December 31,		
	2003	2004	2005
	(In thousands)		
Revenues and other income:			
Kronos	$ 101,293	$ 104,849	$ 109,417
Tioxide	101,619	105,543	110,379
Interest	73	54	196
	202,985	210,446	219,992
Cost and expenses:			
Cost of sales	201,947	209,983	219,576
General and administrative	398	463	416
	202,345	210,446	219,992
Net income from continuing operations	640	-	-
Cumulative effect of change in accounting principles	(640)	-	-
Net income	$ -	$ -	$ -

On September 22, 2005, the chloride-process TiO2 facility operated by Kronos' 50%-owned joint venture, Louisiana Pigment Company ("LPC"), temporarily halted production due to Hurricane Rita. Although storm damage to core processing facilities was not extensive, a variety of factors, including loss of utilities, limited access and availability of employees and raw materials, prevented the resumption of partial operations until October 9, 2005 and full operations until late 2005. The joint venture expects the majority of its property damage and unabsorbed fixed costs for periods in which normal production levels were not achieved will be covered by insurance, and Kronos believes insurance will cover its lost profits (subject to applicable deductibles) resulting from its share of the lost production from LPC. Insurance proceeds from the lost profit for product that Kronos was not able to sell as a result of the loss of production from LPC, are expected to be recognized by Kronos during 2006, although the amount and timing of such insurance recoveries is not presently determinable. The effect on Kronos' financial results will depend on the timing and amount of insurance recoveries.

Note 7 - Accounts payable and accrued liabilities:

	December 31,	
	2004	2005
	(In thousands)	
Accounts payable	$ 91,713	$ 91,397
Employee benefits	36,861	35,610
Other	41,435	38,538
	$ 170,009	$ 165,545

Note 8 - Long-term debt:

	December 31,	
	2004	2005
	(In thousands)	

Kronos' U.S. subsidiaries - bank credit facility	$ -	$ 11,500
Kronos International, Inc. and subsidiaries:		
8.875% Senior Secured Notes	519,225	449,298
Bank credit facility	13,622	-
Other	348	4,525
	533,195	465,323
Less current maturities	13,792	958
	$ 519,403	$ 464,365

In June 2002, KII issued at par value euro 285 million principal amount ($280 million when issued) of its 8.875% Senior Secured Notes due 2009, and in November 2004 KII issued at 107% of par an additional euro 90 million principal amount ($130 million when issued) of the KII Senior Secured Notes (collectively the "Notes"). The Notes are collateralized by a pledge of 65% of the common stock or other ownership interests of certain of KII's first-tier operating subsidiaries. Such operating subsidiaries are Kronos Titan GmbH, Kronos Denmark ApS, Kronos Limited and Societe Industrielle Du Titane, S.A. The Notes are issued pursuant to an indenture which contains a number of covenants and restrictions which, among other things, restricts the ability of KII and its subsidiaries to incur debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer all or substantially all of their assets to, another entity. The Notes are redeemable, at KII's option, at redemption prices ranging from 104.437% of the principal amount, declining to 100% on or after December 30, 2008. In the event of a change of control of KII, as defined, KII would be required to make an offer to purchase its Notes at 101% of the principal amount. KII would also be required to make an offer to purchase a specified portion of its Notes at par value in the event KII generates a certain amount of net proceeds from the sale of assets outside the ordinary course of business, and such net proceeds are not otherwise used for specified purposes within a specified time period. At December 31, 2005, the estimated market price of the Notes was approximately euro 1,045 per euro 1,000 principal amount (2004 - euro 1,075 per euro 1,000 principal amount). At December 31, 2005, the carrying amount of the Notes includes euro 4.8 million ($5.7 million) of unamortized premium associated with the November 2004 issuance (2004 - euro 6.2 million, or $8.4 million).

KII's operating subsidiaries in Germany, Belgium and Norway (collectively, the "Borrowers") have a euro 80 million secured revolving bank credit facility that matures in June 2008 ("European Credit Facility"). Borrowings may be denominated in euros, Norwegian kroners or U.S. dollars, and bear interest at the applicable interbank market rate plus 1.125%. The facility also provides for the issuance of letters of credit up to euro 5 million. The European Credit Facility is collateralized by the accounts receivable and inventories of the borrowers, plus a limited pledge of all of the other assets of the Belgian borrower. The European Credit Facility contains certain restrictive covenants which, among other things, restricts the ability of the Borrowers to incur debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer all or substantially all of their assets to, another entity. In addition, the European Credit Facility contains customary cross-default provisions with respect to other debt and obligations of the Borrowers, KII and its other subsidiaries. At December 31, 2005, no amounts were outstanding under the European Credit Facility, and the equivalent of $92.3 million was available for additional borrowing by the subsidiaries.

Certain of the Company's U.S. subsidiaries have a $50 million revolving credit facility ($11.5 million outstanding at December 31, 2005) that matures in September 2008 ("U.S. Credit Facility"). The facility is collateralized by the accounts receivable, inventories and certain fixed assets of the borrowers. Borrowings under this facility are limited to the lesser of $45 million or a formula-determined amount based upon the accounts receivable and inventories of the borrowers. Borrowings bear interest at either the prime rate or rates based upon the eurodollar rate (7.0% at December 31, 2005). The facility contains certain restrictive covenants which, among other things, restricts the abilities of the borrowers to incur debt, incur liens, pay dividends in certain circumstances, sell assets or enter into mergers. At December 31, 2005, $33.5 million was available for additional borrowing under the facility.

Kronos' Canadian subsidiary has a Cdn. $30 million revolving credit facility that matures in January 2009. The facility is collateralized by the accounts receivable and inventories of the borrower. Borrowings under this facility are limited to the lesser of Cdn. $26 million or a formula-determined amount based upon the accounts receivable and inventories of the borrower. Borrowings bear interest at rates based upon either the Canadian prime rate, the U.S. prime rate or LIBOR. The facility contains certain restrictive covenants which, among other things, restricts the ability of the borrower to incur debt, incur liens, pay dividends in certain circumstances, sell assets or enter into mergers. At December 31, 2005, no amounts were outstanding and the equivalent of $12.8 million was available for borrowing under the facility.

Under the cross-default provisions of the Notes, the Notes may be accelerated prior to their stated maturity if KII or any of KII's subsidiaries default under any other indebtedness in excess of $20 million due to a failure to pay such other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under such other indebtedness). Under the cross-default provisions of the European Credit Facility, any outstanding borrowings under the European Credit Facility may be accelerated prior to their stated maturity if the Borrowers or KII default under any other indebtedness in excess of euro 5 million due to a failure to pay such other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under such other indebtedness). Under the cross-default provisions of the U.S. Credit Facility, any outstanding borrowing under such facility may be accelerated prior to their stated maturity in the event of the bankruptcy of Kronos. The Canadian revolving credit facility

contains no cross-default provisions. The European, U.S. and Canadian revolving credit facilities each contain provisions that allow the lender to accelerate the maturity of the applicable facility in the event of a change of control, as defined, of the applicable borrower. In the event any of these cross-default or change-of-control provisions become applicable, and such indebtedness is accelerated, Kronos would be required to repay such indebtedness prior to their stated maturity.

Aggregate maturities of long-term debt at December 31, 2005 are shown in the table below.

Years ending December 31,	Amount (In thousands)
2006	$ 958
2007	861
2008	12,372
2009	450,200
2010	932
2011 and thereafter	-
	$ 465,323

Restrictions. Certain of the credit facilities described above require the respective borrower to maintain minimum levels of equity, require the maintenance of certain financial ratios, limit dividends and additional indebtedness and contain other provisions and restrictive covenants customary in lending transactions of this type. At December 31, 2005, the restricted net assets of consolidated subsidiaries approximated $90 million. At December 31, 2005, there were no restrictions on the Company's ability to pay dividends.

Note 9 - Other noncurrent liabilities:

	December 31, 2004	December 31, 2005
	(In thousands)	
Insurance claims and expenses	$ 1,927	$ 1,733
Employee benefits	5,107	4,735
Asset retirement obligations	958	934
Other	9,415	8,653
	$ 17,407	$ 16,055

The asset retirement obligations are discussed in Note 19.

Note 10 - Notes and payable to affiliates:

Notes payable to affiliates. In December 2003, immediately prior to NL's distribution of approximately 48.8% of the outstanding shares of Kronos' common stock to NL stockholders, the Company distributed a $200 million dividend to NL in the form of a long-term note payable. The $200 million long-term note payable to NL was unsecured and bore interest at 9% per annum, with interest payable quarterly and all principal due in 2010.

