

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

FORM 10

Amendment No.1

GENERAL FORM FOR REGISTRATION OF SECURITIES  
Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

Kronos Worldwide, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 76-0294959  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

Three Lincoln Centre  
5430 LBJ Freeway, Suite 1700  
Dallas, Texas 75240-2697  
(972) 233-1700  
(Address, including zip code, and telephone number, including area code,  
of principal executive offices)

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

Title of Each Class to be so Registered	Name of Each Exchange on Which Each Class is to be Registered
Common Stock, par value \$.01 per share	New York Stock Exchange

Securities to be registered pursuant to Section 12(g) of the Act: None

Copies of Communications Sent To:

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KRONOS WORLDWIDE, INC.

I. INFORMATION INCLUDED IN INFORMATION STATEMENT AND INCORPORATED IN  
FORM 10 BY REFERENCE

CROSS-REFERENCE SHEET BETWEEN  
INFORMATION STATEMENT AND ITEMS OF FORM 10

Item No.	Item Caption	Location in Information Statement
Item 1.	Business	"Summary" (p. 1), "Risk Factors" (p. 7), "Relationships Among NL, Kronos and Their Affiliates After the Distribution" (p. 22), "Management's Discussion and Analysis of Financial Condition and Results of Operations" (p. 28), "Business" (p. 46)
Item 2.	Financial Information	"Selected Financial Data" (p. 26), "Management's Discussion and Analysis of

		Financial Condition and Results of Operations" (p. 28)
Item 3.	Properties	"Business-Properties" (p. 51)
Item 4.	Security Ownership of Certain Beneficial Owners and Management	"Principal Stockholders" (p. 58)
Item 5.	Directors and Executive Officers	"Management" (p. 52)
Item 6.	Executive Compensation	"Management" (p. 52)
Item 7.	Certain Relationships and Related Transactions	"Relationships Among NL, Kronos and Their Affiliates After the Distribution" (p. 22), "Certain Relationships and Related Transactions" (p. 62), "Consolidated Financial Statements" (p. FB-1)
Item 8.	Legal Proceedings	"Business-Legal Proceedings" (p. 51)
Item 9.	Market Price and Dividends on the Registrant's Common Equity and Related Stockholder Matters	"Summary" (p. 1), "Risk Factors," (p. 7), "The Distribution" (p. 16), "Dividend Policy" (p. 25), "Description of Capital Stock" (p. 65)
Item 11.	Description of Registrant's Securities to be Registered	"Description of Capital Stock" (p. 65)
Item 12.	Indemnification of Directors and Officer	"Description of Capital Stock--Liability and Indemnification of Directors and Officers" (p. 67)
Item 13.	Financial Statements and Supplementary Data	"Unaudited Pro Forma Condensed Consolidated Financial Statements" (p. FA-1); "Consolidated Financial Statements" (p. FB-1)
Item 15.	Financial Statements and Exhibits	"Unaudited Pro Forma Condensed Consolidated Financial Statements" (p. FA-1); "Consolidated Financial Statements" (p. FB-1)

II. INFORMATION NOT INCLUDED IN INFORMATION STATEMENT

Item 10. Recent Sales of Unregistered Securities

None.

Item 14. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 15. Financial Statements and Exhibits

- (a) Financial Statement Schedules:  
Schedule I - Condensed Financial Information of Registrant\*\*  
Schedule II - Valuation and Qualifying Accounts\*\*

(b) Exhibits:

Exhibit Number Description

Exhibit Number	Description
2.1*	Form of Distribution Agreement between NL Industries, Inc. and Kronos Worldwide, Inc.
3.1*	First Amended and Restated Certificate of Incorporation of Kronos Worldwide, Inc.
3.2*	Amended and Restated Bylaws of Kronos Worldwide, Inc.
4.1*	Form of Common Stock Certificate of Kronos Worldwide, Inc.
4.2	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
4.3	Form of certificate of 8.875% Senior Secured Note due 2009 (included as Exhibit A to Exhibit 4.2) - incorporated by reference to Exhibit 4.2 to Kronos International, Inc.'s Registration Statement on Form S-4 (File No. 333-100047).
4.4	Form of certificate of 8.875% Senior Secured Note due 2009 (included as Exhibit B to Exhibit 4.2) - incorporated by reference to Exhibit 4.3 to Kronos International Inc.'s Registration Statement on Form S-4 (File No. 333-100047).
4.5	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.
4.6	Registration Rights Agreement, dated as of June 28, 2002, among Kronos International, Inc., Deutsche Bank AG London, Dresdner Bank AG, London Branch, and Commerzbank Aktiengesellschaft, London Branch - incorporated by reference to Exhibit 4.5 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.
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.
10.2*	Form of Intercorporate Services Agreement between Contran, Inc. and Kronos Worldwide, Inc.
10.3*	Form of Promissory Note made by Kronos Worldwide, Inc. in favor of NL Industries, Inc.



- 10.4\* Form of Kronos Worldwide, Inc. Long-Term Incentive Plan
- 10.5 (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.
- 10.6 Lease Contract, dated June 21, 1952, between Farbenfabriken Bayer Aktiengesellschaft and Titangesellschaft mit beschränkter 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.
- 10.7 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.
- 10.8 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.
- 10.9 Services Agreement, dated as of January 1, 1995, amended as of April 1, 2002, among NL Industries, Inc., Kronos (US), Inc. and Kronos International, Inc. - incorporated by reference to Exhibit 10.6 to Kronos International, Inc.'s Registration Statement on Form S-4 (File No. 333-100047).
- 10.10 Form of Kronos Cost Sharing Agreement, effective as of January 1, 2002, among Kronos International, Inc., Kronos Europe S.A./N.V., Kronos (US), Inc., NL Industries, Inc., Kronos Titan GmbH & Co. OHG, Societe Industrielle du Titane, S.A., Kronos Titan A/S, Titania A/S, Kronos Limited, Kronos Canada, Inc., Kronos Denmark ApS and Kronos Louisiana Inc. - incorporated by reference to Exhibit 10.8 to Kronos International, Inc.'s Registration Statement on Form S-4 (File No. 333-100047).
- 10.11 Form of Assignment and Assumption Agreement, dated as of January 1, 1999, between Kronos (US), 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).
- 10.12 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 10.10 to Kronos International, Inc.'s Registration Statement on Form S-4 (File No. 333-100047).
- 10.13\*\*\* Richards Bay Slag Sales Agreement, dated May 1, 1995, between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos Worldwide, Inc. (f/k/a 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.
- 10.14\*\*\* Amendment to Richards Bay Slag Sales Agreement, dated May 1, 1999, between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos Worldwide, Inc. (f/k/a 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.
- 10.15\*\*\* Amendment to Richards Bay Slag Sales Agreement, dated June 1, 2001, between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos Worldwide, Inc. (f/k/a 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.
- 10.16\*\*\* Amendment to Richards Bay Slag Sales Agreement dated December 20, 2002 between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos Worldwide, Inc. (f/k/a 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.
- 10.17\*\*\* 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.

10.18 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.

- 10.19 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.
- 10.20 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.
- 10.21 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.
- 10.22 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.
- 10.23 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.
- 10.24 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.
- 10.25 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.
- 10.26 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.
- 10.27 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.
- 10.28 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.
- 10.29 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.
- 10.30 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.
- 10.31 Purchase Agreement dated January 4, 2002 by and among Kronos Worldwide, Inc. (f/k/a Kronos, Inc.) as the Purchaser, and Big Bend Holdings LLC and Contran Insurance Holdings, Inc., as Sellers regarding the sale and purchase of EWI RE, Inc. and EWI RE, Ltd. - incorporated by reference to Exhibit 10.40 to the NL Industries, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001.
- 10.32\* Amendment dated August 11, 2003 to the Contract on Supplies and Services among Bayer AG, Kronos Titan-GmbH & Co. OHG and Kronos International, Inc. (English translation of German language document).
- 21.1\*\* Subsidiaries.
- 99.1\* Preliminary Information Statement dated October 3, 2003.
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\* Filed herewith.

\*\* Previously filed.

\*\*\* Portions of the exhibit have been omitted pursuant to a request for





SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

KRONOS WORLDWIDE, INC.

By: /s/ Robert D. Graham  
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Robert D. Graham  
Vice President, General Counsel & Secretary

Dated: October 3, 2003

DISTRIBUTION AGREEMENT

This DISTRIBUTION AGREEMENT (this "Agreement") is dated as of \_\_\_\_\_, 2003 between NL Industries, Inc., a New Jersey corporation ("NL"), and Kronos Worldwide, Inc., a Delaware corporation and a wholly-owned subsidiary of NL ("Kronos").

WHEREAS, the Board of Directors of NL has authorized the distribution of approximately 23.85 million shares of common stock, par value \$.01 per share ("Kronos Common Stock"), to the holders of the issued and outstanding shares of common stock, par value \$.125 per share ("NL Common Stock"), of NL as of the Record Date (as defined below), on the basis of one share of Kronos Common Stock for every two shares of NL Common Stock (the "Distribution");

WHEREAS, immediately prior to the Distribution, Kronos will be recapitalized (the "Recapitalization") to increase the number of authorized shares of Kronos Common Stock to 60 million shares of which approximately 48.94 million shares will be issued and outstanding on the effective date of the Distribution, and Kronos will declare and pay a dividend to NL in the form of a \$200 million long-term note payable to NL (the "Term Note");

WHEREAS, it is believed that the Distribution should, among other things, enhance the ability of Kronos to capitalize on the Kronos brand name and to develop separate business relationships and strategies distinct from operating as a wholly-owned subsidiary of NL, which is expected to enhance Kronos' global competitive position; and

WHEREAS, the parties hereto have determined to set forth the transactions required to effect the Distribution and the Recapitalization.

NOW, THEREFORE, in consideration of the mutual covenants contained in this Agreement and the Ancillary Agreements (as defined below), the parties hereby agree as follows:

ARTICLE I  
DEFINITIONS

The following terms, as used herein, have the following meanings:

"Action" means any demand, claim, suit, action, arbitration, inquiry, investigation or other proceeding by or before or any Governmental Authority or any arbitration or mediation tribunal.

"Affiliate" means, with respect to any Person, any Person directly or indirectly controlling, controlled by, or under common control with such other Person. For the purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agreement" shall have the meaning set forth in the first paragraph of this Agreement.

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"Ancillary Agreements" means the Term Note, the Tax Sharing Agreement, the Intercorporate Services Agreement dated as of \_\_\_\_\_, 2003 between Contran and Kronos and the other agreements or documents contemplated hereby and thereby, as any of such documents or agreements may be amended from time to time.

"Commission" means the Securities and Exchange Commission.

"Consents" means any consents, waivers or approvals from, or notification requirements to, any third parties.

"Contran" means Contran Corporation, a Delaware corporation.

"Distribution" shall have the meaning set forth in the Recitals to this Agreement.

"Distribution Agent" means Equiserve Trust Co., N.A.

"Distribution Date" means the day as of which the Distribution shall be effected.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Finally Determined" means, with respect to any Action or other matter, that the outcome or resolution of such Action or matter has been determined by judgment, award or order not subject to further appeal or discretionary review.

"Form 10" means the registration statement on Form 10 initially filed by Kronos with the Commission on August 8, 2003 (SEC File No. 001-31763) to effect the registration of Kronos Common Stock pursuant to the Exchange Act in connection with the Distribution, as such registration statement may be amended or supplemented from time to time.

"Governmental Approvals" means any notices, reports or other filings to be made, or any consents, registrations, approvals, permits or authorizations to be obtained from, any Governmental Authority.

"Governmental Authority" means any federal, state, local, foreign or international court, government, department, commission, board, bureau, agency, official or other regulatory, administrative or governmental authority.

"Group" means, as the context requires, the Kronos Group or the NL Group.

"Indemnified Party" shall have the meaning set forth in Section 3.5 of this Agreement.

"Indemnifying Party" shall have the meaning set forth in Section 3.5 of this Agreement.

"Information Statement" means the final Information Statement, which is filed as Exhibit 99.1 to the Form 10 and which is to be sent to each holder of NL Common Stock in connection with the Distribution.

"Kronos" shall have the meaning set forth in the first paragraph of this Agreement.

"Kronos Business" means the titanium dioxide and related business and operations of Kronos and the Kronos Group, each as conducted on the Distribution Date.

"Kronos Common Stock" shall have the meaning set forth in the recitals to this Agreement.

"Kronos Financial Statements" means the financial statements of Kronos, including the notes thereto, as presented in the Information Statement.

"Kronos Group" means Kronos and its Subsidiaries and the equity or investment interest in joint ventures, partnerships and other entities that are less than majority-owned entities of Kronos or any of its Subsidiaries, each as of and after the Distribution Date.

"Kronos Indemnitees" shall have the meaning set forth in Section 3.3 of this Agreement.

"Kronos Liabilities" means, without duplication:

- (i) all Liabilities (including Taxes, other than Liabilities for Taxes that are governed by the Tax Sharing Agreement), whether arising before, on or after the Distribution Date relating to, arising out of or resulting from:
  - (A) the operation of the Kronos Business, as conducted at any time prior to, on or after the Distribution Date; or
  - (B) the operation of any business conducted by any member of the Kronos Group at any time after the Distribution Date;
- (ii) all Liabilities relating to, arising out of or resulting from any of the terminated, divested or discontinued businesses and operations of the Kronos Business; and
- (iii) all Liabilities reflected as Liabilities or obligations of Kronos in the Kronos Financial Statements.

"Liabilities" means any and all losses, claims, debts, liabilities, obligations, damages, causes of action, suits, indemnities and similar obligations, and other liabilities and requirements, including all contractual obligations and assumed liabilities, absolute or contingent, matured or not matured, liquidated or unliquidated, accrued or unaccrued, known or unknown, whenever arising, including all costs and expenses relating thereto, and including, without limitation, those debts, liabilities and obligations arising under this Agreement, any law, rule, regulation, Action, order, injunction or consent decree of any Governmental Authority, or any award of any arbitrator of any kind, and those arising under any agreement, commitment or undertaking.

"Losses" means, with respect to any Person, any and all damage, loss, liability, cost and expense incurred or suffered by such Person (including, without limitation, reasonable expenses of investigation and reasonable attorneys' fees and expenses in connection with any and all Actions or threatened Actions).

"NL" shall have the meaning set forth in the first paragraph of this Agreement.

"NL Business" means (i) the business, operations and assets of NL and its Subsidiaries as of the Distribution Date (excluding the Kronos Business) and (ii) any and all terminated, divested or discontinued businesses, assets or operations conducted by or related to NL or its Subsidiaries (excluding the Kronos Business).

"NL Common Stock" shall have the meaning set forth in the Recitals to this Agreement.

"NL Group" means NL and its Subsidiaries (other than any Subsidiary or member of, or other entity in, the Kronos Group).

"NL Indemnities" shall have the meaning set forth in Section 3.2 of this Agreement.

"NL Liabilities" means, without duplication:

(i) all Liabilities (including Taxes, other than Liabilities for Taxes that are governed by the Tax Sharing Agreement), whether arising before, on or after the Distribution Date relating to, arising out of or resulting from:

(A) the operation of the NL Business, as conducted at any time prior to, on or after the Distribution Date; or

(B) the operation of any business conducted by any member of the NL Group at any time after the Distribution Date;

(ii) all Liabilities relating to, arising out of or resulting from any of the terminated, divested or discontinued businesses, assets and operations of the NL Business; and

(iii) all Liabilities (other than Kronos Liabilities) reflected as Liabilities or obligations of NL in NL's financial statements included in its most recent Quarterly Report on Form 10-Q filed with the Commission.

"Person" means an individual, corporation, limited liability company, partnership, association, trust or other entity or organization, including a governmental or political subdivision or an agency or instrumentality thereof.

"Recapitalization" shall have the meaning set forth in the Recitals to this Agreement.

"Record Date" means the date determined by the NL Board of Directors (or determined by a committee of such Board of Directors pursuant to authority delegated to such committee by the NL Board of Directors) as the record date for determining the holders of NL Common Stock entitled to receive the Distribution.

"Representatives" shall have the meaning set forth in Section 4.5(a) of this Agreement.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Subsidiary" means, with respect to any Person, any other entity of which securities or other ownership interests having voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by such Person.

"Tax Returns" means federal, foreign, state and local returns of Taxes.

"Taxes" means the Combined Foreign, State and Local Taxes and the Federal Taxes (as such terms are defined in the Tax Sharing Agreement).

"Tax Sharing Agreement" means the Tax Agreement, dated as of \_\_\_\_\_, 2003, among Valhi, Contran and Kronos.

"Term Note" shall have the meaning set forth in the Recitals to this Agreement.

"Third-Party Claim" shall have the meaning set forth in Section 3.6 of this Agreement.

"Transaction" means, collectively, the transactions contemplated by this Agreement and the Ancillary Agreements.

"Valhi" means Valhi, Inc., a Delaware corporation.

## ARTICLE II THE RECAPITALIZATION AND THE DISTRIBUTION

Section 2.1 Issuance of Stock. Prior to or as of the Distribution Date, the parties hereto shall take all steps necessary to (i) amend and restate the Certificate of Incorporation and Bylaws of Kronos in order to, among other things, increase the number of authorized shares of Kronos' common stock to 60 million shares and (ii) reclassify in the form of a stock split the outstanding shares of Kronos Common Stock so that immediately prior to or as of the Distribution Date there shall be approximately 48.94 million shares of Kronos Common Stock outstanding.

Section 2.2 Special Dividend. On or prior to the Distribution Date, Kronos shall issue to NL as a special dividend the Term Note.

Section 2.3 Registration and Listing. Prior to the Distribution Date:

(a) NL and Kronos shall prepare, and Kronos shall file with the Commission, the Form 10, which shall include the Information Statement, and which shall set forth appropriate disclosure concerning Kronos and the Distribution. NL and Kronos shall use reasonable commercial efforts to cause the Form 10 to become effective under the Exchange Act as soon as practicable. After the Form 10 has become effective, NL shall mail the Information Statement to the holders of NL Common Stock as of the Record Date.

(b) NL and Kronos shall cooperate in preparing, filing with the Commission and causing to become effective any registration statements or

amendments thereto that are appropriate to reflect the establishment of or amendments to any employee benefit and other plans contemplated by this Agreement and the Ancillary Agreements.

(c) NL and Kronos shall take all such action as may be necessary or appropriate under the securities or blue sky laws of states or other political subdivisions of the United States (and any comparable law under any foreign jurisdiction) in connection with the Distribution.

(d) NL and Kronos shall take all reasonable steps to cause the shares of Kronos Common Stock to be eligible for listing on the New York Stock Exchange and NL and Kronos shall prepare, and Kronos shall file and pursue, an application to permit listing of the Kronos Common Stock on the New York Stock Exchange.

Section 2.4 NL Board Action; Sole Discretion of NL. NL's Board of Directors shall establish (or delegate to the appropriate officers of NL authority to establish) the Record Date and the Distribution Date and any appropriate procedures in connection with the Distribution. NL may, in its sole and absolute discretion, at any time and from time to time until the completion of the Distribution modify or change the terms of the Distribution, including, without limitation, by accelerating or delaying the timing of the consummation of all or part of the Distribution.

#### Section 2.5 Conditions Precedent to the Distribution.

(a) The following shall be conditions to NL's obligation to effect the Distribution:

(i) the Form 10 shall have been declared effective by the Commission, and no suspension, withdrawal or stop-order shall be in effect with respect thereto and no proceeding for that purpose shall have been instituted by the Commission;

(ii) the New York Stock Exchange shall have approved the listing of the Kronos Common Stock, subject to official notice of issuance;

(iii) the actions and filings with regard to state securities and blue sky laws of the United States (and any comparable law under any foreign jurisdiction) shall have been taken and, where applicable, have become effective or accepted;

(iv) no order, injunction or decree issued by any court or agency of competent jurisdiction or other legal constraint or prohibition preventing the consummation of the Transaction shall be in effect;

(v) all material Consents and Governmental Approvals necessary to consummate the Transaction shall have been obtained and be in full force and effect;

(vi) the NL Board of Directors shall be satisfied that the Distribution is lawful under applicable state and federal law;

(vii) the NL Board of Directors shall have approved the Distribution and have not abandoned or revoked the Distribution at any time before the completion of the Distribution;

(viii) Kronos' amended and restated Certificate of Incorporation and Bylaws, in substantially the forms filed as exhibits to the Form 10, shall be in effect;

(ix) each of the Ancillary Agreements shall have been duly executed and delivered by the parties thereto;

(x) no other events or developments shall have occurred subsequent to the date hereof that, in the judgment of NL, would result in the Distribution having an adverse effect on NL or on the shareholders of NL; and

(xi) this Agreement shall not have been terminated.

(b) NL and Kronos shall cooperate and take all reasonable steps necessary or appropriate to cause the conditions set forth in Section 2.5(a) (subject to Sections 2.4 and 2.5(a)(x)) to be satisfied and to effect the Distribution on the Distribution Date,

(c) The foregoing conditions are for the sole benefit of NL and shall not give rise to or create any duty on the part of NL or NL's Board of Directors to waive or not waive such conditions or in any way limit NL's right to terminate this Agreement as set forth in Section 6.8. Any determination made by NL prior to the Distribution Date concerning the satisfaction or waiver of any or all of the conditions set forth in Section 2.5(a) shall be conclusive.

Section 2.6 The Distribution. Subject to the terms and conditions set forth in this Agreement, (i) NL shall deliver to the Distribution Agent for the benefit of holders of record of NL Common Stock on the Record Date, a stock certificate or certificates, endorsed by NL in blank, representing the number of shares Kronos Common Stock to be distributed to NL shareholders in the Distribution, (ii) the Distribution shall be effective on the Distribution Date and (iii) NL shall instruct the Distribution Agent to distribute, on or as soon as practicable after the Distribution Date, to each holder of record of NL Common Stock as of the Record Date one share of Kronos Common Stock for every two shares of NL Common Stock so held; such distribution to be in book entry form. Kronos agrees to provide all certificates for shares of Kronos Common Stock that NL shall require (after giving effect to Section 2.7) in order to effect the Distribution.

Section 2.7 Fractional Shares. No fractional shares of Kronos Common Stock will be distributed in the Distribution. The Distribution Agent will be directed to determine the number of whole shares and fractional shares of Kronos Common Stock allocable to each holder of NL Common Stock as of the Record Date. Upon the determination by the Distribution Agent of the aggregate number of fractional shares, as soon as practicable after the Distribution Date, the Distribution Agent, acting on behalf of the holders thereof, shall sell such



fractional shares for cash on the open market and shall disburse to each holder entitled thereto the appropriate portion of the resulting cash proceeds (calculated by multiplying the average gross selling price per share times the number of fractional shares allocable to such holder), less a pro rata portion of the aggregate brokerage commission payable in connection with the sale.

ARTICLE III  
MUTUAL RELEASES; INDEMNIFICATION

Section 3.1 Release of Pre-Distribution Claims.

(a) Except as provided in Section 3.1(c), effective as of the Distribution Date, Kronos, on behalf of itself and each other member of the Kronos Group, their respective successors and assigns, and all Persons who at any time prior to the Distribution Date have been stockholders, directors, officers, agents or employees of any member of the Kronos Group (in each case, in their respective capacities as such), remise, release and forever discharge each of NL, the other members of the NL Group and their respective successors and assigns, and all Persons who at any time prior to the Distribution Date have been shareholders, directors, officers, agents or employees of any member of the NL Group (in each case, in their respective capacities as such), and their respective heirs, executors, administrators, successors and assigns, from any and all Kronos Liabilities whatsoever, whether at law or in equity (including any right of indemnity or contribution), whether arising under any contract or agreement, by operation of law or otherwise, existing or arising from any act or event occurring or failing to occur or alleged to have occurred or to have failed to occur or any condition existing or alleged to have existed on or before the Distribution Date, including but not limited to in connection with the Transaction and all other activities to implement the Distribution.

(b) Except as provided in Section 3.1(c), effective as of the Distribution Date, NL, on behalf of itself and each other member of the NL Group, their respective successors and assigns, and all Persons who at any time prior to the Distribution Date have been stockholders, directors, officers, agents or employees of any member of the NL Group (in each case, in their respective capacities as such), remise, release and forever discharge each of Kronos, the other members of the Kronos Group and their respective successors and assigns, and all Persons who at any time prior to the Distribution Date have been stockholders, directors, officers, agents or employees of any member of the Kronos Group (in each case, in their respective capacities as such), and their respective heirs, executors, administrators, successors and assigns, from any and all NL Liabilities whatsoever, whether at law or in equity (including any right of indemnity or contribution), whether arising under any contract or agreement, by operation of law or otherwise, existing or arising from any act or event occurring or failing to occur or alleged to have occurred or to have failed to occur or any condition existing or alleged to have existed on or before the Distribution Date, including but not limited to in connection with the Transaction and all other activities to implement the Distribution.

(c) Nothing contained in Sections 3.1(a) or (b) shall impair any right of any Person to enforce this Agreement or any Ancillary Agreement, in each case in accordance with its terms. Nothing contained in Section 3.1(a) or (b) shall release any Person from:

(i) any Liability provided in or resulting from any agreement between or among members of the NL Group, on one hand, and members of the Kronos Group, on the other hand;

(ii) any Liability that any Person may have with respect to indemnification or contribution pursuant to this Agreement for claims brought against such Person by third Persons, which Liability shall be governed by the provisions of this Article III and, if applicable, the appropriate provisions of the Ancillary Agreements; or

(iii) any Liability of any Person other than a Person specifically released pursuant to this Section 3.1.

(d) Kronos shall not make, and shall not permit any other member of the Kronos Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification, against NL or any other member of the NL Group or any other Person released pursuant to Section 3.1(a), with respect to any Liabilities released pursuant to Section 3.1(a). NL shall not make, and shall not permit any other member of the NL Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification, against Kronos or any other member of the Kronos Group or any other Person released pursuant to Section 3.1(b), with respect to any Liabilities released pursuant to Section 3.1(b).

(e) It is the intent of the parties hereto by virtue of the provisions of this Section 3.1 to provide for a full and complete release and discharge of all applicable liabilities existing or arising from all acts and events occurring or failing to occur or alleged to have occurred or to have failed to occur and all conditions existing or alleged to have existed on or before the Distribution Date, between or among Kronos or any member of the Kronos Group, on one hand, and NL or any member of the NL Group, on the other hand (including any contractual agreements or arrangements existing or alleged to exist between or among any such members on or before the Distribution Date), except as expressly set forth in Section 3.1(c). At any time, at the request of any other party, each party shall cause each member of its respective Group to execute and deliver releases reflecting the provisions hereof.

Section 3.2 Indemnification of the NL Group. Subject to Section 3.4, on and after the Distribution Date, Kronos shall indemnify, defend and hold harmless the NL Group and their respective directors, officers, employees and agents (in each case, in their respective capacities as such) (the "NL Indemnitees") from and against any and all Losses incurred or suffered by any of the NL Indemnitees relating to, arising out of or resulting from any of the following:

(a) the failure of Kronos or any other member of the Kronos Group or any other Person to pay, perform or otherwise promptly discharge any Kronos Liability in accordance with its terms, whether arising prior to or after the Distribution Date;

(b) the Kronos Business or any Kronos Liability; and

(c) any material breach by Kronos or any other member of the Kronos Group of this Agreement or any Ancillary Agreement.

Section 3.3 Indemnification of the Kronos Group. Subject to Section 3.4, on and after the Distribution Date, NL shall indemnify, defend and hold harmless the Kronos Group and their respective directors, officers, employees and agents

(in each case, in their respective capacities as such) (the "Kronos Indemnitees") from and against any and all Losses incurred or suffered by any of the Kronos Indemnitees relating to, arising out of or resulting from any of the following:

(a) the failure of NL or any other member of the NL Group or any other Person to pay, perform or otherwise promptly discharge any NL Liability in accordance with its terms, whether arising prior to or after the Distribution Date;

(b) the NL Business or any NL Liability; and

(c) any material breach by NL or any other member of the NL Group of this Agreement or any Ancillary Agreement.

Section 3.4 Insurance; Third Party Obligations; Tax Benefits. Any indemnification pursuant to Sections 3.2 or 3.3 shall be paid net of the amount of any insurance or other amounts that would be payable by any third party to the Indemnified Party (as defined below) in the absence of this Agreement (irrespective of time of receipt of such insurance or other amounts) and net of any tax benefit to the Indemnified Party attributable to the relevant payment or Liability. Such indemnification shall be increased to reflect any tax liability of the Indemnified Party so that the Indemnified Party receives 100% of the after-tax amount of any payment or liability. It is expressly agreed that no insurer or any other third party shall be (i) entitled to a benefit it would not be entitled to receive in the absence of the foregoing indemnification provisions, (ii) relieved of the responsibility to pay any claims to which it is obligated or (iii) entitled to any subrogation rights with respect to any obligation hereunder.

Section 3.5 Notice and Payment of Claims. If any NL Indemnitee or Kronos Indemnitee (the "Indemnified Party") determines that it is or may be entitled to indemnification by any party (the "Indemnifying Party") under this Article III (other than in connection with any Action subject to Section 3.6), the Indemnified Party shall deliver to the Indemnifying Party a written notice specifying, to the extent reasonably practicable, the basis for its claim for indemnification and the amount for which the Indemnified Party reasonably believes it is entitled to be indemnified. Within 30 days after receipt of such notice, the Indemnifying Party shall pay the Indemnified Party such amount in cash or other immediately available funds unless the Indemnifying Party objects to the claim for indemnification or the amount thereof. If the Indemnifying Party does not give the Indemnified Party written notice objecting to such indemnity claim and setting forth the grounds therefor within such 30-day period, the Indemnified Party shall give the Indemnifying Party an additional notice of its claims for indemnification and if the Indemnifying Party does not give the Indemnified Party written notice objecting to such claims within 10 days after receipt of such additional notice, the Indemnifying Party shall be deemed to have acknowledged its liability for such claim and the Indemnified Party may exercise any and all of its rights under applicable law to collect such amount. In the event of such a timely objection by the Indemnifying Party, the amount, if any, that is Finally Determined to be required to be paid by the Indemnifying Party in respect of such indemnity claim shall be paid by the Indemnifying Party to the Indemnified Party in cash within 15 days after such indemnity claim has been so Finally Determined. Notice and payment of all claims shall be in accordance with the provisions of this Agreement.

Section 3.6 Notice and Defense of Third-Party Claims. Promptly following the earlier of (i) receipt of notice of the commencement by a third party of any Action against or otherwise involving any Indemnified Party or (ii) receipt of information from a third party alleging the existence of a claim against an Indemnified Party, in either case, with respect to which indemnification may be sought pursuant to this Agreement (a "Third-Party Claim"), the Indemnified Party shall give the Indemnifying Party written notice thereof. The failure of the Indemnified Party to give notice as provided in this Section 3.6 shall not relieve the Indemnifying Party of its obligations under this Agreement, except to the extent that the Indemnifying Party is materially prejudiced by such failure to give notice. Within 15 days after receipt of such notice, the Indemnifying Party may (a) by giving written notice thereof to the Indemnified Party, acknowledge liability for such indemnification claim and at its option elect to assume the defense of such Third-Party Claim at its sole cost and expense or (b) object to the claim for indemnification set forth in the notice delivered by the Indemnified Party pursuant to the first sentence of this Section 3.6; provided that if the Indemnifying Party does not within such 15-day period give the Indemnified Party written notice objecting to such indemnification claim and setting forth the grounds therefor, the Indemnified Party shall give the Indemnifying Party an additional notice of its claims for indemnification and if the Indemnifying Party does not give the Indemnified Party written notice objecting to such claims within 10 days after receipt of such additional notice, the Indemnifying Party shall be deemed to have acknowledged its liability for such indemnification claim. If the Indemnifying Party has elected to assume the defense of a Third-Party Claim, (x) the defense shall be conducted by counsel retained by the Indemnifying Party and reasonably satisfactory to the Indemnified Party, provided that the Indemnified Party shall have the right to employ counsel to represent such Indemnified Party if, in such Indemnified Party's reasonable judgment, a conflict of interest between such Indemnified Party and such Indemnifying Party exists in respect of such claim that would make representation of both such parties by one counsel inappropriate, and in such event the fees and expenses of such separate counsel shall be paid by such Indemnifying Party (if the Indemnifying Party elects to assume such defense, the Indemnified Party shall have the right to participate in the defense thereof and to employ counsel, subject to the foregoing proviso, at its own expense, separate from the counsel employed by the Indemnifying Party, it being understood that the Indemnifying Party shall control such defense); and (y) the Indemnifying Party may settle or compromise the Third Party Claim without the prior written consent of the Indemnified Party so long as such settlement includes an unconditional release of the Indemnified Party from all claims that are the subject of such Third Party Claim, provided that the Indemnifying Party may not agree to any such settlement pursuant to which any remedy or relief, other than monetary damages for which the Indemnifying Party shall be responsible hereunder, shall be applied to or against the Indemnified Party, without the prior written consent of the Indemnified Party, which consent shall not be unreasonably withheld. If the Indemnifying Party does not assume the defense of a Third-Party Claim for which it has acknowledged liability for indemnification hereunder, the Indemnified Party may require the Indemnifying Party to reimburse it on a current basis for its reasonable expenses of investigation, reasonable attorneys' fees and reasonable out-of-pocket expenses incurred in defending against such Third-Party Claim and the Indemnifying Party shall be bound by the result obtained with respect thereto by the Indemnified Party; provided that the Indemnifying Party shall not

be liable for any settlement effected without its consent, which consent shall not be unreasonably withheld. The Indemnifying Party shall pay to the Indemnified Party in cash the amount, if any, for which the Indemnified Party is entitled to be indemnified hereunder within 15 days after such Third Party Claim has been Finally Determined, in the case of an indemnity claim as to which the Indemnifying Party has acknowledged liability or, in the case of any indemnity claim as to which the Indemnifying Party has not acknowledged liability, within 15 days after such Indemnifying Party's objection to liability hereunder has been Finally Determined.

Section 3.7 Contribution. If for any reason the indemnification provided for in this Article III is unavailable to any Indemnified Party, or insufficient to hold it harmless, then the Indemnifying Party shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party, on one hand, and the Indemnified Party, on the other hand, with respect to the actions or omissions that resulted in such Liabilities as well as any other relevant equitable considerations. The amount paid or payable by an Indemnified Party as a result of the Liabilities referred to above in this Section 3.7 shall be deemed to include any attorneys' fees or other out-of-pocket expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such Liability or Action.

No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

If indemnification is available under Section 3.2 or 3.3, the Indemnifying Party shall indemnify the Indemnified Party to the full extent provided in Section 3.2 or 3.3, as applicable, without regard to the relative fault of the Indemnifying Party or Indemnified Party or any other equitable consideration provided for in this Section 3.7.

Section 3.8 Non-Exclusivity of Remedies. The remedies provided for in this Article III are not exclusive and shall not limit any rights or remedies that may otherwise be available to any Indemnified Party at law or in equity.

Section 3.9 Survival of Indemnification Obligations. The rights and obligations of the parties and their respective Indemnified Parties under this Article III shall survive the Distribution Date to the full extent permitted under applicable law and shall survive the sale or other transfer by any party of any assets or the assignment by it of any Liabilities or the sale by any member of the NL Group or the Kronos Group of the stock or other equity interest of any Subsidiary or the equity or investment interest in joint ventures, partnerships and other less than majority-owned entities of any Person.

#### ARTICLE IV ACCESS TO INFORMATION

Section 4.1 Access to Information. From and after the Distribution Date, each Group shall, upon request therefor, afford promptly to the other Group and its accountants, counsel and other designated representatives reasonable access during normal business hours to all documents, contracts, books, records, computer data, Tax Returns (and any information related thereto) and other data in such Group's possession relating to such other Group or the business and

affairs of such other Group (other than data and information subject to an attorney/client or other privilege), insofar as such access is reasonably required by such other Group, including, without limitation, for audit, accounting, litigation, disclosure reporting and regulatory compliance purposes.

Section 4.2 Litigation Cooperation. Each Group shall use reasonable efforts to make available to the other Group and its accountants, counsel, and other designated representatives, upon written request, its directors, officers, employees and representatives as witnesses, and shall otherwise cooperate with the other Group, to the extent reasonably required in connection with any Action arising out of either Group's business and operations prior to the Distribution Date in which the requesting party may from time to time be involved.

Section 4.3 Reimbursement. Each Group providing information or witnesses to the other Group, or otherwise incurring any expense in connection with cooperating, under Sections 4.1 or 4.2 shall be entitled to receive from the recipient thereof, upon the presentation of invoices therefor, payment for all out-of-pocket costs and expenses as may be reasonably incurred in providing such information, witnesses or cooperation. To the extent necessary to enforce rights hereunder, each Group shall be entitled to recover expenses incurred for which it is entitled to reimbursement hereunder pursuant to the indemnification provisions set forth in Article III of this Agreement.

Section 4.4 Retention of Records. Except as otherwise required by law or agreed to in writing, each party shall, and shall cause the members of its respective Group to, retain all information relating to the other Group's business and operations in accordance with past practice of such party (provided that all Tax Returns and information related thereto will be retained for a period of not less than six years). Notwithstanding the foregoing, any party may destroy or otherwise dispose of any such information at any time, provided that, prior to such destruction or disposal, (i) such party shall provide not less than 90 days' prior written notice to the other party, specifying the information proposed to be destroyed or disposed of and the scheduled date for such destruction or disposal and (ii) if the recipient of such notice shall request in writing prior to the scheduled date for such destruction or disposal that any of the information proposed to be destroyed or disposed of be delivered to such requesting party, the party proposing the destruction or disposal shall promptly arrange for the delivery of such of the information as was requested at the expense of the requesting party.

#### Section 4.5 Confidentiality.

(a) Each party shall hold and shall cause its directors, officers, employees, agents, consultants and advisors ("Representatives") to hold in strict confidence all information (other than any such information relating solely to the business or affairs of such party) concerning the other party unless (i) such party is compelled to disclose such information by judicial or administrative process or, in the opinion of its counsel, by other requirements of law or (ii) such information can be shown to have been (A) in the public domain through no fault of such party or (B) lawfully acquired after the Distribution Date on a non-confidential basis from other sources. Notwithstanding the foregoing, such party may disclose such information to its

Representatives so long as such Persons are informed by such party of the confidential nature of such information and are directed by such party to treat such information confidentially. If such party or any of its Representatives becomes legally compelled to disclose any documents or information subject to this Section 4.5, such party will promptly notify the other party so that the other party may seek a protective order or other remedy or waive such party's compliance with this Section 4.5. If no such protective order or other remedy is obtained or waiver granted, such party will furnish only that portion of the information which it is advised by counsel is legally required and will exercise its reasonable efforts to obtain adequate assurance that confidential treatment will be accorded such information. Such party agrees to be responsible for any breach of this Section 4.5 by it and its Representatives.

(b) Notwithstanding anything set forth herein to the contrary (including the confidentiality provision set forth in this Section 4.5) or in any other agreement to which a party hereto is bound, the parties hereto (and any employee, representative or other agent of any of the parties) are hereby expressly authorized to disclose the "tax treatment" or "tax structure" (as those terms are defined in Treas. Reg. ss.ss. 1.6011-4(c)(8) and (9), respectively) of the Transaction and all materials of any kind (including opinions or other tax analyses) that are provided to the parties relating to such "tax treatment" or "tax structure" of the Transaction, except that "tax structure" or "tax treatment" shall not include the identity of any existing or future party or its Affiliates.

Section 4.6 Privileged Matters. The parties hereto recognize that legal and other professional services that have been and will be provided prior to the Distribution Date have been and will be rendered for the benefit of each of the members of the NL Group and each of the members of the Kronos Group, and that each of the members of the NL Group and each of the members of the Kronos Group should be deemed to be the client for the purposes of asserting all privileges which may be asserted under applicable law. Except as otherwise specifically provided in the Tax Sharing Agreement with respect to tax matters, to allocate the interests of each party in the information as to which any party is entitled to assert a privilege, the parties agree as follows:

(a) NL shall be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information that relates solely to the NL Business, whether or not the privileged information is in the possession of or under the control of NL or Kronos. NL shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information that relates solely to the subject matter of any claims constituting any NL Liability now pending or that may be asserted in the future, in any Action initiated against or by NL, whether or not the privileged information is in the possession of or under the control of NL or Kronos.

(b) Kronos shall be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information that relates solely to the Kronos Business, whether or not the privileged information is in the possession of or under the control of NL or Kronos. Kronos shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information that relates solely to the subject matter of any claims constituting Kronos Liabilities, now pending or which may be asserted in the future, in any Action initiated against or by Kronos, whether or not the privileged information is in the possession of Kronos or under the control of NL or Kronos.

(c) The parties hereto agree that they shall have a shared privilege, with equal right to assert or waive, subject to the restrictions in this Section 4.6, with respect to all privileges not allocated pursuant to the terms of Sections 4.6(a) and (b). All privileges relating to any Action, disputes or other matters that involve NL and Kronos in respect of which such parties retain any responsibility or liability under this Agreement shall be subject to a shared privilege among them.

(d) No party hereto may waive any privilege which could be asserted under any applicable law, and in which any other party hereto has a shared privilege, without the consent of the other party, which consent shall not be unreasonably withheld or delayed, except to the extent reasonably required in connection with any Third-Party Claim or as provided in Section 4.6(e). Consent shall be in writing, or shall be deemed to be granted unless written objection is made within 20 days after notice upon the other party requesting such consent.

(e) In the event of any Action or dispute between any of the parties hereto, any party and a Subsidiary of another party hereto, or a Subsidiary of one party hereto and a Subsidiary of another party hereto, either such party, to the extent necessary in connection with such Action or dispute, may waive a privilege in which the other party has a shared privilege, without obtaining the consent of the other party, provided that such waiver of a shared privilege shall be effective only as to the use of information with respect to such Action or dispute between the relevant parties and/or their Subsidiaries, and shall not operate as a waiver of the shared privilege with respect to third parties.

(f) If a dispute arises between or among the parties hereto or their respective Subsidiaries regarding whether a privilege should be waived to protect or advance the interest of any party, each party agrees that it shall negotiate in good faith, shall endeavor to minimize any prejudice to the rights of the other parties, and shall not unreasonably withhold consent to any request for waiver by another party. Each party hereto specifically agrees that it will not withhold consent to waiver for any purpose except to protect its own legitimate interests.

(g) Upon receipt by any party hereto or by any Subsidiary thereof of any subpoena, discovery or other request which arguably calls for the production or disclosure of information subject to a shared privilege or as to which another party has the sole right hereunder to assert a privilege, or if any party obtains knowledge that any of its or any of its Subsidiaries' current or former officers or directors has received any subpoena, discovery or other requests which arguably calls for the production or disclosure of such privileged information, such party shall promptly notify the other party of the existence of the request and shall provide the other party a reasonable opportunity to review the information (to the extent such information is available to such party) and to assert any rights it or they may have under this Section 4.6 or otherwise to prevent the production or disclosure of such privileged information.

(h) The transfer of all records and other information pursuant to this Agreement is made in reliance on the agreement of NL and Kronos, as set forth in Sections 4.5 and 4.6, to maintain the confidentiality of privileged information and to assert and maintain all applicable privileges. The access to information being granted pursuant to Section 4.1, the agreement to cooperate with respect to litigation pursuant to Section 4.2, the furnishing of notices and documents and other cooperative efforts contemplated by Section 3.6, and the transfer of



privileged information between and among the parties and their respective Subsidiaries pursuant to this Agreement shall not be deemed a waiver of any privilege that has been or may be asserted under this Agreement or otherwise.

(i) Any waiver of privilege granted pursuant to this Section 4.6 shall only be valid if given in writing and signed by an authorized officer of the party granting such waiver.

ARTICLE V  
FURTHER ASSURANCES

In addition to the actions specifically provided for elsewhere in this Agreement, each of the parties hereto shall use its reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things, reasonably necessary, proper or advisable under applicable laws, regulations and agreements or otherwise to consummate and make effective the Transaction, including but not limited to using its reasonable commercial efforts to obtain any Consents and to make any filings and applications necessary or desirable in order to consummate the Transaction; provided that no party hereto shall be obligated to pay any consideration therefor (except for filing fees and other similar charges) to any third party from whom such Consents are requested or to take any action or omit to take any action if the taking of or the omission to take such action would be unreasonably burdensome to the party, its Group or its Group's business.

ARTICLE VI  
MISCELLANEOUS

Section 6.1 Amendments; No Waivers.

(a) Any provision of this Agreement may be amended or waived if, and only if, such amendment or waiver is in writing and signed, in the case of an amendment, by NL and Kronos, or in the case of a waiver, by the party against whom the waiver is to be effective.

(b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 6.2 Expenses. Except as specifically provided otherwise in this Agreement or any Ancillary Agreement, all costs and expenses incurred by the NL Group in connection with the Transaction shall be paid by NL, and all costs and expenses incurred by the Kronos Group in connection with the Transaction shall be paid by Kronos.

Section 6.3 Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided that neither party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement, including transfers or assignments by operation of law, without the consent of the other party hereto. If any party or any of its successors or assigns (i) shall consolidate with or merge into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or

merger or (ii) shall transfer all or substantially all of its properties and assets to any Person, then, and in each such case, proper provisions shall be made to the satisfaction of the other party so that the successors and assigns of such party shall assume all of the obligations of such party under this Agreement and each Ancillary Agreement.

Section 6.4 Governing Law. This Agreement shall be construed in accordance with and governed by the law of the State of Texas, without regard to the conflicts of laws rules thereof.

Section 6.5 Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other parties hereto.

Section 6.6 Entire Agreement. This Agreement and the Ancillary Agreements constitute the entire understanding of the parties with respect to the subject matter hereof and thereof and supersedes all prior agreements, understandings and negotiations, both written and oral, between the parties with respect to the subject matter hereof and thereof. No representation, inducement, promise, understanding, condition or warranty not set forth herein or in the Ancillary Agreements has been made or relied upon by any party hereto. Neither this Agreement nor any provision hereof is intended to confer upon any Person other than the parties hereto any rights or remedies hereunder. To the extent that the provisions of this Agreement are inconsistent with the provisions of any Ancillary Agreement, the provisions of such Ancillary Agreement shall prevail.

Section 6.7 Jurisdiction. Any Action seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the Transaction may be brought in the United States District Court for the Northern District of Texas or any other Texas state court sitting in Dallas County, and each of the parties hereby consents to the jurisdiction of such courts (and of the appropriate appellate courts therefrom) in any such suit, action or proceeding and irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding which is brought in any such court has been brought in an inconvenient form. Process in any such suit, action or proceeding may be served on any party anywhere in the world, whether within or without the jurisdiction of any such court.

Section 6.8 Termination Prior to the Distribution. The NL Board of Directors may at any time prior to the Distribution abandon the Distribution and, by notice to Kronos, terminate this Agreement (whether or not the NL Board of Directors has theretofore approved this Agreement and/or the Distribution).

Section 6.9 Severability. If any one or more of the provisions contained in this Agreement should be declared invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained in this Agreement shall not in any way be affected or impaired thereby so long as the economic or legal substance of the Transaction is not affected in

any manner materially adverse to any party. Upon such a declaration, the parties shall modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner so that the Transaction is consummated as originally contemplated to the fullest extent possible.

Section 6.10 Survival. All covenants and agreements of the parties contained in this Agreement shall survive the Distribution Date indefinitely, unless a specific survival or other applicable period is expressly set forth herein.

Section 6.11 Captions. The captions herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof.

Section 6.12 Specific Performance. Each party to this Agreement acknowledges and agrees that damages for a breach or threatened breach of any of the provisions of this Agreement would be inadequate and irreparable harm would occur. In recognition of this fact, each party agrees that, if there is a breach or threatened breach, in addition to any damages, the nonbreaching party to this Agreement, without posting any bond, shall be entitled to seek and obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction, attachment, or any other equitable remedy which may then be available to obligate the breaching party (i) to perform its obligations under this Agreement or (ii) if the breaching party is unable, for whatever reason, to perform those obligations, to take any other actions as are necessary, advisable or appropriate to give the other party to this Agreement the economic effect that comes as close as possible to the performance of those obligations (including, but not limited to, transferring, or granting liens on, the assets of the breaching party to secure the performance by the breaching party of those obligations).

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the date first above written.

NL INDUSTRIES, INC.

By: \_\_\_\_\_  
Name:  
Title:

KRONOS WORLDWIDE, INC.

By: \_\_\_\_\_  
Name:  
Title:

FIRST AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
KRONOS, INC.

The undersigned officer of Kronos, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the state of Delaware (the "Corporation"), does hereby certify as follows:

1. That the Corporation was originally incorporated under the name Kronos (USA), Inc. and its original certificate of incorporation was filed with the Secretary of State of the state of Delaware on October 13, 1989.

2. That the board of directors of the Corporation, in accordance with sections 242, 245 and 141(f) of the General Corporation Law of the state of Delaware, adopted resolutions by unanimous written consent as of September 24, 2003 recommending that the existing certificate of incorporation of the Corporation, be amended and restated in its entirety to read as set forth in this First Amended and Restated Certificate of Incorporation attached hereto as Exhibit A, and ordered that such First Amended and Restated Certificate of Incorporation be submitted to the sole stockholder of the Corporation entitled to vote thereon for its approval by written consent in lieu of a special meeting of stockholders called for that purpose.

3. That, in accordance with sections 242, 245 and 228 of the General Corporation Law of the state of Delaware, as of September 24, 2003 the sole holder of all of the outstanding shares of the Corporation's common Stock, par value \$0.01 per share, approved and adopted the First Amended and Restated Certificate of Incorporation set forth on Exhibit A attached hereto by written consent in lieu of a special meeting of stockholders called for that purpose.

4. That upon the filing and effectiveness of this First Amended and Restated Certificate of Incorporation, the certificate of incorporation of the Corporation will be amended and restated in its entirety to read as set forth on Exhibit A attached hereto.

Kronos, Inc. has caused this certificate to be signed by Robert D. Graham, its vice president, as of September 24, 2003.

KRONOS, INC.

By: /s/ Robert D. Graham

-----  
Robert D. Graham, Vice President

KRONOS, INC. FIRST AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

EXHIBIT A

FIRST AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION

OF

KRONOS WORLDWIDE, INC.