On September 24, 2004, NL completed the acquisition of the shares of common stock of CompX International, Inc. previously held by Valhi and Valcor, Inc., a wholly-owned subsidiary of Valhi. The purchase price for these shares was paid by NL's transfer to Valhi and Valcor of an aggregate $168.6 million of NL's $200 million long-term note receivable from Kronos. In October 2004, Valcor distributed its note receivable from Kronos to Valhi, and subsequently Kronos prepaid $100.0 million on the note payable to Valhi principally using available cash on hand. In December 2004 all remaining balances due to NL, Valhi and Valcor were prepaid and the related notes were canceled.

In 2003, the Company repaid all amounts outstanding under the terms of a prior $55 million revolving credit facility with NL Environmental Management Services, Inc. ("EMS"), a majority-owned subsidiary of NL and the revolving credit agreement with EMS was terminated on June 30, 2003.

Note 11 - Common stock and notes receivable from affiliates:

NL common stock options held by employees of the Company. Certain employees of the Company have been granted nonqualified options to purchase NL common stock under the terms of certain option plans sponsored by NL. Generally, the stock options are granted at a price equal to or greater than 100% of the market price of NL's common stock at the date of grant, vest over a five-year period and expire ten years from the date of grant. Following NL's distribution of approximately 48.8% of the outstanding shares of Kronos' common stock to NL stockholders, the exercise prices for all options to purchase NL common stock were adjusted.

Changes in outstanding options to purchase NL common stock granted to certain employees of the Company are summarized in the table below.

	Shares	Exercise price per share	Amount payable upon exercise	Weighted-average exercise price
	(In thousands, except per share amounts)			
Outstanding at December 31, 2002	659	$ 8.69-21.97	$ 11,178	$ 16.96
Exercised	(20)	11.28-11.88	(226)	11.55
Canceled	(69)	11.28-20.11	(1,150)	16.67
Adjusted for Kronos common stock distribution	-	8.69-21.97	(4,913)	8.63
Outstanding at December 31, 2003	570	0.06-13.34	4,889	8.58
Exercised	(276)	0.06-11.49	(2,222)	8.04
Canceled	(61)	3.56-08.63	(370)	6.14
Outstanding at December 31, 2004	233	2.66-13.34	2,297	9.86
Exercised	(112)	5.63-11.49	(1,187)	10.59
Canceled	(1)	11.49	(13)	11.49
Outstanding at December 31, 2005	120	$ 2.66-11.49	$ 1,097	$ 9.15

At December 31, 2005, all of the outstanding options were exercisable, with an aggregate intrinsic value (defined as the excess of the market price of NL's common stock over the exercise price) of $592,000. All of such outstanding options had exercise prices less than NL's December 31, 2005 quoted market price of $14.09 per share. Outstanding options at December 31, 2005 expire at various dates through 2011. Shares issued under the incentive stock plan are generally newly-issued shares, however prior to September 30, 2004 shares issued under the incentive stock plan were issued from NL's treasury shares.

The following table summarizes NL's stock options outstanding and held by certain employees of the Company, and those which are exercisable as of December 31, 2005 by price range.

Options outstanding				Options exercisable	
Range of exercise prices	Outstanding at 12/31/05	Weighted-average remaining contractual life	Weighted-average exercise price	Exercisable at 12/31/05	Weighted-average exercise price
$ 2.66 - $ 3.25	8,550	2.8	$ 2.74	8,550	$ 2.74
5.63	34,350	4.0	5.63	34,350	5.63
9.34 - 11.49	76,950	5.0	11.43	76,950	11.43
	119,850	4.8	$ 9.15	119,850	$ 9.15

Such options generally vest over five years, and vesting ceases at the date the employee separates from service to the Company (including retirement). The intrinsic value of these NL options exercised aggregated $.1 million in 2003, $1.8 million in 2004 and $1.2 million in 2005, and the related income tax benefit from such exercises was less than $50,000 in 2003, $.6 million in 2004 and $.4 million in 2005.

Long-term incentive compensation plan. Kronos has a long-term incentive compensation plan that provides for the discretionary grant of, among other things, qualified incentive stock options, nonqualified stock options, restricted common stock, stock awards and stock appreciation rights. Up to 150,000 shares of Kronos common stock may be issued pursuant to this plan. As of December 31, 2005, no options had been granted pursuant to this plan, and 143,500 shares were available for future grants. During the years ended December 31, 2004 and 2005, 3,000 and 3,500 shares, respectively, of Kronos common stock were awarded pursuant to this plan to members of the Company's board of directors.

Dividends. During each of 2004 and 2005, Kronos paid four quarterly dividends aggregating $1.00 per share.

Other capital transactions. In December 2004 and in 2005, NL sold certain shares of Kronos common stock in market transactions. Within six months of such sales by NL, Valhi purchased shares of Kronos common stock in market transactions. In settlement of any alleged short-swing profits derived from these transactions as calculated pursuant to Section 16(b) of the Securities Exchange Act of 1934, as amended, Valhi remitted approximately $600,000 and $1.2 million to the Company during the years ended December 31, 2004 and 2005, respectively, which amounts, net of taxes, have been recorded by the Company as capital contributions, increasing additional paid-in capital.

Other. The pro forma information included in Note 1, required by SFAS No.

123, "Accounting for Stock-Based Compensation," as amended, is based on an estimation of the fair value of options issued subsequent to January 1, 1995 using the Black-Scholes stock option valuation model. The Black-Scholes model was not developed for use in valuing employee stock options, but was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, it requires the use of subjective assumptions including expectations of future dividends and stock price volatility. Such assumptions are only used for making the required fair value estimate and should not be considered as indicators of future dividend policy or stock price appreciation. Because changes in the subjective assumptions can materially affect the fair value estimate, and because employee stock options have characteristics significantly different from those of traded options, the use of the Black-Scholes option-pricing model may not provide a reliable estimate of the fair value of employee stock options. The pro forma impact on net income and basic earnings per share disclosed in Note 1 is not necessarily indicative of future effects on net income or earnings per share. See also Note 20.

Note 12 - Other income:

	Years ended December 31,		
	2003	2004	2005
	(In thousands)		
Contract dispute settlement	$ -	$6,289	$ -
Other income	490	426	576
	$ 490	$6,715	$ 576

The contract dispute settlement relates to the Company's settlement with a customer. As part of the settlement, the customer agreed to make payments to the Company through 2007 aggregating $7.3 million. The $6.3 million gain recognized in 2004 represents the present value of the future payments to be paid by the customer to the Company. Of such $7.3 million, $1.5 million was paid to Kronos in 2004 and $1.75 million was paid in 2005, and $1.75 million is due to Kronos in 2006 and $2.25 million is due in 2007. At December 31, 2005 the present value of the remaining amounts due to be paid to Kronos aggregated approximately $3.7 million, of which $1.7 million is included in accounts and other receivables and $2.0 million is included in other noncurrent assets.

Securities transaction gain in the year ended December 31, 2005, classified as nonoperating income, relates to the sale of the Company's passive interest in a Norwegian smelting operation, which had a nominal carrying value for financial reporting purposes, for aggregate consideration of approximately $5.4 million consisting of cash of $3.5 million and inventory with a value of $1.9 million.

Note 13 - Income taxes:

	Years ended December 31,		
	2003	2004	2005
	(In millions)		
Pre-tax income:			
U.S.	$ 13.2	$ 3.3	$ 13.0
Non-U.S.	86.1	61.2	125.1
	$ 99.3	$ 64.5	$138.1
Expected tax expense, at U.S. federal statutory income tax rate of 35%	$ 34.8	$ 22.6	$ 48.3
Non-U.S. tax rates	(1.1)	.2	.3
Loss of German tax attribute	-	-	17.5
Canadian tax rate change	-	-	.9
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies	1.9	(.1)	.2
Change in deferred income tax valuation allowance, net	(6.7)	(280.7)	-
Nondeductible expenses	2.8	4.3	4.6
U.S. state income taxes, net	-	.2	4.3
Tax contingency reserve adjustment, net	14.8	(3.1)	(11.5)
Assessment (refund) of prior year income taxes	(38.0)	(2.5)	2.3
Adjustment of prior year taxes	-	(.1)	-
Other, net	3.2	8.8	.2
	$ 11.7	$(250.4)	$ 67.1

Years ended December 31,

	2003	2004	2005
	(In millions)		
Components of income tax expense (benefit):			
Currently payable (refundable):			
U.S. federal and state	$ 10.5	$ .8	$ 8.2
Non-U.S.	(35.3)	12.1	32.4
	(24.8)	12.9	40.6
Deferred income taxes (benefit):			
U.S. federal and state	(1.0)	11.4	(1.0)
Non-U.S.	37.5	(274.7)	27.5
	36.5	(263.3)	26.5
	$ 11.7	$(250.4)	$ 67.1
Comprehensive provision for income taxes allocable to:			
Net income	$ 11.7	$(250.4)	$ 67.1
Paid in capital	-	.2	-
Other comprehensive income - pension liabilities	(11.3)	(8.3)	(33.8)
	$ .4	$(258.5)	$ 33.3

The components of the net deferred tax liability at December 31, 2004 and 2005, and changes in the deferred income tax valuation allowance during the past three years, are summarized in the following tables.