-----  
ARTICLE I.  
NAME

The name of the corporation is KRONOS WORLDWIDE, INC. (the "Corporation").

ARTICLE II.  
REGISTERED OFFICE AND AGENT

The address of the Corporation's registered office in the state of Delaware is Corporation Service Company, 2711 Centerville Road, Suite 400, city of Wilmington, county of New Castle, state of Delaware 19808. The name of the Corporation's registered agent at such address is Corporation Service Company.

ARTICLE III.  
PURPOSE

The nature of the business or purposes to be conducted or promoted by the Corporation is to engage in any lawful business, act or activity for which corporations may be organized under the General Corporation Law of the state of Delaware as it may be amended from time to time (the "DGCL").

ARTICLE IV.  
AUTHORIZED STOCK

Section 4.1. Authorized Stock. The total number of shares of stock that the

Corporation shall have authority to issue is 60,100,000 shares, consisting of 60,000,000 shares of common stock, par value \$0.01 per share (the "Common Stock"), and 100,000 shares of preferred stock, par value \$0.01 per share (the "Preferred Stock").

Section 4.2. Common Stock. The rights of the holders of common stock shall be subject to the rights of holders of Preferred Stock and any other applicable provisions of this certificate of incorporation.

Section 4.3. Preferred Stock. The board of directors is expressly authorized, at any time and from time to time, to provide for the issuance of shares of Preferred Stock in one or more series with such designations,

preferences and relative, participating, optional or other special rights, and such qualifications, limitations or restrictions thereof, as shall be expressed in the resolution or resolutions providing for the issuance thereof adopted by the board of directors and as are not inconsistent with this certificate of incorporation or any amendment hereto, and as may be permitted by the DGCL.

Section 4.4. Record Holders. The Corporation shall be entitled to treat the person in whose name any share of its stock is registered as the owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the Corporation shall have notice thereof, except as expressly provided by applicable law.

Section 4.5. Stock Split. Effective as of 5:00 p.m., Eastern time, on the date this First Amended and Restated Certificate of Incorporation is filed with the Secretary of State of the state of Delaware, the 1,000 shares of Common Stock issued and outstanding immediately prior to such time shall automatically and without any action on the part of the holder thereof, be recapitalized in the form of a split into 48,943,049 shares of Common Stock (the "Stock Split"). Promptly after such effectiveness, each record holder of a certificate that, immediately prior to such effectiveness, represented shares of Common Stock shall be entitled to receive in exchange for such certificate, upon surrender of such certificate to the Corporation, a certificate for the number of shares of Common Stock to which the holder is entitled as a result of the Stock Split. Until surrendered and exchanged in accordance herewith, each certificate that, immediately prior to such effectiveness, represented Common Stock shall represent the number of shares of Common Stock to which the holder is entitled as a result of the Stock Split.

ARTICLE V.  
EXISTENCE

The Corporation is to have perpetual existence.

ARTICLE VI.  
BYLAWS

In furtherance and not in limitation of the powers conferred by statute, the board of directors is expressly authorized to adopt, amend or repeal the bylaws or adopt new bylaws.

ARTICLE VII.  
MEETINGS OF STOCKHOLDERS  
BOOKS OF CORPORATION  
ELECTION OF DIRECTORS

Meetings of stockholders may be held within or without the state of Delaware, as the bylaws of the Corporation may provide. The books of the Corporation may be kept outside the state of Delaware at such place or places as may be designated from time to time by the board of directors or in the bylaws of the Corporation. Election of directors need not be written ballot unless the bylaws of the Corporation so provide.

ARTICLE VIII.  
INDEMNIFICATION

The Corporation shall, to the fullest extent permitted by law, indemnify any and all officers and directors of the Corporation, and may, to the fullest extent permitted by law or to such lesser extent as is determined in the discretion of the board of directors, indemnify all other persons from and against all expenses, liabilities or other matters and advance expenses to all persons whom it shall have the power to indemnify.

ARTICLE IX.  
DIRECTOR LIABILITY

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for such liability as is expressly not subject to limitation under the Delaware General Corporation Law, as the same exists or may hereafter be amended to further limit or eliminate such liability. Any repeal or modification of this ARTICLE by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

ARTICLE X.  
CERTAIN BUSINESS COMBINATIONS

The Corporation expressly elects not to be governed by Section 203 of the General Corporation Law of the state of Delaware.

ARTICLE XI.  
SETTLEMENTS WITH CREDITORS OR STOCKHOLDERS

Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the state of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.



ARTICLE XII.  
AMENDMENT

The Corporation shall have the right, subject to any express provisions or restrictions contained in this certificate of incorporation or bylaws of the Corporation, from time to time, to amend this certificate of incorporation or any provision thereof in any manner now or hereafter provided by law, and all rights and powers of any kind conferred upon a director or stockholder of the Corporation by this certificate of incorporation or any amendment thereof are conferred subject to such right.

AMENDED AND RESTATED  
BYLAWS

OF

KRONOS WORLDWIDE, INC.  
a Delaware Corporation  
(Amended and Restated as of September 24, 2003)

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AMENDED AND RESTATED  
BYLAWS

OF

KRONOS WORLDWIDE, INC.  
a Delaware Corporation  
(Amended and Restated as of September 24, 2003)

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ARTICLE I.  
REGISTERED AGENT AND OFFICES

Section 1.1. Registered Agent and Office. The registered agent and office of the corporation shall be such person or entity and located at such place within the state of Delaware as the board of directors may from time to time determine.

Section 1.2. Other Offices. The corporation may also have offices at such other places, both within and without the state of Delaware, as the corporation's board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II.  
MEETINGS OF STOCKHOLDERS

Section 2.1. Place and Time of Meetings. All meetings of the stockholders shall be held on such date and at such time and place, within or without the state of Delaware, as shall be determined, from time to time, by the board of directors or by means of remote communication. The place at which a meeting of stockholders shall be held shall be stated in the notice and call of the meeting or a duly executed waiver of notice thereof. The chairman of the board, the president, the chief executive officer, the board of directors or the holders of at least 15 percent of the shares of the corporation that would be entitled to vote at such a meeting may call special meetings of stockholders. If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by facsimile transmission to the chairman of the board, the president, the chief executive officer or the secretary of the corporation. No business may be transacted at such special meeting other than specified in such notice. Nothing contained in this Section shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

Section 2.2. Business to be Transacted at Meetings. At a meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before a special meeting, business must be specified in the notice of the meeting (or any supplement thereto). To be properly brought before an annual meeting, business must be (a) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors or (c) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must, in addition to any requirements imposed by federal securities law or other applicable laws, have given timely notice thereof in writing to the secretary of the corporation. To be timely for an annual meeting, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation, no later than (i) if the corporation mailed notice of the last annual meeting or publicly disclosed the date of such meeting and the annual meeting for the current year has not changed more than thirty days from such date (as if in the current year), forty-five days before the earlier of the date (as if in the current year) of such mailing or public disclosure or (ii)

otherwise ninety days prior to the annual meeting. A stockholder's notice to the secretary with regard to an annual meeting shall set forth as to each order of business that the stockholder proposes to bring before the meeting (a) a brief description of such business desired to be brought before the meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the corporation that are beneficially owned by the stockholder and (d) any material interest of the stockholder in such business. The chairman of the meeting may refuse to bring before a meeting any business not properly brought before the meeting in compliance with this section.

Section 2.3. Notice. Notice of the time and place of an annual meeting of stockholders and notice of the time, place and purpose or purposes of a special meeting of the stockholders shall be given by remote communications or by mailing written or printed notice of the same not less than 10, nor more than 60, days prior to the meeting, with postage prepaid, to each stockholder of record of the corporation entitled to vote at such meeting, and addressed to the stockholder's last known post office address or to the address appearing on the corporate books of the corporation.

Section 2.4. List of Stockholders. The officer or agent having charge of the stock transfer books of the corporation shall make, at least 10 days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at such meeting arranged in alphabetical order, specifying the address of and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least 10 days prior to the meeting on a reasonably accessible electronic network or, during ordinary business hours, at the principal place of business of the corporation. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present. The original stock transfer books shall be the only evidence as to who are the stockholders entitled to examine such list or transfer book or to vote at any such meeting of stockholders.

Section 2.5. Quorum. The holders of a majority of the votes entitled to be cast at any meeting of stockholders, counted as a single class if there be more than one class of stock entitled to vote at such meeting, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders except as otherwise provided by statute or by the certificate of incorporation. Once a quorum is present at a meeting of the stockholders, the stockholders represented in person or by proxy at the meeting may conduct such business as may be properly brought before the meeting until it is adjourned, and the subsequent withdrawal from the meeting by any stockholder or the refusal of any stockholder represented in person or by proxy to vote shall not affect the presence of a quorum at the meeting. If a quorum is not present, the chairman of the meeting or the holders of the shares present in person or represented by proxy at the meeting, and entitled to vote thereat, shall have the power, by the affirmative vote of the holders of a majority of such shares, to adjourn the meeting to another time and/or place. Unless the adjournment is for more than thirty days or unless a new record date is set for the adjourned meeting, no notice of the adjourned meeting need be given to any stockholder provided that the time and place of the adjourned meeting were announced at the meeting at which the adjournment was taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting.

Section 2.6. Proxies. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy. A telegram, telex, cablegram or reliable electronic transmission executed or duly authorized by the stockholder, or a photographic, photostatic, facsimile or reliable reproduction of a writing executed or duly authorized by the stockholder shall be treated as an execution in writing for purposes of this section. No proxy shall be valid after three years from the date of its execution unless otherwise provided in the proxy. Each proxy shall be revocable unless the proxy form conspicuously states that the proxy is irrevocable and the proxy is coupled with an interest.

Section 2.7. Order of Business. The order of business at each such stockholders meeting shall be as determined by the chairman of the meeting. One of the following persons, in the order in which they are listed (and in the absence of the first, the next, and so on), shall serve as chairman of the meeting: the chairman of the board, vice chairman of the board, president, the chief executive officer, vice presidents (in the order of their seniority if more than one) and secretary. The chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the corporation, restrictions on entry to such meeting after the time prescribed for the commencement thereof, and the opening and closing of the voting polls.

Section 2.8. Appointment of Inspectors of Election. The board of directors shall appoint one or more inspectors of election ("inspectors") to act at such meeting or any adjournment or postponement thereof and make a written report thereof. The board of directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is so appointed or if no inspector or alternate is able to act, the chairman of the board, the vice chairman of the board, the president or the chief executive officer shall appoint one or more inspectors to act at such meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors may be directors, officers or employees of the corporation.

Section 2.9. Action Without a Meeting.

(a) Any action to be taken at a meeting of the stockholders, may be taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holder or holders of shares having not less than the minimum number of votes that would be necessary to take such action at a meeting at which the holders of all shares entitled to vote on the action were present and voted.

(b) Every written consent of the stockholders shall bear the date of signature of each stockholder who signs the consent. No written consent shall be effective to take the action that is the subject of the consent unless, within 60 days after the date of the earliest dated consent delivered to the corporation as provided below, a consent or consents signed by the holder or holders of shares having not less than the minimum number of votes that would be necessary to take the action that is the subject of the consent are delivered to the corporation by delivery to its registered office, its principal place of business, or an officer or agent of the corporation having custody of the books in which proceedings of meetings of the stockholders are recorded. Such delivery shall be made by hand or by certified or registered mail, return receipt requested, and in the case of delivery to the corporation's principal place of business, shall be addressed to the president or chief executive officer of the corporation.

(c) A telegram, cablegram or electronic transmission by a stockholder, or a photographic, photostatic, facsimile or other reliable reproduction of a writing signed or transmitted by a stockholder, shall be regarded as signed by the stockholder for the purposes of this section.

(d) Prompt notice of the taking of any action by stockholders without a meeting by less than unanimous written consent shall be given to those stockholders who did not consent in writing to the action and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of holders to take the action were delivered to the corporation.

Section 2.10. Fixing A Record Date. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action.

If the board of directors does not so fix a record date:

(a) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(b) The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the board of directors is necessary, shall be the day on which the first written consent is expressed.

(c) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

Section 2.11. Telephone Meetings. Stockholders may participate in and hold a meeting by means of conference telephone or similar communication equipment by means of which all persons participating in the meeting can hear each other. Participation in such a meeting shall constitute presence in person at the meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 2.12. Minutes. The stockholders shall cause regular minutes of their proceedings to be kept, and such minutes shall be placed in the minute book of the corporation.

### ARTICLE III. DIRECTORS

Section 3.1. Number, Qualifications and Term of Office. The business and affairs of the corporation shall be managed by a board of directors. Subject to the preferential voting rights of the holders of preferred stock or any other class of capital stock of the corporation or any series of any of the foregoing that is then outstanding, the board of directors shall consist of one or more members. The number of members of the board of directors shall be fixed from time to time (i) by the board of directors pursuant to a resolution adopted by a majority of the entire board of directors or (ii) by the stockholders pursuant to a resolution adopted by a majority of the holders of shares of the corporation entitled to vote for the election of directors; provided, however, that if the stockholders have acted to fix the number of directors, any action by the board of directors to fix another number shall only become effective on or after the first annual meeting of stockholders that follows such stockholder action. Each director shall be elected at the annual meeting of the stockholders, except as provided in Section 3.4, and each director elected shall hold office until the next annual meeting of stockholders and until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term expires.

Section 3.2. Nomination of Director Candidates. Subject to the preferential voting rights of the holders of preferred stock or any other class of capital stock of the corporation or any series of any of the foregoing that is then outstanding, nominations for the election of directors may be made by the board of directors or by any stockholder entitled to vote for the election of directors. Any stockholder entitled to vote for the election of a director at a meeting may nominate persons for whom such stockholder may vote only if written notice of such stockholder's intent to make such nomination is given, either by personal delivery or by United States mail, postage prepaid, to the secretary of the corporation not later than (a) with respect to an election to be held at an annual meeting of stockholders, (i) if the corporation mailed notice of the last annual meeting or publicly disclosed the date of such meeting and the annual meeting for the current year has not changed more than thirty days from such date (as if in the current year), forty-five days before the earlier of the date (as if in the current year) of such mailing or public disclosure or (ii) otherwise ninety days prior to the annual meeting and (b) with respect to an election to be held at a special meeting of stockholders for the election of directors, the close of business on the tenth day following the date on which

notice of such meeting is first given to stockholders. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons intended to be nominated; (b) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had such requirements been applicable and each nominee been nominated, or intended to be nominated, by the board of directors; and (e) the consent of each nominee to serve as a director of the corporation if so elected. The chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with this section.

Section 3.3. Removals. Subject to the preferential voting rights of the holders of preferred stock or any other class of capital stock of the corporation or any series of any of the foregoing that is then outstanding, each director may be removed from office at any time by the stockholders, with or without cause, by the affirmative vote of the holders of at least a majority of the voting power of all of the shares of the corporation entitled to vote for the election of such director.

Section 3.4. Vacancies. Subject to the preferential voting rights of the holders of preferred stock or any other class of capital stock of the corporation or any series of any of the foregoing that is then outstanding and except as otherwise required by law, all vacancies in the board of directors, whether caused by resignation, death or otherwise, may be filled by a majority of the remaining directors though less than a quorum; provided, however, that any vacancy resulting from an increase in the number of directors that is the result of a resolution adopted by the stockholders of the corporation may be filled by the stockholders of the corporation in accordance with the laws of the state of Delaware, any other applicable provisions of the certificate of incorporation and these bylaws. Each director so chosen shall hold office for the unexpired term of his or her predecessor and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal.

Section 3.5. Annual Meeting. The annual meeting of the board of directors may be held without notice immediately after the annual meeting of stockholders at the location of the stockholders' meeting. If not held immediately after the annual meeting of the stockholders, the annual meeting of the board of directors shall be held as soon thereafter as may be convenient.

Section 3.6. Other Meetings and Notice. Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board of directors. Special meetings of the board of directors may be called by or at the request of the chairman of the board, the vice chairman of the board, the president or the or chief executive officer and shall be called by the chairman of the board on the written request of a majority of directors, in each case on at least twenty-four hours notice to each director.

Section 3.7. Quorum. A majority of the total number of directors shall be necessary at all meetings to constitute a quorum for the transaction of business. If a quorum shall not be present at any meeting of the board of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present. At such adjourned meeting at which a quorum shall be present, any business may be transacted that might have been transacted at the meeting as originally notified and called.

Section 3.8. Committees. Standing or temporary committees consisting of one or more directors of the corporation may be appointed by the board of directors from time to time, and the board of directors may from time to time invest such committees with such powers as it may see fit, subject to limitations imposed by statute and such conditions as may be prescribed by the board of directors. An executive committee may be appointed by resolution passed by a majority of the entire board of directors and if appointed it shall have all the powers provided by statute, except as specially limited by the board of directors. All committees so appointed shall keep regular minutes of the transactions of their meetings and shall cause them to be recorded in books kept for that purpose in the office of the corporation, and shall report the same to the board of directors at its next meeting. The board of directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The board shall have the power at any time to change the membership of, to increase or decrease the membership of, to fill all vacancies in and to discharge any committee of the board, or any member thereof, either with or without cause.



Section 3.9. Committee Rules. Each committee of the board of directors may fix its own rules of procedure and shall hold its meetings as provided by such rules, except as may otherwise be provided by the resolution of the board of directors designating such committee, but in all cases the presence of at least a majority of the members of such committee shall be necessary to constitute a quorum.

Section 3.10. Telephonic Meetings. Members of the board of directors or any committee designated by the board of directors may participate in any meeting of the board of directors or such committee by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other. Participation in such a meeting shall constitute presence in person at such meeting.

Section 3.11. Presumption of Assent. A director of the corporation who is present at a meeting of the board of directors or any committee thereof at which action on any corporate matter is taken shall be deemed to have assented to the action taken unless his or her dissent shall be entered in the minutes of the meeting or unless he or she shall file his or her written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

Section 3.12. Action Without a Meeting. Any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting if all members of the board of directors or such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board of directors or committee. Action taken pursuant to such written consent of the board of directors or of any committee thereof shall have the same force and effect as if taken by the board of directors or the committee, as the case may be, at a meeting thereof.

Section 3.13. Compensation. The board of directors shall have the authority to fix the compensation of directors.

Section 3.14. Minutes. The board of directors shall cause to be kept regular minutes of its proceedings, and such minutes shall be placed in the minute book of the corporation.

#### ARTICLE IV. OFFICERS

Section 4.1. Number. The officers of the corporation shall be a chairman of the board, a vice chairman of the board, a president, one or more vice presidents, a secretary, a treasurer, and such other officers and assistant officers as the board of directors may, by resolution, appoint. Any two or more offices may be held by the same person. In its discretion, the board of directors may choose not to fill any office for any period as it may deem advisable, except the offices of president and secretary.

Section 4.2. Election and Term of Office. The officers of the corporation shall be elected annually by the board of directors at the annual meeting of the board of directors. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as may be convenient. Each officer shall hold office until the next annual meeting of the board of directors and until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 4.3. The Chairman of the Board. The chairman of the board shall preside at all meetings of the stockholders and directors. He or she shall have general and active management of the business of the corporation, shall see that all orders and resolutions of the board of directors are carried into effect and, in connection therewith, shall be authorized to delegate to the vice chairman of the board, president and other officers such of his or her powers and duties as chairman of the board at such time and in such manner as he or she may deem to be advisable. The chairman of the board shall be an ex officio member of all standing committees and he or she shall have such other powers and duties as may from time to time be assigned by the board of directors.

Section 4.4. The Vice Chairman of the Board. The vice chairman of the board shall assist the chairman of the board in the management of the business of the corporation, and, in the absence or disability of the chairman of the board, shall preside at all meetings of the stockholders and the board of directors and exercise the other powers and perform the other duties of the chairman of the board or designate the executive officers of the corporation by whom such other powers shall be exercised and other duties performed. The vice chairman of the board shall be an ex officio member of all standing committees and he or she shall have such other powers and duties as may from time to time be assigned by the board of directors or by the chairman of the board. In addition to the foregoing, the vice chairman of the board shall have such other powers, duties and authority as may be set forth elsewhere in these bylaws.

Section 4.5. The President. The president shall be the corporation's chief operating officer unless otherwise determined by the board of directors. The president shall assist the chairman of the board in the management of the business of the corporation, and, in the absence or disability of the chairman of the board and the vice chairman of the board, shall preside at all meetings of the stockholders and the board of directors and exercise the other powers and perform the other duties of the chairman of the board or designate the executive officers of the corporation by whom such other powers shall be exercised and other duties performed. The president shall be an ex officio member of all standing committees and he or she shall have such other powers and duties as may from time to time be assigned by the board of directors or by the chairman of the board. In addition to the foregoing, the president shall have such other powers, duties, and authority as may be set forth elsewhere in these bylaws. If the board of directors does not elect a chairman or vice chairman of the board, the president shall also have the duties and responsibilities, and exercise all functions, of the chairman and the vice chairman of the board as provided in these bylaws.

Section 4.6. The Chief Executive Officer. The board of directors may designate an individual, whether or not such individual is an officer of the corporation, to serve as the chief executive officer of the corporation. The chief executive officer shall have the duties and responsibilities, and exercise all functions, as the board of directors may determine.

Section 4.7. The Chief Financial Officer. The board of directors may designate an individual, whether or not such individual is an officer of the corporation, to serve as the chief financial officer of the corporation. The chief financial officer shall have the duties and responsibilities, and exercise all functions, as the board of directors may determine.

Section 4.8. Vice Presidents. Each vice president shall have such powers and discharge such duties as may be assigned from time to time by the chairman of the board, the vice chairman of the board or the president. During the absence or disability of the president, first the chief executive officer and in the absence or disability of the chief executive officer, one such vice president, when designated by the board of directors, shall exercise all the functions of the president.

Section 4.9. The Secretary and Assistant Secretary. The secretary or the chairman of the board shall issue notices for all meetings. The secretary shall keep minutes of all meetings of the board of directors, the committees thereof and the stockholders, shall have charge of the seal and the corporate books and shall make such reports and perform such other duties as are incident to the office, and perform such other duties designated or properly required by the chairman of the board, the vice chairman of the board, the president or the chief executive officer. The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation. The assistant secretary shall be vested with the same powers and duties as the secretary, and any act may be done or duty performed by the assistant secretary with like effect as though done or performed by the secretary. The assistant secretary shall have such other powers and perform such other duties as may be assigned by the chairman of the board, the vice chairman of the board, the president or the chief executive officer.

Section 4.10. The Treasurer and Assistant Treasurer. The treasurer shall have the custody of all moneys and securities of the corporation and shall keep

regular books of account. He or she shall disburse the funds of the corporation in payment of just demands against the corporation, or as may be ordered by the chairman of the board, the vice chairman of the board, the president, the chief executive officer or by the board of directors, taking proper vouchers for such disbursements, and shall render to the board of directors from time to time as may be required of him or her, an account of all transactions as treasurer and of the financial condition of the corporation. The treasurer shall perform all duties incident to the office, and perform such other duties designated or properly required by the chairman of the board, the vice chairman of the board, the president or the chief executive officer. The assistant treasurer shall be vested with the same powers and duties as the treasurer, and any act may be done, or duty performed by the assistant treasurer with like effect as though done or performed by the treasurer. The assistant treasurer shall have such other powers and perform such other duties as may be assigned by the chairman of the board, the vice chairman of the board, the president or the chief executive officer.

Section 4.11. Vacancies. Vacancies in any office arising from any cause may be filled by the directors for the unexpired portion of the term with a majority vote of the directors then in office. In the case of the absence or inability to act of any officer of the corporation and of any person herein authorized to act in his or her place, the board of directors may from time to time delegate the powers or duties of such officer to any other officer or any director or other person whom it may select.

Section 4.12. Other Officers, Assistant Officers and Agents. Officers, assistant officers, and agents, if any, other than those whose duties are provided for in these bylaws shall hold their offices for such terms and shall exercise such powers and perform such duties as the board of directors may determine.

Section 4.13. Normal Duties and Responsibilities of Officers. Unless otherwise provided in these bylaws or the board of directors decides otherwise, if an officer title is one commonly used for officers of a business corporation formed under the Delaware General Corporation Law or any successor or similar statute, the assignment of such title shall constitute the delegation to such officer of the authority and duties that are normally associated with that office, subject to any specific delegation of authority and duties made to such officer by the board of directors.

#### ARTICLE V.

#### INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND OTHERS

Section 5.1. Indemnification. To the fullest extent permitted by Delaware law, the corporation shall indemnify any and all officers and directors of the corporation from and against all expenses (including attorneys' fees), liabilities or other matters arising out of their status as such or their acts, omissions or services rendered by such persons in such capacities or otherwise while serving at the request of the corporation. Unless specifically addressed in a repeal or amendment of Delaware law with regard to a corporation's ability to indemnify its officers and directors, no such repeal or amendment shall adversely affect any indemnification rights of any person existing at the time of such repeal or amendment.

Section 5.2. Advancement of Expenses. Reasonable expenses (including attorneys' fees) incurred by a director or officer who was, is or is threatened to be made a named defendant or respondent in a proceeding by reason of his or her status as a director or officer of the corporation or services rendered by such persons in such capacities or otherwise at the request of the corporation or incurred by a director or officer for prosecuting a claim under Section 5.3 shall be paid by the corporation in advance of the final disposition of such proceeding upon receipt of a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification and a written undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation as authorized in this Article.

Section 5.3. Expenses of Contested Indemnification Claims. If a claimant makes a claim on the corporation under Section 5.1 or 5.2 and the corporation does not pay such claim in full within thirty days after it has received such written claim, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expenses of prosecuting such claim.

Section 5.4. Indemnification Not Exclusive. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any other bylaw, agreement, vote of stockholders or directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office.

Section 5.5. Survival of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such person.

Section 5.6. Employees, Agents and Others. To the fullest extent of Delaware law, the corporation may grant rights of indemnification and advancement of expenses to any person who is not at the time a current director or officer of the corporation.

Section 5.7. Contract Right. Each of the rights of indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall be a contract right and any repeal or amendment of the provisions of this Article shall not adversely affect any such right of any person existing at the time of such repeal or amendment with respect to any act or omission occurring prior to the time of such repeal or amendment, and further, shall not apply to any proceeding, irrespective of when the proceeding is initiated, arising from the service of such person prior to such repeal or amendment.

Section 5.8. Insurance. To the fullest extent of Delaware law, the corporation shall have power to purchase and maintain insurance on behalf of any person, including one who is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of this Article.

Section 5.9. Certain References Under Article V. For purposes of this Article, references to "the corporation," "other enterprise," "proceeding" and "serving at the request of the corporation" shall have the meanings given such terms in Section 145 of the Delaware General Corporation Law or any successor or similar statute.

#### ARTICLE VI. STOCK CERTIFICATES

Section 6.1. Form. The shares of stock of the corporation shall be represented by certificates, provided that the board of directors of the corporation may, by resolution, provide that some or all shares of any or all classes or series of the corporation's stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of uncertificated shares of the corporation shall be entitled to have a stock certificate issued to such holder upon request. Stock certificates shall be issued in numerical order, and each stockholder shall be entitled to a certificate signed by the chairman of the board, the president, the chief executive officer or any vice president and the secretary, any assistant secretary, the treasurer or any assistant treasurer, certifying to the number of shares owned by such stockholder. Where, however, such certificate is signed by a transfer agent or an assistant transfer agent or by a transfer clerk acting on behalf of the corporation, and a registrar or by an agent acting in the dual capacity of transfer agent and registrar, the signatures of any of the above-named officers may be facsimile signatures. In the event that any officer who has signed, or whose facsimile signature has been used on, a certificate ceases to be an officer before the certificate has been delivered, such certificate may nevertheless be adopted and issued and delivered by the corporation, as though the officer who signed such certificate or certificates, or whose facsimile signature or signatures shall have been used thereon, had not ceased to be such officer of the corporation.

Section 6.2. Transfers. Transfers of stock shall be made only upon the transfer books of the corporation or respective transfer agents designated to transfer the several classes of stock. Before a new certificate is issued for shares or uncertificated shares are credited to a stockholder's account, as applicable, any old certificate, if any, representing such shares shall be duly surrendered for cancellation.

Section 6.3. Lost or Destroyed Certificates. The corporation may issue a new stock certificate in place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation shall, except as otherwise determined by the board of directors, the chairman of the board, the president, the chief executive officer any vice president or other authorized officer, require the owner of the lost, stolen or destroyed certificate, or his or her legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

Section 6.4. Registered Stockholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of another person, whether or not the corporation shall have express or other notice thereof, except as otherwise provided by the laws of the state of Delaware.

Section 6.5. Restrictions on Transfers of Shares. Notice of any restriction on the transfer of shares of the corporation's stock shall be placed on each certificate of stock issued, or in the case of uncertificated shares, contained in the notice sent to the registered holder of such shares in accordance with the laws of the state of Delaware.

ARTICLE VII.  
CERTAIN BUSINESS COMBINATIONS

The provision of Section 203 of the Delaware General Corporation Law shall not apply to the corporation.

This Article VII shall be amended, altered or repealed only as provided in Section 203 of the Delaware General Corporation Law.

ARTICLE VIII.  
GENERAL PROVISIONS

Section 8.1. Dividends. Dividends upon the capital stock of the corporation, subject to any applicable provisions of the certificate of incorporation, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property or in shares of the capital stock, subject to the applicable provisions of the certificate of incorporation. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think in the best interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 8.2. Accounts. The chairman of the board, vice chairman of the board, president, the chief executive officer or any vice president is authorized for and on behalf of the corporation: to establish, maintain and to close depository accounts, in the corporation's name, for the deposit and withdrawal of corporation funds; to designate those individuals authorized to withdraw funds or sign checks in said depository accounts; and to execute customer agreements with respect to such depository accounts, including forms of corporate resolutions, certified with respect to the approval of the board of directors as of the date such forms of corporate resolutions are executed. The secretary or assistant secretary is, authorized for and on behalf of the corporation without further action of the board of directors to certify as to the approval of the board of directors of forms of resolutions regarding any of such depository or trading accounts as of the date the officer of the corporation executes the customer agreement with respect to each such account.

ARTICLE IX.  
NOTICES

Section 9.1. General. Whenever the provisions of any statute or these bylaws require notice to be given to any director, officer or stockholder, such notice may be given personally or in writing by facsimile, by telegraph or by depositing the same in the United States mail with postage prepaid addressed to each director, officer or stockholder at his or her address, as the same appears in the books of the corporation, and the time when the same shall be personally given, sent by facsimile or telegraph or mailed shall be deemed to be the time of the giving of such notice.

Section 9.2. Waivers. Whenever any notice whatever is required to be given under provisions of law or of the certificate of incorporation or of these bylaws, a waiver thereof in writing signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

Section 9.3. Attendance as Waiver. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

Section 9.4. Omission of Notice to Stockholders. Any notice required to be given to any stockholder under any statutory provision, the certificate of incorporation or these bylaws need not be given to the stockholder if:

(a) notice of two consecutive annual meetings and all notices of meetings held or actions by written consent taken during the period between those annual meetings, if any, or

(b) all, and at least two, payments (if sent by first class mail) of distributions or interest on securities during a twelve month period

have been mailed to that person, addressed at his or her address as shown on the share transfer records of the corporation, and have been returned undeliverable. Any action or meeting taken or held without notice to such a person shall have the same force and effect as if the notice had been duly given. If such a person delivers to the corporation a written notice setting forth his or her then current address, the requirement that notice be given to that person shall be reinstated.

ADOPTED BY THE BOARD OF DIRECTORS AS OF  
September 24, 2003

/s/Robert D. Graham

-----  
Robert D. Graham, Vice President,  
General Counsel and Secretary

Number

[Logo Goes Here]

Shares

COMMON STOCK

COMMON STOCK

CUSIP \_\_\_\_\_

SEE REVERSE SIDE FOR CERTAIN DEFINITIONS

THIS CERTIFIES THAT  
  
IS THE RECORD HOLDER OF

FULLY PAID AND NONASSESSABLE SHARES OF THE COMMON STOCK, PAR VALUE \$0.01 PER SHARE OF

KRONOS WORLDWIDE, INC.  
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

Transferable on the books of the corporation by the holder hereof in person or by duly authorized attorney upon surrender of this certificate properly endorsed. This certificate is not valid unless countersigned and registered by a transfer agent and registrar.

Witness the facsimile seal of the corporation and the facsimile signatures of its duly authorized officers.

Dated:

/s/ Harold C. Simmons  
CHAIRMAN OF THE BOARD

[CORPORATE SEAL]

/s/ Robert D. Graham  
SECRETARY

COUNTERSIGNED AND REGISTERED:  
EQUISERVE TRUST COMPANY, N.A.  
TRANSFER AGENT AND REGISTRAR

BY  
AUTHORIZED SIGNATURE

The corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Such request shall be made in writing to the office of the transfer agent.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common UNIF GIFT MIN ACT - \_\_\_\_\_ Custodian \_\_\_\_\_  
TEN ENT - as tenants by the (Cust.) (Minor)  
entireties under Uniform Gifts to  
JT TEN - as joint tenants with Minors Act \_\_\_\_\_  
right of survivorship (State)  
and not as tenants in  
common

UNIF TRF MIN ACT - \_\_\_\_\_ Custodian (until age \_\_\_\_  
(Cust.)  
(Minor) under Uniform Transfers  
to Minors Act \_\_\_\_\_  
(State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, \_\_\_\_\_ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER  
IDENTIFYING NUMBER OF ASSIGNEE

-----

| |  

-----  
(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

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shares of the common stock represented by the within certificate, and do hereby  
irrevocably constitute and appoint

-----  
attorney to transfer the said stock on the books of the within named corporation  
with full power of substitution in the premises.



Dated \_\_\_\_\_

X \_\_\_\_\_  
X \_\_\_\_\_  
NOTICE: THE SIGNATURE(S) TO THIS  
ASSIGNMENT MUST CORRESPOND  
WITH THE NAME(S) AS WRITTEN  
UPON THE FACE OF THE  
CERTIFICATE IN EVERY  
PARTICULAR WITHOUT ALTERATION  
OR ENLARGEMENT OR ANY CHANGE  
WHATEVER.

Signature(s) Guaranteed

By \_\_\_\_\_  
THE SIGNATURE(S) MUST BE GUARANTEED BY  
AN ELIGIBLE GUARANTOR INSTITUTION  
(BANKS, STOCKBROKERS, SAVINGS AND LOAN  
ASSOCIATIONS AND CREDIT UNIONS WITH  
MEMBERSHIP IN AN APPROVED SIGNATURE  
GUARANTEE MEDALLION PROGRAM), PURSUANT  
TO S.E.C. RULE 17Ad-15.

INTERCORPORATE SERVICES AGREEMENT

BETWEEN

CONTRAN CORPORATION

AND

KRONOS WORLDWIDE, INC.

Dated as of October [\_\_], 2003

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INTERCORPORATE SERVICES AGREEMENT

This Intercorporate Services Agreement ("Agreement"), is entered into effective as of October [\_\_\_], 2003 (the "Effective Date"), between Contran Corporation, a Delaware corporation ("Contran"), and Kronos Worldwide, Inc., a Delaware corporation ("KWI").

Recitals

A. KWI is an indirectly held subsidiary of Contran.

B. KWI is engaged in the manufacture, sales, marketing and distribution of titanium dioxide and associated products.

C. KWI has and will have the need for executive, legal, audit, tax, accounting, treasury, administrative, financial, risk management, technical, consulting and similar services from time to time, but has determined that it is not cost effective to obtain and separately maintain the infrastructure associated therewith, particularly including the costs associated with attracting and maintaining on its payroll on a full time basis a full complement of skilled employees.

D. Contran is able and willing to provide the foregoing services to KWI, and KWI desires to engage Contran as an independent contractor to provide the same in accordance with the terms set forth in this Agreement.

Agreement

For and in consideration of the mutual promises, representations and covenants herein contained, the parties hereto agree as follows.

ARTICLE I.  
RETENTION OF CONTRAN

Section 1.1. Performance of Services.

(a) KWI hereby engages and retains Contran to perform the services set forth in Article II (the "Services") and Contran hereby accepts and agrees to provide such Services to KWI upon the terms and conditions hereinafter set forth. All Services to be provided by Contran hereunder shall be performed at the request and under the direction of KWI, and Contran shall not have any power to act independently on behalf of KWI other than as specifically authorized hereunder or from time to time by KWI.

(b) Contran shall determine the corporate facilities to be used in rendering the Services and the individuals who will render such Services.

(c) Contran will use reasonable efforts to make the Services available with substantially the same degree of care as it employs in making similar services available for its own operations.

(d) Those employees or agents of Contran who perform similar services for Contran or for other affiliates of Contran, or both, will perform the Services.

(e) Nothing herein shall be deemed to restrict Contran or its directors, officers, employees or agents from engaging in any business, or from contracting with other parties, including, without limitation, other affiliates of Contran, for similar or different services.

#### Section 1.2. Disclaimer, Limited Liability; Indemnification.

(a) Contran makes no express or implied representations, warranties or guarantees relating to the Services or the quality or results of the Services to be performed under this Agreement.

(b) Contran, its officers, employees or agents shall not be liable to KWI or any third party, including any governmental agency, for any claims, losses, damages or expenses that may result from the manner in which Contran, its officers, employees or agents render the Services or the consequences of any failure or delay to perform any of Contran's obligations under this Agreement, other than claims, damages or expenses arising from Contran's gross negligence or willful or reckless misconduct (collectively, "Claims"). KWI shall have the ultimate responsibility for all Services.

(c) KWI shall indemnify and hold Contran harmless from Claims. KWI shall indemnify and hold Contran's officers, employees or agents harmless from Claims to the full extent that Contran could indemnify such person under applicable law in effect from time to time. KWI shall advance expenses as incurred by Contran or its officers, employees or agents in connection with KWI's indemnification obligations under this Agreement.

### ARTICLE II. SERVICES

Section 2.1. Provision of Financial, Audit, Accounting and Tax Services. During the term of this Agreement, Contran shall provide financial, audit, accounting and tax services, including without limitation, operation and administration of tax compliance, for KWI's operations in the ordinary course of business.

Section 2.2. Provision of Other Services. During the term of this Agreement, at the request of KWI, Contran shall provide administrative, executive, legal, risk management, treasury, technical, consulting and other

services required by KWI from time to time. KWI may request such other services from time to time, including, without limitation, the following:

- (a) executive and managerial functions;
- (b) administration of KWI's insurance policies including administration of worker's compensation claims;
- (c) treasury functions, bank negotiations, compliance matters; and
- (d) legal advice and compliance reporting.

ARTICLE III.  
COMPENSATION

Section 3.1. Compensation for Services. Contran and KWI shall on or prior to the Effective Date and before the beginning of each subsequent calendar year, agree on the budgeted amounts of reimbursable costs and the allocation method to be applied for such year. Such allocation method may be revised from time to time with the consent of both parties.

(a) KWI shall pay to Contran one fourth of the budgeted annual amount in advance quarterly around the first business day of each quarter.

(b) From time to time, the budgeted amounts may be revised to better reflect actual expenses, and adjusted billings will then be made from Contran to KWI.

(c) All charges from Contran to KWI are intended to be equal to the actual cost of such expenses without premium or mark-up to Contran.

ARTICLE IV.  
CONFIDENTIALITY

Section 4.1. Confidentiality. Each party shall hold and shall cause its directors, officers, employees, agents, consultants and advisors ("Representatives") to hold in strict confidence all information (other than any such information relating solely to the business or affairs of such party that is otherwise publicly known or available) concerning the other party unless (i) such party is compelled to disclose such information by judicial or administrative process or, in the opinion of its counsel, by other requirements of law or (ii) such information can be shown to have been (A) in the public domain through no fault of such party or (B) lawfully acquired on a non-confidential basis from other sources. Notwithstanding the foregoing, such party may disclose such information to its Representatives so long as such

persons are informed by such party of the confidential nature of such information and are directed by such party to treat such information confidentially. If such party or any of its Representatives becomes legally compelled to disclose any documents or information subject to this Section 4.1, such party will promptly notify the other party so that the other party may seek a protective order or other remedy or waive such party's compliance with this Section 4.1. If no such protective order or other remedy is obtained or waiver granted, such party will furnish only that portion of the information that it is advised by counsel is legally required and will exercise its reasonable efforts to obtain adequate assurance that confidential treatment will be accorded such information. Such party agrees to be responsible for any breach of this Section 4.1 by it and its Representatives.

Section 4.2. Tax Information. Notwithstanding anything set forth herein to the contrary (including Section 4.1) or in any other agreement to which a party hereto is bound, the parties hereto (and any employee, representative or other agent of any of the parties) are hereby expressly authorized to disclose all information relating to taxes as required by the Internal Revenue Code of 1986, as amended or supplemented, and the regulations promulgated thereunder (the "Code"), but only to the extent necessary to comply with the Code.

ARTICLE V.  
MISCELLANEOUS

Section 5.1. Review by KWI. All reports, memoranda, returns, statements, contracts, agreements, regulatory submissions, applications and any other documents arising from or in connection with the Services for or on behalf of KWI shall be subject to review and approval by KWI.

Section 5.2. Maintenance and Inspection of Records. Contran shall keep accurate books and records with respect to the costs and expenses incurred in connection with the Services and such other books, accounts and records of its operations as may be reasonably necessary for purposes of this Agreement. KWI shall be permitted to inspect such books and records at any reasonable time.

Section 5.3. Indemnity. KWI assumes all liability for, and agrees to defend, indemnify and hold Contran, its employees, officers, directors, shareholders and agents, harmless from and against all demands, liabilities, damages, costs and expenses, including attorneys' and expert witness fees ("Loss"), incurred by Contran arising from or in connection with the Services, other than any Loss caused by the gross negligence or willful misconduct of Contran.

Section 5.4. Notices. All notices and other communications hereunder shall be in writing, and shall be delivered by hand or mailed by registered or certified mail (return receipt requested) or transmitted by facsimile to the parties at the following addresses (or at such other addresses for a party as shall be specified by like notice) and shall be deemed given on the date on which such notice is received:

If to Contran:                   Contran Corporation.  
  Three Lincoln Centre

5430 LBJ Freeway, Suite 1700  
Dallas, Texas 75240-2697  
Attention: General Counsel  
Phone: 972.450.4251  
Fax: 972.448.1445

If to KWI:

Kronos Worldwide, Inc.  
Three Lincoln Centre  
5430 LBJ Freeway, Suite 1700  
Dallas, Texas 75240-2697  
Attention: General Counsel  
Phone: 972.450.4289  
Fax: 972.448.1445

Section 5.5. Term; Renewal. The initial term of this Agreement shall commence as of the Effective Date and end on December 31, 2003, but shall be automatically renewed for successive terms of one year. Either party may terminate this Agreement by giving written notice of termination to the other party not less than sixty (60) days prior to the end of the then current term. In addition, in the event of a material default hereunder by a party, the non-defaulting party may terminate this Agreement upon thirty (30) days prior written notice if such default remains uncured and is continuing for twenty (20) days after receipt by the defaulting party of such written notice of intent to terminate. A final accounting and payment by one party to the other of all amounts payable hereunder shall be made pursuant to the terms hereof within thirty (30) days following such termination.

Section 5.6. Independent Contractor. Contran shall be an independent contractor and not an employee of, or partner or joint venture with, KWI.

Section 5.7. Force Majeure. No party shall be in default of this Agreement or liable to the other party for any delay or default in performance where occasioned by any cause of any kind or extent beyond its control, including but not limited to, armed conflict or economic dislocation resulting therefrom; embargoes; shortages of labor, raw materials, production facilities or transportation; labor difficulties; civil disorders of any kind; action of any civil or military authorities (including, priorities and allocations); fires; floods and accidents. The dates on which the obligations of the party are to be fulfilled shall be extended for a period equal to the time lost by reason of any delay arising, directly or indirectly from:

(a) Any of the foregoing causes, or

(b) Inability of a party, as a result of causes beyond its reasonable control, to obtain instruction or information from the other party in time to perform its obligations by such dates.

Section 5.8. Entire Agreement. This Agreement constitutes the entire understanding between the parties with respect to the subject matter hereof and all prior agreements or understandings shall be deemed merged herein. No representations, warranties and if certifications, express or implied, shall exist as between the parties except as stated herein.

Section 5.9. Amendments. No amendments, waivers or modifications hereof shall be made or deemed to have been made unless in writing, executed by the party to be bound thereby.

Section 5.10. Severability. If any provision in this Agreement or the application of such provision to any person or circumstance shall be invalid, illegal or unenforceable, the remainder of this Agreement or the application of such provision to persons or circumstances other than those to which it is held invalid, illegal or unenforceable shall not be affected thereby.

Section 5.11. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute this Agreement.

Section 5.12. Successors and Assigns. This Agreement shall not be assignable, in whole or in part, directly or indirectly, by any party hereto without the prior written consent of the other party hereto, and any attempt to assign any rights or obligations arising, under this Agreement without such consent shall be void. This Agreement shall be binding, upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

Section 5.13. Governing Law. This Agreement shall be governed by and construed in accordance with the domestic laws of the state of Texas, without giving effect to any choice of law or conflict of law provision or rule (whether of the state of Texas or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the state of Texas.

Section 5.14. Submission to Jurisdiction; Service; Waivers. WITH RESPECT TO ANY CLAIM ARISING OUT OF THIS AGREEMENT, EACH PARTY (A) IRREVOCABLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE JURISDICTION OF THE FEDERAL OR STATE COURTS LOCATED IN DALLAS COUNTY, TEXAS (B) AGREES THAT THE VENUE FOR ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT SHALL BE EXCLUSIVE TO SUCH COURTS, AND (C) IRREVOCABLY WAIVES ANY OBJECTION IT MAY HAVE AT ANY TIME TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT BROUGHT IN ANY SUCH COURT, IRREVOCABLY WAIVES ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM AND FURTHER IRREVOCABLY WITH THE RIGHT TO OBJECT, WITH



RESPECT TO SUCH CLAIM, SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT THAT SUCH COURT DOES NOT HAVE JURISDICTION OVER IT. EACH PARTY HEREBY IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS IN ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY OF THE AFORESAID COURTS BY THE MAILING OF COPIES OF SUCH PROCESS TO THE PARTY, BY CERTIFIED OR REGISTERED MAIL AT THE ADDRESS SPECIFIED IN SECTION 5.4.

Section 5.15. No Third-Party Beneficiaries. This Agreement is solely for the benefit of the parties hereto and should not be deemed to confer upon third parties any remedy, claim, liability, reimbursement, claim of action or other right in excess of those existing without reference to this Agreement.

Section 5.16. Titles and Headings. Titles and headings to sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

Executed as of the Effective Date.

CONTRAN CORPORATION

By: \_\_\_\_\_  
[Name, Title]

KRONOS WORLDWIDE, INC.

By: \_\_\_\_\_  
[Name, Title]

FOR VALUE RECEIVED, the undersigned, Kronos Worldwide, Inc., a Delaware corporation, unconditionally promises to pay to the order of NL Industries, Inc., a New Jersey corporation, in lawful money of the United States of America, the principal sum of TWO HUNDRED MILLION and NO/100ths DOLLARS (\$200,000,000.00) together with interest from the date of this Note on the unpaid principal balance from time to time pursuant to the terms of this Note. This Note shall be unsecured and will bear interest on the terms set forth in Section 4 below. Capitalized terms not otherwise defined shall have the meanings given to such terms in Section 14 of this Note.

Section 1. Place of Payment. All payments will be made at Payee's address at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697, or such other place as the Payee may from time to time designate in writing, in immediately available funds, without setoff or counterclaim.

Section 2. Payment. The principal balance of this Note and any unpaid and accrued interest thereon shall be due and payable on the Maturity Date or upon acceleration as provided herein. Prior to the Maturity Date or acceleration, unpaid and accrued interest on the outstanding principal balance of this Note shall be due and payable quarterly on March 31, June 30, September 30 and December 31 of each year; provided, however, that such day is a business day, and if such day is not a business day, the quarterly interest payment shall be due the next successive business day.

Section 3. Prepayment. This Note may be prepaid in part or in full at any time without penalty; provided, however, prepayments shall be first applied to accrued and unpaid interest and then to principal.

Section 4. Interest. The unpaid balance of this Note (exclusive of any past due principal) shall bear interest at an annual rate of nine percent (9%). Ten business days after the Maturity Date or acceleration as provided in this Note, all past due principal and past due interest owed under this Note will bear interest at an annual rate of twelve percent (12%). Accrued interest on the unpaid principal of this Note shall be computed on the basis of a 365 or 366-day year, as the case may be, for actual days elapsed. In no event, however, shall such computation result in an amount of accrued interest that would exceed accrued interest on the unpaid principal balance during the same period at the Maximum Rate. Notwithstanding anything to the contrary, this Note is expressly limited so that in no contingency or event whatsoever shall the amount paid or agreed to be paid to the Payee exceed the Maximum Rate. If, from any circumstances whatsoever, the Payee shall ever receive as interest an amount that would exceed the Maximum Rate, such amount received that would be in excess of the Maximum Rate shall be applied to the reduction of the unpaid principal balance and not to the payment of interest, and if the principal amount of this Note is paid in full, any remaining excess shall be paid to Maker, and in such event, the Payee shall not be subject to any penalties provided by any laws for contracting for, charging, taking, reserving or receiving interest in excess of the highest lawful rate permissible under applicable law.

Section 5. Remedy. Upon the occurrence and during the continuation of an Event of Default, Payee may, at its option, declare the entire unpaid principal of this Note, and all accrued interest and other amounts payable hereunder, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are expressly waived by Maker, and upon such declaration, such amounts shall become and shall be immediately due and payable. The Payee shall have all of the rights and remedies provided in the applicable Uniform Commercial Code or in this Note or any other agreement between Maker and in favor of the Payee, as well as those rights and remedies provided by any other applicable law, rule or regulation. All rights and remedies of the Payee are cumulative and may be exercised singly or concurrently. The exercise of any right or remedy will not be a waiver of any other right or remedy. Failure to exercise any right or remedy upon the occurrence of an Event of Default shall not constitute a waiver of the right to exercise such right or remedy upon the occurrence of a subsequent Event of Default.