	December 31,			
	2004		2005	
	Assets	Liabilities	Assets	Liabilities
	(In millions)			
Tax effect of temporary differences related to:				
Inventories	$ 2.0	$ (5.4)	$ 2.2	$ (3.4)
Property and equipment	37.7	(62.4)	25.6	(58.2)
Accrued Postretirement benefits other than pension ("OPEB") costs	4.2	-	3.9	-
Accrued (prepaid) pension cost	22.4	(40.4)	55.1	(36.1)
Other accrued liabilities and deductible differences	52.9	-	26.3	-
Other taxable differences	-	(49.8)	-	(32.1)
Investments in subsidiaries and affiliates not members of the Contran Tax Group	1.9	-	-	-
Tax on unremitted earnings of non-U.S. subsidiaries	-	(4.5)	-	(3.1)
Tax loss and tax credit carryforwards	218.1	-	178.1	-
Adjusted gross deferred tax assets (liabilities)	339.2	(162.5)	291.2	(132.9)
Netting of items by tax jurisdiction	(99.7)	99.7	(75.3)	75.3
	239.5	(62.8)	215.9	(57.6)
Less net current deferred tax asset (liability)	1.2	(2.7)	2.2	(4.2)
Net noncurrent deferred tax asset (liability)	$238.3	$(60.1)	$213.7	$ (53.4)

	Years ended December 31,		
	2003	2004	2005
	(In millions)		
Increase (decrease) in valuation allowance:			
Recognition of certain deductible tax attributes for which the benefit had not previously been recognized under the "more-likely-than-not" recognition criteria	$ (6.7)	$(280.7)	$ -
Foreign currency translation	28.2	(3.0)	-
Offset to the change in gross deferred income tax assets due principally to redeterminations of certain tax attributes and implementation of certain tax planning strategies	(12.5)	121.0	-

$ 9.0	$(162.7)	$ -

Certain of the Company's U.S. and non-U.S. tax returns are being examined and tax authorities have or may propose tax deficiencies, including non-income related items and interest. For example:

- Kronos received a preliminary tax assessment related to 1993 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately euro 6 million ($7 million at December 31, 2005). Kronos filed a protest to this assessment, and believes that a significant portion of the assessment was without merit. The Belgian tax authorities have filed a lien on the fixed assets of Kronos' Belgian TiO_2 operations in connection with this assessment. In April 2003, Kronos received a notification from the Belgian tax authorities of their intent to assess a tax deficiency related to 1999 that, including interest, would have aggregated approximately euro 9 million ($11 million). Kronos filed a written response to the assessment, and in September 2005 the Belgian tax authorities withdrew the assessment.

- The Norwegian tax authorities have notified Kronos of their intent to assess tax deficiencies of approximately kroner 12 million ($2 million) relating to the years 1998 through 2000. Kronos has objected to this proposed assessment.

- Kronos has received a tax assessment from the Canadian tax authorities related to the years 1998 and 1999 proposing tax deficiencies, including interest, of approximately Cdn. $5 million ($4 million). Kronos filed a protest and in October 2005, the Canadian tax authorities agreed to reduce the assessment and settle all issues, including interest, for approximately Cdn. $2 million ($1.7 million).

During the third quarter of 2005, Kronos reached an agreement in principle with the German tax authorities regarding such tax authorities' objection to the value assigned to certain intellectual property rights held by Kronos' operating subsidiary in Germany. Under the agreement in principle, the value assigned to such intellectual property for German income tax purposes will be reduced retroactively, resulting in a reduction in the amount of Kronos' net operating loss carryforward in Germany as well as a future reduction in the amount of amortization expense attributable to such intellectual property. As a result, Kronos recognized a $17.5 million non-cash deferred income tax expense in the third quarter of 2005 related to such agreement. The $11.5 million tax contingency adjustment income tax benefit in 2005 relates primarily to the withdrawal of the Belgium tax authorities' assessment related to 1999 and the Canadian tax authorities' reduction of one of its assessments, as discussed above.

No assurance can be given that these tax matters will be resolved in the Company's favor in view of the inherent uncertainties involved in settlement initiatives and court and tax proceedings. The Company believes that it has provided adequate accruals for additional taxes and related interest expense which may ultimately result from all such examinations and believes that the ultimate disposition of such examinations should not have a material adverse effect on its consolidated financial position, results of operations or liquidity.

At December 31, 2003, Kronos had a significant amount of net operating loss carryforwards for German corporate and trade tax purposes, all of which have no expiration date. These net operating loss carryforwards were generated by KII principally during the 1990's when KII had a significantly higher level of outstanding indebtedness than is currently outstanding. For financial reporting purposes, however, the benefit of such net operating loss carryforwards had not previously been recognized because Kronos did not believe they met the "more-likely-than-not" recognition criteria, and accordingly Kronos had a deferred income tax asset valuation allowance offsetting the benefit of such net operating loss carryforwards and Kronos' other tax attributes in Germany. At the end of the second quarter of 2004, and based on all available evidence, Kronos concluded that the benefit of the net operating loss carryforwards and other German tax attributes now met the "more-likely-than-not" recognition criteria, and that reversal of the deferred income tax asset valuation allowance related to Germany was appropriate. Given the magnitude of the German net operating loss carryforwards and the fact that current provisions of German law limit the annual utilization of net operating loss carryforwards to 60% of taxable income after the first euro 1 million of taxable income, KII believes it will take several years to fully utilize the benefit of such loss carryforwards. However, given that Kronos had generated positive taxable income in Germany in recent years, combined with the fact that the net operating loss carryforwards have no expiration date, Kronos concluded, among other reasons, that it was now appropriate to reverse all of the valuation allowance related to the net operating loss carryforwards because the benefit of such operating loss carryforwards now meet the "more-likely-than-not" recognition criteria. Of the $280.7 million valuation allowance related to Germany which was reversed during 2004, and in accordance with the applicable GAAP related to accounting for income taxes at interim periods, (i) $8.7 million was reversed during the first six months of 2004 that related primarily to the utilization of the German net operating loss carryforwards during such period, (ii) $268.6 million was reversed as of June 30, 2004 and (iii) $3.4 million was reversed during the last six months of 2004.

In the first quarter of 2003, KII was notified by the German Federal Fiscal Court that the Court had ruled in KII's favor concerning a claim for refund suit in which KII sought refunds of prior taxes paid during the periods 1990 through 1997. KII and KII's German operating subsidiary were required to file amended tax returns with the German tax authorities to receive refunds for such years, and all of such amended returns were filed during 2003. Such amended returns reflected an aggregate net refund of taxes and related interest to KII and its

German operating subsidiary of euro 26.9 million ($32.1 million), and the Company recognized the benefit of these net refunds in its 2003 results of operations. For the year ended December 31, 2004, the Company recognized a net refund of euro 2.5 million ($3.1 million) related to additional net interest which has accrued on the outstanding refund amount. Through December 2004, KII and its German operating subsidiary had received net refunds of euro 35.6 million ($44.7 million when received). All refunds relating to the periods 1990 to 1997 were received by December 31, 2004. In addition to the refunds for the 1990 to 1997 periods, the court ruling also resulted in a refund of 1999 income taxes and interest, and the Company recognized euro 21.5 million ($24.6 million) in 2003.

At December 31, 2005, Kronos had the equivalent of $593 million and $104 million of net operating loss carryforwards for German corporate and trade tax purposes, respectively, all of which have no expiration date.

In October 2004, the American Jobs Creation Act of 2004 was enacted into law. The new law provided for a special 85% deduction for certain dividends received from a controlled foreign corporation in 2005. In the third quarter of 2005, the Company completed its evaluation of this new provision and determined that it would not benefit from such special dividends received deduction.

Note 14 - Employee benefit plans:

Defined benefit plans. The Company maintains various defined benefit pension plans. Non-U.S. employees are covered by plans in their respective countries and a majority of U.S. employees are eligible to participate in a contributory savings plan. Variances from actuarially assumed rates will result in increases or decreases in accumulated pension obligations, pension expense and funding requirements in future periods. At December 31, 2005, the Company expects to contribute the equivalent of approximately $18 million to all of its defined benefit pension plans during 2006.

The funded status of the Company's defined benefit pension plans, the components of net periodic defined benefit pension cost and the rates used in determining the actuarial present value of benefit obligations are presented in the tables below. The Company uses a September 30th measurement date for its defined benefit pension plans.

	Years ended December 31,	
	2004	2005
	(In thousands)	
Change in projected benefit obligations ("PBO"):		
Benefit obligations at beginning of the year	$ 325,960	$ 368,863
Service cost	6,758	7,373
Interest cost	17,403	17,718
Participant contributions	1,409	1,526
Actuarial losses	5,176	95,342
Change in foreign currency exchange rates	30,163	(41,362)
Benefits paid	(18,006)	(19,890)
Benefit obligations at end of the year	$ 368,863	$ 429,570
Change in plan assets:		
Fair value of plan assets at beginning of the year	$ 203,284	$ 242,473
Actual return on plan assets	19,126	18,282
Employer contributions	17,089	18,555
Participant contributions	1,409	1,526
Change in foreign currency exchange rates	19,571	(22,973)
Benefits paid	(18,006)	(19,890)
Fair value of plan assets at end of year	$ 242,473	$ 237,973
Funded status at end of the year:		
Plan assets less than PBO	$ (126,390)	$ (191,597)
Unrecognized actuarial losses	125,221	197,255
Unrecognized prior service cost	8,757	7,441
Unrecognized net transition obligations	5,019	4,666
	$ 12,607	$ 17,765
Amounts recognized in the balance sheet:		
Unrecognized net pension obligations	$ 13,518	$ 11,916
Accrued pension costs:		
Current	(8,771)	(12,320)
Noncurrent	(61,300)	(139,786)
Accumulated other comprehensive loss	69,160	157,955
	$ 12,607	$ 17,765

Years ended December 31,

	2003	2004	2005
		(In thousands)	
Net periodic pension cost:			
Service cost benefits	$ 5,127	$ 6,758	$ 7,373
Interest cost on PBO	15,373	17,403	17,718
Expected return on plan assets	(14,529)	(15,240)	(15,704)
Amortization of prior service cost	354	569	597
Amortization of net transition obligations	793	657	417
Recognized actuarial losses	1,245	3,015	3,672
	$ 8,363	$ 13,162	$ 14,073

The weighted-average rate assumptions used in determining the actuarial present value of benefit obligations as of December 31, 2004 and 2005 are presented in the table below. Such weighted-average rates were determined using the projected benefit obligations at each date.

Rate	December 31,	
	2004	2005
Discount rate	5.2%	4.3%
Increase in future compensation levels	2.8%	2.8%

The weighted-average rate assumptions used in determining the net periodic pension cost for 2003, 2004 and 2005 are presented in the table below. The weighted-average discount rate and the weighted-average increase in future compensation levels were determined using the projected benefit obligations as of the beginning of each year, and the weighted-average long-term return on plan assets was determined using the fair value of plan assets as of the beginning of each year.

Rate	December 31,		
	2003	2004	2005
Discount rate	5.9%	5.5%	5.2%
Increase in future compensation levels	2.6%	2.8%	2.8%
Long-term return on plan assets	7.2%	7.1%	6.4%

As of December 31, 2005, the accumulated benefit obligations for all defined benefit pension plans was approximately $391 million (2004 - $317 million). At December 31, 2005, the projected benefit obligations for all defined benefit pension plans was comprised of $15 million related to U.S. plans and $415 million related to non-U.S. plans (2004 - $14 million and $355 million, respectively).

At December 31, 2005, the fair value of plan assets for all defined benefit pension plans was comprised of $18 million related to U.S. plans and $220 million related to non-U.S. plans (2004 - $13 million and $230 million, respectively).

Selected information related to the Company's defined benefit pension plans that have accumulated benefit obligations in excess of fair value of plan assets is presented below. At December 31, 2004 and 2005, 95% and 100%, respectively, of the projected benefit obligations of such plans relate to non-U.S. plans.

	December 31,	
	2004	2005
	(In thousands)	
Projected benefit obligation	$368,863	$414,501
Accumulated benefit obligation	316,602	376,945
Fair value of plan assets:		
U.S. plans	12,694	-
Non U.S. plans	229,779	220,356

In determining the expected long-term rate of return on plan asset assumptions, the Company considers the long-term asset mix (e.g. equity vs. fixed income) for the assets for each of its plans and the expected long-term rates of return for such asset components. In addition, the Company receives advice about appropriate long-term rates of return from the Company's third-party actuaries. Such assumed asset mixes are summarized below:

- In Germany, the composition of the Company's plan assets is established to satisfy the requirements of the German insurance commissioner. The plan asset allocation at December 31, 2005 was 23% to equity managers, 48% to fixed income managers and 29% to real

estate (2004 - 23%, 48% and 29%, respectively).

- In Canada, the Company currently has a plan asset target allocation of 65% to equity managers and 35% to fixed income managers, with an expected long-term rate of return for such investments to average approximately 125 basis points above the applicable equity or fixed income index. The plan asset allocation at December 31, 2005 was 64% to equity managers, 32% to fixed income managers and 4% to other investments (2004 - 60%, 40% and nil, respectively).

- In Norway, the Company currently has a plan asset target allocation of 14% to equity managers, 64% to fixed income managers and the remainder primarily to liquid investments such as money markets. The expected long-term rate of return for such investments is approximately 8%, 4.5% to 6% and 2.5%, respectively. The plan asset allocation at December 31, 2005 was 16% to equity managers, 62% to fixed income managers and the remainder invested primarily to cash and liquid investments (2004 - 16%, 64% and 20%, respectively).

The Company regularly reviews its actual asset allocation for each of its plans, and will periodically rebalance the investments in each plan to more accurately reflect the targeted allocation when considered appropriate.

At December 31, 2004 and 2005, all of the assets attributable to U.S. plans were invested in The Combined Master Retirement Trust ("CMRT"), a collective investment trust sponsored by Contran to permit the collective investment by certain master trusts which fund certain employee benefit plans sponsored by Contran and certain of its affiliates.

At December 31, 2005, the asset mix of the CMRT was 86% in U.S. equity securities, 3% in U.S. fixed income securities, 7% in international equity securities and 4% in cash and other investments. At December 31, 2004, the asset mix of the CMRT was 77% in U.S. equity securities, 14% in U.S. fixed income securities, 7% in international equity securities and 2% in cash and other investments.

The CMRT's long-term investment objective is to provide a rate of return exceeding a composite of broad market equity and fixed income indices (including the S&P 500 and certain Russell indices) utilizing both third-party investment managers as well as investments directed by Mr. Harold C. Simmons. Mr. Harold Simmons is the sole trustee of the CMRT. The trustee of the CMRT, along with the CMRT's investment committee, of which Mr. Simmons is a member, actively manage the investments of the CMRT. Such parties have in the past, and may in the future, periodically change the asset mix of the CMRT based upon, among other things, advice they receive from third-party advisors and their expectations as to what asset mix will generate the greatest overall return. For the years ended December 31, 2003, 2004 and 2005, the assumed long-term rate of return for plan assets invested in the CMRT was 10%. In determining the appropriateness of such long-term rate of return assumption, the Company considered, among other things, the historical rates of return for the CMRT, the current and projected asset mix of the CMRT and the investment objectives of the CMRT's managers. During the 18-year history of the CMRT from its inception in 1987 through December 31, 2005, the average annual rate of return has been 14% (with a 36% return for 2005).

The Company expects future benefits paid from all defined benefit pension plans are as follows:

Years ending December 31,	Amount (In thousands)
2006	$ 20,235
2007	19,363
2008	21,309
2009	20,181
2010	20,694
2011 to 2015	113,273

Defined contribution plans. The Company maintains various defined contribution pension plans with Company contributions based on matching or other formulas. Defined contribution plan expense approximated $.5 million in 2003, $.4 million in 2004 and $.6 million in 2005.

Postretirement benefits other than pensions. In addition to providing pension benefits, the Company currently provides certain health care and life insurance benefits for eligible retired employees. Certain of the Company's Canadian employees may become eligible for such postretirement health care and life insurance benefits if they reach retirement age while working for the Company. In 1989 the Company began phasing out such benefits for active U.S. employees over a ten-year period and U.S. employees retiring after 1998 are not entitled to any such benefits. The majority of all retirees are required to contribute a portion of the cost of their benefits and certain current and future retirees are eligible for reduced health care benefits at age 65. The Company's policy is to fund medical claims as they are incurred, net of any contributions by the retiree.