Section 6. Right of Offset. The Payee shall have the right of offset against amounts that may be due by the Payee now or in the future to Maker against amounts due under this Note.

Section 7. Record of Outstanding Principal. The date and amount of each repayment of principal outstanding under this Note shall be recorded by Payee in its records. The aggregate unpaid principal balance so recorded by Payee shall be the best evidence of the principal balance owing and unpaid under this Note;

Page 1 of 3

so recording any such balance shall not limit or otherwise affect the obligations of Maker under this Note to repay the principal balance outstanding and all accrued or accruing interest.

Section 8. Waiver. Maker and each surety, endorser, guarantor, and other party now or subsequently liable for payment of this Note, severally waive demand, presentment for payment, notice of dishonor, protest, notice of protest, diligence in collecting or bringing suit against any party liable on this Note, and further agree to any and all extensions, renewals, modifications, partial payments, substitutions of evidence of indebtedness, and the taking or release of any collateral with or without notice before or after demand by the Payee for payment under this Note.

Section 9. Costs and Attorneys' Fees. In the event the Payee incurs costs

in collecting on this Note, this Note is placed in the hands of any attorney for collection, suit is filed on this Note or if proceedings are had in bankruptcy, receivership, reorganization, or other legal or judicial proceedings for the collection, Maker and any guarantor jointly and severally agree to pay on demand to the Payee all expenses and costs of collection, including, but not limited to, attorneys' fees incurred in connection with any such collection, suit, or proceeding, in addition to the principal and interest then due.

Section 10. Time of Essence. Time is of the essence with respect to all of Maker's obligations and agreements under this Note.

Section 11. Jurisdiction and Venue. This Note shall be governed by and construed in accordance with the domestic laws of the state of Texas, without giving effect to any choice of law or conflict of law provision or rule (whether of the state of Texas or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the state of Texas. Maker consents to jurisdiction in the courts located in Dallas, Texas.

Section 12. Notice. Any notice or demand required by this Note shall be deemed to have been given and received on the earlier of (i) when the notice or demand is actually received by the recipient or (ii) 72 hours after the notice is deposited in the United States mail, certified or registered, with postage prepaid, and addressed to the recipient. The address for giving notice or demand under this Note (i) to the Payee shall be the place of payment specified in Section 1 or such other place as the Payee may specify in writing to the Maker and (ii) to the Maker shall be the address below the Maker's signature or such other place as the Maker may specify in writing to the Payee.

Section 13. Successors and Assigns. All of the covenants, obligations, promises and agreements contained in this Note made by Maker shall be binding upon its successors and assigns; notwithstanding the foregoing, Maker shall not assign this Note or its performance under this Note without the prior written consent of the Payee.

Section 14. Definitions. For purposes of this Note, the following terms shall have the following meanings:

(a) "Event of Default" shall mean the failure by Maker to make when due a punctual payment of principal of, or interest on, this Note within thirty (30) days following the date such amount becomes due and payable in accordance with the terms of this Note.

(b) "Maker" shall mean Kronos Worldwide, Inc., a Delaware corporation.

(c) "Maturity Date" shall mean December 31, 2010.

(d) "Maximum Rate" shall mean the highest lawful rate permissible under applicable law for the use, forbearance or detention of money.

(e) "Note" shall mean this Promissory Note.

(f) "Payee" shall mean NL Industries, Inc., a New Jersey corporation, or subsequent holder of this Note.

MAKER:

KRONOS WORLDWIDE, INC.

Robert D. Graham, Vice President

Address: Three Lincoln Centre  
5430 LBJ Freeway, Suite 1700  
Dallas, Texas 75240-2697

## 2003 Long-Term Incentive Plan

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Section 1. Purpose. The purpose of this Plan is to advance the interests of Kronos and its stockholders by providing incentives to certain Eligible Persons who contribute significantly to the strategic and long-term performance objectives and growth of the Company.

Section 2. Definitions. The following terms shall have the meaning indicated:

- (a) "Actual Value" has the meaning set forth in Section 9.
- (b) "Associated Award" shall mean an Award granted concurrently or subsequently in conjunction with another Award.
- (c) "Award" shall mean an award of rights or options to an Eligible Person under this Plan.
- (d) "Award Period" has the meaning set forth in subsection 9(b).
- (e) "Beneficiary" has the meaning set forth in Section 16.
- (f) "Board" shall mean the board of directors of Kronos.
- (g) "Code" shall mean the Internal Revenue Code of 1986, as it now exists or may be amended from time to time, and the rules and regulations promulgated thereunder, as they may exist or may be amended from time to time.
- (h) "Committee" shall mean a committee of the Board, if any, designated by the Board to administer this Plan that is comprised of not fewer than two directors and shall initially mean the Management, Development & Compensation Committee of the Board. The membership of the Committee or any successor committee (i) shall consist of "nonemployee directors" (as defined in Rule 16b-3) and meet any other applicable requirements so as to comply at all times with the applicable requirements of Rule 16b-3, (ii) shall consist of "outside directors" (as defined in Treasury Regulation ss.1.162-27(e)(3)(i) or any successor regulation) and meet any other applicable requirements so as to comply at all times with the applicable requirements of Section 162(m) and (iii) shall meet any applicable requirements of any stock exchange or other market quotation system on which Common Shares are listed. References to the Committee hereunder shall include the Board or the Designated Administrator where appropriate.
- (i) "Company" shall mean Kronos and any parent or subsidiary of Kronos.
- (j) "Common Shares" shall mean shares of common stock, par value \$0.01 per share, of Kronos and stock of any other class into which such shares may thereafter be changed.
- (k) "Designated Administrator" has the meaning set forth in Section 3.
- (l) "Effective Date" shall mean the date the Board adopts this Plan (which adoption date may be a date subsequent to the date of the actual action taken by the Board if the Board action sets forth such subsequent adoption date).
- (m) "Eligible Person(s)" shall mean those persons who are key employees of the Company or other key individuals who perform services for the Company, including, without limitation, directors who are not employees of the Company.
- (n) "Exchange Act" shall mean the Securities Exchange Act of 1934, as it now exists or may be amended from time to time, and the rules promulgated thereunder, as they may exist or may be amended from time to time.
- (o) "Fair Market Value" shall mean such value rounded up to the nearest cent as determined by the Committee in accordance with applicable law.
- (p) "Incentive Stock Option" shall mean a Stock Option that is an incentive stock option as defined in Section 422 of the Code. Incentive Stock Options are subject, in part, to the terms, conditions and restrictions described in Section 6.
- (q) "Kronos" shall mean Kronos Worldwide, Inc., a Delaware corporation.
- (r) "Maximum Value" has the meaning set forth in subsection 9(a).
- (s) "Nonqualified Stock Option" shall mean a Stock Option that is not an incentive stock option as defined in Section 422 of the Code. Nonqualified Stock Options are subject, in part, to the terms, conditions and restrictions described in Section 6.
- (t) "Other Kronos Securities" shall mean Kronos securities (which may

include, but need not be limited to, unbundled stock units or components thereof, debentures, preferred stock, warrants, securities convertible into Common Shares or other property) other than Common Shares.

(u) "Participant" shall mean an Eligible Person to whom an Award has been granted under this Plan.

(v) "Performance Grant" shall mean an Award subject, in part, to the terms, conditions and restrictions described in Section 9, pursuant to which the recipient may become entitled to receive Common Shares, Other Kronos Securities or any combination thereof, as determined by the Committee.

(w) "Plan" shall mean this Kronos Worldwide, Inc. 2003 Long-Term Incentive Plan.

(x) "Purchased Option" shall mean a Stock Option that is sold to an Eligible Person at a price determined by the Committee. Purchase Options are subject, in part, to the terms, conditions and restrictions described in Section 6.

(y) "Restricted Period" has the meaning set forth in subsection 8(b).

(z) "Restricted Stock" shall mean an Award of Common Shares that are issued subject, in part, to the terms, conditions and restrictions described in Section 8.

(aa) "Rule 16b-3" shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Exchange Act and any successor rule.

(bb) "Section 162(m)" shall mean ss.162(m) of the Code, any rules or regulations promulgated thereunder, as they may exist or may be amended from time to time, or any successor to such section.

(cc) "Stock Appreciation Right" shall mean an Award of a right to receive (without payment to Kronos) cash, Common Shares, Other Kronos Securities or property, or other forms of payment, or any combination thereof, as determined by the Committee, based on the increase in the value of the number of Common Shares specified in the Stock Appreciation Right. Stock Appreciation Rights are subject, in part, to the terms, conditions and restrictions described in Section 7.

(dd) "Stock Option" shall mean an Award of a right to purchase Common Shares. The term Stock Option shall include Nonqualified Stock Options, Incentive Stock Options and Purchased Options.

(ee) "Ten Percent Employee" shall mean an employee of the Company who owns stock representing more than ten percent of the voting power of all classes of stock of Kronos or any parent or subsidiary of Kronos.

(ff) "Treasury Regulation" shall mean a final, proposed or temporary regulation of the Department of Treasury under the Code and any successor regulation.

Section 3. Administration. Unless the Board shall designate itself or a Designated Administrator to administer this Plan, the Committee shall administer this Plan. If at any time Rule 16b-3 so permits without adversely affecting the ability of Awards to executive officers of Kronos to comply with the conditions for Rule 16b-3 or Section 162(m), the Committee may delegate the administration of this Plan and any of its power and authority in whole or in part, on such terms and conditions, and to such person or persons as it may determine in its discretion (a "Designated Administrator").

The Committee has all the powers vested in it by the terms of this Plan, such powers to include exclusive authority to select the Eligible Persons to be granted Awards under this Plan, to determine the type, size and terms of the Award to be made to each Eligible Person selected, to modify the terms of any Award that has been granted, to determine the time when Awards will be granted, to establish performance objectives, to make any adjustments necessary or desirable as a result of the granting of Awards to Eligible Persons located outside the United States and to prescribe the form of the agreements embodying Awards made under this Plan. The Committee is authorized to interpret this Plan and the Awards granted under this Plan, to establish, amend and rescind any rules and regulations relating to this Plan, and to make any other determinations that it deems necessary or desirable for the administration of this Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in this Plan or in any Award in the manner and to the extent the Committee deems necessary or desirable to carry it into effect. Any decision of the Committee in the interpretation and administration of this Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. The Committee may act only by a majority of its members then serving, except that the members thereof may authorize any one or more of their members or any officer of the Company to execute and deliver documents or to take any other action on behalf of the Committee with respect to Awards made or to be made to Participants.

No member of the Committee and no officer of the Company shall be liable for anything done or omitted to be done by him, by any other member of the Committee or by any officer of the Company in connection with the performance of duties under this Plan, except for his own willful misconduct or as expressly provided by statute. In addition to all other rights of indemnification and reimbursement to which a member of the Committee and an officer of the Company may be entitled, the Company shall indemnify and hold harmless each such member or officer who was or is a party or is threatened to be made a party to any threatened, pending or completed proceeding or suit in connection with the performance of duties under this Plan against expenses (including reasonable attorneys' fees), judgments, fines, liabilities, losses and amounts paid in settlement actually and reasonably incurred by him in connection with such proceeding or suit, except for his own willful misconduct or as expressly provided otherwise by statute. Expenses (including reasonable attorneys' fees) incurred by a such a member or officer in defending any such proceeding or suit shall be paid by the Company in advance of the final disposition of such proceeding or suit upon receipt of a written affirmation by such member or officer of his good faith belief that he has met the standard of conduct necessary for indemnification and a written undertaking by or on behalf of such member or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Company as authorized in this Section.

Section 4. Participation. Consistent with the purposes of this Plan, the Committee shall have exclusive power to select the Eligible Persons who may participate in this Plan and be granted Awards under this Plan. Eligible Persons may be selected individually or by groups or categories, as determined by the Committee in its discretion.

Section 5. Awards under this Plan.

(a) Types of Awards. Awards under this Plan may include, but need not be limited to, one or more of the following types, either alone or in any combination thereof: (i) Common Shares, (ii) Stock Options, (iii) Stock Appreciation Rights, (iv) Restricted Stock, (v) Performance Grants and (vi) any other type of Award deemed by the Committee in its discretion to be consistent with the purposes of this Plan (including, but not limited to, Awards of or options or similar rights granted with respect to unbundled stock units or components thereof, and Awards to be made to Participants who are foreign nationals or are employed or performing services outside the United States).

(b) Maximum Number of Shares that May be Issued. There may be issued under this Plan (as Common Shares, Restricted Stock, through Performance Grants, pursuant to the exercise of Stock Options or Stock Appreciation Rights or in payment of or pursuant to the exercise of such other Awards as the Committee, in its discretion, may determine) an aggregate of not more than 150,000 Common Shares, subject to adjustment as provided in Section 15. No Eligible Person may receive Awards under this Plan for more than 50,000 Common Shares in any one fiscal year of Kronos, subject to adjustment as provided in Section 15. Common Shares issued pursuant to this Plan may be either authorized but unissued shares, treasury shares, reacquired shares or any combination thereof. If any Common Shares issued as Restricted Stock or otherwise subject to repurchase or forfeiture rights are reacquired by the Company pursuant to such rights or, if any Award is canceled, terminates or expires unexercised, any Common Shares that would otherwise have been issuable pursuant thereto will be available for issuance under new Awards.

(c) Rights with Respect to Common Shares and Other Securities. Except as provided in subsection 8(c) with respect to Awards of Restricted Stock and unless otherwise determined by the Committee in its discretion, a Participant to whom an Award is made (and any person succeeding to such a Participant's rights pursuant to this Plan) shall have no rights as a stockholder with respect to any Common Shares or as a holder with respect to other securities, if any, issuable pursuant to any such Award until the date of the issuance of a stock certificate to him for such Common Shares or other instrument of ownership, if any. Except as provided in Section 15, no adjustment shall be made for dividends, distributions or other rights (whether ordinary or extraordinary, and whether in cash, securities, other property or other forms of consideration, or any combination thereof) for which the record date is prior to the date such stock certificate or other instrument of ownership, if any, is issued. In all events, a Participant with whom an Award agreement is made to issue Common Shares in the future, shall have no rights as a stockholder with respect to Common Shares related to such agreement until issuance to him of a stock certificate representing such shares.

Section 6. Stock Options. The Committee may sell Purchased Options or grant other Stock Options either alone, or in conjunction with Associated Awards, either at the time of grant or by amendment thereafter; provided that an Incentive Stock Option may be granted only to Eligible Persons who are employees of the Company and have an Associated Award only to the extent that such Associated Award does not disqualify the Incentive Stock Option's status as such under the Code. Each Stock Option granted or sold under this Plan shall be evidenced by an agreement in such form as the Committee shall prescribe from time to time in accordance with this Plan and shall comply with the applicable terms and conditions of this Section and this Plan, and with such other terms and conditions, including, but not limited to, restrictions upon the Stock Option or the Common Shares issuable upon exercise thereof, as the Committee, in its discretion, shall establish.

(a) The exercise price of a Stock Option may be less than, equal to, or greater than, the Fair Market Value of the Common Shares subject to such Stock Option at the time the Stock Option is granted, as determined by the Committee; provided, however, that in the case of an Incentive Stock Option granted to an employee of the Company, the exercise price shall not be less than the Fair Market Value of the Common Shares subject to such Stock Option at the time the Stock Option is granted, or if granted to a Ten Percent Employee, such exercise price shall not be less than 110% of such Fair Market Value at the time the Stock Option is granted. In no event, however, will the exercise price per share of a Stock Option be less than the par value per share of a Common Share.

(b) The Committee shall determine the number of Common Shares to be subject to each Stock Option. In the case of a Stock Option awarded in conjunction with an Associated Award, the number of Common Shares subject to an outstanding Stock Option may be reduced on an appropriate basis to the extent that the Associated Award has been exercised, paid to or otherwise received by the Participant, as determined by the Committee.

(c) Any Stock Option may be exercised during its term only at such time or times and in such installments as the Committee may establish.

(d) A Stock Option shall not be exercisable:



(i) in the case of any Incentive Stock Option granted to a Ten Percent Employee, after the expiration of five years from the date it is granted, and, in the case of any other Stock Option, after the expiration of ten years from the date it is granted; and

(ii) unless payment in full is made for the shares being acquired thereunder at the time of exercise as provided in subsection 6(i).

(e) The Committee shall determine in its discretion and specify in each agreement embodying a Stock Option the effect, if any, the termination of the Participant's employment with or performance of services for the Company shall have on the exercisability of the Stock Option; provided, however, that an Incentive Stock Option shall not be exercisable at a time that is beyond the time an Incentive Stock Option may be exercised in order to qualify as such under the Code.

(f) In the case of an Incentive Stock Option, the amount of the aggregate Fair Market Value of Common Shares (determined at the time of grant of the Stock Option) with respect to which incentive stock options are exercisable for the first time by an employee of the Company during any calendar year (under all such plans of his employer corporation and its parent and subsidiary corporations) shall not exceed \$100,000.

(g) It is the intent of Kronos that Nonqualified Stock Options granted under this Plan not be classified as Incentive Stock Options, that the Incentive Stock Options granted under this Plan be consistent with and contain or be deemed to contain all provisions required under Section 422 and the other appropriate provisions of the Code and any implementing regulations (and any successor provisions thereof), and that any ambiguities in construction shall be interpreted in order to effectuate such intent.

(h) A Purchased Option may contain such additional terms not inconsistent with this Plan, including but not limited to the circumstances under which the purchase price of such Purchased Option may be returned to the holder of the Purchased Option, as the Committee may determine in its sole discretion.

(i) For purposes of payments made to exercise Stock Options, such payment shall be made in such form (including, but not limited to, cash, Common Shares, the surrender of another outstanding Award under this Plan or any combination thereof) as the Committee may determine in its discretion; provided, however, that for purposes of making such payment in Common Shares, such shares shall be valued at their Fair Market Value on the day of exercise and shall have been held by the Participant for a period of at least six (6) months.

Section 7. Stock Appreciation Rights. The Committee may grant Stock Appreciation Rights either alone, or in conjunction with Associated Awards, either at the time of grant or by amendment thereafter. Each Award of Stock Appreciation Rights granted under this Plan shall be evidenced by an agreement in such form as the Committee shall prescribe from time to time in accordance with this Plan and shall comply with the applicable terms and conditions of this Section and this Plan, and with such other terms and conditions, including, but not limited to, restrictions upon the Award of Stock Appreciation Rights or the Common Shares issuable upon exercise thereof, as the Committee, in its discretion, shall establish.

(a) The Committee shall determine the number of Common Shares to be subject to each Award of Stock Appreciation Rights. In the case of an Award of Stock Appreciation Rights awarded in conjunction with an Associated Award, the number of Common Shares subject to an outstanding Award of Stock Appreciation Rights may be reduced on an appropriate basis to the extent that the Associated Award has been exercised, paid to or otherwise received by the Participant, as determined by the Committee.

(b) The Award of Stock Appreciation Rights shall not be exercisable:

(i) unless the Associated Award, if any, is at the time exercisable;

(ii) if the Associated Award is a Stock Option and the Fair Market Value per share of the Common Shares on the exercise date does not exceed the exercise price per share of such Stock Option; or

(iii) if the Associated Award is an Incentive Stock Option and the exercise of the Award of Stock Appreciation Rights would disqualify the Incentive Stock Option as such under the Code.

(c) The Committee shall determine in its discretion and specify in each agreement embodying an Award of Stock Appreciation Rights the effect, if any, the termination of the Participant's employment with or performance of services for the Company shall have on the exercisability of the Award of Stock Appreciation Rights.

(d) An Award of Stock Appreciation Rights shall entitle the holder to exercise such Award or to surrender unexercised an Associated Award (or any portion of such Associated Award) to Kronos and to receive from Kronos in exchange thereof, without payment to Kronos, that number of Common Shares having an aggregate value equal to (or, in the discretion of the Committee, less than) the excess of the Fair Market Value of one share, at the time of such exercise, over the exercise price, times the number of shares subject to the Award or the Associated Award, or portion thereof, that is so exercised or surrendered, as the case may be. The Committee shall be entitled in its discretion to elect to settle the obligation arising out of the exercise of a Stock Appreciation Right by the payment of cash or Other Kronos Securities or property, or other forms of payment or any combination thereof, as determined by the Committee, equal to the aggregate value of the Common Shares it would otherwise be obligated to deliver. Any such election by the Committee shall be made as soon as practicable after the receipt by the Committee of written notice of the exercise of the Stock Appreciation Right.

(e) A Stock Appreciation Right may provide that it shall be deemed to have been exercised at the close of business on the business day preceding the expiration date of the Stock Appreciation Right or of the related Stock Option (or other Award), or such other date as specified by the Committee, if at such time such Stock Appreciation Right has a positive value. Such deemed exercise shall be settled or paid in the same manner as a regular exercise thereof as provided in subsection 7(d) hereof.

Section 8. Restricted Stock. The Committee may grant Awards of Restricted Stock either alone, or in conjunction with Associated Awards, either at the time of grant or by amendment thereafter. Each Award of Restricted Stock under this Plan shall be evidenced by an agreement in such form as the Committee shall prescribe from time to time in accordance with this Plan and shall comply with the applicable terms and conditions of this Section and this Plan, and with such other terms and conditions as the Committee, in its discretion, shall establish.

(a) The Committee shall determine the number of Common Shares to be issued to a Participant pursuant to the Award of Restricted Stock, and the extent, if any, to which they shall be issued in exchange for cash, other consideration, or both.

(b) Until the expiration of such period as the Committee shall determine from the date on which the Award is granted and subject to such other terms and conditions as the Committee in its discretion shall establish (the "Restricted Period"), a Participant to whom an Award of Restricted Stock is made shall be issued, but shall not be entitled to the delivery of, a stock certificate representing the Common Shares subject to such Award.

(c) Unless otherwise determined by the Committee in its discretion, a Participant to whom an Award of Restricted Stock has been made (and any person succeeding to such a participant's rights pursuant to this Plan) shall have, after issuance of a certificate for the number of Common Shares awarded and prior to the expiration of the Restricted Period, ownership of such Common Shares, including the right to vote such Common Shares and to receive dividends or other distributions made or paid with respect to such Common Shares (provided that such Common Shares, and any new, additional or different shares, or Other Kronos Securities or property, or other forms of

consideration that the Participant may be entitled to receive with respect to such Common Shares as a result of a stock split, stock dividend or any other change in the corporation or capital structure of Kronos, shall be subject to the restrictions hereinafter described as determined by the Committee in its discretion), subject, however, to the options, restrictions and limitations imposed thereon pursuant to this Plan.

(d) The Committee shall determine in its discretion and specify in each agreement embodying an Award of Restricted Stock the effect, if any, the termination of the Participant's employment with or performance of services for the Company during the Restricted Period shall have on such Award of Restricted Stock.

Section 9. Performance Grants. The Committee may grant Awards of Performance Grants either alone, or in conjunction with Associated Awards, either at the time of grant or by amendment thereafter. The Award of a Performance Grant to a Participant will entitle him to receive a specified amount determined by the Committee (the "Actual Value"), if the terms and conditions specified in this Plan and in the Award are satisfied. Each Award of a Performance Grant shall be subject to the applicable terms and conditions of this Section and this Plan, and to such other terms and conditions, including but not limited to, restrictions upon any Common Shares, Other Kronos Securities or any combination thereof, issued with respect to the Performance Grant, as the Committee, in its discretion, shall establish, and shall be embodied in an agreement in such form and substance as is determined by the Committee.

(a) The Committee shall determine the value or range of values of a Performance Grant to be awarded to each Participant selected for an Award and whether or not such a Performance Grant is granted in conjunction with an Associated Award. As determined by the Committee, the maximum value of each Performance Grant (the "Maximum Value") shall be: (i) an amount fixed by the Committee at the time the Award is made or amended thereafter, (ii) an amount that varies from time to time based in whole or in part on the then current value of the Common Shares, Other Kronos Securities or other securities or property, or any combination thereof or (iii) an amount that is determinable from criteria specified by the Committee. Performance Grants may be issued in different classes or series having different names, terms and conditions. In the case of a Performance Grant awarded in conjunction with an Associated Award, the Performance Grant may be reduced on an appropriate basis to the extent that the Associated Award has been exercised, paid to or otherwise received by the Participant, as determined by the Committee.

(b) The award period ("Award Period") related to any Performance Grant shall be a period determined by the Committee. At the time each Award is made, the Committee shall establish performance objectives to be attained within the Award Period as the means of determining the Actual Value of such a Performance Grant. The performance objectives shall be based on such measure or measures of performance, which may include, but need not be limited to, the performance of the Participant, the Company or one or more of its divisions or units, or any combination of the foregoing, as the Committee shall determine, and may be applied on an absolute basis or be relative to industry or other indices or any combination thereof. The Actual Value of a Performance Grant shall be equal to its Maximum Value only if the performance objectives are attained in full, but the Committee shall specify the manner in which the Actual Value of Performance Grants shall be determined if the performance objectives are met in part. Such performance measures, the Actual Value or the Maximum Value, or any combination thereof, may be adjusted in any manner by the Committee in its discretion at any time and from time to time during or as soon as practicable after the Award Period, if it determines that such performance measures, the Actual Value or the Maximum Value, or any combination thereof, are not appropriate under the circumstances.

(c) The Committee shall determine in its discretion and specify in each agreement embodying a Performance Grant the effect, if any, the termination of the Participant's employment with or performance of services for the Company during the Award Period shall have on such Performance Grant.

(d) The Committee shall determine whether the conditions of a Performance Grant have been met and, if so, shall ascertain the Actual Value of the Performance Grant. If the Performance Grant has no Actual Value, the Award and such Performance Grant shall be deemed to have been canceled and the Associated Award, if any, may be canceled or permitted to continue in effect in accordance with its terms. If the Performance Grant has any Actual Value and:

(i) was not awarded in conjunction with an Associated Award, the Committee shall cause an amount equal to the Actual Value of the Performance Grant earned by the Participant to be paid to him or his permitted assignee or Beneficiary; or

(ii) was awarded in conjunction with an Associated Award, the Committee shall determine, in accordance with criteria specified by the Committee (A) to cancel the Performance Grant, in which event no amount with respect thereto shall be paid to the Participant or his permitted assignee or Beneficiary, and the Associated Award may be permitted to continue in effect in accordance with its terms, (B) to pay the Actual Value of the Performance Grant to the Participant or his permitted assignee or Beneficiary as provided below, in which event the Associated Award may be canceled or (C) to pay to the Participant or his Beneficiary, the Actual Value of only a portion of the Performance Grants, in which event all or a portion of the Associated Award may be permitted to continue in effect in accordance with its terms or be canceled, as determined by the Committee.

Such determination by the Committee shall be made as promptly as practicable following the end of the Award Period or upon the earlier termination of employment or performance of services, or at such other time or times as the Committee shall determine, and shall be made pursuant to criteria specified by the Committee.

(e) Payment of any amount with respect to the Performance Grants that the Committee determines to pay as provided above shall be made by Kronos as promptly as practicable after the end of the Award Period or at such other time or times as the Committee shall determine, and may be made in Common Shares, Other Kronos Securities or any combination thereof as determined by the Committee in its discretion. Notwithstanding anything in this Section to the contrary, the Committee may, in its discretion, determine and pay out the Actual Value of the Performance Grants at any time during the Award Period.

Section 10. Deferral of Compensation. The Committee shall determine whether or not an Award shall be made in conjunction with the deferral of the Participant's salary, bonus or other compensation, or any combination thereof, and whether or not such deferred amounts may be:

(a) forfeited to the Company or to other Participants or any combination thereof, under certain circumstances (which may include, but need not be limited to, certain types of termination of employment or performance of services for the Company);

(b) subject to increase or decrease in value based upon the attainment of or failure to attain, respectively, certain performance measures; and/or

(c) credited with income equivalents (which may include, but need not be limited to, interest, dividends or other rates of return) until the date or dates of payment of the Award, if any.

Section 11. Deferred Payment of Awards. The Committee may specify that the payment of all or any portion of Common Shares, Other Kronos Securities or any combination thereof, under an Award shall be deferred until a later date. Deferrals shall be for such periods or until the occurrence of such events, and upon such terms, as the Committee shall determine in its discretion. Deferred payments of Awards may be made by undertaking to make payment in the future based upon the performance of certain investment equivalents (which may include, but need not be limited to, government securities, Common Shares, other securities, property or consideration, or any combination thereof), together with such additional amounts of income equivalents (which may be compounded and may include, but need not be limited to, interest, dividends or other rates of return or any combination thereof) as may accrue thereon until the date or dates of payment, such investment equivalents and such additional amounts of income equivalents to be determined by the Committee in its discretion.

Section 12. Transferability of Awards. Except as may be approved by the Committee, a Participant's rights and interest under this Plan or any Award may not be assigned or transferred, hypothecated or encumbered in whole or in part either directly or by operation of law or otherwise (except in the event of a

Participant's death), including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner; provided, however, that any Incentive Stock Option granted pursuant to this Plan shall not be transferable other than by will or the laws of descent and distribution and shall be exercisable during the Participant's lifetime only by him.

Section 13. Amendment or Substitution of Awards under this Plan. The terms of any outstanding Award under this Plan may be amended or modified from time to time by the Committee in its discretion in any manner that it deems appropriate (including, but not limited to, acceleration of the date of exercise of any Award and/or payments thereunder) if the Committee could grant such amended or modified Award under the terms of this Plan at the time of such amendment or modification; provided that no such amendment or modification shall adversely affect in a material manner any right of a Participant under the Award without his written consent, unless the Committee determines in its discretion that there have occurred or are about to occur significant changes in the Participant's position, duties or responsibilities, or significant changes in economic, legislative, regulatory, tax, accounting or cost/benefit conditions that are determined by the Committee in its discretion to have or to be expected to have a substantial effect on the performance of the Company, or any affiliate, division or department thereof, on this Plan or on any Award under this Plan. The Committee may, in its discretion, permit holders of Awards under this Plan to surrender outstanding Awards in order to exercise or realize the rights under other Awards, or in exchange for the grant of new Awards, or require holders of Awards to surrender outstanding Awards as a condition precedent to the grant of new Awards under this Plan.

Section 14. Termination of a Participant. For all purposes under this Plan, the Committee shall determine whether a Participant has terminated employment with, or the performance of services for, the Company; provided, however, an absence or leave approved by the Company, to the extent permitted by applicable provisions of the Code, shall not be considered an interruption of employment or performance of services for any purpose under this Plan.

Section 15. Dilution and Other Adjustments. In the event of any change in the outstanding Common Shares by reason of any stock split, dividend, split-up, split-off, spin-off, recapitalization, merger, consolidation, rights offering, reorganization, combination or exchange of shares, a sale by Kronos of all or substantially all of its assets, any distribution to stockholders other than a normal cash dividend, or other extraordinary or unusual event, if the Committee shall determine, in its discretion, that such change equitably requires an adjustment in the terms of any Award or the number of Common Shares available for Awards, such adjustment may be made by the Committee and shall be final, conclusive and binding for all purposes of this Plan. Each adjustment made pursuant to this Section shall be made with a view toward preserving the value of the affected Award had prior to the event or transaction giving cause to such adjustment.

In the event of the proposed dissolution or liquidation of Kronos, all outstanding Awards shall terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee. In the event of a proposed sale of all or substantially all of the assets of Kronos or the merger of Kronos with or into another corporation, all restrictions on any outstanding Awards shall lapse and Participants shall be entitled to the full benefit of all such Awards immediately prior to the closing date of such sale or merger, unless otherwise provided by the Committee.

Section 16. Designation of Beneficiary by Participant. A Participant may name a beneficiary to receive any payment to which he may be entitled with respect to any Award under this Plan in the event of his death, on a written form to be provided by and filed with the Committee, and in a manner determined by the Committee in its discretion (a "Beneficiary"). The Committee reserves the right to review and approve Beneficiary designations. A Participant may change his Beneficiary from time to time in the same manner, unless such Participant has made an irrevocable designation. Any designation of a Beneficiary under this Plan (to the extent it is valid and enforceable under applicable law) shall be controlling over any other disposition, testamentary or otherwise, as determined by the Committee in its discretion. If no designated Beneficiary survives the Participant and is living on the date on which any amount becomes payable to such a Participant's Beneficiary, such payment will be made to the legal representatives of the Participant's estate, and the term "Beneficiary" as used in this Plan shall be deemed to include such person or persons. If there are any questions as to the legal right of any Beneficiary to receive a distribution under this Plan, the Committee in its discretion may determine that the amount in question be paid to the legal representatives of the estate of the Participant, in which event the Company, the Board, the Committee, the Designated Administrator (if any), and the members thereof, will have no further liability to anyone with respect to such amount.

Section 17. Miscellaneous Provisions.

(a) Any proceeds from Awards shall constitute general funds of Kronos.

(b) No fractional shares may be delivered under an Award, but in lieu thereof a cash or other adjustment shall be made as determined by the Committee in its discretion.

(c) No Eligible Person or other person shall have any claim or right to be granted an Award under this Plan. Determinations made by the Committee under this Plan need not be uniform and may be made selectively among Eligible Persons under this Plan, whether or not such Eligible Persons are similarly situated. Neither this Plan nor any action taken hereunder shall be construed as giving any Eligible Person any right to continue to be employed by or perform services for the Company, and the right to terminate the employment of or performance of services by Eligible Persons at any time and for any reason is specifically reserved.

(d) No Participant or other person shall have any right with respect to this Plan, the Common Shares reserved for issuance under this Plan or in any Award, contingent or otherwise, until written evidence of the Award shall have been delivered to the recipient and all the terms, conditions and provisions of this Plan and the Award applicable to such recipient (and each person claiming under or through him) have been met.

(e) No Common Shares, Other Kronos Securities or property, other securities or property or other forms of payment shall be issued hereunder with respect to any Award unless counsel for Kronos shall be satisfied that such issuance will be in compliance with applicable law and any applicable rules of any stock exchange or other market quotation system on which Common Shares are listed.

(f) It is the intent of Kronos that this Plan comply in all respects with Rule 16b-3 and Section 162(m) with respect to Awards granted to executive officers of Kronos, that any ambiguities or inconsistencies in construction of this Plan be interpreted to give effect to such intention and that if any provision of this Plan is found not to be in compliance with Rule 16b-3 or Section 162(m), such provision shall be deemed null and void with respect to Awards granted to executive officers of Kronos to the extent required to permit such Awards to comply with Rule 16b-3 and Section 162(m). It is also the intent of Kronos that this Plan comply in all respects with the provisions of the Code providing favorable treatment to Incentive Stock Options, that any ambiguities or inconsistencies in construction of this Plan be interpreted to give effect to such intention and that if any provision of this Plan is found not to be in compliance with the Incentive Stock Option provisions of the Code, such provision shall be deemed null and void with respect to Incentive Stock Options granted to employees of the Company to the extent required to permit such Incentive Stock Options to receive favorable treatment under the Code.

(g) The Company shall have the right to deduct from any payment made under this Plan any federal, state, local or foreign income or other taxes required by law to be withheld with respect to such payment. It shall be a condition to the obligation of Kronos to issue Common Shares, Other Kronos Securities or property, other securities or property, or other forms of payment, or any combination thereof, upon exercise, settlement or payment of any Award under this Plan, that the Participant (or any Beneficiary or person entitled to act) pay to Kronos, upon its demand, such amount as may be required by the Company for the purpose of satisfying any liability to withhold federal, state, local or foreign income or other taxes. If the amount requested is not paid, Kronos may refuse to issue Common Shares, Other Kronos Securities or property, other securities or property, or other forms of payment, or any combination thereof. Notwithstanding anything in this Plan to the contrary, the Committee may, in its discretion, permit an Eligible Person (or any Beneficiary or person entitled to act) to elect to pay a portion or all of the amount requested by the Company for such taxes with respect to such Award, at such time and in such manner as the Committee shall deem to be appropriate (including, but not limited to, by authorizing Kronos to withhold, or agreeing to surrender to Kronos on or about the date such tax liability is determinable, Common Shares, Other Kronos Securities or property, other securities or property, or other forms of payment, or any combination thereof, owned by such person or a portion of such forms of payment that would otherwise be distributed, or have been distributed, as the case may be, pursuant to such Award to such person, having a Fair Market Value equal to the amount of such taxes).

(h) The expenses of this Plan shall be borne by the Company; provided, however, the Company may recover from a Participant or his Beneficiary, heirs or assigns any and all damages, fees, expenses and costs incurred by the Company arising out of any actions taken by a Participant in breach of this Plan or any agreement evidencing such Participant's Award.

(i) This Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Award under this Plan, and rights to the payment of Awards shall be no greater than the rights of the Company's general creditors.

(j) By accepting any Award or other benefit under this Plan, each Participant and each person claiming under or through him shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under this Plan by the Company, the Board, the Committee or the Designated Administrator (if applicable). The grant of any Award to a Participant is not evidence of any right to continued employment or other relationship with the Company.

(k) The appropriate officers of the Company shall cause to be filed any reports, returns or other information regarding Awards hereunder of any Common Shares issued pursuant hereto as may be required by applicable law and any applicable rules of any stock exchange or other market quotation system on which Common Shares are listed.

(l) The validity, construction, interpretation, administration and effect of this Plan, and of its rules and regulations, and rights relating to this Plan and to Awards granted under this Plan, shall be governed by the substantive laws, but not the choice of law rules, of the state of Delaware.

(m) Records of the Company shall be conclusive for all purposes under this Plan or any Award, unless determined by the Committee to be incorrect.

(n) If any provision of this Plan or any Award is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of this Plan or any Award, but such provision shall be fully severable, and this Plan or Award, as applicable, shall be construed and enforced as if the illegal or invalid provision had never been included in this Plan or Award, as applicable.

(o) The terms of this Plan shall govern all Awards under this Plan and in no event shall the Committee have the power to grant any Award under this Plan that is contrary to any of the provisions of this Plan.

(p) For purposes of interpretation of this Plan, the masculine pronoun includes the feminine and the singular includes the plural wherever appropriate.

Section 18. Plan Amendment or Suspension. This Plan may be amended or suspended in whole or in part at any time from time to time by the Board. No amendment of this Plan shall adversely affect in a material manner any right of any Participant with respect to any Award previously granted without such Participant's written consent, except as permitted under Section 13.

Section 19. Plan Termination. This Plan shall terminate upon the earlier of the following dates or events to occur:

(a) upon the adoption of a resolution of the Board terminating this Plan; or

(b) the tenth anniversary of the Effective Date; provided, however, that the Board may, prior to such date, extend the term of this Plan for an additional period of up to five years for the grant of Awards other than Incentive Stock Options. No termination of this Plan shall materially alter or impair any of the rights or obligations of any person, without his consent, under any Award previously granted under this Plan, except that subsequent to termination of this Plan, the Committee may make amendments or modifications permitted under Section 13.

Section 20. Effective Date. This Plan shall be effective, and Awards may be granted under this Plan, on or after the Effective Date; provided, however, if this Plan is not approved by at least a majority of the votes cast by the stockholders of Kronos at a meeting of stockholders at which a quorum is present within one year after the Effective Date then, in such event, this Plan and all Awards granted pursuant to this Plan shall be null and void.

ADOPTED BY THE BOARD: October \_\_, 2003  
APPROVED BY THE SOLE STOCKHOLDERS: October \_\_, 2003  
EFFECTIVE DATE: October \_\_, 2003

EXECUTED to evidence this Kronos Worldwide, Inc. 2003 Long-Term Incentive Plan adopted by the Board on October \_\_, 2003 and the sole stockholder of Kronos on October \_\_, 2003.

KRONOS WORLDWIDE, INC.

By: \_\_\_\_\_  
Robert D. Graham, Vice President,  
General Counsel and Secretary



[handwritten:] Copies to UF, DR 08/11/03

Kronos Titan GmbH & Co. OHG  
Attn: Mr. Volker Roth  
Peschstrasse 5

51373 Leverkusen

Contract for services and shipments between Bayer AG and Kronos  
dated 1995-06-30

August 6, 2003

Dear Mr. Roth:

Frank Froeschle  
Attorney at Law

The agreement cited above was originally entered into by Bayer AG and Kronos Titan GmbH/Kronos International, Inc. It is mutually agreed that since then the Kronos Bayer AG Titan GmbH & Co. OHG, as the legal successor of Kronos Titan GmbH, has assumed Bayer Business Services Kronos Titan GmbH, has assumed Kronos Titan GmbH's rights and obligations as Law & Patents defined in that contract. 51368 Leverkusen

Germany

Both parties to the agreement envisage provisioning of Kronos on the basis of individual contracts with the appropriate Bayer subsidiaries/Service entities. Negotiations to that end are ongoing. Therefore, it is anticipated that both parties to the agreement will substitute relevant individual contracts in place of the existing contract prior to the expiration date mentioned in the agreement (of 2011-12-31), thereby rescinding it.

Tel. +49(214)30-8 11 84  
Fax +49(214)30-5 62 24  
frank.froeschle  
@BayerBBS.com  
www.BayerBBS.com  
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Without regard to the above, you wrote us on 2003-07-02 to ask that we continue provisioning on the basis of the existing contract in any event, even if the Kronos-Titan GmbH & Co. OHG should no longer be held by NL Industries, Inc. We propose to accede to your request by amending the terms of the agreement as follows:

Board of Directors:  
Werner Wenning,  
Chairman  
Klaus Kuhn  
Udo Oeis  
Richard Pott

ss. 1 number 3 of the contract for services and shipments shall be worded as follows:

Supervisory Board Chairman  
Manfed Schneider

Corporate Headquarters:  
Leverkusen  
Cologne District Court  
HRB 48248

[see original for filename]

"The obligations according to ss. 1 number 1 shall lapse in the event that KRONOS undertakes the definitive shutdown of its manufacturing operations in Leverkusen."

We are sending you two original copies of this letter. We ask you to indicate your acceptance by signing both of them and returning one of the signed copies to us.

Sincerely yours,

Bayer AG

[signature] [signature] Frank Froeschle Ferenc Eikel Legal Department BIS-V Key  
Account Manager

Accepted:  
Date: 08/11/03  
[signature]  
Dr. Ulfert Fiand  
Volker Roth  
Kronos Titan GmbH & Co. OHG

Accepted:  
Date: 08/11/03  
[signature]  
Dr. Ulfert Fiand  
Volker Roth  
Kronos International, Inc.



PRELIMINARY COPY DATED OCTOBER 3, 2003  
SUBJECT TO COMPLETION OR AMENDMENT

INFORMATION STATEMENT

Dear NL Industries, Inc. Shareholder:

On \_\_\_\_\_, 2003, the Board of Directors of NL Industries, Inc. ("NL") formally approved a distribution to NL shareholders of approximately 23.85 million shares of the common stock of Kronos Worldwide, Inc. ("Kronos"), representing approximately 48.7% of the outstanding shares of common stock of Kronos. Kronos is currently a wholly-owned subsidiary of NL. After the distribution, NL and its affiliates will own approximately 92.5% of Kronos' common stock and shareholders who are not affiliates of Kronos will own the remaining 7.5%. As a holder of NL common stock, you will receive one share of Kronos common stock for every two shares of NL common stock that you own at the close of business on \_\_\_\_\_, 2003, the record date for the distribution. No fractional shares of Kronos common stock will be issued. If you would otherwise be entitled to a fractional share, you will receive a check for the cash value thereof. We are sending you this information statement to describe the distribution of Kronos stock.

A SHAREHOLDER VOTE IS NOT REQUIRED FOR THE DISTRIBUTION TO OCCUR. WE ARE NOT ASKING YOU FOR A PROXY, AND WE REQUEST THAT YOU DO NOT SEND US A PROXY. In addition, you do not need to pay any cash or other consideration for the shares of Kronos common stock that you receive, nor will you be required to surrender or exchange your existing shares of NL common stock, or take any other action in order to receive Kronos common stock. The number of shares of NL common stock that you currently own will not change as a result of the distribution. THE DISTRIBUTION OF KRONOS COMMON STOCK WILL BE A TAXABLE DIVIDEND UNDER U.S. INCOME TAX LAWS AND WILL GENERALLY BE TAXED AT RECENTLY ENACTED FAVORABLE DIVIDEND RATES IF RECEIVED BY INDIVIDUAL SHAREHOLDERS.

There has been no trading market for Kronos common stock. However, we expect that a limited market for Kronos common stock, commonly known as a "when issued" trading market, will develop on or shortly before the record date for the distribution. Kronos has applied for the listing of its common stock on the New York Stock Exchange and expects that its common stock will be traded on such exchange under the trading symbol "KRO."

This information statement contains information about the distribution and about Kronos.

Sincerely,

Harold C. Simmons  
Chairman of the Board and  
Chief Executive Officer

As you review this information statement, you should carefully consider the matters described in "Risk Factors" beginning on page 7 in evaluating the benefits and risks of holding or disposing of shares of Kronos common stock that you will receive in the distribution.

This information statement does not constitute an offer to sell or the solicitation of an offer to buy any securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this information statement is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this information statement is \_\_\_\_\_, 2003, and it is being mailed to NL shareholders on or about \_\_\_\_\_, 2003.

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## SUMMARY

This summary highlights selected information from this information statement but does not contain all details concerning the distribution of Kronos common stock, including information that may be important to you. To better understand the distribution, you should carefully read this entire document. References in this document to NL mean NL Industries, Inc. and references to Kronos mean Kronos Worldwide, Inc. The market data in this information statement, including growth rates and information relating to our relative position in the industry, are based on internal surveys, market research and other publicly-available information. Although we believe that such third party sources are reliable, we have not independently verified the accuracy or completeness of this information.

### Who We Are

NL, organized as a New Jersey corporation in 1891, conducts its primary operations through Kronos, a Delaware corporation and one of its principal wholly-owned subsidiaries. In September 2003, Kronos changed its name from Kronos, Inc. to Kronos Worldwide, Inc. Kronos is the world's fifth largest producer of titanium dioxide pigments, or TiO<sub>2</sub>, with an estimated 12% share of worldwide TiO<sub>2</sub> sales volume in 2002. TiO<sub>2</sub> is a pigment used to whiten, brighten and add opacity to thousands of commonly used products, such as paints, plastics and paper, as well as fibers, rubber, ceramics, inks and cosmetics. There are currently no effective substitutes for TiO<sub>2</sub> for use in these applications. Approximately one-half of Kronos' 2002 sales volume was in Europe, where Kronos is the second largest producer of TiO<sub>2</sub>. In 2002, Kronos had an estimated 18% share of European TiO<sub>2</sub> sales volume and an estimated 14% share of North American TiO<sub>2</sub> sales volume.

At \_\_\_\_\_, 2003, Valhi, Inc. ("Valhi") and Tremont LLC ("Tremont"), a wholly owned subsidiary of Valhi, held an aggregate of approximately 85% of NL's outstanding common stock. At \_\_\_\_\_, 2003, Contran Corporation ("Contran") and its subsidiaries held approximately 90% 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 the sole trustee. Mr. Simmons is the Chairman of the Board of each of Contran, Valhi and Tremont, the Chairman of the Board and Chief Executive Officer of NL and, as of the distribution date, is anticipated to be the Chairman of the Board and Chief Executive Officer of Kronos, and may be deemed to control each such company. See "Principal Stockholders."

### The Distribution

NL will distribute approximately 23.85 million shares of Kronos common stock, representing approximately 48.7% of the outstanding shares of Kronos common stock, to its shareholders. After the distribution, NL and its affiliates will own approximately 92.5% of Kronos' common stock and shareholders who are not affiliates of Kronos will own the remaining 7.5%. Each NL shareholder as of the close of business on \_\_\_\_\_, 2003, which is the record date for the distribution, will receive one share of Kronos common stock for every two shares of NL common stock held as of the record date. NL and Kronos expect that the distribution will take place on or about \_\_\_\_\_, 2003, although completion of the distribution is contingent upon the satisfaction of conditions described in the distribution agreement. See "Relationships Among NL, Kronos and Their Affiliates After the Distribution--Distribution Agreement." THE DISTRIBUTION OF KRONOS COMMON STOCK WILL BE A TAXABLE DIVIDEND UNDER U.S. INCOME TAX LAWS AND WILL GENERALLY BE TAXED AT RECENTLY ENACTED FAVORABLE DIVIDEND RATES IF RECEIVED BY INDIVIDUAL SHAREHOLDERS.

In the distribution, shares of Kronos common stock shall initially be distributed in book-entry form through Kronos' direct registration system. As soon as practicable on or after the distribution date, NL's transfer agent will provide NL's shareholders a statement showing such shareholder's ownership of Kronos common stock along with a check for any fractional shares of Kronos common stock to which the shareholder would otherwise be entitled. For NL common stock held through a broker, bank or other nominee, the transfer agent will

credit the registered nominee's account with shares of Kronos common stock and the dollar amount of any fractional shares of Kronos common stock to which the holder is entitled, which in turn should be credited to the holder's account. Following the distribution, any record holder of Kronos common stock may obtain a physical stock certificate representing the holder's shares at no charge by contacting Kronos' transfer agent.

Immediately prior to the distribution of Kronos common stock to NL shareholders, Kronos will declare and pay a dividend to NL in the form of a \$200 million long-term note payable to NL (the "Term Note"). The Term Note is intended to provide NL with liquidity which should enable NL to, among other things, explore diversification opportunities beyond the scope of its existing assets and business. The terms of the Term Note are described in "Relationships Among NL, Kronos and Their Affiliates After the Distribution--Distribution Agreement--Term Note."

#### Questions and Answers About the Distribution and Kronos

Q: Why is the distribution being made?

A: The Board of Directors of NL has determined that the distribution is in the best interests of NL and its shareholders. Through the recapitalization of Kronos and distribution of approximately 48.7% of the outstanding shares of Kronos common stock, NL believes significant benefits will be achieved.

First, it is believed that Kronos will be recognized in the TiO2 industry and the financial markets as an entity whose business operations are distinct from NL. Investors, suppliers, customers and employees worldwide will be able to view and evaluate the Kronos business independently from NL and its historical operations, and acquire a direct equity ownership interest in Kronos. The separation and resulting public company recognition should enhance the ability of Kronos to capitalize on the Kronos brand name and to develop separate business relationships and strategies distinct from operating as a wholly-owned subsidiary of NL, which is expected to enhance Kronos' global competitive position.

Second, NL will retain a significant equity ownership interest in Kronos and will continue to benefit from the affiliate group holding a controlling interest in a public company serving the global TiO2 market. As Kronos continues to grow and develop its TiO2 business separate from NL, the potential long-term investment return to NL and its shareholders is anticipated to increase. In 2002, Kronos International, Inc., a wholly-owned subsidiary of Kronos ("KII"), issued (euro)285 million aggregate principal amount of 8.875% Senior Secured Notes due 2009 (the "KII Senior Notes"), primarily in the European financial market. Proceeds of such financing were used in part to repay intercompany debt owed by KII to Kronos, which in turn was used to repay intercompany debt owed by Kronos to NL. NL used a portion of such proceeds to repay all of its third party long-term indebtedness with the balance used for general corporate purposes. As demonstrated by KII's successful public debt offering in 2002, and the continuing market interest in such debt, as well as other recent financing arrangements entered into by KII and its subsidiaries, it is believed that the equity of Kronos will also be attractive to the financial markets. It is further believed that with a separate public trading market, the Kronos common stock retained by NL will provide significant increased value to NL as a result of the anticipated favorable valuation of Kronos in the financial markets. NL over time could sell a portion of its holdings of Kronos common stock in the established trading market or more readily use such stock as collateral for future credit arrangements if such additional liquidity is determined to be beneficial to NL in the future.

Third, NL believes that the distribution will provide it with greater opportunity for diversification of its holdings and business interests. Through its future diversification efforts, NL may be able to provide potentially more consistent and stable financial performance compared to its current holdings. In order to accomplish a diversification of its holdings, it is believed NL will require additional sources of liquidity. As a result of the 2002 public debt offering by KII, and repayment of intercompany debts, NL achieved additional liquidity while discharging all of its long-term debt obligations. Through the recapitalization of Kronos, NL will receive significant additional consideration through the payment of a dividend in the form of the Term Note, which will provide NL with

additional financial resources and liquidity. The results of the 2002 financing activities and the dividend of the Term Note effectively converts a portion of NL's investment in Kronos into a more liquid form (with respect to the proceeds received from the 2002 financing activities) and into a more senior position (with respect to the Term Note) that will also provide additional liquidity to NL, which should enable NL to explore diversification opportunities beyond the scope of its existing assets and business. Additionally, the distribution of Kronos common stock should enhance NL's ability to increase its liquidity through potential future sales of a portion of its remaining holdings of Kronos common stock or the use of Kronos common stock as collateral for any future credit arrangements. Upon the completion of the distribution, NL will explore diversification opportunities beyond the scope of its existing business, which should reduce the risks inherent in continuing to conduct its operations primarily in a single highly competitive industry that is capital intensive and subject to significant historically cyclical demand and pricing variations.

Q: Should I send in my NL stock certificates for exchange?

A: No, the distribution is not an exchange. Holders of NL common stock should not send stock certificates to NL, Kronos or the distribution agent.

Q: Will NL shareholders vote on the distribution?

A: No. The vote of NL's shareholders is not required to complete the distribution.

Q: How will fractional shares be treated?

A: On or after the distribution date, the distribution agent will aggregate all fractional shares, sell them on the open market at prevailing market prices and distribute the aggregate proceeds ratably to those NL shareholders otherwise entitled to receive fractional shares. As a result, each holder of NL common stock who would otherwise be entitled to receive a fractional share will receive cash for those fractional shares less applicable withholding taxes and a pro rata portion of the aggregate brokerage commission payable in connection with the sale of the fractional shares. The distribution agent will in its sole discretion, without influence from Contran, Valhi, NL or Kronos, determine when, how, through which broker-dealer and at what price to make its sales of the aggregated fractional shares. Neither the distribution agent nor the broker-dealers it uses will be affiliates of Contran, Valhi, NL or Kronos.

Q: What do shareholders need to do to participate in the distribution?

A: Nothing. The distribution agent will distribute shares of Kronos common stock to NL shareholders without shareholders having to take any action.

Q: Why am I receiving this information statement?

A: This information statement is being provided solely to furnish information to shareholders of NL who will receive shares of Kronos common stock in the distribution. It is not, and is not intended to be construed as, an inducement or encouragement to buy or sell any Kronos or NL securities. We believe that the information contained in this information statement is accurate as of the date set forth on the cover, and neither the mailing of this information statement nor the delivery of Kronos common stock in the distribution will create any implication to the contrary. Changes may occur after that date, and we will not update the information contained herein except in the normal course of public disclosure obligations and practices. You should carefully review the information provided in this document.

Q: Will the distribution change the number of shares I own in NL?

A: No. The distribution will not change the number of NL common shares that you own and after the distribution you will own the same percent of NL that you owned immediately prior to the distribution. Immediately after the distribution, NL's shareholders will continue to own their respective proportionate interests in NL and Kronos. However, shareholders will now own their interests in these businesses through their ownership of stock in each of two public companies.



Q: Are there risks to continuing to own Kronos common stock following the distribution?

A: Yes. The separation of Kronos from NL presents risks relating to Kronos' common stock being publicly traded for the first time. Also, Kronos' Board of Directors will make independent determinations regarding whether to pay dividends and, if so, the amount and frequency of such dividend payments. In addition, Kronos' business is subject to both general and specific risks relating to its operations. Many of these risks are described in the "Risk Factors" section beginning on page 8. We encourage you to read that section carefully.

Q: Will Kronos common stock be publicly traded?

A: Kronos has applied for the listing of its common stock on the New York Stock Exchange. Kronos expects that its common stock will be approved for listing on the New York Stock Exchange under the trading symbol "KRO" and that regular trading will begin on or about the distribution date.

Before regular trading begins, Kronos expects that a limited market for shares of its common stock, commonly known as a "when issued" trading market, will develop on or shortly before the record date for the distribution. The term "when-issued" means that shares can be traded prior to the time of the distribution. Even though when-issued trading may develop, none of these trades will settle prior to the effective date of the distribution, and if the distribution does not occur, all when-issued trading will be null and void.

Q: Will the distribution affect the trading price of my NL common stock?

A: Probably. After the distribution, NL common stock will continue to be listed on the NYSE under the symbol "NL," and the trading price of NL common stock will likely be lower than the trading price immediately prior to the distribution. Moreover, until the market has evaluated NL after the distribution, the trading price of NL common stock may fluctuate significantly.

Q: Will the distribution affect the amount of dividends that I receive on my NL common stock, and does Kronos expect to pay a regular quarterly dividend?

A: Yes. Prior to the distribution, NL's regular quarterly dividend was \$.20 per NL share. NL's board of directors has declared a fourth quarter dividend of \$\_\_\_ per NL share, payable on December \_\_\_\_, 2003 to NL shareholders of record as of December \_\_\_\_, 2003. In addition, Kronos' board of directors has declared a fourth quarter dividend of \$\_\_\_ per Kronos share, payable on December \_\_\_\_, 2003 to Kronos shareholders of record as of December \_\_\_\_, 2003. The payment of future dividends by NL and Kronos is subject to the discretion of their respective boards of directors, and various factors, including those discussed below on page 8 under "Risk Factors--Various factors may hinder the declaration and payment of dividends following the distribution."

Q: What if I want to sell my NL common stock or Kronos common stock after the distribution?

A: Unless you are an affiliate of NL or Kronos, you are free to sell your shares of NL common stock or Kronos common stock. However, you should consult with your financial and tax advisors as to the implications of any sales. Neither NL nor Kronos is making any recommendation on the purchase, retention or sale of shares of NL common stock or Kronos common stock. If you do decide to buy or sell any shares of NL or Kronos common stock, you should make sure your broker, bank or other nominee understands whether you want to buy or sell NL common stock, Kronos common stock or both.

Q: What is likely to be the initial trading price of Kronos common stock?

A: Prior to the distribution, there has been no trading market for Kronos common stock and, as a result, it is difficult to predict the prices at which Kronos common stock might trade. After the distribution, NL, Tremont

and Valhi will own a total of approximately 92.5% of the outstanding shares of Kronos common stock and other stockholders will own approximately 7.5% of the outstanding Kronos shares. Kronos expects that its common stock will trade on the New York Stock Exchange. Neither NL nor Kronos can predict the extent to which investors' interest will lead to a liquid trading market or whether the market price of Kronos common stock will be volatile. The combined trading prices of Kronos common stock and NL common stock after the distribution may be less than, equal to or greater than the current trading price of NL common stock. The market price of Kronos common stock could fluctuate significantly for many reasons, including in response to the risk factors listed in this information statement beginning on page 8 or for reasons unrelated to Kronos' specific performance. See "The Distribution--Reasons for the Distribution" and "Risk Factors--Risks Relating to the Distribution--There has been no prior market for Kronos common stock, and it is difficult to predict the prices at which Kronos common stock might trade."

Q: How will NL and Kronos be related after the distribution?

A: Immediately following the distribution, NL will own approximately 51.3% of Kronos common stock and Valhi and Tremont will own a total of approximately 41.2% of Kronos common stock. In addition, a majority of the members of Kronos' Board of Directors will also serve on NL's Board of Directors. Kronos will also have the \$200 million Term Note outstanding to NL. See "Relationships Among NL, Kronos and Their Affiliates After the Distribution."

Q: What are the conditions to the distribution becoming effective?

A: The completion of the distribution depends on the satisfaction of the following conditions:

- o the SEC has declared Kronos' registration statement on Form 10 effective, and there has been no suspension, withdrawal or stop-order in effect with respect thereto and no proceeding for that purpose has been instituted by the SEC;
- o the New York Stock Exchange has approved the listing of the Kronos common stock, subject to official notice of issuance;
- o the actions and filings with regard to state securities and blue sky laws of the United States (and any comparable law under any foreign jurisdiction) have been taken and, where applicable, have become effective or accepted;
- o there has been no order, injunction or decree issued by any court or agency of competent jurisdiction or other legal constraint or prohibition preventing the consummation of the transactions contemplated by the distribution agreement in effect;
- o all material consents and governmental approvals necessary to consummate the transactions contemplated by the distribution agreement have been obtained and are in full force and effect;
- o the NL Board of Directors is satisfied that the distribution is lawful under applicable state and federal law;
- o the NL Board of Directors has approved the distribution and not abandoned or revoked the distribution at any time before the completion of the distribution;
- o Kronos' amended and restated certificate of incorporation and bylaws, substantially as filed as exhibits to the Form 10 and described in this information statement, are in effect;
- o the various ancillary agreements described in this information statement have been executed and delivered by the parties thereto, including:
  - o the Tax Sharing Agreement among Contran, Valhi and Kronos; and

- o the Intercorporate Services Agreement between Contran and Kronos;
- o no other events or developments have occurred subsequent to the date of the distribution agreement such that, in the judgment of NL, would result in the distribution having an adverse effect on NL or on the shareholders of NL; and
- o the distribution agreement has not been terminated.

Q: Can NL decide not to complete the distribution?

A: Yes. NL may cancel the distribution for any reason at any time before it is completed.

Q: Will I be taxed on the distribution under U.S. federal income tax laws?

A: Yes. NL shareholders who receive shares of Kronos common stock in the distribution will receive a taxable dividend in an amount equal to the fair market value of Kronos common stock received. For NL shareholders that are not corporations, this amount will generally be taxable at favorable dividend rates under recently enacted legislation. For shareholders that are corporations, the distribution will be subject to the corporate dividends received deduction but may result in a basis reduction to such shareholder's NL stock and/or gain recognition. Each NL shareholder who receives cash in lieu of a fractional Kronos share will be required to recognize a short-term gain or loss equal to the difference between the cash so received and the portion of the tax basis in Kronos common stock that is allocable to the fractional share. You should consult your tax advisor as to the particular tax consequences to you of the dividend. You should also review the discussion under "The Distribution--Material U.S. Federal Income Tax Consequences of the Distribution" that begins on page 19 of this information statement.

Q: Will NL or Kronos be taxed on the distribution under U.S. federal income tax laws?

A: Yes. NL will be required to recognize a taxable gain equal to the difference between the fair market value of the shares of Kronos common stock distributed at the time of the distribution and NL's adjusted tax basis in such stock, which tax basis is expected to be nominal at the time of the distribution. NL currently intends to defer payment of the income tax owed on such taxable gain, and instead NL currently intends to offset against such payment the amount of any future income tax attributes. It is anticipated that such future income tax attributes would eventually offset the amount otherwise payable. There are no direct or indirect corporate tax consequences to Kronos as a result of the distribution. You should also review the discussion under "The Distribution--Material U.S. Federal Income Tax Consequences of the Distribution."

Q: Will Contran still have voting control over, and will Harold C. Simmons still be deemed to control, Kronos following the distribution?

A: Yes. As of the date of this information statement:

- o Contran owned, directly or through subsidiaries, approximately 90% of Valhi's outstanding common stock;
- o Valhi and Tremont owned a total of approximately 85% of NL's outstanding common stock;
- o Valhi owned 100% of Tremont's outstanding membership interests; and
- o NL owned 100% of Kronos' 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. Mr. Simmons is the

Chairman of the Board of each of Contran, Valhi and Tremont, the Chairman of the Board and Chief Executive Officer of NL and, as of the distribution date, is anticipated to be the Chairman of the Board and Chief Executive Officer of Kronos, and may be deemed to control each such company.

After the distribution is completed, we expect that:

- o Contran's ownership in Valhi will remain at 90%;
- o Valhi's and Tremont's aggregate ownership in NL will remain at 85%; and
- o Valhi and Tremont will own a total of 41.2% of Kronos and NL will own 51.3% of Kronos.

Therefore, after the distribution is complete, Contran will still have voting control over, and Mr. Simmons will still be deemed to control, Kronos. Please read "Principal Stockholders" beginning on page 59 of this information statement.

Q: Who is acting as the distribution agent?

A: EquiServe Trust Co., N.A.  
150 Royall Street  
Canton, Massachusetts 02021

Q: Where can NL shareholders get more information?

A: You may direct questions to Gregory M. Swalwell, Vice President, Finance, NL Industries, Inc., Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697, telephone number (972) 233-1700, or you may contact the distribution agent for the distribution at (781) 575-2725.

#### RISK FACTORS

You should carefully consider each of the following risks, which Kronos believes are the principal risks that it faces, and all of the other information in this information statement. Some of the following risks relate to the distribution of Kronos common stock to NL shareholders, including the impact of such distribution on NL. Other risks relate to Kronos' business, the securities markets and ownership of Kronos common stock. Kronos' business may also be adversely affected by risks and uncertainties not presently known to Kronos or that Kronos currently believes are immaterial. If any of the following risks and uncertainties develop into actual events, this could have a material adverse effect on Kronos' business, financial condition or results of operations. If this occurs, the trading price of Kronos common stock could decline, and you may lose all or part of your investment in Kronos, NL or both companies.

#### Risks Relating to the Distribution

Kronos' historical financial information may not be indicative of Kronos' future performance.

Kronos' historical financial information included in this information statement may not be indicative of its future performance and does not necessarily reflect Kronos' financial position, results of operations and cash flows during each of the periods presented if Kronos had outstanding publicly traded equity securities. If Kronos had outstanding publicly traded equity securities during all of 2002, Kronos estimates that its total expenses would have been approximately \$600,000 to \$800,000 higher than those reflected in its historical consolidated financial statements. The increase in expenses includes, without limitation, increased public company compliance costs, audit and legal

expenses and accounting and payroll costs. The foregoing estimate of higher expenses is not necessarily an accurate measure of what Kronos' expenses would have been in 2002 or will be in the future. Kronos' actual expenses could be higher or lower. The costs that Kronos actually incurs in the future will depend on the market for these services when they are actually purchased and the size and nature of Kronos' future operations. The financial information included in this information statement does not reflect any changes that may occur in Kronos' financial condition and operations as a result of the distribution.

There has been no prior market for Kronos common stock, and it is difficult to predict the prices at which Kronos common stock might trade.

Prior to the distribution, there has been no trading market for Kronos common stock. Immediately after the distribution, NL, Tremont and Valhi will own a total of approximately 92.5% of the outstanding shares of Kronos common stock and the other stockholders will own approximately 7.5% of the outstanding Kronos shares. Kronos expects that its common stock will trade on the New York Stock Exchange. Neither NL nor Kronos can predict the extent to which investors' interest will lead to a liquid trading market or whether the market price of Kronos common stock will be volatile. While it is expected that a limited market for Kronos common stock, commonly known as a "when issued" trading market, will develop on or shortly before the record date for the distribution, until Kronos common stock is fully distributed and an orderly trading market develops, the prices at which trading in Kronos common stock occurs may fluctuate significantly. The term "when-issued" means that shares can be traded prior to the time of the distribution. Even though when-issued trading may develop, none of these trades will settle prior to the effective date of the distribution. See "The Distribution--Listing and Trading of Kronos Common Stock." Neither NL nor Kronos can provide any assurance as to an appropriate value or initial trading price for Kronos common stock. Determining the proper price of any equity security is very subjective and different investors will have different opinions regarding price and will apply varying pricing methodologies. The combined trading prices of Kronos common stock and NL common stock after the distribution may be less than, equal to or greater than the current trading price of NL common stock. The prices at which shares of Kronos common stock trade will be determined based on the composite of pricing expectations of all market participants and may be influenced by many factors, including, among others, Kronos' performance and prospects, quarter to quarter variations in Kronos' actual or anticipated financial results or those of other companies in the industries or the markets that Kronos serves, investor perception of Kronos and the TiO2 industry, the depth and liquidity of the market for Kronos common stock, Kronos' business and the industry in which it operates, Kronos' dividend policy, general financial and other market conditions, domestic and international economic conditions, and the impact of factors described in this "Risk Factors" section. In addition, the stock market in general has experienced extreme price and volume fluctuations that have affected the market price of many stocks that have often been unrelated or disproportionate to the operating performance of these companies. See "The Distribution--Reasons for the Distribution" and "--Listing and Trading of Kronos Common Stock."

The trading price of NL common stock will likely decline after the distribution.

After the distribution, NL common stock will continue to be listed for trading on the New York Stock Exchange under the symbol "NL." As a result of the distribution, absent other action, the trading price of NL common stock immediately following the distribution will likely be lower than the trading price of NL common stock immediately prior to the distribution. The prices at which shares of NL common stock will trade after the distribution may be influenced by many factors, including, among others, NL's performance and prospects, the success of its diversification efforts, quarter to quarter variations in NL's actual or anticipated future results or those of other companies in the industries or markets that NL serves, investor perceptions of NL and the TiO2 industry, the depth and liquidity of the market for NL's common stock, NL's business and the industry in which it operates, NL's dividend policy, general financial and other market conditions, domestic and international conditions, the cyclicity of the TiO2 industry (as discussed below), global economic and political conditions, global productive capacity, customer inventory levels, changes in product pricing, changes in product costing, changes in foreign currency exchange rates, competitive technology positions, operating interruptions (including, but not limited to, labor disputes, leaks, fires, explosions, unscheduled downtime, transportation interruptions, war and terrorist activities), the ultimate outcome of NL's pending or possible future litigation and the outcome of tax controversies.

Significant sales of Kronos common stock following the distribution, or the perception that such sales might occur, could depress the market price of Kronos common stock.

Approximately 3.6 million shares of Kronos common stock will be eligible for immediate resale in the public market. Any sale of significant amounts of Kronos shares in the public market as a percentage of the total number of outstanding shares of Kronos common stock held by non-affiliates, or the perception that such sales might occur, whether as a result of the distribution or otherwise, could depress the market price of Kronos common stock. Neither NL nor Kronos is able to predict whether significant amounts of Kronos common stock will be sold in the open market following the distribution. See "The Distribution--Listing and Trading of Kronos Common Stock."

Various agreements relating to the distribution contain indemnification and payment obligations for NL and Kronos that neither party may be able to satisfy, which could result in increased expenses and liabilities for NL and Kronos.

The distribution agreement between Kronos and NL and the tax sharing agreement among Contran, Valhi and Kronos allocate responsibility among the parties to the agreements for various liabilities and obligations. The distribution agreement provides that each party will indemnify the other against claims arising out of the distribution agreement and claims arising out of their respective businesses before and after the distribution. The tax sharing agreement provides that each party will indemnify the others with respect to certain taxes attributable to their respective businesses arising before or after the distribution. In addition, under the existing tax sharing agreements between NL and Valhi and between NL and Kronos, each party has agreed to continue to indemnify the other with respect to the taxes attributable to their respective businesses, whether arising before or after the distribution. However, the availability of such indemnities will depend upon the future financial strength of NL, Contran, Valhi and Kronos. NL, Contran, Valhi or Kronos may not be in a financial position to fund such indemnities if they should arise, which could result in increased expenses and liabilities for one or any of them. See "Relationships Among NL, Kronos and Their Affiliates After the Distribution."

Some provisions may discourage a third party from acquiring control of Kronos.

It could be difficult for a potential bidder to acquire Kronos because NL, Tremont and Valhi together will own approximately 92.5% of Kronos common stock after the distribution. In addition, Kronos' amended and restated certificate of incorporation and bylaws contain provisions that may discourage takeover attempts. In particular, these documents permit Kronos' Board of Directors to issue, without stockholder approval, preferred stock with such terms as the Board may determine. The ownership of Kronos common stock by its affiliates and these provisions are likely to increase the cost or difficulty for a third party to acquire control of Kronos or may discourage acquisition bids altogether. See "Principal Stockholders" and "Description of Capital Stock--Provisions That May Have an Anti-Takeover Effect."

#### Risks Related to Kronos' Business

Demand for and prices of Kronos' products are cyclical and Kronos may experience prolonged depressed market conditions for its products, which may adversely affect its financial condition and results of operations.

Substantially all of Kronos' revenue is attributable to sales of TiO2. Pricing within the global TiO2 industry over the long term is cyclical, and changes in industry economic conditions, especially in Western industrialized nations, can significantly impact Kronos' earnings and operating cash flows. Kronos' average TiO2 selling price on a billing currency basis (which excludes the effect of foreign currency translation) increased from the preceding quarter during each of the third and fourth quarters of 2002 and the first quarter of 2003, reversing the downward trend in prices that began in the first quarter of 2001 and continued through the first quarter of 2002. Kronos' average TiO2

selling prices in the second quarter of 2003 were flat compared to the first quarter of 2003. Industry-wide demand for TiO2 strengthened throughout 2002, with full year demand estimated as 9% higher than the previous year. This is believed to have been the result of economic growth and restocking of customer inventory levels. Volume demand in 2003 is expected to increase moderately over 2002 levels. Kronos cannot guarantee that it will not be affected by any existing or future cyclical changes or that such conditions will not be sustained or further aggravated by anticipated or unanticipated changes in economic conditions or other events.

The demand for TiO2 during a given year is also subject to annual seasonal fluctuations. TiO2 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.

Kronos sells its products in a mature and highly competitive industry and faces price pressure in the markets in which it operates.

The global markets in which Kronos operates its business are highly competitive. Competition is based on a number of factors, such as price, product quality and service. Some of Kronos' competitors may be able to drive down prices for Kronos' products because they have costs that are lower than Kronos'. In addition, some of Kronos' competitors' financial, technological and other resources may be greater than Kronos', and such competitors may be better able to withstand changes in market conditions. Kronos' competitors may be able to respond more quickly than Kronos can to new or emerging technologies and changes in customer requirements. Further, consolidation of Kronos' competitors or customers in any of the industries in which Kronos competes may have an adverse effect on Kronos. The occurrence of any of these events could have a material adverse effect on Kronos' business, financial condition and results of operations or cash flows.

Kronos is subject to many environmental and safety regulations that may result in unanticipated costs or liabilities.

Kronos is subject to extensive laws, regulations, rules and ordinances relating to pollution, the protection of the environment and the use or cleanup of hazardous substances and wastes. Kronos may incur substantial costs, including fines, damages and criminal penalties or civil sanctions, or experience interruptions in its operations for actual or alleged violations or compliance requirements arising under environmental laws. Kronos' operations could result in violations under environmental laws, including spills or other releases of hazardous substances to the environment. Some of Kronos' operating facilities are in densely populated urban areas or in industrial areas adjacent to other operating facilities. In the event of a catastrophic incident, Kronos could incur material costs as a result of addressing such an event and in implementing measures to prevent such incidents. Given the nature of Kronos' business, violations of environmental laws may result in restrictions imposed on Kronos' operating activities, substantial fines, penalties, damages or other costs, including as a result of private litigation, any of which could have a material adverse effect on Kronos' business, financial condition, results of operations or cash flows.

In addition, Kronos could 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 Kronos' operations. Kronos cannot, therefore, assure you that costs beyond those currently anticipated will not be required under existing and future environmental laws.

Kronos has a limited number of suppliers for some of its raw materials, which could negatively affect it.

Kronos has a limited number of suppliers for some of its raw materials. The number of sources for, and availability of, certain raw materials is specific to the particular geographical region in which a facility is located. In addition, in 2002, Kronos purchased titanium-bearing ores from three suppliers under multiple-year agreements. If one of these suppliers were unable to meet its obligations under present supply arrangements, Kronos could suffer reduced supplies or incur increased prices for its raw materials.

NL and its affiliates may have conflicts of interest with Kronos, and these conflicts could adversely affect Kronos' business.

After the distribution, NL, Valhi and Tremont will own approximately 92.5% of the outstanding shares of Kronos common stock and approximately 92.5% of the voting power of Kronos. For so long as NL and its affiliates retain their

ownership of Kronos shares, they will have the power to influence Kronos' business strategy, including decisions relating to the pursuit of transactions and commercial opportunities. In addition, as of the distribution date, although each of Kronos and NL will have independent non-employee directors serving on their respective boards of directors, it is anticipated that a majority of the members of NL's Board of Directors will also serve on Kronos' Board of Directors. Certain executive officers of NL also serve as executive officers of Kronos. See "Management." Furthermore, under intercorporate service agreements between Contran and Kronos, Contran will provide certain management, financial and administrative services to Kronos on a fee basis. These circumstances could create potential conflicts of interest when Kronos' directors and management are faced with decisions that could have different implications for NL and Kronos. Examples of these types of decisions might include the resolution of disputes arising out of the agreements governing the relationship between NL and Kronos following the distribution, the issuance of additional securities, Kronos' payment of dividends, the pursuit of specific business opportunities available to Kronos or NL or other circumstances in which Kronos or NL may have adverse interests. Also, the appearance of conflicts, even if such conflicts do not materialize, might adversely affect the public's perception of Kronos following the distribution. No specific procedures are in place that govern the treatment of transactions among Kronos and related entities, although such entities may implement specific procedures as appropriate for particular transactions. In addition, under applicable principles of law, in the absence of stockholder ratification or approval by directors who may be deemed disinterested, transactions involving contracts among companies under common control must be fair to all companies involved. Furthermore, directors of companies owe fiduciary duties of good faith and fair dealing to all stockholders of the companies for which they serve. See "Relationships Among NL, Kronos and Their Affiliates After the Distribution" and "Certain Relationships and Related Transactions." Both Kronos' and NL's Board of Directors will include non-employee directors. It is anticipated that at least one such non-employee director on each company's board of directors will not serve on the other company's board, and it is currently anticipated that these non-employee directors will resolve any conflicts of interests that may arise between Kronos and NL.

Kronos could be adversely affected if NL suffers adverse consequences from environmental and other claims.

Kronos is currently wholly-owned by NL, and after the distribution will be owned approximately 51.3% by NL. NL has been named as a defendant, potentially responsible party ("PRP"), or both, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act, and similar state laws in approximately 70 governmental and private actions associated with waste disposal sites, mining locations and facilities currently or previously owned, operated or used by NL or its subsidiaries, or their predecessors, certain of which are on the U.S. Environmental Protection Agency's Superfund National Priorities List or similar state lists. NL is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage arising out of the sale in the United States of lead pigments used in the manufacture of paint decades ago. To NL's knowledge, none of the lead pigment claims have resulted in a judgment or settlement in favor of any claimant since these claims first arose approximately seventeen years ago.

Neither Kronos nor its subsidiaries have ever been subject to any of these environmental, lead pigment or other claims against NL. Neither Kronos nor NL believes that there is any basis for the assertion of any such claims against Kronos. Nevertheless, judgments against NL could have indirect adverse consequences for Kronos. Such events could impose economic hardships on NL, which in turn could make future financings, including bank borrowings, more difficult for Kronos and its subsidiaries and also could adversely affect Kronos' customers' perceptions of Kronos as an affiliate of NL. In addition, judgments against NL might force NL to divest its remaining equity ownership of Kronos to raise cash, which could result in a change of control of Kronos or depress the market price of Kronos common stock.

Kronos' business may be adversely affected by international operations and fluctuations in currency exchange rates.

Kronos conducts a significant portion of its business in several jurisdictions outside of the United States and is subject to risks normally



associated with international operations. These risks include the impact of such operations on the prices that Kronos receives for its products and the need to convert currencies that Kronos may receive for some of its products into currencies required to pay some of its debt, or into currencies in which Kronos purchases certain raw materials or pays for certain services, all of which could result in a gain or loss depending on fluctuations in exchange rates. Other risks of international operations include trade barriers, tariffs, exchange controls, national and regional labor strikes, social and political risks, general economic risks, required compliance with a variety of foreign laws, including tax laws, and the difficulty in enforcing agreements and collecting receivables through foreign legal systems.

If Kronos' patents are declared invalid or its trade secrets become known to competitors, Kronos' and NL's ability to compete may be adversely affected.

Protection of Kronos' proprietary processes, apparatuses and other technology is important to its business. Consequently, Kronos relies on judicial enforcement for protection of its patents, and there can be no assurance that any of Kronos' patents will not be challenged, invalidated, circumvented or rendered unenforceable. Furthermore, if any pending patent application filed by Kronos does not result in an issued patent, or if patents are issued to Kronos, but such patents do not provide meaningful protection of Kronos' intellectual property, then the use of any such intellectual property by Kronos' competitors could have a material adverse effect on Kronos' business, financial condition, results of operations or cash flows. Additionally, Kronos' competitors or other third parties may obtain patents that restrict or preclude Kronos' ability to lawfully produce or sell its products in a competitive manner, which could have a material adverse effect on Kronos' business, financial condition, results of operations or cash flows.

Kronos also relies on unpatented proprietary know-how and continuing technological innovation and other trade secrets to develop and maintain its competitive position. Although it is Kronos' practice to enter into confidentiality agreements to protect its intellectual property, because these confidentiality agreements may be breached, such agreements may not provide sufficient protection for Kronos' 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. The failure of Kronos' patents or confidentiality agreements to protect its processes, apparatuses, technology, trade secrets or proprietary know-how could have a material adverse effect on Kronos' business, financial condition, results of operations or cash flows. Because NL has a perpetual license to use Kronos' proprietary processes, apparatuses and other technology in its business, any failure by Kronos to protect its processes, apparatuses, technology, trade secrets or proprietary know-how could have a material adverse effect on NL's business, financial condition, results of operations or cash flows.

Kronos' leverage may impair its financial condition.

Kronos currently has, and after the distribution will continue to have, a significant amount of debt. As of June 30, 2003, after giving effect to Kronos' \$200 million dividend to NL in the form of the Term Note, Kronos' total consolidated debt would be \$561 million, consisting of the following:

- o (euro)285 million (\$326 million) of the KII Senior Notes;
- o (euro)30 million (\$34 million) outstanding under KII's subsidiaries' revolving credit facility;
- o \$200 million under the Term Note payable to NL, the terms of which are described below under "Relationships Among NL, Kronos and Their Affiliates After the Distribution--Distribution Agreement--Term Note"; and
- o \$1 million of other debt.

Subject to specified limitations, the indenture governing the KII Senior Notes permits KII and its subsidiaries to incur additional debt. In addition, as

of June 30, 2003, KII's subsidiaries had unused borrowing availability of the equivalent of approximately \$55 million ((euro)48 million) under their credit facility, and certain of Kronos' U.S. subsidiaries had approximately \$45 million available under their credit facility.

Kronos' current and future level of debt could have important consequences to you, including:

- o increasing Kronos' vulnerability to adverse general economic and industry conditions;
- o requiring that a substantial portion of Kronos' cash flow from operations be used for the payment of interest on its debt, including the Term Note due to NL, therefore reducing its ability to use its cash flow to fund working capital, capital expenditures, acquisitions, dividends and general corporate requirements;
- o limiting Kronos' ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions and general corporate requirements;
- o limiting Kronos' flexibility in planning for, or reacting to, changes in its business and the industry in which it operates; and
- o placing Kronos at a competitive disadvantage relative to other less leveraged competitors.

Kronos' ability to generate sufficient cash to meet its debt service and operating needs depends on many factors, some of which are beyond Kronos' control.

Kronos' ability to make payments on and refinance its debt and to fund planned capital expenditures depends on its future ability to generate cash flow. To some extent, this ability is subject to general economic, financial, competitive, legislative and regulatory and other factors that are beyond Kronos' control. In addition, Kronos' ability to borrow funds under its subsidiaries' credit facility in the future will depend on these subsidiaries' ability to maintain specified financial ratios and satisfy certain financial covenants contained in the credit agreement for Kronos' subsidiaries' credit facility. Kronos cannot assure you that its business will generate cash flow from operations or that it will have adequate access to credit facilities in amounts sufficient to enable Kronos to pay its debt or to fund other liquidity needs. As a result, Kronos may need to refinance all or a portion of its debt before maturity, and it is likely that Kronos will need to refinance all or a portion of its debt on maturity. KII's subsidiaries' three-year credit facility and Kronos' U.S. subsidiaries' three-year credit facility both mature in 2005. Kronos cannot assure you that it will be able to refinance any of its debt on favorable terms, if at all. Any inability to generate sufficient cash flow or refinance Kronos' debt on favorable terms could have a material adverse effect on its financial condition.

Various factors may hinder the declaration and payment of dividends following the distribution.

The payment of dividends is subject to the discretion of Kronos' Board of Directors, and various factors may cause Kronos to determine not to pay dividends. Such factors include Kronos' financial position, results of operations, capital requirements and liquidity, any loan or other agreement restrictions, governmental requirements and such other factors as Kronos' Board of Directors may consider relevant. Kronos' assets consist primarily of investments in its operating subsidiaries. Kronos' cash flow and its ability to pay dividends depend upon cash dividends and distributions or other transfers from its subsidiaries. In addition, any payment of dividends, distributions, loans or advances by Kronos' subsidiaries to Kronos could be subject to restrictions on or taxation of dividends or repatriation of earnings under applicable local law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which Kronos' subsidiaries operate, and any restrictions imposed by the current and future debt instruments of Kronos' subsidiaries. Such payments to Kronos by its subsidiaries are contingent upon its subsidiaries' earnings. See "Dividend Policy."

Covenant restrictions may limit Kronos' ability to operate its business.

Kronos and its subsidiaries are subject to obligations under various financing arrangements that contain, among other things, covenants that may restrict Kronos' ability to finance future operations or capital needs or to engage in other business activities. These covenants include, among other things, restrictions on Kronos' and its subsidiaries' ability to:

- o borrow money, pay dividends or make distributions;
- o purchase or redeem stock;
- o make investments and extend credit;
- o engage in transactions with affiliates;
- o engage in sale-leaseback transactions;
- o freely distribute the proceeds from certain asset sales;
- o effect a consolidation or merger or sell, transfer, lease or otherwise dispose of all or substantially all of its assets; and
- o create liens on its assets.

In addition, these financing arrangements require Kronos' subsidiaries to maintain specified financial ratios and satisfy certain financial tests, which may require that action be taken to reduce debt or to act in a manner contrary to Kronos' long-term business objectives. Events beyond Kronos' control, including changes in general business and economic conditions, may affect Kronos' ability to meet those financial ratios and satisfy certain financial covenants. Kronos cannot assure you that it will meet those tests or that the lenders will waive any failure to meet those tests. A breach of any of these covenants would result in a default under one or more of these credit facilities and any acceleration of debt obligations under the European subsidiaries' credit facility may result in a default under the indenture governing the KII Senior Notes. If an event of default under KII's subsidiaries' credit facility occurs, the lenders could elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable.

## SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

The statements contained in this information statement that are not historical facts, including, but not limited to, statements found in the section entitled "Risk Factors," are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements include the information concerning Kronos' possible or assumed future results of operations, business strategies, need for financing, competitive position, potential growth opportunities, potential operating performance improvements, ability to retain and recruit personnel, benefits resulting from Kronos' distribution from NL, the effects of competition and the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "believes," "intends," "may," "will," "should," "anticipates," "expects," "could," or comparable terminology or by discussions of strategy or trends. Although Kronos 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 risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such forward-looking statements.

Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed in this information statement. While it is not possible to identify all factors, Kronos continues to face many risks and uncertainties including, but not limited to, the cyclicality of the titanium dioxide industry, global economic and political conditions, global productive capacity, customer inventory levels, changes in product pricing, changes in product costing, changes in foreign currency exchange rates, competitive technology positions, operating interruptions (including, but not limited to, labor disputes, leaks, fires, explosions, unscheduled downtime, transportation interruptions, war and terrorist activities), the ultimate outcome of NL's pending or possible future lead pigment litigation and legislative developments related to the lead pigment litigation and the outcome of other litigation and tax controversies. 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 expected. NL and Kronos disclaim any intention or obligation to update publicly or revise such statements whether as a result of new information, future events or otherwise.

The risk factors discussed in "Risk Factors" could cause Kronos' results to differ materially from those expressed in forward-looking statements. There may also be other risks and uncertainties that Kronos is unable to predict at this time or that Kronos does not now expect to have a material adverse impact on its business.

## THE DISTRIBUTION

### Reasons for the Distribution

The Board of Directors of NL has determined that the distribution is in the best interests of NL and its shareholders. Through the recapitalization of Kronos and distribution of approximately 48.7% of the outstanding shares of Kronos common stock, NL believes significant benefits will be achieved.

First, it is believed that Kronos will be recognized in the TiO2 industry and the financial markets as an entity whose business operations are distinct from NL. Investors, suppliers, customers and employees worldwide will be able to view and evaluate the Kronos business independently from NL and its historical operations, and acquire a direct equity ownership interest in Kronos. The separation and resulting public company recognition should enhance the ability of Kronos to capitalize on the Kronos brand name and to develop separate business relationships and strategies distinct from operating as a wholly-owned subsidiary of NL, which is expected to enhance Kronos' global competitive position.

Second, NL will retain a significant equity ownership interest in Kronos and will continue to benefit from the affiliate group holding a controlling interest in a public company serving the global TiO2 market. As Kronos continues to grow and develop its TiO2 business separate from NL, the potential long-term investment return to NL and its shareholders is anticipated to increase. In 2002, KII issued (euro)285 million aggregate principal amount of the KII Senior Notes, primarily in the European financial market. Proceeds of such financing were used in part to repay intercompany debt owed by KII to Kronos, which in turn was used to repay intercompany debt owed by Kronos to NL. NL used a portion of such proceeds to repay all of its third party long-term indebtedness with the balance used for general corporate purposes. As demonstrated by KII's successful public debt offering in 2002, and the continuing market interest in such debt, as well as other recent financing arrangements entered into by KII and its subsidiaries, it is believed that the equity of Kronos will also be attractive to the financial markets. It is further believed that with a separate public trading market, the Kronos common stock retained by NL will provide significant increased value to NL as a result of the anticipated favorable valuation of Kronos in the financial markets. NL over time could sell a portion of its holdings of Kronos common stock in the established trading market or more readily use such stock as collateral for future credit arrangements if such additional liquidity is determined to be beneficial to NL in the future.

Third, NL believes that the distribution will provide it with greater opportunity for diversification of its holdings and business interests. Through its future diversification efforts, NL may be able to provide potentially more consistent and stable financial performance compared to its current holdings. In order to accomplish a diversification of its holdings, it is believed NL will require additional sources of liquidity. As a result of the 2002 public debt offering by KII, and repayment of intercompany debts, NL achieved additional liquidity while discharging all of its long-term debt obligations. Through the recapitalization of Kronos, NL will receive significant additional consideration through the payment of a dividend in the form of the Term Note, which will provide NL with additional financial resources and liquidity. The results of the 2002 financing activities and the dividend of the Term Note effectively converts a portion of NL's investment in Kronos into a more liquid form (with respect to the proceeds received from the 2002 financing activities) and into a more senior position (with respect to the Term Note) that will also provide additional liquidity to NL, which should, among other things, enable NL to explore diversification opportunities beyond the scope of its existing assets and business. Additionally, the distribution of Kronos common stock should enhance NL's ability to increase its liquidity through potential future sales of a portion of its remaining holdings of Kronos common stock or the use of Kronos common stock as collateral for any future credit arrangements. Upon the completion of the distribution, NL will explore diversification opportunities beyond the scope of its existing business, which should reduce the risks inherent in continuing to conduct its operations primarily in a single highly competitive industry that is capital intensive and subject to significant historically cyclical demand and pricing variations.

Prior to the distribution, there has been no trading market for Kronos common stock. After the distribution, NL, Tremont and Valhi will own a total of approximately 92.5% of the outstanding shares of Kronos common stock and the other stockholders will own approximately 7.5% of the outstanding Kronos shares.

Kronos expects that its common stock will trade on the New York Stock Exchange. Neither NL nor Kronos can predict the extent to which investors' interest will lead to a liquid trading market or whether the market price of Kronos common stock will be volatile or provide any assurance as to an appropriate value or initial trading price for Kronos common stock. Determining the proper price of any equity security is very subjective and different investors will have different opinions regarding price and will apply varying pricing methodologies. The combined trading prices of Kronos common stock and NL common stock after the distribution may be less than, equal to or greater than the current trading price of NL common stock. The prices at which shares of Kronos common stock trade will be determined based on the composite of pricing expectations of all market participants and may be influenced by many factors, including, among others, Kronos' performance and prospects, quarter to quarter variations in Kronos' actual or anticipated financial results or those of other companies in the industries or the markets that Kronos serves, investor perception of Kronos and the TiO2 industry, the depth and liquidity of the market for Kronos common stock, Kronos' business and the industry in which it operates, Kronos' dividend policy, general financial and other market conditions, domestic and international economic conditions, and the impact of factors described in the "Risk Factors" section of this information statement. In addition, the stock market in general has experienced extreme price and volume fluctuations that have affected the market price of many stocks and that have often been unrelated or disproportionate to the operating performance of these companies. See "Risk Factors--Risks Relating to the Distribution--There has been no prior market for Kronos common stock, and it is difficult to predict the prices at which Kronos common stock might trade" and "The Distribution--Listing and Trading of Kronos Common Stock."

#### Description of the Distribution

The following diagram illustrates the current ownership structure of Kronos (ownership is 100% unless otherwise noted).

[graph inserted here which shows (i) Valhi and Tremont's 84.6% aggregate ownership in NL, (ii) other stockholders 15.4% ownership of NL and (iii) NL's 100% ownership of Kronos]

(a) Includes 63.2% held by Valhi and 21.4% held by Tremont, a wholly-owned subsidiary of Valhi.

The distribution will be accomplished by NL issuing approximately 23.85 million shares of Kronos common stock, representing approximately 48.7% of the outstanding shares of Kronos common stock, to its shareholders. After the distribution, NL and its affiliates will own approximately 92.5% of Kronos' common stock and shareholders who are not affiliates of Kronos will own the remaining 7.5%. The following diagram illustrates the expected effect of the distribution on the ownership structure of Kronos (ownership is 100% unless otherwise noted).

[graph inserted here which shows (i) Valhi and Tremont's 84.6% aggregate ownership in NL, (ii) other stockholders 15.4% ownership of NL, (iii) NL's 51.3% ownership of Kronos, (iv) Valhi and Tremont's 41.2% aggregate ownership of Kronos and (v) other stockholders 7.5% ownership of Kronos]

- (a) Includes 63.2% held by Valhi and 21.4% held by Tremont, a wholly-owned subsidiary of Valhi.
- (b) Includes 30.8% held by Valhi and 10.4% held by Tremont, a wholly-owned subsidiary of Valhi.

On \_\_\_\_\_, 2003, the Board of Directors of NL formally approved the distribution. Each NL shareholder as of the close of business on \_\_\_\_\_, 2003, which is the record date for the distribution, will receive one share of Kronos common stock for every two shares of NL common stock held as of the record date. NL and Kronos expect that the distribution will take place on or about \_\_\_\_\_, 2003, although completion of the distribution is contingent upon the satisfaction of conditions described in the distribution agreement. See "Relationships Among NL, Kronos and Their Affiliates After the Distribution."

In determining the structure and appropriateness of the distribution, the NL Board, together with management, considered various legal and structural considerations, including the financial position of Kronos and NL prior to and after the distribution. The NL Board also considered the desirability for the distribution initially to result in there being outstanding approximately the same number of shares of Kronos common stock as the current number of outstanding shares of NL common stock. The NL Board also considered standards of the New York Stock Exchange as well as a desirable trading price for Kronos common stock. Based on the estimated number of holders of NL common stock, the NL Board concluded that a one-for-two distribution ratio should satisfy the listing requirements of the New York Stock Exchange.

In the distribution, shares of Kronos common stock shall initially be distributed in book-entry form through Kronos' direct registration system. As soon as practicable on or after the distribution date, NL's transfer agent will provide NL's shareholders a statement showing such shareholder's ownership of Kronos common stock along with a check for any fractional shares of Kronos common stock to which the shareholder would otherwise be entitled. For NL common stock held through a broker, bank or other nominee, the transfer agent will credit the registered nominee's account with shares of Kronos common stock and the dollar amount of any fractional shares of Kronos common stock to which the holder is entitled, which in turn should be credited to the holder's account. Following the distribution, any record holder of Kronos common stock may obtain a physical stock certificate representing the holder's shares at no charge by contacting Kronos' transfer agent. See "Description of Capital Stock."

NL will not distribute any fractional shares of Kronos common stock as part of the distribution. Instead, on or after the distribution date, the distribution agent will aggregate all fractional shares, sell them on the open market at prevailing market prices and distribute the aggregate proceeds less applicable taxes and a pro rata portion of the aggregate brokerage commission payable in connection with the sale of the fractional shares ratably to those NL shareholders otherwise entitled to fractional shares. See "--Material U.S. Federal Income Tax Consequences of the Distribution" for a discussion of the United States federal income tax treatment of proceeds from fractional share interests. The distribution agent will in its sole discretion, without influence from Contran, Valhi, NL or Kronos, determine when, how, through which

broker-dealer and at what price to make its sales of the aggregated fractional shares. Neither the distribution agent nor the broker-dealers it uses will be affiliates of Contran, Valhi, NL or Kronos. None of NL, Kronos or the distribution agent can guarantee any minimum sale price for the fractional shares of Kronos common stock. Neither NL nor Kronos will pay any interest on the proceeds from the sale of aggregated fractional shares. Neither NL, Kronos nor any of their affiliates will receive any of the proceeds from the sale of fractional shares.

No vote of NL shareholders is required or sought in connection with the distribution, and NL shareholders will have no appraisal or dissenters' rights in connection with the distribution.

No NL shareholder will be required to pay cash or other consideration for any shares of Kronos common stock received in the distribution, or to surrender or exchange shares of NL common stock.

#### Results of the Distribution

After the distribution, Kronos will be a separate public company, owned approximately 92.5% in the aggregate by NL, Tremont and Valhi. As a result of the distribution, Kronos expects to have approximately 6,000 holders of record and approximately 48.9 million shares of Kronos common stock outstanding, based on the number of NL record shareholders and the distribution ratio and the number of outstanding shares of NL common stock as of the close of business on \_\_\_\_\_, 2003. The actual number of shares of Kronos common stock to be distributed will be determined as of the record date. The distribution will not affect the number of outstanding shares of NL common stock or the rights of NL shareholders.

#### Material U.S. Federal Income Tax Consequences of the Distribution

##### General

The following is a summary description of the material federal income tax consequences of the distribution. This summary is not intended as a complete description of all of the tax consequences of the distribution and does not discuss tax consequences under the laws of state, local or foreign governments or any other jurisdiction other than the federal income tax laws of the United States. Moreover, the following discussion may not apply to particular categories of holders subject to special tax treatment under the federal income tax laws, including, without limitation, insurance companies, financial institutions, broker-dealers, estates, trusts, tax-exempt organizations, real estate investment trusts, regulated investment companies, non-United States holders, or persons that will hold their shares of Kronos common stock as a position in a straddle, as part of a synthetic security or hedge, or as part of a conversion transaction or other integrated investment, other than a capital asset. This summary does not include a description of any alternative minimum tax consequences that may be applicable to the receipt of Kronos shares pursuant to the distribution. This summary assumes that you hold your shares of Kronos common stock as a capital asset within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended, or the "Code." In this regard, special rules not discussed in this summary may apply to some of NL's shareholders.

The following discussion is based on currently existing provisions of the Code, existing, proposed and temporary Treasury Department regulations promulgated under the Code and current administrative rulings and court decisions. All of the foregoing are subject to change, which may or may not be retroactive, and any of these changes could affect the validity of the following discussion.

Please consult your tax advisor as to the particular tax consequences to you of the distribution described herein, including the applicability and effect of any state, local or foreign tax laws, and the possible effects of changes in applicable tax laws.

##### Consequences of the Distribution

Each shareholder of NL receiving shares of Kronos common stock in the distribution generally will be treated as if the shareholder received a taxable distribution in an amount equal to the fair market value of Kronos common stock received. Since the amount of the distribution will not exceed NL's current and accumulated earnings and profits, the distribution will be a dividend. The taxation of the dividend to a NL shareholder will depend on whether the shareholder is a corporation. If the shareholder is a corporation, such amount



will be taxable as ordinary income, subject to the corporate dividends received deduction. However, for such shareholder, if the distribution is treated as an "extraordinary dividend" pursuant to Code section 1059, then such shareholder may be required to reduce its basis in its NL stock and/or recognize gain up to the amount of the dividends received deduction claimed on the distribution. A shareholder that is a corporation should consult its tax advisor to determine whether the distribution will be treated as an extraordinary dividend to the shareholder. If the shareholder is not a corporation, under recently enacted legislation, such amount will generally be taxable at the more favorable dividend rate (15% in most cases) if the shareholder has held its NL stock for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date. Otherwise, such amount will be taxable as ordinary income. The favorable dividend rate applies only with respect to dividends that the non-corporate shareholder does not treat as investment income under section 163(d)(4)(B) of the Code.

Each shareholder's initial tax basis in the Kronos common stock received by the shareholder will be equal to the fair market value of such stock at the time of the distribution.