The components of the periodic OPEB cost and accumulated OPEB obligations and the rates used in determining the actuarial present value of benefit obligations are presented in the tables below. Variances from actuarially-assumed rates will result in additional increases or decreases in accumulated OPEB obligations, net periodic OPEB cost and funding requirements in future periods. At December 31, 2005, the expected rate of increase in future health care costs is 8% to 9% in 2006, declining to 5.5% in 2009 and thereafter for U.S. plans and from 7% to 8% declining to 5% in 2008 and thereafter for

Canadian plans. (At December 31, 2004, the expected rate of increase in future healthcare costs ranged from 8% to 9% in 2005 declining to 5.5% in 2009 and thereafter for U.S. plans and declining to 5% in 2008 and thereafter for Canadian plans.) If the healthcare cost trend rate was increased (decreased) by one percentage point for each year, OPEB expense would have increased by $.1 million (decreased by $.1 million) in 2005, and the actuarial present value of accumulated OPEB obligations at December 31, 2005 would have increased by $1.4 million (decreased by $1.1 million). At December 31, 2005, the Company currently expects to contribute the equivalent of approximately $800,000 to all of its OPEB plans during 2006, and aggregate benefit payments to OPEB plan participants are expected to be the equivalent of approximately $800,000 in each of 2006 and 2007, $700,000 in each of 2008, 2009 and 2010 and $3.0 million during 2011 through 2015. The effects of the Medicare Part D subsidy, discussed below, on expected future contributions is not material.

	Years ended December 31,	
	2004	2005
	(In thousands)	
Change in accumulated OPEB obligations:		
Obligations at beginning of the year	$ 12,661	$ 10,520
Service cost	232	222
Interest cost	724	584
Actuarial losses (gains)	(1,215)	923
Plan amendments	(1,318)	-
Change in foreign currency exchange rates	411	286
Benefits paid	(975)	(1,255)
Obligations at end of the year	$ 10,520	$ 11,280
Change in plan assets:		
Employer contributions	$ 975	$ 1,255
Benefits paid	(975)	(1,255)
Fair value of plan assets at end of the year	$ -	$ -
Funded status at end of the year:		
Plan assets less than benefit obligations	$ (10,520)	$ (11,280)
Unrecognized net actuarial losses	143	1,102
Unrecognized prior service credit	(1,850)	(1,211)
	$ (12,227)	$ (11,389)
Accrued OPEB costs recognized in the balance sheet:		
Current	$ 939	$ 1,215
Noncurrent	11,288	10,174
	$ 12,227	$ 11,389

	Years ended December 31,		
	2003	2004	2005
		(In thousands)	
Net periodic OPEB cost (credit):			
Service cost	$ 152	$ 232	$ 222
Interest cost	684	724	584
Amortization of prior service credit	(1,055)	(638)	(639)
Recognized actuarial losses	86	137	72
	$ (133)	$ 455	$ 239

The weighted average discount rate used in determining the actuarial present value of benefit obligations as of December 31, 2005 was 5.6% (2004 - 5.7%). Such weighted average rate was determined using the projected benefit obligation as of such dates. The impact of assumed increases in future compensation levels does not have a material effect on the actuarial present value of the benefit obligation as substantially all of such benefits relate solely to eligible retirees, for which compensation is not applicable.

The weighted average discount rate used in determining the net periodic OPEB cost for 2005 was 5.7% (2004 - 5.9%; 2003 - 6.5%). Such weighted average rate was determined using the projected benefit obligation as of the beginning of each year. The impact of assumed increases in future compensation levels does

not have a material effect on the net periodic OPEB cost as substantially all of such benefits relate solely to eligible retirees, for which compensation is not applicable. The impact of assumed rate of return on plan assets also does not have a material affect on the net periodic OPEB cost as there were no plan assets as of December 31, 2004 or 2005.

As of December 31, 2005, the accumulated OPEB obligations for all OPEB plans was approximately $11.3 million (2004 - $10.5 million). At December 31, 2005, the accumulated OPEB obligations for all OPEB plans was comprised of $4.4 million related to U.S. plans and $6.9 million related to the Company's Canadian plans (2004 - $5.1 million and $5.4 million, respectively).

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare 2003 Act") introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. During the third quarter of 2004, the Company determined that benefits provided by its plan are actuarially equivalent to the Medicare Part D benefit and therefore the Company is eligible for the federal subsidy provided for by the Medicare 2003 Act. The effect of such subsidy, which is accounted for prospectively from the date actuarial equivalence was determined, as permitted by and in accordance with FASB Staff Position No. 106-2, did not have a material impact on the accumulated postretirement benefit obligation, and will not have a material impact on the net periodic OPEB cost going forward.

Note 15 - Related party transactions:

The Company may be deemed to be controlled by Harold C. Simmons. See Note 1. Corporations that may be deemed to be controlled by or affiliated with Mr. Simmons sometimes engage in (a) intercorporate transactions such as guarantees, management and expense sharing arrangements, shared fee arrangements, joint ventures, partnerships, loans, options, advances of funds on open account, and sales, leases and exchanges of assets, including securities issued by both related and unrelated parties and (b) common investment and acquisition strategies, business combinations, reorganizations, recapitalizations, securities repurchases, and purchases and sales (and other acquisitions and dispositions) of subsidiaries, divisions or other business units, which transactions have involved both related and unrelated parties and have included transactions which resulted in the acquisition by one related party of a publicly-held minority equity interest in another related party. While no transactions of the type described above are planned or proposed with respect to the Company other than as set forth in these financial statements, the Company continuously considers, reviews and evaluates, and understands that Contran and related entities consider, review and evaluate such transactions. Depending upon the business, tax and other objectives then relevant, it is possible that the Company might be a party to one or more such transactions in the future.

Current receivables from and payables to affiliates are summarized in the table below.

	December 31, 2004	December 31, 2005
	(In thousands)	
Current receivables from affiliate:		
NL	$ 16	$ -
Titanium Metals Corporation	-	2
	$ 16	$ 2
Current payables to affiliates:		
Income taxes payable to Valhi	$ 387	$ 434
NL	-	145
LPC	8,844	9,803
	$ 9,231	$ 10,382

Amounts payable to LPC are generally for the purchase of TiO_2 (see Note 6) and amounts payable to NL principally related to accrued interest on affiliate loans. Purchases of TiO_2 from LPC were $101.3 million in 2003, $104.8 million in 2004 and $109.4 million in 2005. Titanium Metals Corporation is an affiliate of Valhi.

From time to time, loans and advances are made between the Company and various related parties pursuant to term and demand notes. These loans and advances are entered into principally for cash management purposes. When the Company loans funds to related parties, the lender is generally able to earn a higher rate of return on the loan than the lender would earn if the funds were invested in other instruments. While certain of such loans may be of a lesser credit quality than cash equivalent instruments otherwise available to the Company, the Company believes that it has evaluated the credit risks involved, and that those risks are reasonable and reflected in the terms of the applicable loans. When the Company borrows from related parties, the borrower is generally able to pay a lower rate of interest than the borrower would pay if it borrowed from other parties. In addition, certain loans to and from affiliates not made for cash management purposes are discussed in Notes 10 and 11.

Interest income on all loans to related parties, including amounts

discussed in Notes 10 and 11, was $.7 million in 2003 and nil in each of 2004 and 2005. Interest expense on all loans from related parties, including amounts discussed in Note 10, was $1.9 million in 2003, $15.2 million in 2004 and nil in 2005.

Under the terms of various intercorporate services agreements ("ISAs") entered into between the Company and various related parties, including Contran, employees of one company will provide certain management, tax planning, financial and administrative services to the other company on a fee basis. Such charges are based upon estimates of the time devoted by the employees of the provider of the services to the affairs of the recipient, and the compensation and associated expenses of such persons. Because of the large number of companies affiliated with Contran and NL, the Company believes it benefits from cost savings and economies of scale gained by not having certain management, financial and administrative staffs duplicated at each entity, thus allowing certain individuals to provide services to multiple companies but only be compensated by one entity. The net ISA fee charged to the Company included in selling, general and administrative expense and corporate expense, was $3.7 million in 2003, $4.4 million in 2004 and $5.7 million in 2005.

Tall Pines Insurance Company, and EWI RE, Inc. provide for or broker certain insurance policies for Contran and certain of its subsidiaries and affiliates, including the Company. Tall Pines is wholly-owned by a subsidiary of Valhi, and EWI is a wholly-owned subsidiary of NL. Consistent with insurance industry practices, Tall Pines and EWI receive commissions from insurance and reinsurance underwriters and/or assess fees for the policies that they provide or broker. The aggregate premiums paid to Tall Pines (including amounts paid to Valmont Insurance Company, another subsidiary of Valhi that was merged into Tall Pines in 2004) and EWI by the Company and its joint venture were $7.2 million in 2003, $7.7 million in 2004 and $7.0 million in 2005. These amounts principally included payments for insurance and reinsurance premiums paid to third parties, but also included commissions paid to Tall Pines and EWI. Tall Pines purchases reinsurance for substantially all of the risks it underwrites. The Company expects that these relationships with Tall Pines and EWI will continue in 2006.