Each shareholder who receives cash as a result of the sale of fractional shares of Kronos stock by the distribution agent will be treated as if such fractional share had been received by the shareholder as part of the distribution and then sold by the shareholder. Accordingly, the shareholder will recognize short-term gain or loss equal to the difference between the cash so received and the portion of the tax basis in Kronos stock that is allocable to the fractional share.

NL will be required to recognize taxable gain or loss equal to the difference between the fair market value of the Kronos common stock distributed at the time of the distribution and NL's adjusted tax basis in such stock, which tax basis is expected to be nominal at the time of the distribution. NL currently intends to defer payment of the income tax owed on such taxable gain, and instead NL currently intends to offset against such payment the amount of any future income tax attributes. It is anticipated that such future income tax attributes would eventually offset the amount otherwise payable. There are no direct or indirect corporate tax consequences to Kronos as a result of the distribution.

#### Back-Up Withholding Requirements

NL is required to withhold federal income tax at a rate of 30% with respect to payments such as dividends, interest or proceeds from the sale of stock made to (a) persons who do not have a social security number or taxpayer identification number, (b) persons that the IRS has determined have a history of evading federal income tax or (c) persons who have refused to furnish NL with information sufficient to enable it to comply with its applicable federal income tax information reporting obligations. Such withholding is known as back-up withholding. Back-up withholding is not an additional tax and may be refunded (or credited against the shareholder's U.S. federal income tax liability, if any), provided that required information is furnished to NL. United States information reporting requirements and back-up withholding may apply to NL shareholders and Kronos stockholders with respect to dividends paid on, and proceeds from the taxable sale, exchange or other disposition of, NL or Kronos common stock unless the holder:

- o is a corporation or comes within certain other exempt categories, and, when required, demonstrates these facts; or
- o provides a correct taxpayer identification number, certifies that there has been no loss of exemption from back-up withholding and otherwise complies with applicable requirements of the back-up withholding rules.

You may be subject to penalties imposed by the IRS if you do not supply NL with your correct taxpayer identification number. You should consult your tax advisor as to your qualification for exemption from back-up withholding and the procedure for obtaining such an exemption. If information-reporting requirements apply to you, the amount of dividends paid with respect to your shares will be reported annually to the IRS and to you.

#### Listing and Trading of Kronos Common Stock

There has been no public market for Kronos common stock. An active trading market may not develop or be sustained in the future. However, Kronos expects

that a limited market for shares of Kronos common stock, commonly known as a "when issued" trading market, will develop on or shortly before the record date for the distribution. The term "when-issued" means that shares can be traded prior to the time of the distribution of the shares. Even though when-issued trading may develop, none of these trades would settle prior to the effective date of the distribution, and if the distribution does not occur, all when-issued trading will be null and void. Kronos has applied for the listing of its common stock on the New York Stock Exchange under the trading symbol "KRO" and believes that Kronos common stock will be acceptable to the New York Stock Exchange for listing. Beginning on the first New York Stock Exchange trading day after the distribution, Kronos expects that its common stock will trade on a "regular" basis. The term "regular" refers to trading after a security has been issued and typically involves a transaction that settles on the third full business day following the date of a transaction.

Prior to the distribution, there has been no trading market for Kronos common stock. After the distribution, NL, Tremont and Valhi will own a total of approximately 92.5% of the outstanding shares of Kronos common stock and the other stockholders will own approximately 7.5% of the outstanding Kronos shares. Kronos expects that its common stock will trade on the New York Stock Exchange and in the over-the-counter market in the United States. Neither NL nor Kronos can predict the extent to which investors' interest will lead to a liquid trading market or whether the market price of Kronos common stock will be volatile. While it is expected that a limited market for Kronos common stock, commonly known as a "when issued" trading market, will develop near the record date, until Kronos common stock is fully distributed and an orderly trading market develops, the prices at which trading in Kronos common stock occurs may fluctuate significantly. Neither NL nor Kronos can provide any assurance as to an appropriate value or initial trading price for Kronos common stock. Determining the proper price of any equity security is very subjective and different investors will have different opinions regarding price and will apply varying pricing methodologies. The combined trading prices of Kronos common stock and NL common stock after the distribution may be less than, equal to or greater than the current trading price of NL common stock. The prices at which shares of Kronos common stock trade will be determined based on the composite of pricing expectations of all market participants and may be influenced by many factors, including, among others, Kronos' performance and prospects, quarter to quarter variations in Kronos' actual or anticipated financial results or those of other companies in the industries or the markets that Kronos serves, investor perception of Kronos and the TiO2 industry, the depth and liquidity of the market for Kronos common stock, Kronos' business and the industry in which it operates, Kronos' dividend policy, general financial and other market conditions, domestic and international economic conditions, and the impact of factors described in the "Risk Factors" section of this information statement. In addition, the stock market in general has experienced extreme price and volume fluctuations that have affected the market price of many stocks and that have often been unrelated or disproportionate to the operating performance of these companies. See "Risk Factors--There has been no prior market for Kronos common stock, and it is difficult to predict the prices at which Kronos common stock might trade."

Approximately 3.6 million shares of Kronos common stock that will be distributed to NL shareholders will be eligible for immediate resale. In transactions similar to the distribution, it is not unusual for a significant redistribution of shares to occur during the first few weeks or even months following completion of the transaction because of the differing objectives and strategies of investors who acquire shares of Kronos common stock in the transaction. Kronos is not able to predict whether significant amounts of its common stock will be sold in the open market following the distribution or what effect these sales may have on prices at which Kronos common stock may trade. Any sale of significant amounts of Kronos common stock in the public market as a percentage of the total number of outstanding shares of Kronos common stock held by non-affiliates, or the perception that such sales might occur, whether as a result of the distribution or otherwise, could depress the market price of Kronos common stock.

Shares of Kronos common stock received in the distribution by "affiliates" (as defined under Rule 144 under the Securities Act of 1933, as amended (the "Securities Act")) will not be freely transferable. Persons who can be considered Kronos' affiliates after the distribution generally include individuals or entities that directly, or indirectly through one or more intermediaries, control, are controlled by, or are under common control with, Kronos, and include some of Kronos' officers and directors. Affiliates of Kronos may only sell common stock received in the distribution:

- o under a registration statement that the Securities and Exchange Commission (the "SEC") has declared effective under the Securities Act; or

- o under an exemption from registration under the Securities Act, such as the exemption afforded by SEC Rule 144, which, among other requirements, limits sales by affiliates based on the average four-week trading volume or 1% of the outstanding common stock.

NL expects that its common stock will meet the continued listing standards of the New York Stock Exchange and that its common stock will continue to trade on a regular basis under the symbol "NL" following the distribution. NL common stock may also trade on a when-issued basis, reflecting an assumed post-distribution value for NL common stock. When-issued trading in NL common stock, if available, could last from on or about the record date through the effective date of the distribution. If when-issued trading in NL common stock is available, NL shareholders may trade their existing NL common stock prior to the effective date of the distribution in either the when-issued market or in the regular market for NL common stock. If a shareholder trades in the when-issued market, it will have no obligation to transfer to a purchaser of NL common stock the Kronos common stock such shareholder receives in the distribution. If a shareholder trades in the regular market, the shares of NL common stock traded after the record date will be accompanied by due bills representing the Kronos common stock to be distributed in the distribution. If when-issued trading in NL common stock is not available, the NL common stock will only trade in the regular market during the period from the record date through the effective date of the distribution.

If a when-issued market for NL common stock develops, an additional listing for NL common stock will appear on the New York Stock Exchange. Differences may exist between the combined value of when-issued Kronos common stock plus when-issued NL common stock and the price of NL common stock during this period. Until the market has fully analyzed the operations of NL without the operations of Kronos, the prices at which NL common stock trades may fluctuate significantly.

You should consider consulting your financial and tax advisors prior to making any decision with respect to the purchase, retention or sale of shares of NL common stock or Kronos common stock. Neither NL nor Kronos makes recommendations on the purchase, retention or sale of your shares of NL common stock or Kronos common stock.

#### RELATIONSHIPS AMONG NL, KRONOS AND THEIR AFFILIATES AFTER THE DISTRIBUTION

This section of the information statement summarizes certain material agreements, including certain intercorporate services, indemnification, tax and other matters, relating to the distribution between NL, Kronos and their affiliates that will govern the ongoing relationships after the distribution. Additional or modified agreements, arrangements and transactions may be entered into among NL, Kronos and their affiliated entities after the distribution. Kronos' business consists of the businesses previously conducted by the Kronos subsidiary of NL. On an overall basis, Kronos' business will constitute substantially the same business as that previously conducted by the Kronos subsidiary of NL. You should also read the agreements, forms of which have been filed as exhibits to the registration statement on Form 10 of which this information statement forms a part.

## Distribution Agreement

The distribution agreement provides that the following conditions must be satisfied or waived before or as of the date of the distribution for the distribution to occur:

- o the SEC has declared Kronos' registration statement on Form 10 effective, and there has been no suspension, withdrawal or stop-order in effect with respect thereto and no proceeding for that purpose has been instituted by the SEC;
- o the New York Stock Exchange has approved the listing of the Kronos common stock, subject to official notice of issuance;
- o the actions and filings with regard to state securities and blue sky laws of the United States (and any comparable law under any foreign jurisdiction) have been taken and, where applicable, have become effective or accepted;
- o there has been no order, injunction or decree issued by any court or agency of competent jurisdiction or other legal constraint or prohibition preventing the consummation of the transactions contemplated by the distribution agreement in effect;
- o all material consents and governmental approvals necessary to consummate the transactions contemplated by the distribution agreement have been obtained and are in full force and effect;
- o the NL Board of Directors is satisfied that the distribution is lawful under applicable state and federal law;
- o the NL Board of Directors has approved the distribution and not abandoned or revoked the distribution at any time before the completion of the distribution;
- o Kronos' amended and restated certificate of incorporation and bylaws, as filed as exhibits to the Form 10 and described in this information statement, are in effect;
- o the various ancillary agreements described in this information statement have been executed and delivered by the parties thereto, including:
- o the Tax Sharing Agreement among Contran, Valhi and Kronos; and
- o the Intercorporate Services Agreement between Contran and Kronos;
- o no other events or developments have occurred subsequent to the date of the distribution agreement such that, in the judgment of NL, would result in the distribution having an adverse effect on NL or on the shareholders of NL; and
- o the distribution agreement has not been terminated.

## Mutual Releases and Indemnification

In the distribution agreement, effective as of the distribution date, Kronos and NL have released and discharged each other and certain related parties from all liabilities existing or arising from acts and events occurring or failing to occur or alleged to have occurred or to have failed to occur and all conditions existing or alleged to have existed on or before the distribution date, other than, among other things, liabilities provided in or resulting from continuing agreements between NL and Kronos.

Kronos has agreed to indemnify NL and certain persons related to NL from and against any and all damages, losses, liabilities and expenses relating to, arising out of or resulting from, among other things:

- o Kronos' or any other person's failure to discharge any liability (the "Kronos Liabilities") relating to, arising out of or resulting from Kronos' operation of the titanium dioxide and related business and operations, each as conducted on the distribution date (the "Kronos Business");
- o the Kronos Business, all assets used in connection with the Kronos Business and the Kronos Liabilities; and
- o a material breach by Kronos of the distribution agreement or the various ancillary agreements described in this information statement.

NL has agreed to indemnify Kronos and certain persons related to Kronos from and against any and all damages, losses, liabilities and expenses relating to, arising out of or resulting from, among other things:

- o NL's or any other person's failure to discharge any liability relating to, arising out of or resulting from the operation of NL's business (excluding the Kronos Business);
- o NL's business (excluding the Kronos Business); and
- o a material breach by NL of the distribution agreement or the various ancillary agreements described in this information statement.

None of these indemnities applies to indemnification for income tax liabilities, which are addressed in the tax sharing agreement among Kronos, Contran and Valhi described below under "Tax Sharing Agreement." The distribution agreement also includes procedures for notice and payment of indemnification claims and generally provides that the indemnifying party may assume the defense of a claim or suit brought by a third party. Any indemnification amount paid under the indemnities will be paid net of the amount of any insurance or other amounts that would be payable by any third party to the indemnified party in the absence of the indemnity. In addition, the distribution agreement provides that if indemnification is unavailable or insufficient to hold the indemnified party harmless, the indemnifying party will contribute to the amount paid or payable in a manner appropriate to reflect all relevant equitable considerations.

#### Term Note

Immediately prior to the distribution, Kronos will declare and pay a dividend to NL in the form of the \$200 million Term Note. The Term Note payable to NL will be unsecured and will bear interest at 9% per annum. Interest on the Term Note will be payable quarterly with the principal and all accrued and unpaid interest due at maturity on December 31, 2010. The Term Note is intended to, among other things, provide NL with liquidity to explore diversification opportunities beyond the scope of its existing assets and business.

#### Stock Options

The Board of Directors of NL has authorized an adjustment to the option exercise price for all outstanding employee and non-employee director options to purchase NL common stock in an amount per share equal to the taxable value of the distribution of shares of Kronos common stock for each share of NL common stock. In addition, to the extent that NL makes any adjustments to its outstanding options as a result of the distribution, similar adjustments will be made to the NL options held by Kronos employees.

#### Access to Information; Provision of Witnesses; Confidentiality

Under the distribution agreement, Kronos and NL will allow the other party and their specified representatives reasonable access to all records in Kronos'

or its possession relating to the business and affairs of the other party as reasonably required. Access will be allowed for such purposes as audit, accounting, litigation, disclosure reporting and regulatory compliance. Each party will also use reasonable efforts to make available to the other party and its accountants, counsel and other designated representatives, upon written request, its directors, officers, employees and representatives as witnesses and will otherwise cooperate with the other party in connection with any proceeding arising out of its or the other party's business and operations before the distribution. Subject to limited exceptions, Kronos, NL and their respective directors, officers, employees, agents, consultants and advisors will hold in strict confidence all information in its or their possession concerning the other party.

#### Transaction Expenses

The distribution agreement provides for each of NL and Kronos to pay their own respective expenses in connection with the distribution.

#### Intercorporate Services Agreement

The distribution agreement provides that prior to completion of the distribution, Kronos will enter into an intercorporate services agreement with Contran pursuant to which Contran will provide certain management, financial and administrative services to Kronos on a fee basis.

#### Tax Sharing Agreement

Effective on the date of the distribution, Kronos will no longer be a member of the consolidated income tax group of which NL is the common parent, and Kronos will remain a member of the consolidated income tax group of which Valhi is the common parent. The tax sharing agreement between NL and Kronos will terminate on the effective date of the distribution and will be replaced by a tax sharing agreement among Kronos, Contran and Valhi. The terms of the Kronos/Contran/Valhi tax sharing agreement will be substantially similar to the terms of the terminated NL/Kronos tax sharing agreement. In accordance with the group's policy for the intercompany allocation of federal income taxes, Kronos will compute its tax payments to or receive payments from Valhi in the amounts it would have paid to or received from the Internal Revenue Service had Kronos not been a member of the consolidated income tax group of which Valhi is the common parent. Kronos' separate company provisions and payments will be computed using the elections made by Contran.

#### DIVIDEND POLICY

Kronos' Board of Directors has declared an initial dividend in the amount of \$\_\_\_ per share, payable on December [ ], 2003 to Kronos stockholders of record as of December [ ], 2003. The declaration and payment of future dividends is subject to the discretion of Kronos' Board of Directors, and any determination as to the payment of such future dividends, as well as the type and amount of such dividends, will depend on, among other things, Kronos' results of operations and financial condition, general economic and business conditions, Kronos' cash requirements for its businesses and other factors deemed relevant by Kronos' Board of Directors. Kronos cannot provide any assurance that any dividends will be declared and paid.

SELECTED FINANCIAL DATA

The following selected historical financial data of Kronos with respect to the years ended December 31, 2000, 2001 and 2002 and as of December 31, 2001 and 2002, is derived from, and should be read in conjunction with, Kronos' audited consolidated financial statements included in this information statement. The selected historical financial data for the years ended December 31, 1998 and 1999 and for the six months ended June 30, 2002 and 2003, and as of December 31, 1998, 1999 and 2000 and June 30, 2003, is derived from Kronos' unaudited consolidated financial statements. The selected historical financial data for the six months ended June 30, 2002 and 2003 and as of June 30, 2003, should be read in conjunction with the unaudited consolidated financial statements of Kronos included in this information statement. Operating results for 2002 and 2003 interim periods are not necessarily indicative of the operating results that Kronos will experience for the entire year. The selected historical financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this information statement. 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 included in this information statement 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. The selected historical financial data reflects Kronos' results as it has historically been operated as a part of NL, and these results may not be indicative of Kronos' future performance as a publicly traded company following the distribution.

	Year Ended December 31,					Six Months Ended June 30,	
	1998	1999	2000	2001	2002	2002	2003

(in millions, except per share data)

INCOME STATEMENT DATA:

Net sales.....	\$ 894.7	\$ 908.4	\$ 922.3	\$ 835.1	\$ 875.2	\$ 429.3	\$ 519.6
Net income(1).....	63.7	125.9	130.2	154.5	66.3	40.3	58.5
Net income per share.....	1.30	2.57	2.66	3.16	1.35	.82	1.19
Cash dividends per share.....	.31	.61	1.12	.62	2.27	-	.14

BALANCE SHEET DATA at period end:

Total assets.....	\$ 1,015.4	\$ 973.6	\$ 893.4	\$ 910.1	\$ 988.5	\$ 1,000.2	\$ 1,014.3
Notes payable and long-term debt, including current maturities.....	608.0	340.4	266.1	242.7	370.5	325.0	361.2
Common stockholder's equity.....	65.3	310.9	346.6	378.5	314.2	411.4	353.4

- (1) Net income in 1998 includes an \$8.2 million income tax benefit resulting from the refund of certain prior-year German dividend withholding taxes. Net income in 1999 includes a \$57.7 million income tax benefit related to (i) a favorable resolution of Kronos' previously-reported tax contingency in Germany (\$29.1 million) and (ii) a net reduction in Kronos' deferred income tax asset valuation allowance due to a change in the estimate of Kronos' ability to utilize certain income tax attributes under the "more-likely-than-not" recognition criteria (\$28.6 million). See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of certain unusual items occurring during 2000, 2001 and 2002 and the first six months of 2002 and 2003.

The following selected unaudited pro forma financial data of Kronos with respect to the year ended December 31, 2002 and the six months ended June 30, 2003, and as of June 30, 2003, has been derived from, and should be read in conjunction with, Kronos' Unaudited Pro Forma Condensed Consolidated Financial Statements and the June 30, 2003 Unaudited Pro Forma Balance Sheet, both of which are included in this information statement. While such Unaudited Pro Forma Condensed Consolidated Financial Statements is based on adjustments that Kronos deems appropriate and that were factually supported based on currently available data, the pro forma information may not be indicative of what actual results would have been, nor does this information purport to present Kronos' financial results for future periods.

Year ended                  Six months ended  
December 31, 2002      June 30, 2003  
(In millions, except per share data)

INCOME STATEMENT DATA:

Net sales .....	\$ 875.2	\$ 519.6
Net income .....	41.0	52.6
Net income per share .....	.84	1.08

BALANCE SHEET DATA at period end:

Total assets .....	N/A	\$ 1,014.3
Notes payable and long-term debt, including current maturities .....	N/A	561.2
Common stockholder's equity .....	N/A	153.4



Critical Accounting Policies and Estimates

The accompanying "Management's Discussion and Analysis of Financial Condition and Results of Operations" are based upon Kronos' consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP"). The preparation of these financial statements requires Kronos 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, Kronos evaluates its estimates, including those related to inventory reserves, the recoverability of other long-lived assets, pension and other postretirement benefit obligations and the underlying actuarial assumptions related thereto, and the realization of deferred income tax assets and accruals for income tax and other contingencies. Kronos bases its estimates on historical experience and on various other assumptions that are believed 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.

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

- o Inventory allowances. Kronos provides reserves for estimated obsolescence or unmarketable finished goods inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand for its products and market conditions. If actual market conditions are less favorable than those projected by management, additional finished goods inventory reserves may be required. Kronos provides reserves for tools and supplies inventory generally based on both historical and expected future usage requirements.
- o Impairments of long-lived assets. Kronos 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 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 (Statement of Financial Accounting Standards ("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 2002, no such impairment indicators were present with respect to Kronos' net property and equipment.

- o Deferred income tax valuation allowance. Kronos records a valuation allowance to reduce its deferred income tax assets to the amount that is believed to be realizable under the "more-likely-than-not" recognition criteria. While Kronos 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 Kronos may change its estimate of the amount of the deferred income tax assets that would "more-likely-than-not" be realized, 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.
- o Defined benefit pension and postretirement benefit plans. Kronos' defined benefit pension and postretirement benefits other than pensions ("OPEB") expenses and obligations are calculated based on

several estimates, including discount rates, expected rates of returns on plan assets and expected healthcare trend rates. Kronos reviews these rates annually with the assistance of its actuaries. See further discussion of the potential effect of these estimates in the Assumptions on Defined Benefit Pension Plans and OPEB Plans sections in the Liquidity and Capital Resources section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

- o Other contingencies. Kronos records an accrual for income tax and other contingencies 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).

Other significant accounting policies and use of estimates are described in the Notes to Kronos' audited consolidated financial statements included in this information statement.

#### Results of Operations

##### General

As discussed below, average TiO2 selling prices in billing currencies (which excludes the effects of foreign currency translation) were generally increasing during most of 2000, were generally decreasing during all of 2001 and the first quarter of 2002, were flat during the second quarter of 2002, were generally increasing during the third and fourth quarters of 2002 and the first quarter of 2003 and were generally flat during the second quarter of 2003.

Many factors influence TiO2 pricing levels, including (i) competitor actions, (ii) industry capacity, (iii) worldwide demand growth, (iv) customer inventory levels and purchasing decisions and (v) relative changes in foreign currency exchange rates. Kronos believes that the TiO2 industry has long-term growth potential, as discussed in "Business--Industry" and "--Competition."

#### Sales and Operating Income--Six Months Ended June 30, 2002 and 2003

	Six months ended June 30,		% Change
	2002	2003	
----- (In millions, except percentages and metric tons)			
Net sales and operating income			
Net sales	\$ 429.3	\$ 519.6	+21%
Operating income	\$ 46.8	\$ 69.8	+49%
Operating income margin percentage	11%	13%	
TiO2 operating statistics Percent change in average selling price:			
In billing currencies			+6%
Using actual foreign currency exchange rates			+18%
Sales volume (metric tons in thousands)	235	240	+2%
Production volume (metric tons in thousands)	219	237	+8%

Kronos' sales and operating income increased \$90.3 million (21%) and \$23.0 million (49%), respectively, in the first six months of 2003 compared to the first six months of 2002 due primarily to higher average TiO2 selling prices as well as higher TiO2 sales and production volumes partially offset by higher operating costs (particularly energy costs, which increased by approximately \$5.3 million). Excluding the effect of fluctuations in the value of the U.S.

dollar relative to other currencies, Kronos' average TiO2 selling price in billing currencies in the first six months of 2003 was 6% higher than the first six months of 2002. When translated from billing currencies to U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods, Kronos' average TiO2 selling prices in the first six months of 2003 increased 18% compared to the first six months of 2002. Kronos' TiO2 sales volume in the first six months of 2003 was a first six-month record and was 2% higher than the first six months of 2002. Kronos' TiO2 production volume in the first six months of 2003, also a first six-month record, was 8% higher than the first six months of 2002, with operating rates at near full capacity in 2003 compared to 98% of capacity in 2002. These increases in TiO2 sales and production volume increased operating income by \$6.5 million and \$10.1 million, respectively, while the increase in average TiO2 selling prices increased operating income by \$20.6 million.

Kronos' cost of sales increased \$53.6 million (16%) in the first six months of 2003 compared to the first six months of 2002. Kronos' cost of sales as a percentage of net sales decreased 4% in the first six months of 2003 primarily due to the higher average selling prices in billing currencies and higher production volume, partially offset by the higher energy costs. Excluding the effects of foreign currency translation, which increased Kronos' expenses in the first six months of 2003 compared to year-earlier period, Kronos' selling, general and administrative expenses in the first six months of 2003 were approximately \$2.7 million higher than the first six months of 2002 due to higher distribution expenses associated with the higher sales volume. Kronos' selling, general and administrative expenses were approximately 12% of sales in both the first six months of 2003 and the first six months of 2002.

Kronos expects that its operating income in 2003 will be higher than in 2002 primarily due to higher average TiO2 selling prices in billing currencies, slightly higher sales volumes and higher production volumes, partially offset by higher operating costs (particularly energy costs). Kronos' TiO2 production volume in 2003 is expected to be higher than Kronos' 2003 TiO2 sales volume, with finished goods inventories rising modestly. Kronos' expectations as to its 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 market place, unexpected or earlier-than-expected capacity additions by competitors and technological advances. If actual developments differ from Kronos' expectations, Kronos' results of operations could be unfavorably affected.

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. In addition, 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 Kronos' sales in the first six months of 2003 by a net \$54.4 million compared to the same period in 2002. 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 the first six months of 2003 compared to the first six months of 2002. Overall, the net impact of currency exchange rate fluctuations decreased Kronos operating income by \$2.4 million in the first six months of 2003 when compared to the year-earlier period.

Sales and Operating Income--Years Ended December 31, 2000, 2001 and 2002

	Years ended December 31,			% Change	
	2000	2001	2002	2001-00	2002-01
	(In millions)				
Net sales and operating income					
Net sales	\$ 922.3	\$ 835.1	\$ 875.2	-9%	+5%
Operating income	\$ 212.5	\$ 169.2	\$ 96.5	-20%	-43%
Operating income margin percentage	23%	20%	11%		
TiO2 operating statistics Percent change in average selling prices:					
In billing currencies				-3%	-9%
Using actual foreign currency exchange rates				-5%	-7%
Sales volume (metric tons in thousands)	436	402	455	-8%	+13%
Production volume (metric tons in thousands)	441	412	442	-6%	+7%
Production rate as a percent of capacity	Full	91%	96%		

Kronos' sales increased \$40.1 million (5%) in 2002 compared to 2001 due primarily to higher TiO2 sales volumes, offset by lower average TiO2 selling prices. Kronos' record TiO2 sales volumes in 2002 were 13% higher compared to 2001 primarily due to higher volumes in European and North American markets of 14% and 17%, respectively. By volume, approximately one-half of Kronos' 2002 TiO2 sales volumes were attributable to markets in Europe, with 39% attributable to North America and the balance to export markets. The lower TiO2 sales volumes in 2001 were due in part to the effect of a fire at Kronos' Leverkusen, Germany facility in March 2001 that disrupted operations discussed in Note 15 to Kronos' audited consolidated financial statements included in this information statement.

Kronos' operating income declined \$72.7 million (43%) in 2002 compared to 2001 as the effect of lower average TiO2 selling prices (which decreased operating income by \$81.4 million) more than offset the effect of higher TiO2 sales and production volumes (which combined increased operating income by \$46.7 million). The effect of the higher sales and production volumes was offset in part by the \$27.3 million of business interruption proceeds received in 2001, as discussed below. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, Kronos' average TiO2 selling price in 2002 was 9% lower than 2001, with prices lower in all major regions. While Kronos' average TiO2 selling prices had generally been declining during all of 2001 and the first quarter of 2002, and were flat during the second quarter of 2002, average TiO2 selling prices increased during the third and fourth quarters of 2002. Kronos' average TiO2 selling prices in the fourth quarter of 2002 were 2% higher compared to the third quarter of the year, with increases in all major markets. When translated from billing currencies to U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods, Kronos' average TiO2 selling prices in 2002 decreased 7% compared to 2001.

Kronos' record TiO2 production volume in 2002 was 7% higher than 2001. Kronos' operating rates in 2001 were lower as compared to 2002 primarily due to lost production resulting from the Leverkusen fire.

Kronos' operating income in 2001 includes \$27.3 million of business interruption insurance proceeds as payment for losses (unallocated period costs and lost margin) caused by the Leverkusen fire. The effects of the lower TiO2 sales and production volumes were offset in part by the business interruption insurance proceeds. Of such \$27.3 million of business interruption insurance proceeds, \$20.1 million was recorded as a reduction of cost of sales to offset unallocated period costs that resulted from lost production, and the remaining \$7.2 million, presenting recovery of lost margin, was recorded in other income. The business interruption insurance proceeds distorts the operating income margin percentage of 2001 as there are no sales associated with the \$7.2 million of lost margin operating profit recognized. See Note 15 to Kronos' audited consolidated financial statements included in this information statement.

Kronos also recognized insurance recoveries of \$29.1 million in 2001 for property damage and related cleanup and other extra expenses related to the Leverkusen fire, resulting in an insurance gain of \$17.5 million, as the insurance recoveries exceeded the carrying value of the property destroyed and the cleanup and other extra expenses incurred. Such insurance gain is not reported as a component of operating income but is included in general corporate items. Kronos does not expect to recognize any additional insurance recoveries related to the Leverkusen fire. See Note 15 to Kronos' audited consolidated financial statements included in this information statement.

Kronos' cost of sales increased \$93.8 million (16%) in 2002 compared to 2001 due to the higher sales volume partially offset by lower unit costs, which resulted primarily from the higher production levels. The effects of lower Ti02 sales and production volumes in 2001 were partially offset by receipt of the business interruption proceeds discussed above. Kronos' cost of sales, as a percentage of net sales, increased from 69% in 2001 to 77% in 2002 primarily due to the impact on net sales of the lower average selling prices partially offset by lower unit costs. Excluding the effects of foreign currency translation, which increased Kronos' expenses in 2002 compared to 2001, Kronos' selling, general and administrative expenses ("SG&A expenses") were \$5.6 million higher in 2002 compared to 2001 primarily due to higher distribution expenses (\$600,000) associated with the higher sales volume in 2002 and higher administrative expenses of \$5.8 million. SG&A expenses were approximately 12% of sales in both 2001 and 2002.

Kronos' sales decreased \$87.2 million (9%) in 2001 compared to 2000 due primarily to lower Ti02 sales volumes and lower Ti02 average selling prices. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, Kronos' average Ti02 selling prices (in billing currencies) during 2001 were 3% lower compared to 2000, with prices lower in all major regions. When translated from billing currencies to U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods, Kronos' average Ti02 selling prices in 2001 decreased 5% compared to 2000. Kronos' Ti02 sales volumes in 2001 were 8% lower than the prior record sales volumes of 2000, primarily due to lower volumes in North America and Europe of 6% and 13%, respectively.

Kronos' operating income in 2001 decreased \$43.3 million (20%) compared to 2000 due primarily to the lower Ti02 sales volumes and average selling prices as well as lower Ti02 production volume. Kronos' Ti02 production volume was 6% lower in 2001 compared to the prior record production volume in 2000. The lower production volume in 2001 was due primarily to the effects of the Leverkusen fire. The lower average Ti02 selling prices decreased operating income by \$19.2 million in 2001 compared to 2000, while the lower Ti02 sales and production volumes decreased operating income by \$22.3 million and \$21.8 million, respectively. The effect of the lower sales and production volumes was offset in part by the \$27.3 million of business interruption proceeds received in 2001, as discussed above.

Kronos' cost of sales decreased \$32.4 million (5%) in 2001 compared to 2000 primarily due to the lower sales volume, partially offset by higher unit costs, which resulted primarily from lower production levels. Kronos' cost of sales, as a percentage of net sales, increased from 66% in 2000 to 69% in 2001 primarily due to the impact on net sales of the lower average selling prices and higher unit costs, partially offset by business interruption insurance recoveries.

Excluding the effects of foreign currency translation, which reduced Kronos' expenses in 2001 compared to 2000, Kronos' SG&A expenses decreased by \$6.2 million in 2001 compared to 2000 due to lower selling expenses (\$3.2 million) associated with the lower 2001 sales volume and lower administrative expenses of \$3.7 million. SG&A expenses were approximately 12% of sales in both 2000 and 2001. Pricing within the Ti02 industry is cyclical, and changes in industry economic conditions can significantly impact Kronos' earnings and operating cash flows. The average Ti02 selling price index (using 1983 = 100) of 142 in 2002 was 9% lower than the 2001 index of 156 (2001 was 3% lower than the 2000 index of 161). In comparison, the 2002 index was 19% below the 1990 price index of 176 and 9% higher than the 1993 price index of 130. Many factors influence Ti02 pricing levels, including industry capacity, worldwide demand growth and customer inventory levels and purchasing decisions.

Kronos' efforts to debottleneck its production facilities to meet long-term demand continue to prove successful. Kronos expects its Ti02 production capacity

will increase by about 10,000 metric tons (primarily at its chloride-process facilities), with moderate capital expenditures, to increase its aggregate production capacity to about 480,000 metric tons during 2005.

As discussed above, Kronos has substantial operations and assets located outside the United States (primarily in Germany, Belgium, Norway and Canada). Overall, fluctuations in the value of the U.S. dollar relative to other currencies, primarily the euro, increased Kronos' sales in 2002 by a net \$21 million compared to 2001, and decreased Kronos' sales by a net \$19 million in 2001 compared to 2000. Overall, the net impact of currency exchange rate fluctuations decreased Kronos' operating income by \$1.6 million in 2002 compared to 2001, and decreased Kronos' operating income by \$8.2 million in 2001 compared to 2000.

#### General Corporate

The following table sets forth certain information regarding general corporate income (expense) for the years ended December 31, 2000, 2001 and 2002 and the six months ended June 30, 2002 and 2003.

	Years ended December 31,			Six months ended June 30,	
	2000	2001	2002	2002	2003
	(In thousands)				
Interest income from affiliates.....	\$ 20,250	\$ 33,379	\$ 20,754	\$ 17,475	\$ 723
Other interest income	1,078	349	702	71	74
Insurance recoveries, net.....	--	17,468	--	--	--
Foreign currency transaction gain.....	--	--	6,271	6,271	--
Corporate expenses.....	(6,949)	(4,878)	(3,288)	(1,493)	(1,684)
Interest expense-third party debt.....	(2,005)	(4,305)	(16,837)	(1,698)	(16,350)
Interest expense-affiliate debt.....	(28,979)	(22,969)	(12,290)	(12,167)	(703)
	\$ (16,605)	\$ 19,044	\$ (4,688)	\$ 8,459	\$ (17,940)

Kronos has certain loans to affiliates, more fully described in Notes 11 and 13 to Kronos' audited consolidated financial statements included in this information statement. Period-to-period changes in the amount of interest income on such loans to affiliates is due to changes in the average outstanding balance of such loans during the respective periods.

The insurance recoveries, net of \$17.5 million in 2001 related to insurance proceeds received from property damage resulting from the Leverkusen fire, as the insurance proceeds received exceeded the carrying value of the property destroyed and cleanup costs incurred. See Note 15 to Kronos' audited consolidated financial statements included in this information statement.

The \$6.3 million foreign currency transaction gain in 2002 relates to the extinguishment of certain intercompany indebtedness associated with the offering of the KII Senior Notes in June 2002. See Notes 2 and 10 to Kronos' audited consolidated financial statements included in this information statement.

Corporate expenses were comprised principally of the intercorporate service agreement charges discussed in Note 17 to Kronos' audited consolidated financial statements included in this information statement. Corporate expenses in 2001 also included certain German real estate transfer taxes of \$1.5 million associated with a legal restructuring of Kronos' German operations.

Interest expense on third-party debt was \$14.7 million higher in the first six months of 2003 compared to the first six months of 2002, and was \$12.5 million higher in 2002 compared to 2001, due primarily to the issuance of the KII Senior Notes in 2002 as well as borrowings under KII subsidiaries' bank credit facility entered into in 2002. Interest expense on third-party debt was \$2.3 million higher in 2001 compared to 2000 due to higher levels of bank debt. Interest expense on third-party debt is expected to be higher in 2003 compared to 2002 due to higher outstanding levels of debt, partially offset by lower average interest rates.

Interest expense on affiliate debt was \$11.5 million lower in the first six months of 2003 compared to the first six months of 2002, and was \$10.7 million lower in 2002 compared to 2001 and \$6.0 million lower in 2001 compared to 2000, due primarily to lower average balances of outstanding debt owed to affiliates. See "--Liquidity and Capital Resources--Financing Cash Flows."

#### Provision for Income Taxes

The principal reasons for the difference between the U.S. Federal statutory income tax rates and Kronos' effective income tax rates are explained in Note 14 to Kronos' audited consolidated financial statements included in this information statement. Kronos' operations are conducted on a worldwide basis and the geographic mix of income can significantly impact Kronos' effective income tax rate. In 2002, Kronos' effective income tax rate varied from the normally expected rate in part due to a reduction in the Belgian income tax rate and the recognition of certain deductible tax assets which previously did not meet the "more-likely-than-not" recognition criteria. In 2001, Kronos' effective income tax rate varied from the normally expected rate primarily due to the geographic mix of income and the recognition of certain German income tax attributes which previously did not meet the "more-likely-than-not" recognition criteria. In 2000, Kronos' effective income tax rate varied from the normally expected rate primarily due to the geographic mix of income, changes in the German income tax "base" rate and the recognition of certain deductible tax assets which previously did not meet the "more-likely-than-not" recognition criteria. Also in 2000, Kronos recognized certain one-time benefits related to German tax settlements.

Kronos and its qualifying subsidiaries are members of NL's consolidated U.S. federal income tax group (the "NL Tax Group"). As a member of the NL Tax Group, Kronos is a party to a tax sharing agreement (the "NL Tax Agreement"). Effective January 1, 2001, the NL Tax Group, including Kronos, was included in the consolidated U.S. federal tax return of Contran (the "Contran Tax Group"). As a member of the Contran Tax Group, NL is 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 their provision for U.S. income taxes on a separate-company basis using the tax elections made by Contran. Pursuant to the NL Tax Sharing Agreement and using the tax elections made by Contran, Kronos makes payments to or receives 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 the NL Tax Group but instead was a separate taxpayer. Refunds are limited to amounts previously paid under the tax sharing agreement.

Following the completion of NL's distribution of 48.7% of the outstanding shares of Kronos common stock to NL shareholders, Kronos and its qualifying subsidiaries would no longer be members of the NL Tax Group, but Kronos and its qualifying subsidiaries would remain as members of the Contran Tax Group. Kronos would enter into a new tax sharing agreement with Valhi and Contran (the "Kronos/Contran/Valhi Tax Agreement"). The Kronos/Contran/Valhi Tax Agreement will contain similar terms to the NL Tax Agreement.

#### Other

Related Party Transactions. Kronos is a party to certain transactions with related parties. See "Liquidity and Capital Resources--Investing Cash Flows" and Note 17 to Kronos' audited consolidated financial statements included in this information statement.

Recently Adopted Accounting Principles. As described in Note 2 to Kronos' audited consolidated financial statements included in this information statement, Kronos adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," effective January 1, 2003.

#### Liquidity and Capital Resources

Kronos' consolidated cash flows from operating, investing and financing activities for the years ended December 31, 2000, 2001 and 2002 and the six months ended June 30, 2002 and 2003 are presented below.

	Years ended December 31,			Six months ended June 30,	
	2000	2001	2002	2002	2003
	(In millions)				
Net cash provided (used) by:					
Operating activities	\$ 154.7	\$ 135.7	\$ 109.9	\$ 40.1	\$ 29.3
Investing activities.....	(31.0)	(33.7)	(33.4)	(11.2)	(14.7)
Financing activities.....	(172.2)	(99.0)	(93.9)	33.1	(27.4)
Net cash provided (used) by operating, investing and financing activities.....	\$ (48.5)	\$ 3.0	\$ (17.4)	\$ 62.0	\$ (12.8)

#### Operating Cash Flows

Certain items included in the determination of net income do not represent current inflows or outflows of cash. For example, insurance recoveries, net of \$17.5 million in 2001, are excluded from the determination of operating cash flow. These insurance proceeds are shown in the statement of cash flows under investing activities to partially offset the cash outflow impact of capital expenditures related to the Leverkusen sulfate plant reconstruction. Certain other items included in the determination of net income have an impact on cash flows from operating activities, but the impact of such items on cash will differ from their impact on net income. For example, the amount of income or expense recorded for pension and OPEB assets and obligations (which depend upon a number of factors, including actuarial assumptions used to value obligations) will generally differ from the outflows of cash for such benefits. See Note 12 to Kronos' audited consolidated financial statements included in this information statement.

The TiO2 industry is cyclical and changes in economic conditions within the industry significantly impact the earnings and operating cash flows of Kronos. Cash flow from operations is considered the primary source of liquidity for Kronos. Changes in TiO2 pricing, production volume and customer demand, among other things, could significantly affect the liquidity of Kronos.

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.

Cash flow from operations, before changes in assets and liabilities, increased \$36.1 million in the first six months of 2003 from the comparable period in 2002 primarily due to \$22.9 million of higher operating income and \$20.1 million higher current income tax benefits, net partially offset by \$1.5 million of lower net distributions from Kronos' investment in its TiO2 manufacturing joint venture. Relative changes to Kronos' assets and liabilities, excluding the effect of currency translation, in the first six months of 2003 compared with the first six months of 2002, were negatively affected by \$21.1 million of higher refundable income taxes and \$11.2 million of lower insurance proceeds collected. The net cash used to fund changes in Kronos' inventories, receivables and payables (excluding the effect of currency translation) of \$38.4 million in the first six months of 2003 was significantly higher than the \$2.9 million in the first six months of 2002, with higher inventory balances, higher receivable balances and decreases in accounts payable and accrued liabilities in the first six months of 2003. Relative changes in inventories and 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 volume and sales volume.

Cash flows from operations, before changes in assets and liabilities, decreased \$53.2 million in 2002 compared with 2001 primarily due to \$72.7 million of lower operating income and \$3.4 million of lower distributions from Kronos' investment in its TiO2 manufacturing joint venture, partially offset by \$23.3 million of lower current tax expense.



Cash flows from operations, before changes in assets and liabilities, decreased \$5.7 million in 2001 compared with 2000 primarily due to \$43.3 million lower operating income, partially offset by \$15.7 million of lower current tax expense, \$3.8 million of higher distributions from Kronos' investment in its TiO2 manufacturing joint venture and \$18.5 million of higher interest income from affiliates, net.

Relative changes in Kronos' assets and liabilities, excluding the effect of currency translation, increased operating cash flows by \$27.4 million in 2002 compared to 2001, in part due to lower accounts and other receivables of \$3.0 million, changes in noncurrent assets and liabilities, net of \$2.6 million and lower inventories. In 2002, Kronos reduced finished goods inventory by approximately 13,000 metric tons from year end 2001, versus an increase in finished goods inventory from 2000 to 2001 of approximately 10,000 metric tons. These changes in the inventory balances resulted in a net \$74.9 million reduction in inventories. Kronos' assets and liabilities were unfavorably affected primarily by lower accounts payable and accrued liabilities of \$51.3 million

Relative changes in Kronos' assets and liabilities, excluding the effect of currency translation, decreased operating cash flows by \$13.3 million in 2001 compared with 2000, in part due to higher inventories of \$9.3 million and changes in income taxes payable of \$15.9 million primarily due to the payment of certain Canadian withholding taxes related to the restructuring of certain of Kronos' subsidiaries. Kronos' assets and liabilities were favorably affected by higher accounts payable of \$9.3 million and higher accounts with affiliates, net of \$2.5 million.

#### Investing Cash Flows

Kronos' capital expenditures were \$12.1 million and \$13.8 million in the first six months of 2002 and 2003, respectively. Capital expenditures in first six months of 2002 included approximately \$2.2 million related to reconstruction of Kronos' Leverkusen, Germany sulfate plant damaged in the March 2001 fire.

Kronos' capital expenditures were \$31.1 million, \$53.7 million and \$32.6 million in 2000, 2001 and 2002, respectively. Capital expenditures in 2001 and 2002 included an aggregate of \$22.3 million and \$3.1 million, respectively, for the rebuilding of Kronos' Leverkusen, Germany sulfate plant. In 2001, Kronos received \$23.4 million of insurance proceeds for property damage resulting from the Leverkusen fire and paid \$3.2 million of expenses related to repairs and clean-up costs. Capital expenditures at LPC were approximately \$4.0 million in each of 2000, 2001 and 2002 and are not included in Kronos' capital expenditures.

Kronos' capital expenditures during the past three years include an aggregate of approximately \$18.2 million (\$5.0 million in 2002) for Kronos' ongoing environmental protection and compliance programs. Kronos' estimated 2003 capital expenditures are \$34.0 million and include approximately \$5.0 million in the area of environmental protection and compliance.

#### Financing Cash Flows

In March 2002, Kronos repaid \$25 million in principal amount of affiliate indebtedness to NL. In June 2002, Kronos repaid \$169 million principal amount, plus accrued interest of affiliate indebtedness to NL, with proceeds from the offering of the KII Senior Notes discussed below. See Notes 10 and 11 to Kronos' audited consolidated financial statements included in this information statement.

In June 2002, KII issued (euro)285 million (\$280 million when issued and \$297 million at December 31, 2002) principal amount of the KII Senior Notes. The KII Senior Notes are collateralized by first priority liens on 85% of the common stock or other equity interests of certain of KII's first tier subsidiaries. The KII Senior Notes are issued pursuant to an indenture that contains a number of covenants and restrictions that, among other things, restrict the ability of KII and its subsidiaries to incur debt, incur liens or merge or consolidate with, or sell or transfer all or substantially all of their assets to, another entity. The indenture further restricts the ability of KII to pay dividends under certain circumstances. See Note 10 to Kronos' audited consolidated financial statements included in this information statement.

In June 2002, Kronos' primary operating subsidiaries in Germany, Belgium and Norway entered into a new three-year (euro)80 million secured revolving

credit facility ("European Credit Facility") and borrowed (euro)13 million (\$13 million) and NOK 200 million (\$26 million) which, along with available cash, was used to repay and terminate KII's short term notes payable (\$53.2 million when paid). In the third and fourth quarters of 2002, Kronos repaid a net euro-equivalent (euro)12.7 million (\$12.4 million when paid) and (euro)1.7 million (\$1.6 million when paid), respectively, of the European Credit Facility. See Note 10 to Kronos' audited consolidated financial statements included in this information statement.

In September 2002, Kronos' U.S. operating subsidiaries entered into a three-year \$50 million asset-based revolving credit facility ("U.S. Credit Facility"). As of December 31, 2002, no borrowings were outstanding under the U.S. Credit Facility and Borrowing Availability was approximately \$30 million. See Note 10 to Kronos' audited consolidated financial statements included in this information statement.

In March 2003, Kronos borrowed (euro)15.0 million (\$16.1 million when borrowed) under the European Credit Facility. In April 2003, Kronos repaid NOK 80 million (approximately \$11 million when paid) under the European Credit Facility.

At December 31, 2002, Kronos had borrowed a net \$44.6 million from NL Environmental Management Services, Inc. ("EMS"), a majority-owned subsidiary of NL, under the terms of a \$55 million revolving credit facility entered into with EMS in 2002. During the first six months of 2003, Kronos repaid this net outstanding balance in full, and the revolving credit agreement with EMS was terminated on June 30, 2003. See Note 11 to Kronos' audited consolidated financial statements included in this information statement.

Deferred financing costs of \$10.7 million for the KII Senior Notes, the European Credit Facility and the U.S. Credit Facility are being amortized over the life of the respective agreements and are included in other noncurrent assets. As of June 30, 2002, the deferred financing costs totaled \$9.3 million.

In 2001, Kronos repaid (euro)7.6 million (\$6.5 million when paid) and (euro)16.4 million (\$14.9 million when paid), respectively, of its euro-denominated short-term debt with excess cash flow from operations.

In 2000, Kronos repaid (euro)17.9 million (\$16.7 million when paid) and (euro)13.0 million (\$12.2 million when paid), respectively, of its euro-denominated short-term debt with cash flow from operations. In January 2000, Kronos repaid a \$43.0 million short-term affiliate note payable to NL Capital Corporation ("NLCC"). Prior to January 31, 2000, NLCC was a wholly-owned subsidiary of NL. See Note 20 to Kronos' audited consolidated financial statements included in this information statement. In December 2000, Kronos borrowed \$43 million of short-term non-U.S. dollar-denominated bank debt and used the proceeds along with cash on hand to redeem \$50 million (par value) of NL's 11.75% Senior Secured Notes.

Other than operating lease commitments disclosed in Note 18 to Kronos' audited consolidated financial statements included in this information statement, Kronos is not party to any off-balance sheet financing arrangements.

Dividends paid by Kronos to NL during 2000, 2001 and 2002 and the first six months of 2003 totaled \$55.0 million, \$30.5 million, \$111.0 million and \$7.0 million, respectively.

Cash flows related to capital contributions and other transactions with affiliates aggregated net cash outflows of \$40.0 million, \$47.5 million, \$73.7 million and \$29.1 million in 2000, 2001, 2002 and the first six months of 2002, respectively, and aggregated a net cash inflow of \$19.7 million in the first six months of 2003. Such amounts related principally to loans that Kronos made to affiliates (such notes receivable from affiliates being reported as reductions to Kronos' stockholder's equity, and therefore considered financing cash flows). Additionally, settlement of the above-mentioned notes receivable from affiliates was not currently contemplated in the foreseeable future. In July 2002, Kronos transferred certain such notes receivable from affiliates to NL, and as a result Kronos will no longer report cash flows related to certain such notes receivable from affiliates.

Cash, Cash Equivalents, Restricted Cash and Restricted Marketable Debt Securities and Borrowing Availability

At June 30, 2003, Kronos had current cash and cash equivalents aggregating \$29.6 million, current restricted cash equivalents of \$1.0 million and noncurrent restricted marketable debt securities of \$2.0 million. Of such aggregate \$32.6 million amount, \$20.9 million was held by non-U.S. subsidiaries. At June 30, 2003, certain of Kronos' subsidiaries had \$102 million available for borrowing with approximately \$57 million available under non-U.S. credit facilities (including \$55 million under the European Credit Facility) and approximately \$45 million under the U.S. Credit Facility. At June 30, 2003, Kronos had complied with all financial covenants governing its debt agreements.

Based upon Kronos' expectations for the TiO2 industry and anticipated demands on Kronos' cash resources as discussed herein, Kronos expects to have sufficient liquidity to meet its obligations including operations, capital expenditures, debt service and dividends. To the extent that actual developments differ from Kronos' expectations, Kronos' liquidity could be adversely affected.

Income Taxes

A reduction in the German "base" income tax rate from 30% to 25%, enacted in October 2000, became effective January 1, 2001. The reduction in the German income tax rate resulted in \$5.7 million of deferred income tax expense in the fourth quarter of 2000 due to a reduction of Kronos' deferred income tax asset related to certain German tax attributes.

A reduction in the Belgian income tax rate from 40.17% to 33.99%, enacted in December 2002, became effective January 1, 2003. The reduction in the Belgian income tax rate resulted in a \$2.3 million decrease in deferred income tax expense in the fourth quarter of 2002 due to a reduction of Kronos' deferred income tax liabilities related to certain Belgian temporary differences.

Certain of Kronos' tax returns in various U.S. and non-U.S. jurisdictions are being examined and tax authorities have proposed or may propose tax deficiencies, including penalties and interest. See Note 14 to Kronos' audited consolidated financial statements included in this information statement.

Kronos has received preliminary tax assessments for the years 1991 to 1997 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately (euro)10.1 million (\$11.6 million at June 30, 2003). Kronos has filed protests to the assessments for the years 1991 to 1997. Kronos is in discussions with the Belgian tax authorities and believes that a significant portion of the assessments is without merit. In April 2003, Kronos received a notification from the Belgian tax authorities of their intent to assess a tax deficiency related to 1999. The anticipated assessment, including interest, is expected to approximate (euro)13.1 million (\$15 million at June 30, 2003). Kronos believes the proposed assessment related to 1999 is without merit and in April 2003 filed a written response in opposition to the notification of intent to assess.

In 2002, Kronos received a notification from the Norwegian tax authorities of their intent to assess tax deficiencies of approximately NOK 12.2 million (\$1.7 million at June 30, 2003) relating to 1998 through 2000. Kronos has objected to this proposed assessment in a written response to the Norwegian tax authorities.

In the first quarter of 2003, Kronos was notified by the German Federal Fiscal Court (the "Court") that the Court had ruled in Kronos' favor concerning a claim for refund suit in which Kronos sought refunds of prior taxes paid during the periods 1990 through 1997. Kronos has filed certain amended German tax returns and expects to file additional amended German tax returns claiming such tax refunds for all years affected by the Court's decision, which is expected to result in a net refund of taxes and interest of approximately \$40 million. Receipt of the German tax refunds is subject to satisfaction of various procedural requirements, including a review and acceptance of the amended German tax returns by the German tax authorities. Certain of these procedural

requirements were satisfied in the second quarter of 2003 with respect to a portion of the refund claim, and in July 2003 the German tax authorities refunded Kronos a portion of the total anticipated refund. The portion received in July was (euro)21.5 million (\$24.6 million using June 30, 2003 exchange rates). Kronos has reflected this tax refund in its second quarter 2003 results of operations. Kronos expects to receive the remaining refunds over the next six to nine months, a portion of which may result in an additional income tax benefit.

No assurance can be given that Kronos' tax matters will be favorably resolved due to the inherent uncertainties involved in court and tax proceedings. Kronos 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 Kronos' consolidated financial position, results of operations or liquidity.

At June 30, 2003, Kronos had the equivalent of approximately \$470 million of income tax loss carryforwards in Germany with no expiration date. However, Kronos has provided a deferred tax valuation allowance against substantially all of these income tax loss carryforwards because Kronos currently believes that it does not meet the "more-likely-than-not" recognition criteria. In 2002, the German federal government proposed certain changes to its income tax law, including certain changes that would have imposed limitations on the annual utilization of income tax loss carryforwards. Such proposal, if enacted, would have significantly affected Kronos' 2003 and future income tax expense and cash tax payments. In April 2003, the German federal government passed a new tax law which does not contain the provision that would have restricted the utilization of tax loss carryforwards. Furthermore, the provisions contained in the new law are not expected to materially impact Kronos' income tax expense or cash tax payments. On August 1, 2003, the German federal government proposed new tax law amendments that, among other things, re-introduced the limitations on the annual utilization of income tax loss carryforwards, to become effective in 2004. There can be no assurance that these proposed law amendments will be enacted and, if enacted, when they would become effective. Similar to the 2002 proposal, if enacted as proposed, these amendments would significantly affect Kronos' future income tax expense and cash tax payments.

At June 30, 2003, Kronos had net deferred tax liabilities of \$86.9 million. Kronos operates in numerous tax jurisdictions, in certain of which it has temporary differences that net to deferred tax assets (before valuation allowance). Kronos has provided a deferred tax valuation allowance of \$166.0 million at June 30, 2003, principally related to Germany, partially offsetting deferred tax assets that Kronos believes do not currently meet the "more-likely-than-not" recognition criteria.

#### Environmental Matters and Litigation

See "Business--Legal Proceedings" and Note 18 to Kronos' audited consolidated financial statements included in this information statement.

#### Foreign Operations

As discussed above, Kronos 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 Kronos' assets and liabilities related to its non-U.S. operations, and therefore Kronos' consolidated net assets, will fluctuate based upon changes in currency exchange rates. As of January 1, 2001, the functional currency of Kronos' German, Belgian, Dutch and French operations have been converted to the euro from their respective national currencies. At June 30, 2003, Kronos had substantial net assets denominated in the euro, Canadian dollar, Norwegian kroner and United Kingdom pound sterling.

#### New Accounting Principles Not Yet Adopted

See Note 2 to Kronos' audited consolidated financial statements included in this information statement.

#### Other

Kronos 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, Kronos 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, Kronos 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 acquisition or joint venture transaction, Kronos may consider using available cash, issuing equity securities or increasing its indebtedness to the extent permitted by the agreements governing Kronos' existing debt. See Note 10 to Kronos' audited consolidated financial statements included in this information statement.

#### Summary of Debt and Other Contractual Commitments

As more fully described in the notes to Kronos' audited consolidated financial statements included in this information statement, Kronos is a party to various debt, lease and other agreements which contractually and unconditionally commit Kronos to pay certain amounts in the future. See Notes 10, 11 and 18 to Kronos' audited consolidated financial statements included in this information statement. The following table summarizes such contractual commitments that are unconditional both in terms of timing and amount by the type and date of payment as of December 31, 2002.

Contractual Commitment	Unconditional Payment Due Date				Total
	2003	2004-2005	2006-2007	2008 and after	
(In millions)					
Indebtedness	\$ 1.3	\$ 72.1	\$ .2	\$ 296.9	\$ 370.5
Property and equipment	6.4	-	-	-	6.4
Operating leases	4.4	6.4	3.4	18.9	33.1
	\$ 12.1	\$ 78.5	\$ 3.6	\$ 315.8	\$ 410.0

In addition, Kronos is a party to certain other agreements that contractually and unconditionally commit Kronos to pay certain amounts in the future. However, while Kronos believes it is probable that amounts will be spent in the future under such contracts, the amount and/or the timing of such future payments will vary depending on certain provisions of the applicable contract. Agreements to which Kronos is a party that fall into this category, more fully described in Note 18 to Kronos' audited consolidated financial statements included in this information statement, includes Kronos' long-term supply contracts for the purchase of chloride-process TiO2 feedstock.

#### Assumptions on Defined Benefit Pension Plans and OPEB Plans

Defined Benefit Pension Plans. Kronos maintains various defined benefit pension plans in Europe and Canada. Kronos 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 cost 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. Kronos recognized consolidated defined benefit pension plan expense of \$4.5 million in 2000, \$5.0 million in 2001 and \$7.1 million in 2002. The amount of funding requirements for these defined benefit pension plans is generally based upon applicable regulation, and will generally differ from pension expense recognized under SFAS No. 87 for financial reporting purposes. Contributions made by Kronos to all of its defined benefit pension plans aggregated \$8.2 million in 2000, \$7.4 million in 2001 and \$9.0 million in 2002.

The discount rates Kronos 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, Kronos receives advice about appropriate discount rates to use based upon discussions with Kronos' 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 for Kronos' plans) 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, 2002, approximately 63%, 11% and 17% of the projected benefit obligations for all of Kronos' defined benefit pension plans were attributable to Germany, Canada and Norway, respectively. Because Kronos maintains defined benefit pension plans in several different countries and because the interest rate environment differs from country to country, Kronos uses several different discount rate assumptions in determining its defined benefit pension plan obligations and expense.

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

	Obligation at December 31, 2000 and expense in 2001	Obligation at December 31, 2001 and expense in 2002	Obligation at December 31, 2002 and expense in 2003
Germany.....	6.0%	5.8%	5.5%
Canada.....	7.5%	7.3%	7.0%
Norway.....	6.0%	6.0%	6.0%

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 obligation. 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, 2002, approximately 59%, 10% and 22% of the plan assets for all of Kronos' defined benefit pension plans were attributable to Germany, Canada and Norway, respectively. Because Kronos maintains defined benefit pension plans in several different countries, because the plan assets in different countries are invested in a different mix of investments and because the long-term rates of return for different investments differ from country to country, Kronos uses several different long-term rates of return on plan asset assumptions in determining its defined benefit pension plan expense.

In determining the expected long-term rate of return on plan asset assumptions, Kronos 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, Kronos receives advice about appropriate long-term rates of return to use based upon discussions with Kronos' third-party actuaries. Such assumed asset mixes are summarized below:

- o In Germany, the composition of plan assets is established to satisfy the requirements of the German insurance commissioner. The current plan asset allocation at December 31, 2002 was 30% to equity managers and 70% to fixed income managers.
- o In Canada, Kronos 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, 2002 was 54% to equity managers and 46% to fixed income managers.
- o In Norway, Kronos currently has a plan asset target allocation of 15% to equity managers and 85% to fixed income managers, with an expected

long-term rate of return for such investments of approximately 8% and 6%, respectively. The current plan asset allocation at December 31, 2002 was 13% to equity managers and 87% to fixed income managers.

Kronos 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.

Kronos' assumed long-term rates of return on plan assets for 2000, 2001 and 2002 were as follows:

	2000	2001	2002
Germany	7.5%	7.3%	6.8%
Canada	8.0%	7.8%	7.0%
Norway	7.0%	7.0%	7.0%

Kronos currently expects to utilize the same long-term rate of return on plan asset assumptions in 2003 as it used in 2002 for purposes of determining the 2003 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 obligation and the pension expense will be based in part upon expected increases in future compensation levels. For all of Kronos' plans for which the benefit formula is so calculated, Kronos generally bases the assumed expected increase in future compensation levels based upon average long-term inflation rates for the applicable country.

In addition to the actuarial assumptions discussed above, because Kronos 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 cost will vary based upon relative changes in foreign currency exchange rates.

Based on the actuarial assumptions described above and Kronos' current expectation for what actual average foreign currency exchange rates will be during 2003, Kronos expects its defined benefit pension expense will approximate \$8 million in 2003. In comparison, Kronos expects to be required to make approximately \$12 million of contributions to such plans during 2003.

Defined benefit pension expense and the amount recognized as prepaid and accrued pension costs are based upon the actuarial assumptions discussed above. Kronos believes all of the actuarial assumptions used are reasonable and appropriate. If Kronos had lowered the assumed discount rate by 25 basis points for all of its plans as of December 31, 2002, Kronos' aggregate projected benefit obligation would have increased by approximately \$9.4 million at that date, and Kronos' defined benefit pension expense would be expected to increase by approximately \$1.3 million during 2003. Similarly, if Kronos lowered the assumed long-term rate of return on plan assets by 25 basis points for all of its plans, Kronos' defined benefit pension expense would be expected to increase by approximately \$.5 million during 2003.

OPEB Plans. Certain of Kronos' subsidiaries in the U.S. and Canada currently provide certain health care and life insurance benefits for eligible retired employees. Kronos 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. Kronos recognized consolidated OPEB expense (income) of nil in 2000, \$(.1) million in 2001 and \$(.3) million in 2002. 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 2000, \$1.2 million in 2001 and \$1.0 million in 2002.

The assumed discount rates Kronos utilizes for determining OPEB expense and the related accrued OPEB obligation is generally based on the same discount rates Kronos utilizes for its Canadian defined benefit pension plans.

In estimating the health care cost trend rate, Kronos considers its actual healthcare cost experience, future benefit structures, industry trends and advice from its third-party actuaries. During each of the past three years, Kronos 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, 2002, the expected rate of increase in future health care costs ranges from 9% in 2003, declining to 5.5% in 2007 and thereafter.

Based on the actuarial assumptions described above and Kronos' current expectation for what actual average foreign currency exchange rates will be during 2003, Kronos expects its OPEB expense (income) will approximate \$(.2) million in 2003. In comparison, Kronos expects to be required to make approximately \$1.3 million of contributions to such plans during 2003.

OPEB expense and the amount recognized as accrued OPEB costs are based upon the actuarial assumptions discussed above. Kronos believes all of the actuarial assumptions used are reasonable and appropriate. If Kronos had lowered the assumed discount rate by 25 basis points for all of its OPEB plans as of December 31, 2002, Kronos' aggregate accumulated OPEB obligation would have increased by approximately \$.3 million at that date, and Kronos' OPEB expense would be expected to increase by a nil amount during 2003. Similarly, if the assumed future health care cost trend rate had been increased by 100 basis points, Kronos' accumulated OPEB obligation would have increased by approximately \$.8 million at December 31, 2002, and OPEB expense would have increased by \$.1 million in 2002.

#### Quantitative and Qualitative Disclosures About Market Risk

##### General

Kronos is exposed to market risk from changes in currency exchange rates, interest rates and equity security prices. In the past, Kronos has periodically entered into interest rate swaps or other types of contracts in order to manage a portion of its interest rate market risk. Otherwise, Kronos has not generally entered into forward or option contracts to manage such market risks, nor has Kronos entered into any such contract or other type of derivative instrument for trading purposes. Kronos was not a party to any forward or derivative option contracts related to currency exchange rates, interest rates or equity security prices at December 31, 2001 or 2002. See Notes 2 and 19 to Kronos' audited consolidated financial statements included in this information statement.

##### Interest Rates

Kronos is exposed to market risk from changes in interest rates, primarily related to indebtedness. At December 31, 2002, Kronos' aggregate indebtedness was split between 81% of fixed-rate instruments and 19% of variable-rate borrowings (2001 - 81% fixed-rate and 19% variable-rate). The large percentage of fixed-rate debt instruments minimizes earnings volatility which would result from changes in interest rates. The following table presents principal amounts and weighted-average interest rates, by contractual maturity dates, for Kronos' aggregate indebtedness at December 31, 2001 and 2002. At December 31, 2002, all outstanding fixed-rate indebtedness was denominated in euros (2001 - all fixed rate indebtedness denominated in U.S. dollars), and all outstanding variable-rate indebtedness was denominated in either euros, Norwegian kroner or U.S. dollars. Information shown below for such euro- and Norwegian kroner-denominated indebtedness is presented in its U.S. dollar equivalent at December 31, 2002 using that date's exchange rate of .96 euro per U.S. dollar (2001 - 1.13 euro per U.S. dollar) and 6.99 Norwegian kroner per U.S. dollar (2001 - 9.02 Norwegian kroner per U.S. dollar). Certain Norwegian kroner-denominated capital leases totaling \$1.9 million in 2002 have been excluded from the table below.



Indebtedness	Amount		Interest rate	Maturity date
	Carrying value	Fair value		
(In millions)				
Fixed-rate indebtedness (euro-denominated):				
KII Senior Notes	\$ 296.9	\$ 299.9	8.875%	2009
	296.9	299.9	8.875%	
Variable-rate indebtedness:				
European Credit Facility:				
euro-denominated	15.6	15.6	4.8%	2005
Norwegian kroner-denominated	11.5	11.5	8.9%	2005
Note payable to affiliate (U.S. dollar denominated)	44.6	44.6	3.1%	2005
	71.7	71.7	4.4%	
	\$ 368.6	\$ 371.6	8.0%	

At December 31, 2001, fixed-rate indebtedness aggregated \$194.0 million (fair value - \$194.9 million) with a weighted-average interest rate of 11.75%; variable rate indebtedness at such date aggregated \$46.2 million, which approximated fair value, with a weighted-average interest rate of 5.45%. All of such fixed rate indebtedness was denominated in U.S. dollars. Such variable rate indebtedness was denominated in the euro (52%) and the Norwegian kroner (48%). Certain Norwegian kroner-denominated capital leases totaling \$2.5 million at December 31, 2001 have been excluded from the above analysis.

#### Currency Exchange Rates

Kronos is exposed to market risk arising from changes in 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, Canadian dollar, Norwegian kroner and the United Kingdom pound sterling. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of risks and uncertainties related to the conversion of certain of these currencies to the euro.

At December 31, 2002, Kronos had \$312.5 million of indebtedness denominated in euros (2001 - \$24.0 million) and \$11.5 million of indebtedness denominated in Norwegian kroner (2001 - \$22.2 million). The potential increase in the U.S. dollar equivalent of the principal amount outstanding resulting from a hypothetical 10% adverse change in exchange rates would be approximately \$32.4 million (2001 - \$4.6 million).

#### Other

Kronos believes there are certain shortcomings in the sensitivity analyses presented above, which analyses are required under the SEC's regulations. For example, the hypothetical effect of changes in interest rates discussed above ignores the potential effect on other variables which affect Kronos' results of operations and cash flows, such as demand for Kronos' products, sales volumes and selling prices and operating expenses. Contrary to the above assumptions, changes in interest rates rarely result in simultaneous parallel shifts along the yield curve. Accordingly, the amounts presented above are not necessarily an accurate reflection of the potential losses Kronos would incur assuming the hypothetical changes in market prices were actually to occur.

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

## Non-GAAP Financial Measures

In an effort to provide investors with additional information regarding Kronos' results as determined by GAAP, Kronos has disclosed certain non-GAAP information which Kronos believes provides useful information to investors:

Kronos discloses percentage changes in its average TiO<sub>2</sub> prices in billing currencies, which excludes the effects of foreign currency translation, so that changes can be analyzed without the impact of changes in foreign currency exchange rates, thereby facilitating period-to-period comparisons. 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.



## BUSINESS

### General

Kronos is the world's fifth largest producer of TiO<sub>2</sub> with an estimated 12% share of worldwide TiO<sub>2</sub> sales volume in 2002. Approximately one-half of Kronos' 2002 sales volume was in Europe, where Kronos is the second largest producer of TiO<sub>2</sub>.

### Industry

Titanium dioxide pigments are chemical products used for imparting whiteness, brightness and opacity to a wide range of products, including paints, plastics, paper, fibers and ceramics. TiO<sub>2</sub> is considered a "quality-of-life" product with demand affected by changes in gross domestic product in various regions of the world.

Pricing within the global TiO<sub>2</sub> industry over the long term is cyclical, and changes in industry economic conditions, especially in Western industrialized nations, can significantly impact Kronos' earnings and operating cash flows. Kronos' average TiO<sub>2</sub> selling price on a billing currency basis increased from the preceding quarter during each of the third and fourth quarters of 2002 and the first quarter of 2003, reversing the downward trend in prices that began in the first quarter of 2001 and continued through the first quarter of 2002. Kronos' average TiO<sub>2</sub> selling prices in the second quarter of 2003 were flat compared to the first quarter of 2003. Industry-wide demand for TiO<sub>2</sub> strengthened throughout 2002, with full year demand estimated as 9% higher than the previous year. This is believed to have been the result of economic growth and restocking of customer inventory levels. Volume demand in 2003 is expected to increase moderately over 2002 levels.

Kronos has an estimated 18% share of European TiO<sub>2</sub> sales volume and an estimated 14% share of North American TiO<sub>2</sub> sales volume. Per capita consumption of TiO<sub>2</sub> 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 TiO<sub>2</sub>. Significant regions for TiO<sub>2</sub> consumption could emerge in Eastern Europe, the Far East or China if the economies in these regions develop to the point that quality-of-life products, including TiO<sub>2</sub>, are in greater demand. Kronos believes that, due to its strong presence in Western Europe, it is well positioned to participate in growth in consumption of TiO<sub>2</sub> in Eastern Europe. Geographic segment information is contained in Note 3 to Kronos' audited consolidated financial statements included in this information statement.

### Products and Operations

TiO<sub>2</sub> is produced in two crystalline forms: rutile and anatase. Rutile TiO<sub>2</sub> is a more tightly bound crystal that has a higher refractive index than anatase TiO<sub>2</sub> and, therefore, provides better opacification and tinting strength in many applications. Although many end-use applications can use either form of TiO<sub>2</sub>, rutile TiO<sub>2</sub> is the preferred form for use in coatings, plastics and ink. Anatase TiO<sub>2</sub> has a bluer undertone and is less abrasive than rutile TiO<sub>2</sub>, and it is often preferred for use in paper, ceramics, rubber and man-made fibers.

Kronos believes that there are no effective substitutes for TiO<sub>2</sub>. However, extenders such as kaolin clays, calcium carbonate and polymeric opacifiers are used in a number of Kronos' markets. Generally, extenders are used to reduce to some extent the utilization of higher-cost TiO<sub>2</sub>. The use of extenders has not significantly changed TiO<sub>2</sub> consumption over the past decade because, to date, extenders generally have failed to match the performance characteristics of TiO<sub>2</sub>. As a result, Kronos believes that the use of extenders will not materially alter the growth of the TiO<sub>2</sub> business in the foreseeable future.

Kronos currently produces over 40 different TiO<sub>2</sub> grades, sold under the Kronos trademark, which provide a variety of performance properties to meet customers' specific requirements. Kronos' major customers include domestic and international paint, plastics and paper manufacturers.

Kronos is one of the world's leading producers and marketers of TiO<sub>2</sub>. Kronos and its distributors and agents sell and provide technical services for its products to over 4,000 customers with the majority of sales in Europe and

North America. TiO2 is distributed by rail, truck and ocean carrier in either dry or slurry form. Kronos' manufacturing facilities are located in Germany, Canada, Belgium and Norway and Kronos owns a one-half interest in a TiO2 manufacturing joint venture located in Louisiana, U.S.A. Kronos has sales and marketing activities in over 100 countries worldwide. Kronos and its predecessors have produced and marketed TiO2 in North America and Europe for over 80 years. As a result, Kronos believes that it has developed considerable expertise and efficiency in the manufacture, sale, shipment and service of its products in domestic and international markets. By volume, approximately one-half of Kronos' 2002 TiO2 sales were to Europe, with 39% to North America and the balance to export markets.

Kronos is also engaged in the mining and sale of ilmenite ore (a raw material used as a feedstock by sulfate-process TiO2 plants) pursuant to a governmental concession with an unlimited term that allows Kronos to operate an ilmenite mine in Norway. The ore body, owned by the Norwegian government, has estimated ilmenite reserves that are expected to last at least 20 years. Kronos is also engaged in the manufacture and sale of iron-based water treatment chemicals (derived from co-products of the pigment production processes). Kronos' water treatment chemicals (marketed under the name Ecochem) are used as treatment and conditioning agents for industrial effluents and municipal wastewater, and in the manufacture of iron pigments.

#### Manufacturing Process and Raw Materials

TiO2 is manufactured by Kronos using both the chloride process and the sulfate process. Approximately 72% of Kronos' current production capacity is based on its chloride process which generates less waste than the sulfate process. The chloride process is a continuous process in which chlorine is used to extract rutile TiO2. In general, the chloride process requires less capital investment, labor and energy than the sulfate process. Because much of the chlorine is recycled and higher titanium-containing feedstock is used, the chloride process produces less waste. The sulfate process is a batch chemical process that uses sulfuric acid to extract TiO2. Sulfate technology normally produces 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 milling and micronizing.

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 2002, chloride-process production facilities represented approximately 62% of industry capacity.

Kronos produced a company record 442,000 metric tons of TiO2 in 2002, compared to 412,000 metric tons produced in 2001 and 441,000 metric tons in 2000. Kronos' average production capacity utilization rate in 2002 was 96%, up from 91% in 2001. Capacity utilization rates in 2001 were down due in part to lost sulfate production volume resulting from the Leverkusen fire. Kronos believes its current annual attainable production capacity is approximately 470,000 metric tons, including its one-half interest in the joint venture-owned Louisiana plant (see "TiO2 Manufacturing Joint Venture"). Kronos expects its production capacity will be increased by approximately 10,000 metric tons primarily at its chloride facilities, with moderate capital expenditures, bringing Kronos' capacity to approximately 480,000 metric tons during 2005.

The primary raw materials used in the TiO2 chloride production process are titanium-containing feedstock derived from beach sand ilmenite, natural rutile ore, 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 number of suppliers around the world, principally in Australia, South Africa, Canada, India and the United States.

Kronos purchases slag refined from ilmenite sand from Richards Bay Iron and Titanium (Proprietary) Limited (South Africa), a 51%-owned subsidiary of Rio Tinto plc (U.K.), 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 2004. Kronos 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 Kronos' chloride feedstock requirements over the next several years.

The primary raw materials used in the TiO<sub>2</sub> 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, with the principal active sources currently located in Norway, Canada, Australia, India and South Africa. As one of the few vertically integrated producers of sulfate-process pigments, Kronos operates a rock ilmenite mine in Norway, which provided all of Kronos' feedstock for its European sulfate-process pigment plants in 2002. For its Canadian sulfate-process plant, Kronos also purchases sulfate grade slag primarily from Q.I.T. Fer et Titane Inc. (Canada), a wholly owned subsidiary of Rio Tinto Iron & Titanium, Inc., under a long-term supply contract that expires at the end of 2006.

Kronos believes the availability of titanium-containing feedstock for both the chloride and sulfate processes is adequate for the next several years. Kronos does not expect to experience any interruptions of its raw material supplies because of its long-term supply contracts. However, 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' financial position, results of operations or liquidity.

#### TiO<sub>2</sub> Manufacturing Joint Venture

Subsidiaries of Kronos and Huntsman International Holdings LLC ("Huntsman") each own a 50%-interest in a manufacturing joint venture, Louisiana Pigment Company ("LPC"). LPC owns and operates a chloride-process TiO<sub>2</sub> plant located in Lake Charles, Louisiana. Production from the plant is shared equally by Kronos 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.

The manufacturing joint venture operates on a break-even basis and, accordingly, Kronos reports no equity in earnings of the joint venture. Kronos' cost for its share of the TiO<sub>2</sub> produced is equal to its share of the joint venture's costs. Kronos' share of net costs is reported as cost of sales as the related TiO<sub>2</sub> acquired from the joint venture is sold. See Note 7 to Kronos' audited consolidated financial statements included in this information statement.

#### Competition

The TiO<sub>2</sub> industry is highly competitive. Kronos competes primarily on the basis of price, product quality and technical service, and the availability of high performance pigment grades. Although certain TiO<sub>2</sub> grades are considered specialty pigments, the majority of Kronos' grades and substantially all of Kronos' production are considered commodity pigments with price generally being the most significant competitive factor. Kronos believes that it is the leading seller of TiO<sub>2</sub> in several countries, including Germany and Canada.

Kronos' principal competitors are E.I. du Pont de Nemours & Co. ("DuPont"); Millennium Chemicals, Inc.; Huntsman; Kerr-McGee Corporation; and Ishihara Sangyo Kaisha, Ltd. Kronos' five largest competitors have estimated individual shares of worldwide TiO<sub>2</sub> production capacity ranging from 24% to 5%, and an estimated aggregate 70% share of worldwide TiO<sub>2</sub> production volume. DuPont has about one-half of total U.S. TiO<sub>2</sub> production capacity and is Kronos' principal North American competitor.

Capacity additions that are the result of construction of greenfield plants in the worldwide TiO<sub>2</sub> market require significant capital and substantial lead time, typically three to five years in Kronos' experience. As no new plants are currently under construction, additional greenfield capacity is not expected in

the next three to five years, but industry capacity can be expected to increase as Kronos and its competitors debottleneck existing plants. In addition to potential capacity additions, certain competitors have either idled or shut down facilities. Based on the factors described in "Industry" 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 over the next three to five years.

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 performance could be unfavorably affected.

#### Research and Development

Kronos' expenditures for research and development and certain technical support programs averaged approximately \$6 million during each of 2000, 2001 and 2002. 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 Kronos' competitive position by developing new pigment applications.

#### Patents and Trademarks

Patents held for products and production processes are believed to be important to Kronos and to the continuing business activities of Kronos. Kronos continually 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' major trademarks, including Kronos, are protected by registration in the United States and elsewhere with respect to those products it manufactures and sells.

#### Foreign Operations

Kronos' chemical businesses have operated in non-U.S. markets since the 1920s. Most of Kronos' current production capacity is located in Europe and Canada with non-U.S. net property and equipment aggregating approximately \$399 million at June 30, 2003. Net property and equipment in the U.S., including 50% of the property and equipment of LPC, was approximately \$118 million at such date. Kronos' European operations include production facilities in Germany, Belgium and Norway. Approximately \$603 million of Kronos' 2002 consolidated sales were to non-U.S. customers, including \$93 million to customers outside of Europe and Canada. Sales to customers in the U.S. aggregated \$272 million in 2002. Foreign operations are subject to, among other things, currency exchange rate fluctuations and Kronos' 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 Kronos' results of operations are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Political and economic uncertainties in certain of the countries in which Kronos operates may expose it to risk of loss. Kronos does not believe that there is currently any likelihood of material loss through political or economic instability, seizure, nationalization or similar event. Kronos cannot predict, however, whether events of this type in the future could have a material effect on its operations. Kronos' 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

Kronos 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. Kronos' largest ten customers accounted for approximately 25% of net sales in 2002. Neither Kronos' 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 June 30, 2003, Kronos employed approximately 2,500 persons, excluding LPC employees, with approximately 100 employees in the United States and approximately 2,400 employees outside of the United States. Hourly employees in production facilities worldwide, including LPC, are represented by a variety of labor unions, with labor agreements having various expiration dates. Kronos believes its labor relations are good.

## Regulatory and Environmental Matters

Certain of Kronos' businesses 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. 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. The policy of Kronos 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 of 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 LPC and a 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. From time to time, Kronos' facilities may be subject to regulatory enforcement under such 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' European and Canadian production facilities operate in an environmental regulatory framework in which governmental authorities typically are granted broad discretionary powers which allow them to issue operating permits required for the plants to operate. Kronos believes that all its plants are in substantial compliance with applicable environmental laws.

While the laws regulating operations of industrial facilities in Europe vary from country to country, a common regulatory denominator 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, 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, including EU Directive 92/112/EEC regarding establishment of procedures for reduction and eventual elimination of pollution caused by waste from the TiO2 industry.

At all of Kronos' sulfate plant facilities other than Fredrikstad, Norway, Kronos recycles spent acid either through contracts with third parties or using Kronos' own facilities. At its Fredrikstad, Norway plant, Kronos ships its spent acid to a third party location where it is treated and disposed. Kronos has a contract with a third party to treat certain by-products of its German sulfate-process plants. Either party may terminate the contract after giving four years advance notice with regard to its Nordenham, Germany plant. Under certain circumstances, Kronos may terminate the contract after giving six months notice with respect to treatment of by-products from the Leverkusen, Germany plant.



Kronos' capital expenditures related to its ongoing environmental protection and improvement programs in 2002 were approximately \$5 million, and are currently expected to be approximately \$5 million in 2003.

#### Properties

Kronos currently operates five TiO<sub>2</sub> plants in Europe (two in Leverkusen, Germany; one in Nordenham, Germany; one in Langerbrugge, Belgium; and one in Fredrikstad, Norway). In North America, Kronos has a TiO<sub>2</sub> plant in Varennes, Quebec, Canada and, through LPC, the manufacturing joint venture described above, a one-half interest in a TiO<sub>2</sub> plant in Lake Charles, Louisiana. Kronos operates an ilmenite ore mine in Hauge i Dalane, Norway pursuant to a governmental concession and also owns a TiO<sub>2</sub> slurry plant in Lake Charles, Louisiana. See Note 7 to Kronos' audited consolidated financial statements included in this information statement.

Kronos' principal German operating subsidiary leases the land under its Leverkusen TiO<sub>2</sub> production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with about one-third of Kronos' current TiO<sub>2</sub> production capacity, is located within an extensive manufacturing complex owned by Bayer AG. Rent for the Leverkusen facility is periodically established by agreement with Bayer AG 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 and certain amounts of sulfuric acid, auxiliary and operating materials and utilities services necessary to operate the Leverkusen facility. The lease and has certain restrictions regarding Kronos' ability to transfer ownership or use of the Leverkusen facility.

Kronos owns, directly or through its joint venture, all of its principal production facilities described above, except for the land under the Leverkusen and Fredrikstad facilities and the ilmenite ore mine. Kronos has a governmental concession with an unlimited term to operate the ilmenite mine in Norway.

Kronos 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.

Kronos' principal executive offices are located at Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697 and its telephone number is (972) 233-1700.

#### Legal Proceedings

See "Regulatory and Environmental Matters" above.

Kronos' Belgian subsidiary and various of its Belgian employees are the subject of an investigation by Belgian authorities relating to an accident resulting in two fatalities that occurred in its Langerbrugge, Belgium facility in October 2000. The investigation stage, which could ultimately result in civil and criminal sanctions against Kronos, was completed in 2002. In May 2003, the Belgian authorities referred the proceedings against Kronos' Belgian subsidiary and certain of its Belgium employees to the criminal court for trial. The matter has been set for trial in October 2003.

MANAGEMENT

Directors and Officers

As of the distribution date, the following persons are currently anticipated to serve as Kronos' officers and directors. Each of the directors below will be elected to serve until the next annual meeting of stockholders and his successor has been elected and has been qualified, or until his earlier death, resignation or removal.

Name	Age	Principal Positions and Directorships
Harold C. Simmons.....	72	Chairman of the Board and Chief Executive Officer
C. H. Moore, Jr.....	64	Director
George E. Poston.....	66	Director
Glenn R. Simmons.....	75	Director
Dr. R. Gerald Turner.....	57	Director
Steven L. Watson.....	52	Director
Dr. Ulfert Fiand.....	55	Senior Vice President, Manufacturing and Technology
H. Joseph Maas.....	51	Senior Vice President, Sales and Marketing
Douglas C. Weaver.....	61	Senior Vice President, Development
Robert D. Graham.....	48	Vice President, General Counsel and Secretary
Gregory M. Swalwell.....	46	Vice President, Finance
John A. St. Wrba.....	47	Vice President and Treasurer
Kelly D. Luttmmer.....	40	Tax Director

Harold C. Simmons has been a director of NL since 1986, Chairman of the Board of NL since 1987 and Chief Executive Officer of NL since July 2003. Mr. Simmons has served as Chairman of the Board and Chief Executive Officer of Kronos since August 2003. He has been Chairman of the Board of Valhi and Contran since prior to 1998, was Chief Executive Officer of Valhi and Contran from prior to 1998 to 2002, and was President of Valhi and Contran from prior to 1997 to 1998. Mr. Simmons has been an executive officer and/or director of various companies related to Valhi and Contran since 1961. He is a brother of Glenn R. Simmons.

C. H. Moore, Jr. has been a director of NL since September 2003 and is anticipated to become a director of Kronos as of the distribution date. Mr. Moore retired from KPMG LLP in June 2000 after 37 years in which he served in various capacities with the firm. Among other positions, he served as managing partner of the firm's Dallas, Texas business unit from 1990 to 1999. Prior to 1990, Mr. Moore was partner-in-charge of the audit and accounting practice of the firm's Dallas business unit for 12 years. Mr. Moore is a certified public accountant. It is anticipated that Mr. Moore will become a member of Kronos' Audit Committee.

George E. Poston has been a director of NL since 2002 and is anticipated to become a director of Kronos as of the distribution date. He is President of Poston Real Estate Co., a privately-held commercial real estate investment company, and President of Poston Capital Co., a privately-held investment company, since 1970. Mr. Poston is anticipated to become a member of Kronos' Audit Committee and Management Development and Compensation Committee.

Glenn R. Simmons has been a director of NL since 1986 and is anticipated to become a director of Kronos as of the distribution date. Mr. Simmons is Chairman of the Board of Keystone Consolidated Industries, Inc. ("Keystone"), a steel fabricated wire products, industrial wire and carbon steel rod company that is affiliated with Contran, and CompX International Inc. ("CompX"), a manufacturer of ergonomic computer support systems, precision ball bearing slides and security products that is also affiliated with Contran. Since prior to 1998, Mr. Simmons has been Vice Chairman of the Board of Valhi and Contran. Mr. Simmons is also a director of Titanium Metals Corporation, an integrated producer of titanium metal products that is 40% owned by Valhi ("TIMET"). Mr. Simmons has been an executive officer and/or director of various companies related to Valhi and Contran since 1969. He is a brother of Harold C. Simmons.

Dr. R. Gerald Turner has been a director of NL since May 2003 and is anticipated to become a director of Kronos as of the distribution date. Dr. Turner has served since 1995 as President of Southern Methodist University in Dallas, Texas. He held previous executive and administrative positions at the University of Mississippi, the University of Oklahoma, and Pepperdine University. He serves on the Board of Directors of J.C. Penney and American Advantage Funds. Dr. Turner is anticipated to become Chairman of Kronos' Audit and Management Development and Compensation Committees.

Steven L. Watson has been a director of NL since 2000 and is anticipated to become a director of Kronos as of the distribution date. Mr. Watson has been President and a director of Valhi and Contran since 1998, and Chief Executive Officer of Valhi since 2002. Mr. Watson is also a director of CompX, Keystone and TIMET. Mr. Watson has served as an executive officer and/or director of various companies related to Valhi and Contran since 1980.

Dr. Ulfert Fiand has served as Senior Vice President, Manufacturing and Technology of Kronos since August 2003. He has been KII's President of Manufacturing and Technology since 2001. Dr. Fiand joined KII in 1988, and has served as Group Leader and Director of Chloride Process Technology, Director of Process Technology, and VP Production & Process Technology.

H. Joseph Maas has served as Senior Vice President, Sales and Marketing of Kronos since August 2003 and Vice President of Marketing Worldwide of Kronos since prior to 1998. Mr. Maas has served in various positions with Kronos or NL since 1978.

Douglas C. Weaver has served as Senior Vice President, Development of Kronos since August 2003 and Vice President, Business Development of Kronos since prior to 1998. Mr. Weaver has served in various positions with Kronos or NL since 1973.

Robert D. Graham has served as Vice President, General Counsel and Secretary of NL since July 2003 and Vice President, General Counsel and Secretary of Kronos since August 2003. Mr. Graham has served as Vice President of Valhi and Contran since October 2002. From January 1997 to October 2002, Mr. Graham served as an executive officer, and most recently as Executive Vice President and General Counsel, of Software Spectrum, Inc. ("SSI"). SSI is a global business-to-business software services provider that is a wholly owned subsidiary of Level 3 Communications, Inc. From 1991 to June 2002, SSI was a publicly held corporation. From 1985 to 1997, Mr. Graham was a partner in the law firm of Locke Purnell Rain Harrell (A Professional Corporation), a predecessor to Locke Liddell and Sapp LLP.

Gregory M. Swalwell has served as Vice President, Finance of NL since July 2003 and as Vice President, Finance of Kronos since August 2003. Mr. Swalwell has served as Vice President of Valhi and Contran since 1998 and controller of Valhi and Contran since prior to 1998. Mr. Swalwell has served in accounting positions with various companies related to Valhi and Contran since 1988.

John A. St. Wrba has been Vice President and Treasurer of NL since February 2003 and Treasurer of Kronos since August 2003. Mr. St. Wrba was NL's Assistant Treasurer from 2002 to 2003. From 2000 to 2002, he was Assistant Treasurer of Kaiser Aluminum & Chemicals Corporation. From 1998 to 2000, Mr. St. Wrba served as NL's Assistant Treasurer.

Kelly D. Luttmmer has served as Tax Director of NL since July 2003 and as Tax Director of Kronos since August 2003. Ms. Luttmmer has served as Tax Director of Valhi and Contran since 1998. Prior to 1998, Ms. Luttmmer served as assistant tax manager of Valhi and Contran. Ms. Luttmmer has served in tax accounting positions with various companies related to Valhi and Contran since 1989.

In addition, Dr. Lawrence A. Wigdor, formerly Kronos' President and Chief Executive Officer since 1990, serves as a consultant to Kronos with ongoing management involvement in the TiO2 operations conducted by Kronos.

## Board Committees

As of the distribution date, Kronos' Board will establish two standing committees: an Audit Committee and a Management Development and Compensation Committee, each of which is composed entirely of individuals who are not employees of Kronos.

**Audit Committee.** The principal responsibilities of the Audit Committee are to serve as an independent and objective party to review Kronos' auditing, accounting and financial reporting processes. Kronos' Board of Directors has adopted a written charter for the Audit Committee. Each of the members of the Audit Committee is independent within the meaning of the New York Stock Exchange listing standards. The current members of the Audit Committee are anticipated to be Dr. Turner (Chairman), Mr. Poston and Mr. Moore.

**Management Development and Compensation Committee.** The principal responsibilities of the Management Development and Compensation Committee are to review and make recommendations regarding executive compensation policies, periodically to review and approve or make recommendations with respect to matters involving executive compensation, to take action or to review and make recommendations to the Board regarding employee benefit plans or programs, and to serve as a counseling committee to the Chief Executive Officer regarding matters of key personnel selection, organization strategies and such other matters as the Board may from time to time direct. The Management Development and Compensation Committee also is responsible for reviewing and approving stock option and other stock-based compensation awards under Kronos' incentive plan and for reviewing and approving Kronos' target and performance levels under variable compensation awards. The current members of the Management Development and Compensation Committee are anticipated to be Dr. Turner (Chairman) and Mr. Poston.

## Compensation of Directors

Annual fees will be paid to each director who was not an employee of Kronos or a subsidiary of Kronos consisting of an annual retainer of \$20,000 for board members and \$2,000 for each committee on which a member serves, payable in quarterly installments, and shares of Kronos common stock granted pursuant to the Kronos 2003 Long-Term Incentive Plan (discussed below), the number of shares to be determined based on the closing sale price of Kronos common stock on the date of grant. In addition, each non-employee director will receive an attendance fee of \$1,000 for each day during which Board or committee meetings are held (including telephonic meetings) that a director attends. Non-employee directors will also receive a fee of \$1,000 per day for each day spent on Kronos business at the request of the Board or the Chairman of the Board, other than the day related to Board or committee meetings. Directors will be reimbursed for reasonable expenses incurred in attending Board of Directors and committee meetings. If any director who is not an officer or employee of Kronos or any subsidiary or affiliate of Kronos dies while in active service, his or her designated beneficiary or estate will be entitled to receive a life insurance benefit equal to the annual retainer then in effect.

## Compensation of Executive Officers

The summary compensation table set forth below provides summary information for the years ended December 31, 2002, 2001 and 2000 regarding annual and long-term compensation awarded to, earned by or paid to Kronos' former Chief Executive Officer and one other Kronos executive officer for services they rendered to Kronos and its subsidiaries (the "named executive officers").



Lawrence A. Wigdor.....	2002	\$ 8,000	\$ 16,600	\$ 10,248	\$ 152,000	\$ 186,848
	2001	6,800	14,110	10,248	320,500	351,658
	2000	10,200	14,110	9,328	98,400	132,038

In 2001, NL amended the SERP to provide for the distribution of the accrued balance in each SERP participant's account and the payment of future SERP benefits to participants as accrued, thus reducing Kronos' interest costs. In connection with the amendment, in 2001 Kronos paid \$1,761,661 to Dr. Wigdor, which represented the accrued vested balance in his SERP account with interest. These accrued amounts were previously reported as compensation in the years accrued.

Stock Option Exercises and Holdings

The following table provides information with respect to the named executive officers concerning the exercise of options during 2002 and the value of unexercised options held as of December 31, 2002. The options described in the following table are options to purchase shares of common stock of NL pursuant to NL's 1998 Long-Term Incentive Plan. No stock options or stock appreciation rights were granted to the named executive officers during 2002.

AGGREGATE STOCK OPTION EXERCISES IN 2002 AND  
DECEMBER 31, 2002 OPTION VALUES (1)

Name	Shares Acquired on Exercise (#)	Value Realized	Number of Shares Underlying Unexercised Options at December 31, 2002 (#)		Value of Unexercised In-the-Money Options at December 31, 2002 (2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Dr. Ulfert Fiand.....	-0-	\$ -0-	3,000	11,000	\$ 10,979	\$ 19,287
Dr. Lawrence A. Wigdor.....	4,547	27,846 (1)	96,000	217,600	14,040	288,207

(1) In November 2002, NL entered into agreements with Dr. Wigdor and Robert D. Hardy, Kronos' former chief financial officer, among others, whereby they each exercised certain options to purchase NL common stock and thereafter NL purchased certain of the shares acquired upon exercise, as well as certain options to purchase NL common stock from each of them. For Dr. Wigdor, the shares he acquired upon exercise and the value he realized upon such exercise are reflected in the table above. For Mr. Hardy, he acquired 23,425 shares of NL common stock upon exercise and realized \$127,458 upon such exercise. Dr. Wigdor and Mr. Hardy tendered 3,000 shares and 16,344 shares, respectively, of their own shares of NL common stock, which each had held for at least six months, to pay a portion of the stock option exercise price and to pay applicable withholding taxes, as permitted under NL's incentive plans. These shares were valued at the market price of NL common stock on the date of exercise. In addition, NL purchased options to purchase 155,835 shares of NL common stock and 25,575 shares of NL common stock from Dr. Wigdor and Mr. Hardy, respectively. In the same transactions, NL also purchased 1,547 shares of NL common stock from Dr. Wigdor and 7,081 shares of NL common stock from Mr. Hardy. These options were sold at a price equal to the market price of NL common stock on the date of sale, less the exercise price of the options, and the shares were sold at the market price of NL common stock on the date of sale. In connection with the NL purchase of the options and shares, NL paid \$655,288 to Dr. Wigdor and \$216,936 to Mr. Hardy. NL charged Kronos \$580,902 for all of the foregoing transactions related to Dr. Wigdor but did not charge Kronos anything for the foregoing transactions related to Mr. Hardy.

(2) The value is based on the difference between the exercise price of the individual stock options and the \$17.00 per share closing sales price of NL common stock on December 31, 2002. At December 31, 2002, Mr. Hardy held exercisable stock options to purchase 24,000 shares of NL common stock and unexercisable stock options to purchase 86,000 shares of common stock. Based on the difference between the exercise price of the individual stock options and the \$17.00 per share closing sales price of NL common stock on December 31, 2002, the value of Mr. Hardy's exercisable and unexercisable stock options to purchase NL common stock was nil and \$97,724, respectively.

Pension Plans

The Retirement Program of NL Industries, Inc. for its U.S. employees (the "Pension Plan") provides lifetime retirement benefits to eligible employees. In 1996, NL approved the suspension of all future accruals under the salaried component of the Pension Plan. No amounts were paid or distributed to any of such persons in 2002. The estimated accrued annual benefits payable under the Pension Plan upon retirement at normal retirement age for Dr. Wigdor and Mr. Hardy are \$29,439 and \$12,348, respectively.

Dr. Fiand is eligible to receive his pension through Kronos Germany through the Bayer Pensionskasse and the Supplemental Pension Promise. All of KII's employees in Germany (including wage earners) who have contributed for five years and are less than 55 years of age are covered by the Bayer Pensionskasse. Each employee contributes 2% of eligible earnings excluding bonus, up to the social security contribution ceiling (currently (euro)54,000) and the Bayer Pensionskasse provides a benefit of 44% of such employee's accumulated

contributions (with a minimum benefit of approximately (euro)13 per month). All of KII's employees in Germany who have completed 10 years of service are also covered by the Supplemental Pension Promise. Kronos Germany accrues 11.25% of participants' eligible annual earnings excluding bonus in excess of the social security contribution ceiling, up to a maximum of (euro)98,500. The Supplemental Pension Promise provides an annual retirement benefit of 20% of all accruals made by Kronos Germany. Benefits for both plans are payable upon retirement and the attainment of ages specified in the plans. No amounts were paid or distributed under these plans to Dr. Fiand in 2002. The estimated accrued annual benefits payable upon normal retirement at normal retirement age for Dr. Fiand is (euro)24,425.

#### Kronos 2003 Long-Term Incentive Plan

Prior to the distribution, Kronos' Board of Directors and sole stockholder are each expected to approve the Kronos 2003 Long-Term Incentive Plan. The purpose of the Kronos 2003 Long-Term Incentive Plan is to advance the interests of Kronos and its stockholders by providing incentives to persons who contribute significantly to the strategic and long-term performance objectives and growth of Kronos. The plan will provide for awards or grants of shares of Kronos common stock, incentive and nonqualified stock options, stock appreciation rights, restricted stock, performance grants and other awards at the discretion of the Management Development and Compensation Committee. Key individuals employed by, or performing services for Kronos or its parents or subsidiaries will be eligible to receive such awards, including individuals who may be non-employee directors or other persons who are not employed by Kronos or its parents or subsidiaries. The plan will provide for a maximum of 150,000 shares of Kronos common stock for awards, subject to certain adjustments. The underlying shares of Kronos common stock issuable under the plan in any single fiscal year under awards to an individual may not exceed 50,000 shares. The plan generally will terminate on the tenth anniversary of its adoption unless Kronos' Board of Directors extends it for up to an additional five years for the grant of awards other than incentive stock options. Kronos has not granted any awards under the plan and has no other equity compensation plans.

#### Compensatory Arrangements

Summarized below are certain benefit arrangements, other than arrangements applicable to all employees generally, that have been established for the benefit of Kronos' named executive officers following the distribution.

Concurrently with his resignation as Chief Executive Officer of Kronos in July 2003, Dr. Wigdor entered into a consultancy arrangement with Kronos pursuant to which Dr. Wigdor will provide ongoing management involvement in Kronos' TiO2 operations. Dr. Wigdor received \$461,000 on August 1, 2003 and will receive a monthly payment of \$84,000 beginning on August 1, 2003. If Kronos achieves 2003 operating income of \$130 million, Kronos will pay Dr. Wigdor an additional \$461,000 on February 1, 2004. Beginning in 2004, Dr. Wigdor will receive annual discretionary bonuses that are no less than the average bonus paid to the three executives of NL and Kronos combined receiving the highest paid bonuses for 2004 and 2005, respectively, excluding the Chief Executive Officer of NL. If Kronos terminates the consultancy arrangement prior to September 30, 2005, Dr. Wigdor will receive eight months compensation, medical and dental coverage through September 30, 2005 and, if terminated in 2004 or after, a pro-rata portion of his discretionary bonus for the year in which the termination occurs. The arrangement provides Dr. Wigdor various other benefits, such as an office and secretarial support at Kronos' New Jersey office.