Contran and certain of its subsidiaries and affiliates, including the Company, purchase certain of their insurance policies as a group, with the costs of the jointly-owned policies being apportioned among the participating companies. With respect to certain of such policies, it is possible that unusually large losses incurred by one or more insureds during a given policy period could leave the other participating companies without adequate coverage under that policy for the balance of the policy period. As a result, Contran and certain of its subsidiaries and affiliates, including the Company, have entered into a loss sharing agreement under which any uninsured loss is shared by those entities who have submitted claims under the relevant policy. The Company believes the benefits in the form of reduced premiums and broader coverage associated with the group coverage for such policies justifies the risk associated with the potential for any uninsured loss.

In June 2003 the Company distributed EWI to NL in the form of a noncash dividend. The Company accounted for the distribution of EWI to NL as a change in accounting entity, and accordingly the Company's consolidated financial statements have been retroactively restated to exclude the assets, liabilities, results of operations and cash flows of EWI for all periods presented since the January 2002 acquisiton. Reflected as part of "other capital transactions with affiliates, net" in the accompanying Consolidated Statements of Cash Flows is such $9.2 million purchase price.

Note 16 - Commitments and contingencies:

Environmental matters. The Company's operations are governed by various environmental laws and regulations. Certain of the Company's operations are and have been engaged in the handling, manufacture or use of substances or compounds that may be considered toxic or hazardous within the meaning of applicable environmental laws and regulations. As with other companies engaged in similar businesses, certain past and current operations and products of the Company have the potential to cause environmental or other damage. The Company has implemented and continues to implement various policies and programs in an effort to minimize these risks. The Company's policy is to maintain compliance with applicable environmental laws and regulations at all of its facilities and to strive to improve its environmental performance. From time to time, the Company may be subject to environmental regulatory enforcement under U.S. and foreign statutes, resolution of which typically involves the establishment of compliance programs. It is possible that future developments, such as stricter requirements of environmental laws and enforcement policies thereunder, could adversely affect the Company's production, handling, use, storage, transportation, sale or disposal of such substances. The Company believes all of its plants are in substantial compliance with applicable environmental laws.

Litigation matters. Kronos' Belgian subsidiary and certain of its employees are the subject of civil and criminal proceedings relating to an accident that resulted in two fatalities at the Company's Belgian facility in 2000. In May 2004, the court ruled and, among other things, imposed a fine of euro 200,000 against Kronos and fines aggregating less than euro 40,000 against various Kronos employees. Kronos and the individual employees have appealed the ruling.

In addition to the litigation described above, the Company and its affiliates are also involved in various other environmental, contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to its present and former businesses.

Kronos currently believes the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on its consolidated financial condition, results of operations or liquidity.

Concentrations of credit risk. Sales of TiO_2 accounted for approximately 90% of net sales from continuing operations during each of the past three years. The remaining sales result from the mining and sale of ilmenite ore (a raw material used in the sulfate pigment production process), and the manufacture

and sale of iron-based water treatment chemicals and certain titanium chemical products (derived from co-products of the TiO2 production processes). TiO2 is generally sold to the paint, plastics and paper industries. Such markets are generally considered "quality-of-life" markets whose demand for TiO2 is influenced by the relative economic well-being of the various geographic regions. TiO2 is sold to over 4,000 customers, with the top ten customers approximating 26% of net sales in 2005 and 25% of net sales in each of 2004 and 2003. By volume, approximately one-half of the Company's TiO2 sales were to Europe in each of the past three years and approximately 40% of sales in 2003 and 38% in each of 2004 and 2005 were attributable to North America.

At December 31, 2005, consolidated cash, cash equivalents and restricted cash includes $2.8 million invested in U.S. Treasury securities purchased under short-term agreements to resell (2004 - $38.1 million).

Long-term contracts. The Company has long-term supply contracts that provide for the Company's TiO2 feedstock requirements through 2010. The agreements require the Company to purchase certain minimum quantities of feedstock with minimum purchase commitments aggregating approximately $681 million at December 31, 2005.

Operating leases. Kronos' principal German operating subsidiary leases the land under its Leverkusen TiO2 production facility pursuant to a lease with Bayer AG that expires in 2050. The Leverkusen facility itself, which is owned by the Company and which represents approximately one-third of Kronos' current TiO2 production capacity, is located within Bayer's extensive manufacturing complex. Rent for the land lease associated with the Leverkusen facility is periodically established by agreement with Bayer for periods of at least two years at a time. The lease agreement provides for no formula, index or other mechanism to determine changes in the rent for such land lease; rather, any change in the rent is subject solely to periodic negotiation between Bayer and the Company. Any change in the rent based on such negotiations is recognized as part of lease expense starting from the time such change is agreed upon by both parties, as any such change in the rent is deemed "contingent rentals" under GAAP. Under a separate supplies and services agreement expiring in 2011, the lessor provides some raw materials, including chlorine, auxiliary and operating materials, utilities and services necessary to operate the Leverkusen facility.

The Company also leases various other manufacturing facilities and equipment. Some of the leases contain purchase and/or various term renewal options at fair market and fair rental values, respectively. In most cases the Company expects that, in the normal course of business, such leases will be renewed or replaced by other leases. Net rent expense approximated $12 million in 2003 and $11 million in each of 2004 and 2005. At December 31, 2005, future minimum payments under noncancellable operating leases having an initial or remaining term of more than one year were as follows:

Years ending December 31,	Amount (In thousands)
2006	$ 4,857
2007	3,591
2008	3,045
2009	2,272
2010	1,388
2011 and thereafter	21,083
	$36,236

Approximately $20.1 million of the $36.2 million aggregate future minimum rental commitments at December 31, 2005 relates to the Company's Leverkusen facility lease discussed above. The minimum commitment amounts for such lease included in the table above for each year through the 2050 expiration of the lease are based upon the current annual rental rate as of December 31, 2005. As discussed above, any change in the rent is based solely on negotiations between Bayer and the Company, and any such change in the rent is deemed "contingent rentals" under GAAP which is excluded from the future minimum lease payments disclosed above.

Income taxes. Contran and Valhi have agreed to a policy providing for the allocation of tax liabilities and tax payments as described in Note 1. Under applicable law, the Company, as well as every other member of the Contran Tax Group, are each jointly and severally liable for the aggregate federal income tax liability of Contran and the other companies included in the Contran Tax Group for all periods in which the Company is included in the Contran Tax Group. Contran has agreed, however, to indemnify the Company for any liability for income taxes of the Contran Tax Group in excess of the Company's tax liability previously computed and paid by Valhi in accordance with the tax allocation policy.

Note 17 - Financial instruments:

Summarized below is the estimated fair value and related net carrying value of the Company's financial instruments.

	December 31, 2004		December 31, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			

Cash, cash equivalents, restricted cash and noncurrent restricted marketable debt securities	$ 65.2	$ 65.2	$ 76.0	$ 76.0
Notes payable and long-term debt:				
Fixed rate with market quotes -				
8.875% Senior Secured Notes	$ 519.2	$ 549.1	$ 449.3	$ 463.6
Variable rate debt	$ 13.6	$ 13.6	$ 11.5	$ 11.5
Common stockholders' equity	$ 470.8	$1,994.6	$ 410.0	$1,420.0

Fair value of the Company's restricted marketable debt securities, the Notes and the fair value of the Company's common stockholders' equity, are based upon quoted market prices at each balance sheet date.

Certain of the Company's sales generated by its non-U.S. operations are denominated in U.S. dollars. The Company periodically uses currency forward contracts to manage a very nominal portion of foreign exchange rate risk associated with receivables denominated in a currency other than the holder's functional currency or similar exchange rate risk associated with future sales. The Company has not entered into these contracts for trading or speculative purposes in the past, nor does the Company currently anticipate entering into such contracts for trading or speculative purposes in the future. Derivatives used to hedge forecasted transactions and specific cash flows associated with foreign currency denominated financial assets and liabilities which meet the criteria for hedge accounting are designated as cash flow hedges. Consequently, the effective portion of gains and losses is deferred as a component of accumulated other comprehensive income and is recognized in earnings at the time the hedged item affects earnings. Contracts that do not meet the criteria for hedge accounting are marked-to-market at each balance sheet date with any resulting gain or loss recognized in income currently as part of net currency transactions. During 2004 and 2005, the Company has not used hedge accounting for any of its contracts. At December 31, 2005, the Company held a series of short-term currency forward contracts, which mature at various dates through March 31, 2006, to exchange an aggregate of U.S. $7.5 million for an equivalent amount of Canadian dollars at an exchange rate of Cdn. $1.19 per U.S. dollar. At December 31, 2005, the actual exchange rate was Cdn. $1.16 per U.S. dollar. The estimated fair value of such foreign currency forward contracts was not material at December 31, 2005. The Company held no such currency forward contracts at December 31, 2004 and held no other significant derivative contracts at December 31, 2004 or 2005.

Note 18 - Quarterly results of operations (unaudited):

	Quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
	(In millions, except per share data)			
Year ended December 31, 2004				
Net sales	$ 263.3	$ 295.8	$ 286.0	$ 283.5
Gross margin	$ 61.0	$ 68.3	$ 66.7	$ 66.3
Net income	$ 9.8	$ 284.8	$ 10.1	$ 10.2
Basic and diluted earnings per common share	$ .20	$ 5.82	$ .21	$ .21
Year ended December 31, 2005				
Net sales	$ 291.9	$ 311.7	$ 292.1	$ 301.0
Gross margin	$ 84.2	$ 94.6	$ 75.9	$ 72.2
Net income	$ 21.4	$ 32.9	$ 8.0	$ 8.7
Basic and diluted earnings per common share	$ .44	$ .67	$ .16	$ .18

The sum of the quarterly per share amounts may not equal the annual per share amounts due to relative changes in the weighted average number of shares used in the per share computations.

Note 19 - Accounting principles newly adopted in 2003 and 2004:

Asset retirement obligations. The Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," on January 1, 2003. Under SFAS No. 143, the fair value of a liability for an asset retirement obligation covered under the scope of SFAS No. 143 is recognized in the period in which the liability is incurred, with an offsetting increase in the carrying amount of the related long-lived asset. Over time, the liability would be accreted to its future value, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

Under the transition provisions of SFAS No. 143, at the date of adoption on January 1, 2003 the Company recognized (i) an asset retirement cost capitalized as an increase to the carrying value of its property, plant and equipment, (ii) accumulated depreciation on such capitalized cost and (iii) a liability for the asset retirement obligation. Amounts resulting from the initial application of SFAS No. 143 are measured using information, assumptions and interest rates all as of January 1, 2003. The amount recognized as the asset retirement cost is measured as of the date the asset retirement obligation was incurred. Cumulative accretion on the asset retirement obligation, and accumulated depreciation on the asset retirement cost, is recognized for the time period from the date the asset retirement cost and liability would have been recognized had the provisions of SFAS No. 143 been in effect at the date the liability was incurred, through January 1, 2003. The difference, if any, between the amounts

to be recognized as described above and any associated amounts recognized in the Company's balance sheet as of December 31, 2002 is recognized as a cumulative effect of a change in accounting principles as of the date of adoption. The effect of adopting SFAS No. 143 as of January 1, 2003 was not material, as summarized in the table below, and is not separately recognized in the accompanying Statement of Income.

	Amount (in millions)
Increase in carrying value of net property, plant and equipment:	
Cost	$ .4
Accumulated depreciation	(.1)
Decrease in carrying value of previously-accrued closure and post-closure activities	.3
Asset retirement obligation recognized	(.6)
Net impact	$ -

The change in the asset retirement obligations from January 1, 2003 ($600,000) to December 31, 2003 ($800,000) and to December 31, 2004 ($1 million) and to December 31, 2005 ($900,000) is due primarily to accretion expense and the effects of currency translation. Accretion expense, which is reported as a component of cost of sales in the accompanying Consolidated Statements of Income, approximated $100,000 for each of the years ended December 31, 2003, 2004 and 2005.

Estimates of the ultimate cost to be incurred to settle the Company's asset retirement obligations require a number of assumptions, are inherently difficult to develop and the ultimate outcome may differ from current estimates. As additional information becomes available, cost estimates will be adjusted as necessary. It is possible that technological, regulatory or enforcement developments, the results of studies or other factors could necessitate the recording of additional liabilities.

Costs associated with exit or disposal activities. The Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," on January 1, 2003 for exit or disposal activities initiated on or after that date. Under SFAS No. 146, costs associated with exit activities, as defined, that are covered by the scope of SFAS No. 146 will be recognized and measured initially at fair value, generally in the period in which the liability is incurred. Costs covered by the scope of SFAS No. 146 include termination benefits provided to employees, costs to consolidate facilities or relocate employees, and costs to terminate contracts (other than a capital lease). Under prior GAAP, a liability for such an exit cost is recognized at the date an exit plan is adopted, which may or may not be the date at which the liability has been incurred. The effect of adopting SFAS No. 146 as of January 1, 2003 was not material as the Company was not involved in any exit or disposal activities covered by the scope of the new standard as of such date.

Variable interest entities. The Company complied with the consolidation requirements of FASB Interpretation ("FIN") No. 46R, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," as amended, as of March 31, 2004. The Company does not have any involvement with any variable interest entity (as that term is defined in FIN No. 46R) covered by the scope of FIN No. 46R that would require the Company to consolidate such entity under FIN No. 46R which had not already been consolidated under prior applicable GAAP, and therefore the impact to the Company of adopting the consolidation requirements of FIN No. 46R was not material.

Note 20- Accounting principles not yet adopted:

Stock options. The Company will adopt SFAS No. 123R, "Share-Based Payment", as of January 1, 2006. SFAS No. 123R, among other things, eliminated the alternative in previously existing GAAP to use the intrinsic value method of accounting for stock-based employee compensation under APBO No. 25. Upon adoption of SFAS No. 123R, the Company will generally be required to recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, with the cost recognized over the period during which an employee is required to provide services in exchange for the award (generally, the vesting period of the award). No compensation cost will be recognized in the aggregate for equity instruments for which the employee does not render the requisite service (generally, the instrument is forfeited before it has vested). The grant-date fair value will be estimated using option-pricing models (e.g. Black-Scholes or a lattice model). Under the transition alternatives permitted under SFAS No. 123R, the Company will apply the new standard to all new awards granted on or after January 1, 2006, and to all awards existing as of December 31, 2005 which are subsequently modified, repurchased or cancelled. Additionally, as of January 1, 2006, the Company will be required to recognize compensation cost previously measured under SFAS No. 123 for the portion of any non-vested award existing as of December 31, 2005 over the remaining vesting period. Because the Company has not granted any options to purchase its common stock and did not grant any options prior to January 1, 2006, and because the number of non-vested awards as of December 31, 2005 with respect to options granted by NL to employees of the Company is not expected to be material, the effect of adopting SFAS No. 123R is not expected to be significant in so far as it relates to the recognition of compensation cost in the Company's consolidated statements of income for existing stock options. Should the Company, however, grant a significant number of options in the future, the Company could recognize material amounts of compensation cost related to such options in its consolidated financial statements.

Also upon adoption of SFAS No. 123R, any cash income tax benefit resulting from the exercise of stock options in excess of the cumulative income tax benefit related to such options previously recognized for GAAP financial reporting purposes in the Company's consolidated statements of income, if any, will be reflected as a cash inflow from financing activities in the Company's consolidated statements of cash flows, and the Company's cash flows from operating activities will reflect the effect of cash paid for income taxes exclusive of such cash income tax benefit.

SFAS No. 123R also requires certain expanded disclosures regarding the Company's stock options, and such expanded disclosures have been provided in Note 11.

Inventory costs. The Company will adopt SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4," for inventory costs incurred on or after January 1, 2006. SFAS No. 151 requires that the allocation of fixed production overhead costs to inventory shall be based on normal capacity. Normal capacity is not defined as a fixed amount; rather, normal capacity refers to a range of production levels expected to be achieved over a number of periods under normal circumstances, taking into account the loss of capacity resulting from planned maintenance shutdowns. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of idle plant or production levels below the low end of normal capacity, but instead a portion of fixed overhead costs are charged to expense as incurred. Alternatively, in periods of production above the high end of normal capacity, the amount of fixed overhead costs allocated to each unit of production is decreased so that inventories are not measured above cost. SFAS No. 151 also clarifies existing GAAP to require that abnormal freight and wasted materials (spoilage) are to be expensed as incurred. The Company believes its production cost accounting already complies with the requirements of SFAS No. 151, and the Company does not expect adoption of SFAS No. 151 will have a material effect on its consolidated financial statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Condensed Balance Sheets

December 31, 2004 and 2005

(In thousands)

	2004	2005
Current assets:		
Cash and cash equivalents	$ 7,734	$ 186
Receivables from affiliates	2,776	4,661
Prepaid expenses	337	530
Total current assets	10,847	5,377
Other assets:		
Notes receivable from subsidiaries and affiliates	51,250	23,280
Investment in subsidiaries	638,821	577,943
Total other assets	690,071	601,223
	$ 700,918	$ 606,600
Current liabilities:		
Accounts payable and accrued liabilities	$ 4	$ 113
Payable to affiliates	742	436
Deferred income taxes	2	2
Total current liabilities	748	551
Noncurrent liabilities:		
Notes payable to subsidiaries and affiliates	222,168	192,941
Deferred income taxes	7,157	3,124
Total noncurrent liabilities	229,325	196,065
Stockholders' equity	470,845	409,984
	$ 700,918	$ 606,600

Contingencies (Note 4)

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Income

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Revenues and other income:			
Equity in earnings of subsidiaries	$ 92,051	$ 336,922	$ 77,437
Interest income from affiliates	3,009	2,678	2,627
Interest and dividends	29	382	69
Other income	8	-	-
	95,097	339,982	80,133
Costs and expenses:			
General and administrative	269	1,601	2,048
Intercompany interest and other	1,917	17,973	18,943
Other expense	-	130	(1,846)
	2,186	19,704	19,145
Income before income taxes	92,911	320,278	60,988
Provision for income taxes	5,362	5,425	(10,018)
Net income	$ 87,549	$ 314,853	$ 71,006

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Condensed Statements of Cash Flows

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Cash flows from operating activities:			
Net income	$ 87,549	$314,853	$ 71,006
Cash distributions from subsidiaries	-	60,000	25,500
Deferred income taxes	(538)	10,831	(4,260)
Equity in earnings of subsidiaries	(92,051)	(336,922)	(77,437)
Other, net	-	90	(174)
Net change in assets and liabilities	1,295	(4,379)	(2,525)
Net cash provided (used) by operating activities	(3,745)	44,473	12,110
Cash flows from investing activities:			
Loans to affiliates	(16,550)	(8,000)	-
Collections of loans to affiliates	46,404	7,000	27,970
Net cash provided (used) by investing activities	29,854	(1,000)	27,970
Cash flows from financing activities:			
Loans from affiliates	8,000	209,524	
Repayments of loans from affiliates	(52,600)	(200,000)	-
Dividends paid	18,000	(48,945)	(48,949)
Capital contributions	-	609	1,321
Net cash used by financing activities:	(26,600)	(38,812)	(47,628)
Net change during the year from operating, investing and financing activities	(491)	4,661	(7,548)
Balance at beginning of year	3,564	3,073	7,734

Balance at end of year	$ 3,073	$ 7,734	$ 186

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

Notes to Condensed Financial Information

Note 1 - Basis of presentation:

The accompanying financial statements of Kronos Worldwide, Inc. reflect Kronos' investment in its majority-owned subsidiaries on the equity method. The Consolidated Financial Statements of Kronos and its majority-owned subsidiaries (the "Company") and the related Notes to Consolidated Financial Statements are incorporated herein by reference.

Note 2 - Net receivable from (payable to) subsidiaries and affiliates:

	December 31, 2004	December 31, 2005
	(In thousands)	
Current:		
Receivable from:		
Kronos Louisiana, Inc. ("KLA")	$ -	$ 2,751
KLA - income taxes	2,681	1,874
Kronos (US), Inc. ("KUS")	-	36
Kronos International, Inc. ("KII")	95	-
	$ 2,776	$ 4,661
Payable to:		
KUS	$ 204	$
Valhi - income taxes	387	434
Kronos Cananda, Inc. ("KC")	56	-
Other	95	2
	$ 742	$ 436
Noncurrent:		
Receivable from KUS	$ 51,250	$ 23,280
Payable to KII	$ 222,168	$ 192,941

During 2004, KII loaned the Company the equivalent of $222,168. Such amounts are eliminated upon consolidation. See also Note 10 of the Consolidated Financial Statements for a description of noncurrent receivables and payables.

Note 3 - Investment in subsidiaries:

	December 31, 2004	December 31, 2005
	(In thousands)	
Investment in:		
KLA	$ 136,749	$ 99,376
KC	86,066	87,240
KII	416,006	391,327
	$ 638,821	$ 577,943

	2003	2004	2005
Equity in income from continuing operations of subsidiaries:			
KLA	$ 6,086	$ 12,969	$ 19,664

KC	2,192	(2,302)	1,481
KII	83,773	326,255	56,292
	$ 92,051	$ 336,922	$ 77,437

Note 4 - Contingencies:

See Note 16 to the Consolidated Financial Statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

Description	Balance at beginning of year	Additions charged to costs and expenses	Net deductions	Currency translation	Other	Balance at end of year
Year ended December 31, 2003:						
Allowance for doubtful accounts	$ 2,605	$ 367	$ (439)	$ 387	$ -	$ 2,920
Allowance for slow moving inventory	$ 7,716	$ 187	$ -	$ 56	$ -	$ 7,959
Accrual for planned major maintenance activities	$ 3,986	$ 5,337	$(3,896)	$ 900	$ -	$ 6,327
Year ended December 31, 2004:						
Allowance for doubtful accounts	$ 2,920	$ (125)	$ (577)	$ 159	$ -	$ 2,377
Allowance for slow moving inventory	$ 7,959	$ 433	$ (167)	$ 764	$ -	$ 8,989
Accrual for planned major maintenance activities	$ 6,327	$ 6,602	$(8,001)	$ 425	$ -	$ 5,353
Year ended December 31, 2005:						
Allowance for doubtful accounts	$ 2,377	$ 689	$ (897)	$ (204)	$ -	$ 1,965
Allowance for slow moving inventory	$ 8,989	$ 174	$ (29)	$ (854)	$ -	$ 8,280
Accrual for planned major maintenance activities	$ 5,353	$ 9,385	$(9,333)	$ (448)	$ -	$ 4,957

Note - Certain information has been omitted from this Schedule because it is disclosed in the Notes to the Consolidated Financial Statements.

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

NAME OF CORPORATION	Jurisdiction of incorporation or organization	% of Voting Securities Held at December 31, 2005(a)
Kronos Canada, Inc.	Canada	100
Kronos International, Inc.	Delaware	100
Kronos Titan GmbH	Germany	100
Unterstutzungskasse Kronos Titan-GmbH	Germany	100
Kronos Chemie-GmbH	Germany	100
Kronos World Services S.A./N.V.	Belgium	100
Societe Industrielle du Titane, S.A.	France	99
Kronos Limited	United Kingdom	100
Kronos Denmark ApS	Denmark	100
Kronos Europe S.A./N.V.	Belgium	100
Kronos B.V.	Holland	100
Kronos Norge A/S	Norway	100
Kronos Titan A/S	Norway	100
Titania A/S	Norway	100
The Jossingfjord Manufacturing Company A/S	Norway	100
Kronos Louisiana, Inc.	Delaware	100
Kronos (US) Inc.	Delaware	100
Louisiana Pigment Company, L.P.	Delaware	50

(a) Held by the Registrant or the indicated subsidiary of the Registrant

EXHIBIT 31.1

CERTIFICATION

I, Harold C. Simmons, the Chief Executive Officer of Kronos Worldwide, Inc., certify that:

1) I have reviewed this annual report on Form 10-K of Kronos Worldwide, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2006

/s/ Harold C. Simmons
- --------------------------
Harold C. Simmons
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Gregory M. Swalwell, the Chief Financial Officer of Kronos Worldwide, Inc., certify that:

1) I have reviewed this annual report on Form 10-K of Kronos Worldwide, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2006

/s/ Gregory M. Swalwell

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Gregory M. Swalwell
Chief Financial Officer

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the (i) Registration Statement No. 333-113425 on Form S-8 and (ii) Registration Statement No. 333-122249 on Form S-3 of Kronos Worldwide, Inc. of our report dated March 16, 2006 relating to the consolidated financial statements, financial statement schedules, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Dallas, Texas
March 16, 2006

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Kronos Worldwide, Inc. (the Company) on Form 10-K for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Harold C. Simmons, Chief Executive Officer of the Company, and I, Gregory M. Swalwell, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Harold C. Simmons
- --------------------------
Harold C. Simmons
Chief Executive Officer

/s/ Gregory M. Swalwell
- --------------------------
Gregory M. Swalwell
Chief Financial Officer

March 16, 2006

Note: The certification the registrant furnishes in this exhibit is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. Registration Statements or other documents filed with the Securities and Exchange Commission shall not incorporate this exhibit by reference, except as otherwise expressly stated in such filing.