#### Compensation Committee Interlocks and Insider Participation

No member of Kronos' compensation committee is a current or former officer or employee of Kronos or its subsidiaries or has had a relationship requiring disclosure by Kronos under applicable federal securities regulations. No executive officer of Kronos served as a director or member of the compensation committee of any entity that has one or more executive officers serving as a member of Kronos' Board of Directors or compensation committee.



PRINCIPAL STOCKHOLDERS

Ownership of NL and Kronos Common Stock

The following table sets forth the number of shares of NL common stock and Kronos common stock that is beneficially owned, as defined by the regulations of the SEC, as of \_\_\_\_\_, 2003 and the approximate number and percentage of shares of Kronos common stock that will be beneficially owned immediately following the distribution date, based on the number of outstanding shares of Kronos common stock as of \_\_\_\_\_, 2003 and a distribution of one share of Kronos common stock for every two shares of NL common stock as of the record date, by each of Kronos' directors, the named executive officers, all Kronos current executive officers and directors as a group and each other person known to Kronos who will beneficially own 5% or more of Kronos common stock after the distribution. Kronos expects to have an estimated 48.9 million shares of Kronos common stock outstanding immediately after the completion of the distribution.

	Number of Shares of NL Common Stock Owned on -----, 2003(1)	Number of Shares of Kronos Common Stock Owned on -----, 2003 (1)	Number of Shares of Kronos Common Stock Owned After the Distribution (1)	Percentage of Kronos Common Stock Owned After the Distribution
NL Industries, Inc.....	-0-	48,943,049 (2)	25,091,457 (3)	51.3%
Valhi, Inc.....	30,135,390 (3)	-0-	15,067,695 (3)	30.8%
Tremont LLC.....	10,215,541 (3)	-0-	5,107,770 (3)	10.4%
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	40,350,931 (3)	48,943,049	45,266,922 (3)	92.5%
C. H. Moore, Jr.....	-0-	-0-	-0-	-0-
George E. Poston.....	2,000	-0-	1,000 (3)	*
Glenn R. Simmons.....	12,000 (3)(4)	-0-	2,000 (3)	*
Harold C. Simmons.....	83,475 (3)(5)	-0-	37,737 (3)(6)	*
Dr. R. Gerald Turner.....	1,000	-0-	500 (3)	*
Steven L. Watson.....	11,000 (3)(7)	-0-	3,500 (3)	*
Dr. Lawrence A. Wigdor.....	196,800 (3)(8)	-0-	1,500 (3)	*
Dr. Ulfert Fiand.....	7,400 (9)	-0-	-0-	-0-
All current executive officers and directors of Kronos as a group (11 persons).....	----- 313,675 (3)(4)(5)	-0-	46,237 (3)(6)	*
				(6)(7)(8)(9) (10)

\* Less than 1%.

(1) All beneficial ownership is sole and direct unless otherwise noted.

(2) Prior to the distribution, Kronos is a wholly-owned subsidiary of NL.

(3) Valhi and Tremont are the direct holders of approximately 63.2% and 21.4%, respectively, of the outstanding common stock of NL. Valhi is the direct holder of 100% of the membership interests of Tremont. Valhi Group, Inc. ("VGI"), National City Lines, Inc. ("National"), Contran, the Harold Simmons Foundation, Inc. (the "Foundation"), the Contran Deferred Compensation Trust No. 2 (the "CDCT No. 2") and The Combined Master Retirement Trust (the "CMRT") are the direct holders of approximately 77.6%, 9.1%, 3.0%, 1.3%, 0.4% and 0.1%, respectively, of the outstanding shares of Valhi common stock. National, NOA, Inc. ("NOA") and Dixie Holding Company ("Dixie Holding") are the direct holders of approximately 73.3%, 11.4% and 15.3%, respectively, of the outstanding common stock of VGI. Contran and NOA are the direct holders of approximately 85.7% and 14.3%, respectively, of the outstanding common stock of National. Contran and Southwest Louisiana Land Company, Inc. ("Southwest") are the direct holders of approximately 48.9% and 51.1%, respectively, of the outstanding common stock of NOA. Dixie Rice Agricultural Corporation, Inc. ("Dixie Rice") is the direct holder of 100% of the outstanding common stock of Dixie Holding. Contran is the holder of 100% of the outstanding common stock of Dixie Rice and approximately 88.9% of the outstanding common stock of Southwest. 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 (the "Trusts"), of which Mr. Simmons is the sole trustee. As sole trustee of each of the Trusts, Mr. Simmons has the power to vote and direct the disposition of the shares of Contran stock held by each of the Trusts. Harold C. Simmons is the Chairman of the Board and Chief Executive Officer of NL, the Chairman of the Board of each of Tremont, Valhi, VGI, National, NOA, Dixie Holding, Dixie Rice, Southwest and Contran and, as of the distribution date, is anticipated to be the Chairman of the Board and Chief Executive Officer of Kronos. The Foundation directly holds approximately 1.3% of the outstanding shares of Valhi common stock. The Foundation is a tax-exempt foundation organized for charitable purposes. Harold C. Simmons is the Chairman of the Board of the Foundation and may be deemed to control the Foundation. The CDCT No. 2 directly holds approximately 0.4% of the outstanding shares of Valhi common stock. U.S. Bank National Association serves as the trustee of the CDCT No. 2. Contran established the CDCT No. 2 as an irrevocable "rabbi trust" to assist Contran in meeting certain deferred compensation obligations that it owes to Harold C. Simmons. If the CDCT No. 2 assets are insufficient to satisfy such obligations, Contran is obligated to satisfy the balance of such obligations as they come due. Pursuant to the terms of the CDCT No. 2, Contran (i) retains the power to vote the shares of Valhi common stock held directly by the CDCT No. 2, (ii) retains dispositive power over such shares and (iii) may be deemed the indirect beneficial owner of such shares. The CMRT directly holds approximately 0.1% of the outstanding shares of Valhi common stock. Valhi established the CMRT to permit the collective investment by master trusts that maintain the assets of certain employee benefit plans Valhi and related companies adopt. Harold C. Simmons is the sole trustee of the CMRT and a member of the trust investment committee for the CMRT. Valhi's board of directors selects the trustee and members of the trust investment committee for the CMRT. Harold C. Simmons, Glenn R. Simmons, Steven L. Watson, Lawrence A. Wigdor and certain other executive officers of Kronos are participants in one or more of the employee benefit plans that invest through the CMRT. Each of such persons disclaims beneficial ownership of the shares of Valhi common stock held by the CMRT, except to the extent of his individual vested beneficial interest, if any,

in the assets held by the CMRT. By virtue of the holding of the offices, the stock ownership and his services as trustee, all as described above, (a) Harold C. Simmons may be deemed to control such entities and (b) Mr. Simmons and certain of such entities may be deemed to possess indirect beneficial ownership of shares directly held by certain of such other entities. However, Mr. Simmons disclaims such beneficial ownership of the shares beneficially owned directly or indirectly by any of such entities, except to the extent of his vested beneficial interest, if any, in shares held by the CMRT and his interest as a beneficiary of the CDCT No. 2. Mr. Harold Simmons and all other directors and executive officers of Valhi or NL disclaim beneficial ownership of all shares of NL common stock or Kronos common stock that NL, Valhi or Tremont may directly hold, as applicable. Valmont Insurance Company ("Valmont"), NL and a subsidiary of NL directly own 1,000,000, 3,522,967 and 1,186,200 shares of Valhi common stock, respectively. Valhi is the direct holder of 100% of the outstanding common stock of Valmont. Pursuant to Delaware law, Valhi treats the shares of Valhi common stock that Valmont, NL, and the subsidiary of NL own as treasury stock for voting purposes. For the purposes of the percentage calculations herein, such shares are not deemed outstanding. The business address of NL, Valhi, Tremont, VGI, National, NOA, Dixie Holding, the CMRT, the Foundation and Contran is Three Lincoln Centre, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697. The business address of Dixie Rice is 600 Pasquiere Street, Gueydan, Louisiana 70542. The business address of Southwest is 402 Canal Street, Houma, Louisiana 70360.

- (4) The shares of NL common stock shown as beneficially owned include 8,000 shares that Glenn R. Simmons has the right to acquire by exercise of options within 60 days of \_\_\_\_\_, 2003 under NL's 1998 Long-Term Incentive Plan (the "1998 Incentive Plan").
- (5) The shares of NL common stock shown as beneficially owned by Harold C. Simmons include 69,475 shares held by Harold C. Simmons' wife with respect to which beneficial ownership is disclaimed by Mr. Simmons and 8,000 shares which Mr. Simmons has the right to acquire by exercise of options within 60 days of \_\_\_\_\_, 2003 under the 1998 Incentive Plan.
- (6) The shares of Kronos common stock shown as beneficially owned by Harold C. Simmons include 34,737 shares held by Harold C. Simmons' wife with respect to which beneficial ownership is disclaimed by Mr. Simmons.
- (7) The shares of NL common stock shown as beneficially owned include 4,000 shares that Mr. Watson has the right to acquire by exercise of options within 60 days of \_\_\_\_\_, 2003 under the 1998 Incentive Plan and NL's 1989 Incentive Plan (collectively, the "Incentive Plans").
- (8) The shares of NL common stock shown as beneficially owned include 193,800 shares that Dr. Wigdor has the right to acquire by exercise of options within 60 days of \_\_\_\_\_, 2003 under the Incentive Plans.
- (9) The shares of NL common stock shown as beneficially comprise 7,400 shares of NL common stock that Dr. Fiand has the right to acquire by exercise of options within 60 days of \_\_\_\_\_, 2003.
- (10) The shares of NL common stock shown as beneficially owned include 221,200 shares of NL common stock that all current executive officers and directors of Kronos as a group (11 persons) have the right to acquire by exercise of options within 60 days of \_\_\_\_\_, 2003.

Ownership of Valhi Common Stock

The following table and accompanying notes set forth as of \_\_\_\_\_, 2003 the beneficial ownership, as defined above, of Valhi common stock held by each director of Kronos, each named executive officer and all current executive officers and directors of Kronos as a group. See note (3) to the ownership of NL and Kronos common stock table above for information concerning individuals and entities who may be deemed to indirectly beneficially own those shares of NL common stock directly held by Valhi or Tremont.

Valhi Common Stock		
Name	Amount and Nature of Beneficial Ownership(1)	Percent of Class(2)
C. H. Moore, Jr.....	-0-	-0-
George E. Poston.....	-0-	-0-
Glenn R. Simmons.....	113,247 (3)(4)	*
Harold C. Simmons.....	3,383 (3)	*

Dr. R. Gerald Turner.....	-0-	-0-
Steven L. Watson.....	157,246 (3)(4)	*
Dr. Lawrence A. Wigdor.....	-0-	-0-
Dr. Ulfert Fiand.....	-0-	-0-
All current executive officers and directors of Kronos as a group (11 persons).....	360,442 (3)(4)	*

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\* Less than 1%.

- (1) All beneficial ownership is sole and direct unless otherwise noted.
- (2) For purposes of calculating the percent of class owned, 3,522,967 shares of Valhi common stock held by NL, 1,186,200 shares of Valhi common stock held by a subsidiary of NL and 1,000,000 shares of Valhi common stock held by Valmont are excluded from the amount of Valhi common stock outstanding. Kronos understands that, pursuant to Delaware law, Valhi treats these excluded shares as treasury stock for voting purposes.
- (3) Excludes certain shares that may be deemed to be indirectly beneficially owned by such individual as to which he disclaims beneficial ownership. See note (3) to the ownership of NL and Kronos common stock table above.
- (4) Includes shares that such person or group could acquire upon the exercise of stock options within 60 days of \_\_\_\_\_, 2003. During such 60-day period, options for 100,000 shares of Valhi common stock are exercisable by Glenn R. Simmons, options for 140,000 shares of Valhi common stock are exercisable by Steven L. Watson and options for 85,400 shares of Valhi common stock are exercisable by all other Kronos executive officers as a group. In each case, only the shares exercisable by the particular option holder during such 60-day period are deemed outstanding for purposes of calculating the percent of class owned by such holder. For Mr. Glenn Simmons, of the shares reported that he beneficially owns, 800 shares are held by his wife in her retirement account, with respect to which he disclaims beneficial ownership.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Prior to the distribution, Kronos is a wholly-owned subsidiary of NL. At \_\_\_\_\_, 2003, Valhi and Tremont held a total of approximately 85% of NL's outstanding common stock. At \_\_\_\_\_, 2003, Contran, directly or through its subsidiaries, held approximately 90% 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 the sole trustee. Mr. Simmons is the Chairman of the Board of each of Contran, Valhi and Tremont and the Chairman of the Board and Chief Executive Officer of NL, and may be deemed to control each such company and Kronos. Following the distribution date, Mr. Simmons is anticipated to be the Chairman of the Board and Chief Executive Officer of Kronos, and will still be deemed to control Kronos. See "Principal Stockholders." For a discussion of potential conflicts of interest that may arise in connection with Kronos' ownership structure, see "Risk Factors--NL and its affiliates may have conflicts of interest with Kronos, and these conflicts could adversely affect Kronos' business."

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, tax sharing agreements, 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 Kronos other than as set forth in this information statement, Kronos continuously considers, reviews and evaluates, and understands that Contran, Valhi, Tremont and NL and related entities consider, review and evaluate, such transactions. Depending upon the business, tax and other objectives then relevant, and restrictions under the indentures and other agreements, it is possible that Kronos might be a party to one or more such transactions in the future.

Kronos' policy is to engage in transactions with related parties on terms, in Kronos' opinion, no less favorable to Kronos than could be obtained from unrelated parties.

After the distribution, it is anticipated that a majority of NL's Board of Directors will also serve on Kronos' Board of Directors. Certain executive officers of NL also serve as executive officers of Kronos. Such relationships may lead to possible conflicts of interest. These possible conflicts of interest may arise from the duties of loyalty owed by persons acting as corporate fiduciaries to two or more companies under circumstances in which such companies may have adverse interests. No specific procedures are in place that govern the treatment of transactions among Kronos and related entities, although such entities may implement specific procedures as appropriate for particular transactions. In addition, under applicable principles of law, in the absence of stockholder ratification or approval by directors who may be deemed disinterested, transactions involving contracts among companies under common control must be fair to all companies involved. Furthermore, directors of companies owe fiduciary duties of good faith and fair dealing to all stockholders of the companies for which they serve.

Kronos is a party to intercorporate services agreements ("ISAs") with various related parties discussed below. Under the ISAs, 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 employees (or in certain instances, groups of employees) of the provider of the services to the affairs of the recipient, and the compensation of such persons.

Under the NL ISA, NL provided certain management, financial and administrative services to Kronos and its subsidiaries on a fee basis. Intercorporate services fee expense related to the NL ISA was \$5.0 million in 2000, \$3.5 million in 2001 and \$3.7 million in 2002, and \$1.9 million in the first six months of 2003. Under the NL ISA and included in the total fee NL charged Kronos in 2000 and 2001, Kronos paid fees of approximately \$1.7 million

and \$1.4 million for tax and controller services, respectively, which included the amount Kronos paid NL for the services of Robert D. Hardy as tax director and controller of Kronos. Under the NL ISA and included in the total fee NL charged Kronos in 2002 and the first six months of 2003, Kronos paid fees of approximately \$1.4 million and \$0.7 million for chief financial, tax and treasury services, respectively, which included the amount Kronos paid NL for the services of Robert D. Hardy as chief financial officer of Kronos. NL's charges to Kronos under the NL ISA for the services Mr. Hardy provided to Kronos are not specifically identifiable to his services. However, KII paid Mr. Hardy a bonus of \$250,000 in 2001 outside of the NL ISA for services Mr. Hardy rendered to KII.

From time to time, Kronos loans funds to related parties. See Notes 11 and 13 to Kronos' audited consolidated financial statements included in this information statement. These loans permit Kronos to earn a higher rate of return on cash not needed at the time for use in its operations than it could otherwise earn. While such loans are of a lesser credit quality than cash equivalent instruments otherwise available to Kronos, Kronos believes that it has evaluated the credit risks involved, and that those risks are reasonable and reflected in the terms of the loans. Interest income from affiliates related to such loans was \$20.3 million in 2000, \$33.4 million in 2001 and \$20.8 million in 2002, and \$0.7 million in the first six months of 2003.

Interest expense on loans from affiliates was \$29.0 million in 2000, \$23.0 million in 2001 and \$12.3 million in 2002, and \$0.7 million in the first six months of 2003. See Note 11 to Kronos' audited consolidated financial statements included in this information statement. See also "Relationships Among NL, Kronos and Their Affiliates--Outstanding Debt to NL."

Tall Pines Insurance Company ("Tall Pines"), Valmont Insurance Company ("Valmont") and EWI provide for or broker certain of Kronos' and LPC's and its affiliates' insurance policies. A son-in-law of Harold C. Simmons is the Chairman of the Board of EWI. Kronos purchased EWI from certain affiliates of Contran in January 2002, and Kronos distributed EWI to NL as a dividend in June 2003. See Notes 1 and 17 to Kronos' audited consolidated financial statements included in this information statement. Consistent with insurance industry practices, Tall Pines, Valmont and EWI receive commissions from the insurance and reinsurance underwriters for the policies that they provide or broker. Kronos and LPC paid approximately \$5.6 million in 2000, \$9.7 million in 2001 and \$10.1 million in 2002, and \$1.1 million in the first six months of 2003, for policies provided or brokered by Tall Pines, Valmont and EWI. The premiums paid by affiliates (other than Kronos and LPC) for policies provided or brokered by EWI was approximately \$7.6 million in 2002, and \$1.8 million in the first six months of 2003. These amounts principally included payments for reinsurance and insurance premiums paid to unrelated third parties, but also included commissions paid to Tall Pines, Valmont and EWI. In Kronos' opinion, the amounts that Kronos paid for these insurance policies and the allocation among Kronos and its affiliates of relative insurance premiums are reasonable and similar to those they could have obtained through unrelated insurance companies and/or brokers. Kronos expects that these relationships with Tall Pines, Valmont and EWI will continue through 2003.

During 2000, NL and an officer of both Kronos and NL entered into an agreement whereby stock options held by the officer to purchase an aggregate of 100,000 shares of NL's common stock were exercised. On a net basis, NL made aggregate cash payments to the officer of approximately \$1.3 million and NL charged Kronos an equivalent amount for stock compensation expense.

During 2002, NL and an officer of both Kronos and NL entered into an agreement whereby stock options held by the officer to purchase an aggregate of 160,400 shares of NL's common stock were exercised or canceled for value. On a net basis, NL made aggregate cash payments to the officer of approximately \$0.7 million, and NL charged Kronos an equivalent amount for stock compensation expense.

Purchases of TiO2 from LPC were \$92.5 million in 2000, \$93.4 million in 2001 and \$92.4 million in 2002, and \$53.6 million in the first six months of 2003. See Notes 7 and 17 to Kronos' audited consolidated financial statements included in this information statement.

Kronos is a member of NL's consolidated U.S. federal income tax group. Kronos is currently a party to a U.S. federal tax sharing agreement with NL. Effective January 1, 2001, NL and its qualifying subsidiaries, including Kronos and its qualifying subsidiaries were included in the consolidated U.S. federal tax return of Contran. As such, Kronos is a party to a tax sharing agreement that provides that Kronos will compute its provision for U.S. income taxes on a

separate-company basis using the tax elections made by Contran. Pursuant to the tax sharing agreement, Kronos makes payments to or receives 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 the NL's consolidated tax group but instead was a separate taxpayer. Pursuant to its tax sharing agreement with NL, Kronos made payments to NL of \$11.2 million in 2000, \$7.7 million in 2001 and \$5.3 million in 2002 and no payment was made in the first six months of 2003.



## DESCRIPTION OF CAPITAL STOCK

Kronos' authorized capital stock consists of 60 million shares of common stock, par value \$.01 per share, and 100,000 shares of preferred stock, par value \$.01 per share. Currently, approximately 48.9 million shares of Kronos' common stock are outstanding. On the distribution date and following the distribution of approximately 23.85 million shares of Kronos common stock held by NL to its shareholders, Kronos will have approximately 6,000 holders of record. No shares of Kronos' preferred stock are currently outstanding.

The following description of Kronos' capital stock is intended as a summary and is qualified in its entirety by reference to the First Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") and the Amended and Restated Bylaws (the "Bylaws") filed as exhibits to the registration statement on Form 10, of which this information statement forms a part, and to Delaware corporate law.

### Common Stock

#### Voting Rights

The holders of Kronos common stock are entitled to one vote per share on all matters to be voted on by stockholders. Holders of Kronos common stock are not entitled to cumulate their votes in the election of directors. Generally, at a meeting at which a quorum is present, all matters on which stockholders vote must be approved by a majority of the votes entitled to be cast by all shares of common stock present in person or represented by proxy, subject to any voting rights granted to holders of any preferred stock. Except as otherwise provided by law, and subject to any voting rights granted to holders of any outstanding preferred stock, amendments to the Certificate of Incorporation must be approved by holders of a majority of all outstanding shares of common stock.

#### Dividends

Holders of common stock will share ratably in any dividend declared by Kronos' Board of Directors, subject to any preferential rights of any outstanding preferred stock.

#### Other Rights

In the event of any merger or consolidation of Kronos with or into another company in connection with which shares of common stock are converted into or exchangeable for shares of stock, other securities or property (including cash), all holders of common stock will be entitled to receive the same kind and amount of shares of stock and other securities and property (including cash).

If Kronos is liquidated, dissolved or wound up after payment to creditors, Kronos will pay the full amounts required to be paid to holders of shares of any outstanding preferred stock before Kronos makes any payments to holders of shares of Kronos common stock. All holders of shares of Kronos common stock are entitled to share ratably in any assets available for distribution to these holders, after all of Kronos' other creditors and preferred stockholders have been satisfied.

No shares of Kronos common stock may be redeemed. Holders of shares of Kronos common stock do not have any preemptive rights to purchase additional shares of Kronos common stock.

### Preferred Stock

Kronos may issue up to 100,000 shares of preferred stock in one or more classes or series and with the terms of each class or series stated in Kronos' Board of Director's resolutions providing for the designation and issue of that class or series. The Certificate of Incorporation authorizes Kronos' Board of Directors to determine the designations, preferences and relative, participating, optional or other special rights, and such qualifications, limitations or restrictions pertaining to each class or series of preferred stock that Kronos issues.

Kronos believes that the ability of its Board of Directors to issue one or more series of preferred stock will provide Kronos with flexibility in structuring possible future financings and acquisitions, and in meeting other corporate needs which might arise. The authorized shares of Kronos preferred stock, as well as authorized shares of Kronos common stock, will be available for issuance without further action by Kronos' stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which Kronos' securities may be listed or traded. The New York Stock Exchange currently requires shareholder approval in several instances, including where the present or potential issuance of shares could result in an increase in the number of shares of common stock, or in the amount of voting securities, outstanding of at least 20%. If Kronos stockholder approval is not required for the issuance of shares of preferred or common stock, Kronos' Board of Directors may determine not to seek stockholder approval.

#### Provisions That May Have an Anti-Takeover Effect

Some provisions of the Certificate of Incorporation and the Bylaws summarized below may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that some, or a majority, of Kronos' stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then-current market price of such stock.

##### Board of Directors

The Bylaws provide that, subject to any rights of holders of preferred stock to elect additional directors under specified circumstances, the number of directors of Kronos consisting of one or more members shall be fixed from time to time by resolution adopted by the affirmative vote of a majority of the Board of Directors or pursuant to the action of the stockholders. In addition, the Certificate of Incorporation and the Bylaws provide that newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, disqualification or removal may be filled only by a majority vote of the directors then in office.

##### Amendments to the Certificate of Incorporation and Bylaws

The Certificate of Incorporation generally provides that the Bylaws and certain provisions of the Certificate of Incorporation may be altered, amended or repealed by the affirmative vote of the holders of at least the majority of Kronos' securities entitled to vote in the election of directors. The Bylaws may be altered, amended or repealed by a majority vote of Kronos' Board of Directors or its stockholders.

##### Preferred Stock

Kronos' Board of Directors could issue a series of preferred stock that could, depending on the terms of such series, delay, defer or prevent a change in control of Kronos. Kronos' Board of Directors will make any determination to issue such shares based on its judgment as to the best interests of Kronos and its stockholders. Kronos' Board of Directors, in so acting, could issue preferred stock having terms that could discourage an acquisition attempt through which an acquiror may be able to change the composition of Kronos' Board of Directors, including a tender offer or other transaction that some, or a majority, of Kronos' stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then-current market price of such stock.

##### Advance Notice Provisions for Stockholder Proposals or Director Nominations

For stockholder proposals or director nominations to be brought before an annual meeting of stockholders, the Bylaws require that the proposal or nomination must be delivered or mailed to the principal executive offices of Kronos no later than 45 days prior to the earlier of the date (as if in the current year) on which notice of the date of the last annual meeting was mailed or public disclosure of the date the meeting was made. If Kronos did not mail or publicly disclose the date of the last annual meeting or Kronos has moved the date of the annual meeting by 30 days from the date of the last annual meeting

(as if in the current year), the stockholder proposal or nomination must be delivered or mailed to the principal executive offices of Kronos no later than 90 days prior to the meeting. With respect to an election of directors to be held at a special meeting of stockholders, stockholder director nominations must be delivered or mailed to the principal executive offices of Kronos no later than the tenth day following the date on which notice of such meeting is first given to stockholders.

#### Liability and Indemnification of Directors and Officers

Delaware General Corporation Law, the Certificate of Incorporation and the Bylaws contain provisions relating to the limitation of liability and indemnification of Kronos' directors and officers.

The Certificate of Incorporation provides that Kronos' directors are not personally liable to Kronos or its stockholders for monetary damages for breach of their fiduciary duties as directors, except for such liability as is expressly not subject to limitation under Delaware corporate law, as the same exists or may be amended to further limit or eliminate such liability. Existing Delaware law permits the elimination or limitation of directors' personal liability to Kronos or its stockholders for monetary damages for breach of their fiduciary duties as directors, except liability for:

- o any breach of a director's duty of loyalty to Kronos or its stockholders;
- o acts or omissions not in good faith or involving intentional misconduct or a knowing violation of law;
- o any transaction from which a director derived improper personal benefit;
- o the unlawful payment of dividends; and
- o unlawful stock repurchases or redemptions.

Because of these exculpation provisions, stockholders may be unable to recover monetary damages against directors for actions taken by them that constitute negligence or that otherwise violate their fiduciary duties as directors, although it may be possible to obtain injunctive or other equitable relief with respect to such actions. If equitable remedies are not available to stockholders, stockholders may not have an effective remedy against a director in connection with the director's conduct.

The Certificate of Incorporation provides as follows:

- o Kronos must, to the fullest extent permitted by law, indemnify any and all of its officers and directors;
- o Kronos may, to the fullest extent permitted by law or to such lesser extent as is determined in the discretion of the Board of Directors, indemnify all other persons; and
- o Kronos may advance expenses to all persons to whom it has the power to indemnify.

The Bylaws provide as follows:

- o Kronos must indemnify its directors and officers to the fullest extent permitted under Delaware law;
- o Kronos must advance reasonable expenses (including attorneys' fees) of a director or officer for an indemnifiable claim upon receipt of a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification and a written undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by Kronos as authorized in the Bylaws;

- o if Kronos receives a claim for indemnification of expenses of an indemnifiable claim and does not pay the claim within 30 days of its receipt, the claimant may bring suit to recover the unpaid amount and, if successful in whole or in part, the claimant will also be entitled to be paid the expenses of prosecuting such claim; and
- o Kronos may grant rights of indemnification and advancement of expenses to any person who is not at the time a current director or officer of Kronos.

Additionally, Kronos will seek to obtain directors and officers liability insurance prior to the distribution.

#### Stockholder Approval of Certain Business Combinations

In its original certificate of incorporation and in the amended and restated Certificate of Incorporation, Kronos has expressly elected not to be governed by Section 203 of the Delaware General Corporation Law. Section 203 prohibits a Delaware corporation from engaging in certain business combinations with an "interested stockholder" for three years following the date that such person becomes an interested stockholder. With certain exceptions, an interested stockholder is a person or entity who or which owns 15% or more of a corporation's outstanding voting stock or is an affiliate or associate of the corporation and was the owner of 15% or more of such voting stock at any time within the previous three years. Because Kronos has elected not to be governed by Section 203, Section 203 will not apply to Kronos.

#### Transfer Agent

The transfer agent and registrar for Kronos common stock is EquiServe Trust Co., N.A. The contact information for the transfer agent and registrar is:

EquiServe Trust Co., N.A.  
150 Royall Street  
Canton, Massachusetts 02021

#### WHERE YOU CAN FIND MORE INFORMATION

This information statement is part of a Form 10 registration statement that Kronos filed with the SEC relating to the shares of Kronos common stock to be distributed to NL shareholders. As allowed by SEC rules, this information statement does not contain all of the information that you can find in the Form 10 or the exhibits to the Form 10. You can get a copy of the Form 10 (SEC File No. 001-31763):

- o at the Public Reference Room of the SEC, Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549; and
- o from the Internet site that the SEC maintains at <http://www.sec.gov>, which contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330.

After the distribution, Kronos will be required to comply with the reporting requirements of the Exchange Act and to file with the SEC reports, proxy statements and other information as required by the Exchange Act. Additionally, Kronos will be required to provide annual reports containing audited financial statements to its stockholders in connection with its annual meetings of stockholders. After the distribution, these reports, proxy statements and other information will be available to be inspected and copied at

the public reference facilities of the SEC or obtained by mail or over the Internet from the SEC, as described above. Kronos expects to receive approval, subject to official notice of issuance, to have its common stock listed on the New York Stock Exchange under the symbol "KRO." When Kronos common stock commences trading on the New York Stock Exchange, such reports, proxy statements and other information will be available for inspection at the offices of the New York Stock Exchange, 11 Wall Street, New York, New York 10005.

\* \* \*

This information statement is being provided to you solely to furnish information to shareholders of NL who will receive shares of Kronos common stock in the distribution. It is not, and is not intended to be construed as, an inducement or encouragement to buy or sell any of Kronos or NL securities. We believe that the information contained in this information statement is accurate as of the date set forth on the cover, and neither the mailing of this information statement nor the delivery of Kronos common stock in the distribution will create any implication to the contrary. Changes may occur after that date, and we will not update the information contained herein except in the normal course of public disclosure obligations and practices.

Neither NL nor Kronos has authorized anyone to give you any information or to make any representation about the distribution or the companies that differs from or adds to the information contained in this information statement or in the documents NL has publicly filed with the SEC. Therefore, if anyone should give you any different or additional information, you should not rely on it.

KRONOS WORLDWIDE, INC.  
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KRONOS UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Unaudited Pro Forma Condensed Consolidated Statements of Income for the year ended December 31, 2002 and the six months ended June 30, 2003 gives effect to Kronos' distribution of the Term Note and other transactions involving Kronos' capital structure and indebtedness, as if such transactions had occurred on January 1, 2002. You should read this information in conjunction with the:

- o accompanying notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements; and
- o audited consolidated financial statements of Kronos for the year ended December 31, 2002, the unaudited consolidated financial statements of Kronos for the six months ended June 30, 2003 and the unaudited pro forma consolidated balance sheet of Kronos as of June 30, 2003, each of which are included elsewhere in this information statement.

The unaudited pro forma condensed consolidated financial statements are presented for informational purposes only and to aid you in your analysis of the financial aspects of the distribution. The unaudited pro forma condensed consolidated financial statements have been derived from Kronos' historical consolidated financial statements. The pro forma adjustments, as described in the notes that follow, are based upon available information and upon certain assumptions that Kronos believes to be reasonable and factually supportable. The pro forma condensed consolidated financial statements are not necessarily indicative of what Kronos' results of operations actually would have been had we completed these transactions at the dates indicated. In addition, the unaudited pro forma condensed consolidated financial statements do not purport to project the future operating results of Kronos following the distribution.

An unaudited pro forma condensed consolidated balance sheet is not presented in these unaudited pro forma condensed consolidated financial statements. Instead, an unaudited pro forma condensed consolidated balance sheet is presented on pages FB-2 and FB-3 of this information statement.

See accompanying notes to Unaudited Pro Forma Condensed  
Consolidated Financial Statements

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES  
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME  
Year ended December 31, 2002  
(In millions, except per share amounts)

	Kronos historical	Pro forma adjustment		Kronos pro forma
		2002 Transactions	Term Note	
Revenues and other income:				
Net sales	\$ 875.2	\$ -	\$ -	\$ 875.2
Interest income	20.7	(20.6)	-	.1
Other, net	7.8	-	-	7.8
	903.7	(20.6)	-	883.1
Costs and expenses:				
Costs of goods sold	671.8	-	-	671.8
Selling, general and administrative	111.0	-	-	111.0
Interest	29.1	.4	18.0	47.5
	811.9	.4	18.0	830.3
Interest before income taxes	91.8	(21.0)	(18.0)	52.8
Provision for income taxes	25.5	(7.4)	(6.3)	11.8
Net income	\$ 66.3	\$ (13.6)	\$ (11.7)	\$ 41.0
Net income per share	\$ 1.35			\$ .84
Shares used in the calculation of per share amounts	48.9			48.9

See accompanying notes to Unaudited Pro Forma Condensed  
Consolidated Financial Statements  
FA-2



KRONOS WORLDWIDE, INC. AND SUBSIDIARIES  
 UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME  
 Six months ended June 30, 2003  
 (In millions, except per share amounts)

	Kronos historical -----	Pro forma adjustment- Term Note -----	Kronos pro form -----
Revenues and other income:			
Net sales	\$ 519.6	\$ -	\$ 519.6
Interest income	.7	-	.7
Other, net	(3.3)	-	(3.3)
	----- 517.0 -----	----- - -----	----- 517.0 -----
Costs and expenses:			
Cost of goods sold	386.1	-	386.1
Selling, general and administrative	62.0	-	62.0
Interest	17.1	9.0	26.1
	----- 465.2 -----	----- 9.0 -----	----- 474.2 -----
Income before income taxes	51.8	(9.0)	42.8
Provision for income taxes	(6.7)	(3.1)	(9.8)
	----- 58.5 -----	----- (5.9) -----	----- 52.6 -----
Net income	\$ 58.5	\$ (5.9)	\$ 52.6
	=====	=====	=====
Net income per share	\$ 1.19		\$ 1.08
	=====		=====
Shares used in the calculation of per share amounts	48.9		48.9
	=====		=====

See accompanying notes to Unaudited Pro Forma Condensed  
 Consolidated Financial Statements  
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KRONOS WORLDWIDE, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of presentation:

The unaudited pro forma condensed consolidated statements of income for the year ended December 31, 2002 and the six months ended June 30, 2003 reflect adjustments necessary to reflect the following transactions, as if each of such transactions had occurred on January 1, 2002:

- o The June 2002 issuance of (euro)285 million (approximately \$283 million, using the June 30, 2002 exchange rate) of 8% Senior Secured Notes ("KII Senior Notes") by Kronos International ("KII"), a wholly-owned subsidiary of Kronos, and the application of the net proceeds to repay certain indebtedness owed to NL ("Indebtedness to NL") in the aggregate amount of \$287 million (collectively, the "KII Senior Note Issuance"),
- o The June 2002 borrowing of approximately (euro)40 million (\$40 million) by certain subsidiaries of KII under their revolving credit facility ("European Credit Facility"), and the repayment in full of certain short-term notes payable (\$53 million) to third parties ("European Notes Payable") using the net proceeds from the borrowing plus other available cash on hand (collectively, the "European Credit Facility Issuance"),
- o The July 2002 distribution of certain long-term notes receivable (\$753 million at June 30, 2002) from NL in the form of a non-cash dividend as part of a recapitalization of Kronos (together with the KII Senior Note Issuance and the European Credit Facility Issuance, the "2002 Transactions"), and
- o The distribution of the Term Note by Kronos to NL, as contemplated as part of the distribution of 48.7% of Kronos' common stock to NL's shareholders as more fully described in this information statement.

Note 2 - Pro forma adjustments:

Pro forma adjustments are summarized below.

2002 Transactions

The \$20.6 million adjustment to interest income for the year ended December 31, 2002 represents elimination of interest income on Kronos' notes receivable from affiliates distributed to NL in the form of a non-cash dividend in July 2002.

The adjustment to interest expense related to the issuance of the KII Senior Notes and the European Credit Facility is comprised of the following:

	Year ended December 31, 2002	Six months ended June 30, 2003
----- (In millions) -----		
Increase in interest expense:		
KII Senior Notes	\$ 11.9	\$ -
European Credit Facility	1.5	-
	-----	-----
	13.4	-
	-----	-----
Decrease in interest expenses:		
Indebtedness to NL	11.4	-
European Notes Payable	1.6	-
	-----	-----
	13.0	-
	-----	-----
Net increase	\$ .4	\$ -
	=====	=====

The increase in interest expense related to the KII Senior Notes, issued in June 2002, is based upon the 8.875% interest rate on the KII Senior Notes, and the (euro)285 million principal amount of the KII Senior Notes issued, and assumed the KII Senior Notes were issued on January 1, 2002 as discussed above. The increase in interest expense also is based upon the actual average exchange rate during the period from January to June 2002 of \$.89 per euro. The increase in interest expense related to the KII Senior Notes also included \$600,000 of amortization of deferred financing costs related to the KII Senior Notes.

The increase in interest expense related to the European Credit Facility, also entered into in June 2002, is based upon average outstanding borrowings of \$34.4 million and an assumed interest rate of 7.86%, and assumed such borrowing occurred on January 1, 2002 as discussed above. The \$34.4 million amount represented the actual amount initially borrowed by Kronos under the European Credit Facility in June 2002. The 7.86% interest rate represented the average interest rate that would have been paid if such assumed borrowing had occurred on January 1, 2002. The increase in interest expense related to the European Credit Facility also included \$100,000 of amortization of deferred financing costs related to the European Credit Facility. If the 7.86% interest rate has been increased by .125% to 7.99%, the increase in interest expense related to the European Credit Facility, including amortization of deferred financing costs, would have been increased by less than \$100,000.

The reduction in interest expense related to the Indebtedness to NL and the European Notes Payable, both of which were repaid in June 2002, assumed such indebtedness was repaid on January 1, 2002 as discussed above. These amounts represented the actual interest expense related to such indebtedness included in Kronos' historical consolidated results of operations for the year ended December 31, 2002.

The income tax effect associated with these adjustments to interest income and interest expense have been calculated using applicable statutory income tax rates in the various tax jurisdictions to which the pre-tax pro forma adjustments relate.

#### Term Note

Interest expense on the Term Note (9% per annum, and based on the \$200 million principal amount of the Term Note), and the related income tax benefit using the statutory U.S. federal income tax rate of 35%.

#### Note 3 - Pro forma per share amounts:

The pro forma earnings per share amounts are based upon the 48.9 million shares of Kronos' common stock that will be outstanding following the recapitalization of Kronos discussed in Note 1 to Kronos' consolidated financial statements included in this information statement.

KRONOS WORLDWIDE, INC.

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REPORT OF INDEPENDENT AUDITORS

To the Stockholder and Board of Directors of Kronos Worldwide, Inc. (formerly known as Kronos, Inc.):

"In our opinion, the consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholder's equity and cash flows present fairly, in all material respects, the consolidated financial position of Kronos Worldwide, Inc. and its subsidiaries (collectively, the "Company") at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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."

PricewaterhouseCoopers LLP

Houston, Texas  
July 28, 2003, except for Note 1, as to  
which the date is September 26, 2003

## KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

ASSETS	December 31,		June 30, 2003	Pro Forma June 30, 2003
	2001	2002		
				(Unaudited)
Current assets:				
Cash and cash equivalents .....	\$ 54,717	\$ 40,685	\$ 29,565	\$ 29,565
Restricted cash equivalents .....	--	--	956	956
Accounts and other receivables .....	123,870	134,243	180,862	180,862
Receivable from affiliates .....	47	1,032	62	62
Refundable income taxes .....	1,528	1,777	25,595	25,595
Inventories .....	231,056	209,882	199,760	199,760
Prepaid expenses .....	2,642	6,390	3,835	3,835
Deferred income taxes .....	4,640	4,404	4,598	4,598
Total current assets .....	418,500	398,413	445,233	445,233
Other assets:				
Notes receivable from NL Industries, Inc. ....	--	44,600	--	--
Investment in TiO <sub>2</sub> manufacturing joint venture	138,428	130,009	129,209	129,209
Prepaid pension cost .....	16,043	17,572	17,209	17,209
Other .....	11,100	22,193	20,418	20,418
Total other assets .....	165,571	214,374	166,836	166,836
Property and equipment:				
Land .....	22,066	26,568	29,404	29,404
Buildings .....	129,005	148,701	163,950	163,950
Machinery and equipment .....	534,089	636,336	693,089	693,089
Mining properties .....	48,167	65,296	63,114	63,114
Construction in progress .....	5,071	8,702	14,600	14,600
	738,398	885,603	964,157	964,157
Less accumulated depreciation and depletion ..	412,373	509,845	561,976	561,976
Net property and equipment .....	326,025	375,758	402,181	402,181
	\$910,096	\$ 988,545	\$1,014,250	\$1,014,250

## KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands, except per share data)

LIABILITIES AND STOCKHOLDER'S EQUITY	December 31,		June 30,	Pro Forma
	2001	2002	2003	June 30, 2003
				(Unaudited)
<b>Current liabilities:</b>				
Notes payable .....	\$ 46,201	\$ --	\$ --	\$ --
Current maturities of long-term debt .....	1,033	1,298	781	781
Accounts payable and accrued liabilities ...	152,633	148,257	129,221	129,221
Payable to affiliates .....	11,365	7,933	11,320	11,320
Income taxes .....	7,181	6,193	5,609	5,609
Deferred income taxes .....	1,530	3,219	1,711	1,711
Total current liabilities .....	219,943	166,900	148,642	148,642
<b>Noncurrent liabilities:</b>				
Long-term debt .....	1,465	324,608	360,444	360,444
Notes payable to affiliates .....	194,000	44,600	--	200,000
Deferred income taxes .....	64,538	79,234	90,032	90,032
Accrued pension cost .....	25,558	33,098	35,078	35,078
Accrued postretirement benefits cost .....	13,036	11,806	11,567	11,567
Other .....	12,733	13,742	14,573	14,573
Total noncurrent liabilities .....	311,330	507,088	511,694	711,694
Minority interest .....	284	383	465	465
<b>Stockholder's equity:</b>				
Preferred stock - \$.01 par value; 100 shares authorized; no shares issued or outstanding .....	--	--	--	--
Common stock - \$.01 par value; 60,000 shares authorized; 48,943 shares issued .....	489	489	489	489
Additional paid-in capital .....	1,060,157	1,060,157	1,060,157	1,060,157
Retained earnings (deficit) .....	180,048	(584,909)	(558,346)	(758,346)
Notes receivable from NL Industries, Inc. ..	(655,918)	--	--	--
Accumulated other comprehensive loss:				
Currency translation .....	(199,885)	(148,082)	(135,370)	(135,370)
Pension liabilities .....	(6,352)	(13,481)	(13,481)	(13,481)
Total stockholder's equity .....	378,539	314,174	353,449	153,449
	\$ 910,096	\$ 988,545	\$ 1,014,250	\$ 1,014,250

Commitments and contingencies (Notes 14 and 19)

See accompanying notes to consolidated financial statements.

## KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Years ended December 31,			Six months ended June 30,	
	2000	2001	2002	2002	2003
				(Unaudited)	
Net sales .....	\$ 922,319	\$ 835,099	\$ 875,188	\$ 429,266	\$ 519,604
Cost of sales .....	610,449	578,060	671,830	332,500	386,066
Gross margin .....	311,870	257,039	203,358	96,766	133,538
Selling, general and administrative expense .....	107,554	98,667	107,675	49,626	60,354
Other income (expense):					
Currency transaction gains (losses), net	6,510	1,188	(547)	(1,451)	(3,841)
Trade interest income .....	2,333	2,332	1,709	555	361
Disposition of property and equipment ..	(1,562)	(735)	(625)	597	(44)
Insurance recoveries, net .....	--	7,222	--	--	--
Other income .....	1,116	886	459	100	166
Other expense .....	(230)	(78)	(172)	(117)	(54)
Operating income .....	212,483	169,187	96,507	46,824	69,772
General corporate income (expense):					
Currency transaction gain .....	--	--	6,271	6,271	--
Corporate expense .....	(6,949)	(4,878)	(3,288)	(1,493)	(1,684)
Insurance recoveries, net .....	--	17,468	--	--	--
Interest expense .....	(2,005)	(4,305)	(16,837)	(1,698)	(16,350)
Interest expense to affiliates .....	(28,979)	(22,969)	(12,290)	(12,167)	(703)
Interest income .....	1,078	349	702	71	74
Interest income from affiliates .....	20,250	33,379	20,754	17,475	723
Income before income taxes and minority interest .....	195,878	188,231	91,819	55,283	51,832
Income tax expense (benefit) .....	65,625	33,759	25,500	14,945	(6,674)
Income before minority interest .....	130,253	154,472	66,319	40,338	58,506
Minority interest .....	47	16	55	27	43
Net income .....	\$ 130,206	\$ 154,456	\$ 66,264	\$ 40,311	\$ 58,463
Net income per basic and diluted share .....	\$ 2.66	\$ 3.16	\$ 1.35	\$ .82	\$ 1.19
Basic and diluted weighted average shares used in the calculation of net income per share .....	48,943	48,943	48,943	48,943	48,943

See accompanying notes to consolidated financial statements.



KRONOS WORLDWIDE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Years ended December 31,			Six months ended June 30,	
	2000	2001	2002	2002	2003
				(Unaudited)	
Net income .....	\$ 130,206	\$ 154,456	\$ 66,264	\$40,311	\$58,463
Other comprehensive income (loss), net of tax:					
Minimum pension liabilities adjustment .....	691	(6,352)	(7,129)	--	--
Currency translation adjustment .....	(30,415)	(15,974)	51,803	51,174	12,712
Total other comprehensive (loss) income .....	(29,724)	(22,326)	44,674	51,174	12,712
Comprehensive income .....	<u>\$ 100,482</u>	<u>\$ 132,130</u>	<u>\$ 110,938</u>	<u>\$91,485</u>	<u>\$71,175</u>

See accompanying notes to consolidated financial statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY  
Years ended December 31, 2000, 2001 and 2002  
Six months ended June 30, 2003 (Unaudited)  
(In thousands)

	Common stock	Additional paid-in capital	Retained earnings (deficit)	Notes receivable from affiliates	Accumulated other comprehensive Currency translation	income (loss) Pension liabilities	Total
Balance at December 31, 1999 .....	\$489	\$ 483,694	\$ (19,114)	\$ --	\$(153,496)	\$ (691)	\$ 310,882
Net income .....	--	--	130,206	--	--	--	130,206
Other comprehensive (loss) income, net of tax ..	--	--	--	--	(30,415)	691	(29,724)
Change in notes receivable from affiliates ..	--	--	--	(61,579)	--	--	(61,579)
Dividends declared .....	--	--	(55,000)	--	--	--	(55,000)
Capital contribution .....	--	291,910	--	(240,116)	--	--	51,794
Balance at December 31, 2000 .....	489	775,604	56,092	(301,695)	(183,911)	--	346,579
Net income .....	--	--	154,456	--	--	--	154,456
Other comprehensive loss, net of tax .....	--	--	--	--	(15,974)	(6,352)	(22,326)
Change in notes receivable from affiliates ..	--	--	--	(69,678)	--	--	(69,678)
Dividends declared .....	--	--	(30,500)	--	--	--	(30,500)
Capital contribution .....	--	284,553	--	(284,545)	--	--	8
Balance at December 31, 2001 .....	489	1,060,157	180,048	(655,918)	(199,885)	(6,352)	378,539
Net income .....	--	--	66,264	--	--	--	66,264
Other comprehensive income (loss), net of tax ..	--	--	--	--	51,803	(7,129)	44,674
Change in notes receivable from affiliates ..	--	--	--	(55,154)	--	--	(55,154)
Dividends declared:							
Cash .....	--	--	(120,149)	--	--	--	(120,149)
Noncash .....	--	--	(711,072)	711,072	--	--	--
Balance at December 31, 2002 .....	489	1,060,157	(584,909)	--	(148,082)	(13,481)	314,174
Net income .....	--	--	58,463	--	--	--	58,463
Other comprehensive income .....	--	--	--	--	12,712	--	12,712
Dividends declared:							
Cash .....	--	--	(7,000)	--	--	--	(7,000)
Noncash .....	--	--	(24,900)	--	--	--	(24,900)
Balance at June 30, 2003 (unaudited) .....	\$489	\$1,060,157	\$(558,346)	\$ --	\$(135,370)	\$(13,481)	\$ 353,449

See accompanying notes to consolidated financial statements.

## KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years ended December 31,			Six months ended June 30,	
	2000	2001	2002	2002	2003
				(Unaudited)	
Cash flows from operating activities:					
Net income .....	\$ 130,206	\$ 154,456	\$ 66,264	\$ 40,311	\$ 58,463
Depreciation and amortization .....	28,989	28,907	32,152	15,287	19,287
Noncash interest income from affiliates ..	(21,579)	(22,201)	(20,629)	(14,552)	--
Noncash interest expense .....	--	--	932	--	1,102
Deferred income taxes .....	11,901	(4,242)	10,755	7,393	5,852
Minority interest .....	47	16	55	27	43
Net loss (gain) from disposition of property and equipment .....	1,562	735	625	(597)	44
Pension cost, net .....	(3,710)	(2,332)	(1,866)	(1,931)	(1,410)
Other postretirement benefits, net .....	(1,056)	(1,236)	(1,250)	(634)	(555)
Distributions from TiO2 manufacturing joint venture, net .....	7,550	11,313	7,950	2,250	800
Insurance recoveries, net .....	--	(17,468)	--	--	--
Other, net .....	--	261	--	--	--
Change in assets and liabilities:					
Accounts and other receivables .....	1,541	2,507	5,547	(18,710)	(36,570)
Inventories .....	(23,395)	(32,698)	42,249	68,227	25,301
Prepaid expenses .....	(124)	(322)	(344)	(968)	2,901
Accounts payable and accrued liabilities .	16,973	26,274	(25,049)	(52,413)	(27,168)
Income taxes .....	11,705	(4,211)	(2,239)	(3,003)	(24,131)
Accounts with affiliates .....	(3,114)	(652)	(4,440)	(3,028)	5,244
Other noncurrent assets .....	(458)	(1,314)	74	3,211	337
Other noncurrent liabilities .....	(2,309)	(2,111)	(866)	(749)	(209)
Net cash provided by operating activities	154,729	135,682	109,920	40,121	29,331

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

	Years ended December 31,			Six months ended June 30,	
	2000	2001	2002	2002	2003
				(Unaudited)	
<b>Cash flows from investing activities:</b>					
Capital expenditures .....	\$ (31,066)	\$(53,656)	\$ (32,571)	\$ (12,073)	\$(13,766)
Property damaged by fire:					
Insurance proceeds .....	--	23,361	--	--	--
Other, net .....	--	(3,205)	--	--	--
Change in restricted cash and restricted marketable debt securities, net .....	--	(577)	(1,665)	--	(1,005)
Proceeds from disposition of property and equipment .....	110	399	864	832	47
Other, net .....	(33)	--	--	--	--
Net cash used by investing activities ..	(30,989)	(33,678)	(33,372)	(11,241)	(14,724)
<b>Cash flows from financing activities:</b>					
Indebtedness:					
Borrowings .....	44,923	1,437	335,768	319,275	16,106
Principal payments .....	(29,162)	(22,428)	(84,814)	(53,688)	(11,615)
Deferred financing fees .....	--	--	(10,706)	(9,342)	--
Dividends paid .....	(55,000)	(30,500)	(111,000)	--	(7,000)
Loans from affiliates:					
Loans .....	--	--	44,600	--	8,000
Repayments .....	(93,000)	--	(194,000)	(194,000)	(52,600)
Other capital transactions with affiliates, net .....	(40,000)	(47,477)	(73,749)	(29,149)	19,700
Other, net .....	(6)	3	(11)	(11)	--
Net cash (used) provided by financing activities .....	(172,245)	(98,965)	(93,912)	33,085	(27,409)
Net change during the period from .....					
operating, investing and financing activities .....	\$ (48,505)	\$ 3,039	\$ (17,364)	\$ 61,965	\$(12,802)

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In thousands)

	Years ended December 31,			Six months ended June 30,	
	2000	2001	2002	2002	2003
	-----			-----	
				(Unaudited)	
Cash and cash equivalents:					
Net change during the period from:					
Operating, investing and financing					
activities .....	\$ (48,505)	\$ 3,039	\$(17,364)	\$ 61,965	\$(12,802)
Currency translation .....	(1,635)	(1,301)	3,332	3,050	1,682
	-----	-----	-----	-----	-----
	(50,140)	1,738	(14,032)	65,015	(11,120)
Balance at beginning of period ..	103,119	52,979	54,717	54,717	40,685
Balance at end of period .....	\$ 52,979	\$ 54,717	\$ 40,685	\$ 119,732	\$ 29,565
	=====	=====	=====	=====	=====
Supplemental disclosures - cash paid for:					
Interest .....	\$ 32,304	\$ 27,239	\$ 33,169	\$ 18,747	\$ 17,048
Income taxes .....	45,157	43,422	17,369	9,468	7,534

See accompanying notes to consolidated financial statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and basis of presentation:

Kronos Worldwide, Inc. ("Kronos"), formerly known as Kronos, Inc., is a wholly owned subsidiary of NL Industries, Inc. ("NL"). NL conducts its titanium dioxide pigments ("TiO2") operations through Kronos. At June 30, 2003, Valhi, Inc. ("Valhi") and Tremont LLC ("Tremont"), a wholly owned subsidiary of Valhi, held an aggregate of approximately 85% of NL's outstanding common stock, and Contran Corporation ("Contran") and its subsidiaries held approximately 90% of Valhi's outstanding common stock. At December 31, 2002, (i) Contran and its subsidiaries held approximately 93% of Valhi's outstanding common stock, (ii) Tremont Group, Inc. ("Tremont Group"), which was 80% owned by Valhi and 20% owned by NL, held approximately 80% of the outstanding shares of Tremont Corporation ("Tremont Corp.") common stock and (iii) Valhi and Tremont Corp. held 63% and 21%, respectively, of the outstanding common stock of NL. 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. Mr. Simmons, the Chairman of the Board and Chief Executive Officer of Kronos and NL as well as the Chairman of the Board of each of Contran, Valhi and Tremont, may be deemed to control each of such companies and Kronos.

In January 2002, the Company acquired all of the stock and limited liability company units of EWI RE, Inc. and EWI RE, Ltd. (collectively "EWI"), respectively, for an aggregate of \$9.2 million in cash, including acquisition costs of \$.2 million. An entity controlled by one of Harold C. Simmons' daughters owned a majority of EWI, and a wholly owned subsidiary of Contran owned the remainder of EWI. EWI provides reinsurance brokerage services for insurance policies of the Company, its joint venture and other affiliates of Contran as well as external third-party customers. The purchase was approved by a special committee of NL's Board of Directors consisting of two of its directors unrelated to Contran and the Company's Board of Directors, and the purchase price was negotiated by the special committee based upon its consideration of relevant factors, including not limited to due diligence performed by independent consultants and an appraisal of EWI conducted by an independent third party selected by the special committee. In June 2003 the Company distributed its investment in the common stock and limited liability company units in EWI to NL in the form of a noncash dividend. The Company has accounted for the distribution of EWI 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 acquisition. The effect of the change in accounting entity on the Company's consolidated net income was immaterial for 2002 and 2003, and the effect of the change in accounting entity on the Company's previously reported stockholder's equity was a reduction of approximately \$10 million. The \$9.2 million purchase price for EWI is reflected as part of "other capital transactions with affiliates, net" in the accompanying consolidated statements of cash flows.

Information included in the consolidated financial statements and related notes to the consolidated financial statements as of June 30, 2003 and for the six months ended June 30, 2002 and 2003, is unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the information for the interim periods have been made. The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") have been condensed or omitted for the interim periods.

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 presented. Earnings per share data for all periods presented 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.

In August 2003 NL announced a distribution of approximately 48.9% of the outstanding shares of Kronos' common stock to NL shareholders in the form of a pro-rata dividend. In September 2003, NL determined to reduce the percentage of Kronos' common stock to be distributed to 48.7%. Upon completion of such distribution, Valhi, Tremont and NL will own an aggregate of approximately 92.5% of Kronos' common stock, and other NL shareholders would own the remaining 7.5%. Immediately prior to such distribution, Kronos intends to pay a \$200 million dividend to NL in the form of a long-term note payable. The \$200 million long-term note payable to NL will be unsecured, bears interest at 9% per annum, with interest payable quarterly and all principal due in 2010.

The accompanying unaudited pro forma balance sheet as of June 30, 2003 assumed Kronos had distributed the \$200 million long-term note payable to NL as if the transaction had occurred on June 30, 2003. The unaudited pro forma balance sheet does not purport to project what Kronos' financial position will be in the future when Kronos actually completes these transactions.

#### Note 2 - Summary of significant accounting policies:

##### Principles of consolidation and management's estimates

The accompanying consolidated financial statements include the accounts of Kronos and its majority-owned subsidiaries (collectively, the "Company"). All material intercompany accounts and balances have been eliminated. The preparation of financial statements in conformity with 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 from previously estimated amounts under different assumptions or conditions. The Company currently believes that it has no involvement with any variable interest entity covered by the scope of FASB Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities."

##### 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 weighted average exchange rates prevailing during the year. Resulting translation adjustments are included in other comprehensive income (loss), net of related income taxes. Currency transaction gains and losses are recognized in income currently, and in 2002 included a \$6.3 million gain related to the extinguishment of certain intercompany indebtedness.

##### Cash equivalents

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

##### Restricted marketable debt securities

Restricted marketable debt securities are primarily invested in corporate debt securities. Restricted marketable debt securities of approximately \$.6 million and approximately \$2.5 million, as of December 31, 2001 and 2002, respectively, were used to support certain capital requirements regarding the Company's Norwegian operating subsidiaries' defined benefit pension plans in accordance with applicable Norwegian law. Restricted marketable debt securities are generally classified as either current or noncurrent assets depending upon the maturity date of each marketable debt security and are carried at market which approximates cost. See Note 6.

##### Inventories and cost of goods sold

Inventories are stated at the lower of cost (principally average cost) or market. Amounts are removed from inventories at average cost. Cost of goods sold includes costs for materials, packing and finishing, utilities, salary and benefits, maintenance and depreciation.

#### Investment in TiO2 manufacturing joint venture

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

#### Property, equipment, depreciation and depletion

Property and equipment are stated at cost. Interest costs related to major, long-term capital projects are capitalized as a component of construction costs. Expenditures for maintenance, repairs and minor renewals are expensed; expenditures for major improvements are capitalized.

The Company has a governmental concession with an unlimited term to operate an ilmenite mine in Norway. Mining properties consists of buildings and equipment used in the Company's Norwegian ilmenite mining operations. The Company does not own the ilmenite reserves associated with the mine.

Depreciation of property and equipment (including mining properties) is computed principally by the straight-line method over the estimated useful lives of ten to forty years for buildings and three to twenty years for machinery and equipment. 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. Effective January 1, 2002, the Company commenced accounting for impairment of other long-lived assets (such as property and equipment and mining properties) in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144 as discussed under "Accounting principles adopted in 2002."

#### Long-term debt and interest expense

Amortization of deferred financing costs, 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 and postretirement benefits other than pensions ("OPEB") are described in Note 12.

The Company has not issued any stock options to purchase Kronos' common stock. 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 by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," and to account for its stock-based employee compensation related to these NL 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. During the fourth quarter of 2002, and following NL's cash settlement of options to purchase NL common stock held by certain individuals, NL, including 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). See Notes 13 and 17. 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 \$2.1 million in 2000, nil in 2001 and \$2.3 million in 2002, and nil in both the six months ended June 30, 2002 and 2003.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	Years ended December 31,			Six months ended June 30,	
	2000	2001	2002	2002	2003
	(Unaudited)				
	(In thousands, except per share amounts)				
Net income - as reported .....	\$ 130,206	\$ 154,456	\$ 66,264	\$ 40,311	\$ 58,463
Add back: Stock-based compensation cost, net of tax, included in reported net income .....	1,349	--	1,549	--	--
Deduct: Stock-based compensation cost, net of tax, determined under fair value based method for all awards .....	(1,077)	(1,112)	(740)	(370)	(165)
Net income - pro forma .....	\$ 130,478	\$ 153,344	\$ 67,073	\$ 39,941	\$ 58,298
Net income per basic and diluted common share:					
As reported .....	\$ 2.66	\$ 3.16	\$ 1.35	\$ .82	\$ 1.19
Pro forma .....	\$ 2.67	\$ 3.13	\$ 1.37	\$ .82	\$ 1.19

#### Environmental remediation costs

Environmental remediation costs are accrued when estimated future expenditures are probable and reasonably estimable. The estimated future expenditures are generally not discounted to present value. Recoveries of remediation costs from other parties, if any, are reported as receivables when their receipt is deemed probable. At December 31, 2001 and 2002, no receivables for recoveries have been recognized.

#### Net sales

The Company adopted the SEC's Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," as amended, in 2000. Revenue generally is realized or realizable and earned when all of the requirements of SAB No. 101 are met, including when title and the risks and rewards of ownership passes to the customer (generally at the time the product is shipped to the customer). The impact of adopting SAB No. 101 was not material. 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.

#### Repair and maintenance costs

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 goods sold. Accrued repair and maintenance costs, included in other current liabilities (see Note 8), was \$3.4 million and \$4.0 million at December 31, 2001 and 2002, respectively.

#### Shipping and handling costs

Shipping and handling costs are included in selling, general and administrative expense and were \$50 million in 2000, \$49 million in 2001 and \$51 million in 2002.

#### Income taxes

Kronos and its qualifying subsidiaries are members of NL's consolidated U.S. federal income tax group (the "NL Tax Group"). As a member of the NL Tax Group, the Company is a party to a tax sharing agreement (the "NL Tax

Agreement"). Effective January 1, 2001, the NL Tax Group, including Kronos, was included in the consolidated U.S. federal tax return of Contran (the "Contran Tax Group"). As a member of the Contran Tax Group, NL is 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 its provision for U.S. income taxes on a separate-company basis using the tax elections made by Contran. Pursuant to the NL Tax Sharing agreement and using the tax elections made by Contran, Kronos makes payments to or receives 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 tax sharing agreement.

Following completion of NL's distribution of 48.7% of the outstanding shares of Kronos common stock to NL shareholders, Kronos and its qualifying subsidiaries are no longer members of the NL Tax Group, but Kronos and its qualifying subsidiaries remain as members of the Contran Tax Group. Kronos will enter into a new tax sharing agreement with Valhi and Contran (the "Kronos/Contran/Valhi Tax Agreement"). The Kronos/Contran/Valhi Tax Agreement is expected to contain similar terms to the NL Tax Agreement.

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 subsidiaries and unconsolidated affiliates not included in the NL Tax Group. The Company periodically evaluates its deferred tax assets in the various taxing jurisdictions in which it operates and adjusts any related valuation allowance. The Company's valuation allowance is equal to the amount of deferred tax assets which the Company believes do not meet the "more-likely-than-not" recognition criteria.

#### Derivatives and hedging activities

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, effective January 1, 2001. SFAS No. 133 establishes accounting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS No. 133, all derivatives are recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value of derivatives is dependent upon the intended use of the derivative. As permitted by the transition requirements of SFAS No. 133, as amended, the Company exempted from the scope of SFAS No. 133 all host contracts containing embedded derivatives which were issued or acquired prior to January 1, 1999. At December 31, 2001 and 2002, the Company was not a party to any significant derivative or hedging instrument covered by SFAS No. 133. There was no impact on the Company's financial statements from adopting SFAS No. 133.

The Company periodically uses interest rate swaps, currency swaps and other types of contracts to manage interest rate and foreign exchange risk with respect to financial assets or liabilities. The Company has not entered into these contracts for trading or speculative purposes in the past, nor does it currently anticipate doing so in the future. The Company was not a party to any such contracts during 2000, 2001 and 2002.

#### Accounting principles adopted in 2002

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective January 1, 2002. SFAS No. 144 retains the fundamental provisions of existing GAAP with respect to the recognition and measurement of long-lived asset impairment contained in SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." However, SFAS No. 144 provides new guidance intended to address certain significant implementation issues associated with SFAS No. 121, including expanded guidance with respect to appropriate cash flows to be used to determine whether recognition of any long-lived asset impairment is required, and if required how to measure the amount of the impairment. SFAS No. 144 also requires that any net assets to be disposed of by sale to be reported at the lower of carrying value or fair value less cost to sell, and expands the reporting of discontinued operations to include any component of an entity with operations and cash flows that can be clearly distinguished from the rest of the entity. The adoption of SFAS No. 144 effective January 1, 2002 did not have a material effect on the Company's consolidated financial position, results of operations or liquidity.

The Company adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" effective April 1, 2002. SFAS No. 145, among other things, eliminated the prior requirement that all gains and losses from the early extinguishment of debt were to be classified as an extraordinary item. Upon adoption of SFAS No. 145, gains and losses from the early extinguishment of debt are now classified as an extraordinary item only if they meet the "unusual and infrequent" criteria contained in APBO No. 30. In addition, upon adoption of SFAS No. 145, all gains and losses from the early extinguishment of debt that had previously been classified as an extraordinary item are to be reassessed to determine if they would have met the "unusual and infrequent" criteria of APBO No. 30; any such gain or loss that would not have met the APBO No. 30 criteria are retroactively reclassified and reported as a component of income before extraordinary item. The adoption of SFAS No. 145 effective January 1, 2002 did not have a material effect on the Company's consolidated financial positions, results of operation or liquidity.

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires a guarantor to recognize a liability at the inception of a guarantee covered by the scope of FIN No. 45, equal to the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also expands the disclosures requirements with respect to certain guarantees. The initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis for any guarantees issued or modified after December 31, 2002, while the disclosure requirements were effective upon issuance. The Company is not a party to any guarantees covered by the scope of FIN No. 45 as of December 31, 2002.

#### Accounting principles adopted in 2003

The Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," effective 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 is 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 will either settle the obligation for its recorded amount or incur 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 were measured using information, assumptions and interest rates all as of January 1, 2003. The amount recognized as the asset retirement cost was 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, were 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 between the amounts recognized as described above and the associated amounts recognized in the Company's balance sheet as of December 31, 2002 was recognized as a cumulative effect of a change in accounting principles as of January 1, 2003. The effect of adopting SFAS No. 143 as of January 1, 2003 as summarized in the table below did not have a material effect on the Company's consolidated financial position, results of operations or liquidity 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 liabilities previously accrued for closure and post closure activities	.3
Asset retirement obligation recognized	(.6)
	-----
Net impact	\$ -
	=====

The Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," effective January 1, 2003 for exit or disposal activities initiated on or after the date of adoption. Under SFAS No. 146, costs associated with exit activities, as defined, that are covered by the scope of SFAS No. 146 are 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). The adoption of SFAS No. 146 effective January 1, 2003 did not have a material effect on the Company's consolidated financial position, results of operations or liquidity.

Note 3 - Business and geographic segments:

The Company's operations are conducted in one operating business segment - activities associated with the production and sale of TiO<sub>2</sub>. 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, 2001 and 2002, the net assets of non-U.S. subsidiaries included in consolidated net assets approximated \$394 million and \$159 million, respectively.

The Company's chief operating decision maker is Mr. Harold C. Simmons. The Company evaluates its TiO<sub>2</sub> segment performance based on operating income. The Company defines operating income as income before income taxes, minority interest, extraordinary items, interest expense, interest expense to affiliates, certain nonrecurring items and certain general corporate items. Corporate items excluded from operating income include foreign currency transaction gains and losses related to the extinguishment of intercompany indebtedness, corporate expense, interest income from affiliates, interest and dividend income not attributable to TiO<sub>2</sub> operations, and gains and losses from the disposal of long-lived assets outside the ordinary course of business. The accounting policies of the TiO<sub>2</sub> segment are the same as those described in Note 2. Interest income included in the calculation of TiO<sub>2</sub> operating income is disclosed as "Trade interest income."

Segment assets are comprised of all assets attributable to the reportable operating segment. The Company's investment in the TiO<sub>2</sub> manufacturing joint venture (see Note 7) is included in TiO<sub>2</sub> business segment assets. Corporate assets are not attributable to the TiO<sub>2</sub> operating segment and consist principally of cash, cash equivalents, restricted cash equivalents, restricted marketable debt securities, and notes receivable from affiliates. 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,

-----  
 2000                      2001                      2002  
 -----

(In thousands)

Geographic areas

Net sales - point of origin:

Germany .....	\$ 444,050	\$ 398,470	\$ 404,299
United States .....	313,426	278,624	291,823
Canada .....	154,579	149,412	157,773
Belgium .....	137,829	126,782	123,760
Norway .....	98,300	102,843	111,811
Other .....	92,691	82,320	89,560
Eliminations .....	(318,556)	(303,352)	(303,838)
	-----	-----	-----
	\$ 922,319	\$ 835,099	\$ 875,188
	=====	=====	=====

Net sales - point of destination:

Europe .....	\$ 480,388	\$ 425,338	\$ 456,834
United States .....	283,327	258,347	271,865
Canada .....	53,060	47,061	53,371
Latin America .....	27,104	25,514	19,970
Asia .....	45,922	46,169	47,549
Other .....	32,518	32,670	25,599
	-----	-----	-----
	\$ 922,319	\$ 835,099	\$ 875,188
	=====	=====	=====

December 31,

-----  
 2001                      2002  
 -----

(In thousands)

Identifiable assets

Net property and equipment:

Germany .....	\$182,387	\$213,170
Canada .....	54,676	54,719
Belgium .....	46,841	54,625
Norway .....	38,549	49,737
Other .....	3,572	3,507
	-----	-----
	\$326,025	\$375,758
	=====	=====

Total assets:

Operating .....	\$900,401	\$939,349
General corporate .....	9,695	49,196
	-----	-----
	\$910,096	\$988,545
	=====	=====

Note 4 - Accounts and other receivables:

	December 31,		June 30,
	2001	2002	2003
			(Unaudited)
	(In thousands)		
Trade receivables .....	\$ 99,989	\$ 124,044	\$ 174,914
Insurance claims receivable .....	11,505	312	436
Recoverable VAT and other receivables ...	14,615	12,492	8,103
Allowance for doubtful accounts .....	(2,239)	(2,605)	(2,591)
	<u>\$ 123,870</u>	<u>\$ 134,243</u>	<u>\$ 180,862</u>
	=====	=====	=====

Note 5 - Inventories:

	December 31,		June 30,
	2001	2002	2003
			(Unaudited)
	(In thousands)		
Raw materials .....	\$ 79,162	\$ 54,077	\$ 34,641
Work in process .....	9,675	15,936	16,980
Finished products .....	117,201	109,203	114,731
Supplies .....	25,018	30,666	33,408
	<u>\$231,056</u>	<u>\$209,882</u>	<u>\$199,760</u>
	=====	=====	=====

Note 6 - Other noncurrent assets:

	December 31,		June 30,
	2001	2002	2003
			(Unaudited)
	(In thousands)		
Deferred financing costs, net (see Note 10) .....	\$ 12	\$10,550	\$10,446
Unrecognized net pension obligations (see Note 12) .....	5,901	5,561	6,439
Restricted marketable debt securities .....	577	2,492	1,968
Other .....	4,610	3,590	1,565
	<u>\$11,100</u>	<u>\$22,193</u>	<u>\$20,418</u>
	=====	=====	=====

Note 7 - 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"), a wholly owned subsidiary of Huntsman International Holdings LLC, a 60%-owned subsidiary of Huntsman Corporation. LPC owns and operates a chloride-process TiO2 plant in Lake Charles, Louisiana.

KLA is 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. Kronos' cost for its share of the TiO2 produced is equal to its share of LPC's costs. Kronos' share of net costs is reported as cost of sales as the related TiO2 acquired from LPC is sold to third parties.

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.

LPC made cash distributions of \$15.1 million in 2000, \$22.6 million in 2001 and \$15.9 million in 2002, equally split between the partners.

Summary balance sheets of LPC are shown below.

	December 31,	
	2001	2002
	-----	
	(In thousands)	
<b>ASSETS</b>		
Current assets .....	\$ 45,872	\$ 56,745
Property and equipment, net .....	250,501	235,739
	-----	-----
	\$296,373	\$292,484
	=====	=====
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
Other liabilities, primarily current .....	\$ 16,767	\$ 29,716
Partners' equity .....	279,606	262,768
	-----	-----
	\$296,373	\$292,484
	=====	=====

Summary income statements of LPC are shown below.

	Years ended December 31,		
	2000	2001	2002
	-----		
	(In thousands)		
<b>Revenues and other income:</b>			
Kronos .....	\$ 92,530	\$ 93,393	\$ 92,428
Tioxide .....	93,366	94,009	93,833
Interest .....	578	303	53
	-----	-----	-----
	186,474	187,705	186,314
	-----	-----	-----
<b>Cost and expenses:</b>			
Cost of sales .....	186,045	187,295	185,946
General and administrative .....	429	410	368
	-----	-----	-----
	186,474	187,705	186,314
	-----	-----	-----
Net income .....	\$ --	\$ --	\$ --
	=====	=====	=====





Note 8 - Accounts payable and accrued liabilities:

	December 31,	
	2001	2002
	(In thousands)	
Accounts payable .....	\$ 95,837	\$ 89,602
Accrued liabilities:		
Employee benefits .....	22,488	27,042
Other .....	34,308	31,613
	56,796	58,655
	\$152,633	\$148,257
	=====	=====

Note 9 - Other noncurrent liabilities:

	December 31,	
	2001	2002
	(In thousands)	
Insurance claims expense .....	\$ 1,465	\$ 1,480
Employee benefits .....	3,476	4,025
Environmental costs .....	5,662	5,921
Other .....	2,130	2,316
	\$12,733	\$13,742
	=====	=====

Note 10 - Notes payable and long-term debt:

	December 31,	
	2001	2002
	(In thousands)	
Notes payable - Kronos International, Inc. and subsidiaries .....	\$ 46,201	\$ --
Long-term debt:		
Kronos International, Inc. and subsidiaries:		
8.875% Senior Secured Notes .....	\$ --	\$296,942
Revolving credit facility .....	--	27,077
Other .....	2,498	1,887
	2,498	325,906
Less current maturities .....	1,033	1,298
	\$ 1,465	\$324,608
	=====	=====

Notes payable at December 31, 2001, consisted of (euro)27 million (\$24.0 million) and NOK 200 million (\$22.2 million). Notes payable totaling \$53.2 million were repaid on June 28, 2002 with proceeds from the new European Credit Facility discussed below and available cash, and the agreements were terminated.

In June 2002 Kronos International, Inc. ("KII"), a wholly owned subsidiary of Kronos, issued (euro)285 million (\$280 million when issued and \$297 million at December 31, 2002) principal amount of 8.875% Senior Secured Notes (the "Notes") due 2009. The Notes are collateralized by first priority liens on 65%

of the common stock or other equity interests of certain of KII's first-tier subsidiaries. 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. In addition, the indenture contains customary cross-default provisions with respect to other debt and obligations of KII or its subsidiaries. The Notes are redeemable, at KII's option, on or after December 30, 2005 at redemption prices ranging from 104.437% of the principal amount, declining to 100% on or after December 30, 2008. In addition, on or before June 30, 2005, KII may redeem up to 35% of its Notes with the net proceeds of a qualified public equity offering at 108.875% of the principal amount. 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, 2002 and June 30, 2003, KII was in compliance with all the covenants, and the quoted market price of the Notes at December 31, 2002 was (euro)1,010 per (euro)1,000 principal amount. The Notes require cash interest payments on June 30 and December 30, commencing on December 30, 2002. KII completed an exchange offer on November 18, 2002 to exchange the Notes for registered publicly traded notes that have substantially identical terms as the Notes.

In June 2002 KII's operating subsidiaries in Germany, Belgium and Norway (the "European Borrowers"), entered into a three-year (euro)80 million secured revolving credit facility ("European Credit Facility"). The European Credit Facility is available in multiple currencies, including U.S. dollars, euros and Norwegian kroner. In addition, the European Credit Facility has a (euro)5.0 million sub limit available for issuance of letters of credit. As of December 31, 2002, (euro)15 million (\$15.6 million) and NOK 80 million (\$11.5 million) were outstanding under the European Credit Facility and (euro)1.8 million (\$1.8 million) of letters of credit was also outstanding under the European Credit Facility. At December 31, 2002, approximately (euro)52 million (approximately \$54 million) was available for additional borrowings. Borrowings bear interest at the applicable interbank market rate plus 1.75%. As of December 31, 2002, the interest rate was 4.80% and 8.86% on the euro and Norwegian kroner borrowings, respectively, and the weighted average interest rate was 6.51%.

In March 2003 the Company borrowed (euro)15 million (\$16.1 million when borrowed) under the European Credit Facility. In April 2003 the Company repaid NOK 80 million (approximately \$11 million when repaid) under the European Credit Facility.

The European Credit Facility is collateralized by accounts receivable and inventory of the European Borrowers, plus a limited pledge of certain other assets of the Belgian borrower. The European Credit Facility contains, among others, various restrictive covenants, including restrictions on incurring liens, asset sales, additional financial indebtedness, mergers, investments and acquisitions, transactions with affiliates and dividends. In addition, the European Credit Facility contains customary cross-default provisions with respect to other debt and obligations of the European Borrowers, KII and its other subsidiaries. The European Borrowers were in compliance with all the covenants as of December 31, 2002 and June 30, 2003.

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 European 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). In the event the cross-default provisions of either the Notes or the European Credit Facility become applicable, and such indebtedness is accelerated, the Company would be required to repay such indebtedness prior to their stated maturity.

In September 2002 the Company's U.S. operating subsidiaries (the "U.S. Borrowers") entered into a three-year \$50 million asset-based revolving credit facility ("U.S. Credit Facility"). Under the terms of the U.S. Credit Facility, the amount available for borrowing is based on a formula-derived borrowing base

using eligible accounts receivable and eligible inventory and is subject to maintaining \$5 million of minimum excess availability ("Borrowing Availability"). The maximum amount available under the U.S. Credit Facility is \$45 million. Borrowings bear interest at either prime rate or eurodollar rates plus a margin spread based on average excess availability under the U.S. Credit Facility or certain levels of EBITDA (as defined) of the U.S. Borrowers. Margin spreads range from 0.25% to 1.00% for prime rate borrowings and 2.00% to 2.75% for eurodollar rate borrowings. The U.S. Credit Facility is available for future working capital requirements and general corporate purposes of the U.S. Borrowers, including dividend distributions. The U.S. Credit Facility is collateralized by accounts receivable, inventory and certain fixed assets of the U.S. Borrowers. The U.S. Credit Facility contains, among other things, various restrictive and financial covenants including restrictions on incurring liens, asset sales, mergers, and minimum EBITDA (as defined) of the U.S. Borrowers and Kronos. The U.S. Borrowers were in compliance with all the covenants as of December 31, 2002 and June 30, 2003. As of December 31, 2002 and June 30, 2003, no borrowings were outstanding under the U.S. Credit Facility and Borrowing Availability was approximately \$45 million and approximately \$45 million, respectively.

Deferred financing costs of \$10.7 million for the Notes, the European Credit Facility and the U.S. Credit Facility are being amortized over the life of the respective agreements and are included in other noncurrent assets as of December 31, 2002.

Unused lines of credit available for borrowing under the Company's non-U.S. credit facilities approximated \$57 million at December 31, 2002 (including approximately \$54 million under the European Credit Facility of which approximately \$3.2 million is available for letters of credit).

The aggregate maturities of long-term debt at December 31, 2002 are shown in the table below.

Years ending December 31, -----	Amount ----- (In thousands)
2003	\$ 1,298
2004	279
2005	27,224
2006	145
2007	18
2008 and thereafter	296,942
	-----
	\$ 325,906
	=====

Note 11 - Notes receivable from and payable to affiliates:

	December 31, -----	
	2001	2002
	----- (In thousands)	
Notes receivable from affiliates:		
Variable rate - NL .....	\$ --	\$44,600
	=====	=====
Notes payable to affiliates:		
11.75% First-Tier Senior Mirror Note .....	\$194,000	\$ --
Revolving credit facility .....	--	44,600
	-----	-----
	\$194,000	\$44,600
	=====	=====

Notes receivable from affiliates

At December 31, 2002, the Company had \$44.6 million of loans outstanding to NL under the terms of a \$55 million revolving credit facility entered into with NL during 2002. The loan bore interest at U.S. LIBOR plus 1.75% (3.1% at December 31, 2002), with interest payable quarterly, and all principal was due

on December 31, 2005. This note receivable from NL is included in noncurrent assets at December 31, 2002, as settlement of the note was currently contemplated within the foreseeable future. During the first six months of 2003, NL repaid a net \$19.7 million to the Company. In June 2003 the Company distributed the remaining \$24.9 million of notes receivable from affiliate to NL in the form of a noncash dividend. The revolving credit agreement with NL was terminated on June 30, 2003.

#### Notes payable to affiliates

NL had \$194 million of 11.75% Senior Secured Notes due 2003 (the "NL Notes") at December 31, 2001. The Company had a First-Tier Senior Mirror Note (the "Mirror Note") payable to NL. The terms of the Mirror Note were identical to the terms of the NL Notes with respect to the maturity dates and interest rates with interest paid semi-annually. The Mirror Note was collateralized by a first priority lien on the common stock of KII and another subsidiary of the Company, as well as the Company's Second-Tier Senior Mirror Note ("Second-Tier Mirror Note") receivable from KII, the terms of which were identical to the terms of the Mirror Note. The Second-Tier Mirror Note was eliminated in the Company's consolidated financial statements. The NL Notes were collateralized by a first priority lien on the common stock of Kronos, the Mirror Note and other collateral pledged by NL.

On March 22, 2002, NL redeemed \$25 million principal amount of the NL Notes at the current call price of 100%, and Kronos concurrently repaid \$25 million principal amount of the Mirror Notes. In addition, immediately following the closing of the Notes offering (see Note 10), the Company effectively loaned to NL sufficient funds for NL to redeem in full the remaining \$169 million principal amount of the NL Notes. In accordance with the terms of the indenture governing the NL Notes, on June 28, 2002, NL irrevocably placed on deposit with the trustee funds in an amount sufficient to pay in full the redemption price plus all accrued and unpaid interest due on the July 28, 2002 redemption date. Immediately thereafter, NL was released from its obligations under such indenture, the indenture was discharged and all collateral was released to NL. Because NL had been released as being the primary obligor under the indenture as of June 30, 2002, the NL Notes were derecognized as of that date along with the funds placed on deposit with the trustee to effect the July 28, 2002 redemption. The Company recognized a loss on the early extinguishment of debt of approximately \$1.5 million in the second quarter of 2002, consisting primarily of the interest on the Mirror Note for the period from July 1 to July 28, 2002. Such loss was recognized as a component of interest expense. The Mirror Note was deemed repaid in accordance with the terms and conditions of such agreement, and the agreement was canceled.

At December 31, 2002, the Company had \$44.6 million outstanding of loans from NL Environmental Management Services, Inc. ("EMS"), a majority-owned subsidiary of NL, under the terms of a \$55 million revolving credit facility entered into with EMS in 2002. The loan bore interest at U.S. LIBOR plus 1.75% (3.1% at December 31, 2002), with interest payable quarterly, and all principal was due on December 31, 2005. During the first six months of 2003, the Company repaid this outstanding balance in full, and the revolving credit agreement with EMS was terminated on June 30, 2003.

#### Note 12 - Employee benefit plans:

##### Company-sponsored pension plans

The Company maintains various defined benefit and defined contribution pension plans covering substantially all employees as well as certain former employees and retirees of certain business units formerly operated by the Company. 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. The Company amended its defined benefit pension plans in Belgium and Norway in 2002 to exclude the admission of new employees to the plans. New employees of these particular locations are eligible to participate in Company-sponsored defined contribution plans.

The Company contributes to eligible U.S. employees' accounts an amount equal to approximately 4% (in each of 2000, 2001 and 2002) of the employee's annual eligible earnings and partially matches employee contributions to the U.S. contributory savings plan. The Company also has a nonqualified defined contribution plan covering certain U.S. executives, and participants receive benefits based on a formula involving eligible earnings. The Company's expense related to the U.S. plans was \$.3 million in 2000, \$.4 million in 2001 and \$.2 million in 2002.

Certain actuarial assumptions used in measuring the defined benefit pension assets, liabilities and expenses are presented below.

	December 31,		
	2000	2001	2002
	(Percentages)		
Discount rate	6.0 to 7.8	5.8 to 7.3	5.5 to 7.0
Rate of increase in future compensation levels	3.0 to 4.5	2.8 to 4.5	2.5 to 4.5
Long-term rate of return on plan assets	7.0 to 9.0	6.8 to 8.5	6.8 to 8.5

Plan assets are comprised primarily of investments in U.S. and non-U.S. corporate equity and debt securities, short-term investments, mutual funds and group annuity contracts.

SFAS No. 87, "Employers' Accounting for Pension Costs" requires that an additional pension liability be recognized when the unfunded accumulated pension benefit obligation exceeds the unfunded accrued pension liability. Variances from actuarially assumed rates will change the actuarial valuation of accrued pension liabilities, pension expense and funding requirements in future periods.

The components of the net periodic defined benefit pension cost are set forth below.

	Years ended December 31,		
	2000	2001	2002
	(In thousands)		
Net periodic pension cost:			
Service cost benefits	\$ 3,836	\$ 3,743	\$ 4,278
Interest cost on projected benefit obligation ("PBO")	12,196	12,751	13,641
Expected return on plan assets	(12,553)	(12,635)	(12,778)
Amortization of prior service cost	238	201	307
Amortization of net transition obligation	586	563	570
Recognized actuarial losses	196	399	1,126
	<u>\$ 4,499</u>	<u>\$ 5,022</u>	<u>\$ 7,144</u>

The funded status of the Company's defined benefit pension plans is set forth below.

	December 31,	
	2001	2002
	(In thousands)	
Change in PBO:		
Beginning of year	\$ 207,609	\$ 218,162
Service cost	3,743	4,278
Interest	12,751	13,641
Participant contributions	1,005	1,056
Amendments	1,819	--
Actuarial loss (gain)	7,340	(5,178)
Benefits paid	(12,972)	(13,936)
Change in currency exchange rates	(3,133)	36,436
End of year	<u>218,162</u>	<u>254,459</u>

	December 31,	
	----- 2001	2002 -----
	(In thousands)	
Change in fair value of plan assets:		
Beginning of year	175,773	168,155
Actual return on plan assets	2,984	(2,054)
Employer contributions	7,354	9,010
Participant contributions	1,005	1,056
Benefits paid	(12,972)	(13,936)
Change in currency exchange rates	(5,989)	27,705
	-----	-----
End of year	168,155	189,936
	-----	-----
Funded status at year end:		
Plan assets less than PBO	\$ (50,007)	\$ (64,523)
Unrecognized actuarial loss	40,316	55,807
Unrecognized prior service cost	4,371	4,881
Unrecognized net transition obligation	4,536	5,247
	-----	-----
	\$ (784)	\$ 1,412
	=====	=====
Amounts recognized in the balance sheet:		
Prepaid pension cost	\$ 16,043	\$ 17,572
Accrued pension cost:		
Current	(5,682)	(6,677)
Noncurrent	(25,558)	(33,098)
Unrecognized net pension obligations	5,901	5,561
Accumulated other comprehensive loss	8,512	18,054
	-----	-----
	\$ (784)	\$ 1,412
	=====	=====

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, 2001 and 2002, 100% and 94%, respectively, of the projected benefit obligations of such plans relate to non-U.S. plans.

	December 31,	
	----- 2001	2002 -----
	(In thousands)	
Projected benefit obligation .....	\$167,825	\$204,398
Accumulated benefit obligation .....	150,716	184,314
Fair value of plan assets .....	119,340	142,612

#### Incentive bonus programs

Certain employees are eligible to participate in the Company's various incentive bonus programs. The programs provide for annual payments, which may be in the form of cash or NL common stock. The amount of the annual payment paid to an employee, if any, is based on formulas involving the profitability of Kronos in relation to the annual operating plan and, for most of these employees, individual performance.

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 retirees.

For measuring the OPEB liability at December 31, 2002, the expected rate of increase in health care costs is 9% in 2003 decreasing to 5.5% in 2007 and thereafter. Other weighted-average assumptions used to measure the liability and expense are presented below.

	December 31,		
	2000	2001	2002
	----- ----- (Percentages)		
Discount rate .....	7.3	7.0	6.5
Long-term rate for compensation increases .....	6.0	6.0	6.0
Long-term rate of return on plan assets .....	7.7	7.7	6.0

Variances from actuarially assumed rates will change accrued OPEB liabilities, net periodic OPEB expense and funding requirements in future periods. If the health care cost trend rate was increased (decreased) by one percentage point for each year, postretirement benefit expense would have increased approximately \$.1 million (decreased by \$.1 million) in 2002, and the projected benefit obligation at December 31, 2002 would have increased by approximately \$.8 million (decreased by \$.6 million).

The components of the Company's net periodic postretirement benefit cost are set forth below.

	Years ended December 31,		
	2000	2001	2002
	----- ----- (In thousands)		
Net periodic OPEB cost (benefit):			
Service cost benefits .....	\$ 84	\$ 94	\$ 103
Interest cost on PBO .....	973	924	660
Expected return on plan assets .....	(66)	(66)	--
Amortization of prior service cost .....	(1,055)	(1,055)	(1,055)
Recognized actuarial losses .....	24	27	27
	-----	-----	-----
	\$ (40)	\$ (76)	\$ (265)
	=====	=====	=====

	December 31,	
	----- 2001	2002 -----
	(In thousands)	
Change in PBO:		
Beginning of year .....	\$ 13,498	\$ 11,407
Service cost .....	94	103
Interest cost .....	924	660
Actuarial losses (gains) .....	(1,694)	103
Release of insurance obligations .....	--	(787)
Benefits paid:		
Company funds .....	(1,006)	(985)
Plan assets .....	(264)	--
Change in currency exchange rates .....	(145)	32
	-----	-----
End of year .....	11,407	10,533
	-----	-----
Change in fair value of plan assets:		
Beginning of year .....	850	787
Actual return on plan assets .....	47	--
Employer contributions .....	154	--
Benefits paid .....	(264)	--
Release of insurance obligations .....	--	(787)
	-----	-----
End of year .....	787	--
	-----	-----
Funded status at year end:		
Plan assets less than PBO .....	(10,620)	(10,533)
Unrecognized actuarial gain .....	(421)	(335)
Unrecognized prior service cost .....	(3,280)	(2,225)
	-----	-----
	\$(14,321)	\$(13,093)
	=====	=====
Amounts recognized in the balance sheet:		
Current .....	\$ (1,285)	\$ (1,287)
Noncurrent .....	(13,036)	(11,806)
	-----	-----
	\$(14,321)	\$(13,093)
	=====	=====

Based on communications with a certain insurance provider of retiree benefits, and consultations with the Company's actuaries, the Company has been released from certain life insurance retiree benefit obligations totaling \$.8 million as of December 31, 2002 through the use of an equal amount of plan assets.

Note 13 - Common stock and notes receivable from affiliates:

Common stock options

The NL Industries, Inc. 1998 Long-Term Incentive Plan ("NL Option Plan") provides for the discretionary grant of restricted common stock, stock options, stock appreciation rights ("SARs") and other incentive compensation to officers and other key employees of the Company. Although certain stock options granted pursuant to a similar plan which preceded the NL Option Plan ("Predecessor Option Plan") remain outstanding at December 31, 2002, no additional options may be granted under the Predecessor Option Plan.

Up to five million shares of NL common stock may be issued pursuant to the NL Option Plan and, at December 31, 2002, 3,651,000 shares were available for



future grants. The NL Option Plan provides for the grant of options that qualify as incentive options and for options which are not so qualified. Generally, stock options and SARs (collectively, "options") are granted at a price equal to or greater than 100% of the market price at the date of grant, vest over a five year period and expire ten years from the date of grant. Restricted stock, forfeitable unless certain periods of employment are completed, is held in escrow in the name of the grantee until the restriction period expires. No SARs have been granted under the NL Option Plan.

Changes in outstanding options granted to certain employees of the Company pursuant to the NL Option Plan and the Predecessor Option Plan are summarized in the table below.

	Shares	Exercise price per share		Amount payable upon exercise	Weighted-average exercise price	Weighted-average fair value at grant date
		Low	High			
(In thousands, except per share amounts)						
Outstanding at December 31, 1999	800	\$ 5.00	\$24.19	\$ 12,659	\$ 15.82	
Granted .....	184	14.25	14.25	2,622	14.25	\$ 4.83
Exercised .....	(193)	5.00	17.97	(2,034)	10.53	
Forfeited .....	(150)	24.19	24.19	(3,628)	24.19	
Outstanding at December 31, 2000	641	5.00	21.97	9,619	15.01	
Granted .....	216	20.11	20.51	4,344	20.11	\$ 7.52
Exercised .....	(6)	11.28	14.25	(70)	12.43	
Outstanding at December 31, 2001	851	5.00	21.97	13,893	16.33	
Exercised .....	(192)	5.00	15.19	(2,715)	14.16	
Outstanding at December 31, 2002	659	\$ 8.69	\$21.97	\$ 11,178	\$ 16.96	

At December 31, 2000, 2001 and 2002 options to purchase 140,700, 261,000 and 240,400 shares, respectively, were exercisable and options to purchase 184,000 shares become exercisable in 2003. Of the exercisable options, options to purchase 114,000 shares at December 31, 2002 had exercise prices less than NL's December 31, 2002 quoted market price of \$17.00 per share. Outstanding options at December 31, 2002 expire at various dates through 2011.

The following table summarizes NL's stock options outstanding and exercisable that were held by certain employees of the Company as of December 31, 2002 by price range.

Options outstanding					Options exercisable		
Range of exercise prices		Outstanding at 12/31/02	Weighted-average remaining contractual life	Weighted-average exercise price	Exercisable at 12/31/02	Weighted-average exercise price	
\$ 7.26 -	\$ 9.68	2,000	1.1	\$ 8.69	2,000	\$ 8.69	
9.68 -	12.09	68,900	5.4	11.47	47,500	11.56	
12.09 -	14.51	198,700	6.5	14.03	52,500	14.14	
14.51 -	16.93	25,200	4.8	15.46	12,000	15.75	
16.93 -	19.35	84,400	4.6	17.87	70,400	17.85	
19.35 -	21.77	250,000	7.7	20.11	32,000	20.10	
21.77 -	24.19	30,000	5.1	21.97	24,000	21.97	
		659,200	6.5	\$ 16.96	240,400	\$ 16.33	
		=====	=====	=====	=====	=====	

The pro forma information included in Note 2 required by SFAS No. 123 is based on an estimation of the fair value of options issued subsequent to January 1, 1995. No options were granted in 2002. The fair values of employee stock options were calculated using the Black-Scholes stock option valuation model with the following weighted average assumptions for grants in 2000 and 2001: stock price volatility of 48% and 46% in 2000 and 2001, respectively; risk-free rate of return of 5% in each of 2000 and 2001; dividend yield of 4.9% in 2000 and 4.0% in 2001; and an expected term of 9 years in each of 2000 and 2001. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

Notes receivable from affiliates - contra equity

Certain long-term notes receivable from affiliates were included as a component of equity in accordance with GAAP, as settlement of the affiliate notes receivable balances was not currently contemplated within the foreseeable future. The notes are summarized in the following table.

	December 31,	
	2001	2002
	(In thousands)	
Notes receivable from NL:		
8.7% Fixed rate .....	\$106,783	\$ --
6.0% Fixed rate euro-denominated .....	286,363	--
Variable rate .....	262,772	--
	\$655,918	\$ --
	=====	=====

The 8.7% fixed-rate note receivable from NL originally matured in 2008 with interest payable quarterly. The 6% fixed-rate euro-denominated note receivable from NL originally matured in 2010 with interest payable monthly. The 6% fixed-rate euro-denominated note receivable from NL was established in 2001 as a result of a series of noncash transactions between KII, NL and the Company. Variable-rate notes receivable consisted of eight individual notes from NL of which five originally matured in 2003 and three originally matured in 2010, with interest rates ranging from U.S. LIBOR plus .625% to U.S. LIBOR plus 1.625% (2.5875% to 3.5875% at December 31, 2001) payable semi-annually. In July 2002 the Company distributed its affiliate notes receivable to NL totaling \$711.1 million in the form of a noncash dividend.

The Company periodically converted interest receivable from affiliates to notes receivable from affiliates. For the years ended 2000, 2001 and 2002, the interest transferred to notes receivable from affiliates totaled \$21.6 million, \$22.2 million and \$20.6 million, respectively.

Cash flows related to such loans made to affiliates included in contra equity were reflected in "Other capital transactions with affiliates, net" in the accompanying consolidated statement of cash flows.

Note 14 - Income taxes:

The components of (i) income from continuing operations before income taxes and minority interest ("pretax income"), (ii) the difference between the provision for income taxes attributable to pretax income and the amounts that would be expected using the U.S. federal statutory income tax rate of 35%, (iii) the provision for income taxes and (iv) the comprehensive tax provision are presented below.

	Years ended December 31,			Six months ended June 30,	
	2000	2001	2002	2002	2003
	-----			-----	
	(In thousands)			(Unaudited)	
Pretax income (loss):					
U.S .....	\$ 33,675	\$ 34,167	\$ 24,273	\$ 15,886	\$ 9,141
Non-U.S .....	162,203	154,064	67,546	39,397	42,691
	=====	=====	=====	=====	=====
	\$ 195,878	\$ 188,231	\$ 91,819	\$ 55,283	\$ 51,832
Expected tax expense .....	\$ 68,557	\$ 65,880	\$ 32,137	\$ 19,349	\$ 18,141
Non-U.S. tax rates .....	(6,462)	(7,069)	(3,238)	(702)	(366)
Resolution of German income tax audits .....	(5,500)	--	--	--	--
Change in valuation allowance:					
Corporate restructuring in Germany and other .....	--	(23,247)	--	--	--
Recognition of certain deductible tax attributes which previously did not meet the "more-likely-than-not" recognition criteria .....	(375)	--	(1,808)	(3,027)	(106)
Incremental tax on income of companies not included in the NL Tax Group .....	1,943	451	548	202	71
Refund of prior-year German taxes .....	--	--	--	--	(24,564)
Rate change adjustment of deferred taxes ....	5,695	--	(2,332)	--	--
U.S. state income taxes .....	595	542	43	43	204
Tax contingency reserve adjustments, net ....	252	(3,423)	193	(1,083)	--
Other, net .....	920	625	(43)	163	(54)
	-----	-----	-----	-----	-----
Income tax expense (benefit) .....	\$ 65,625	\$ 33,759	\$ 25,500	\$ 14,945	\$ (6,674)
	=====	=====	=====	=====	=====

	Years ended December 31,			Six months ended June 30,	
	2000	2001	2002	2002	2003
(In thousands)					
Provision for income taxes:					
Current income tax expense (benefit):					
U.S. federal .....	\$ 7,274	\$ 8,467	\$ 4,281	\$ 2,657	\$ 4,017
U.S. state .....	595	542	43	43	204
Non-U.S .....	45,855	28,992	10,421	4,852	(16,747)
	-----	-----	-----	-----	-----
	53,724	38,001	14,745	7,552	(12,526)
	-----	-----	-----	-----	-----
Deferred income tax expense (benefit):					
U.S. federal .....	4,569	4,021	5,203	1,822	(861)
U.S. state .....	--	--	--	--	--
Non-U.S .....	7,332	(8,263)	5,552	5,571	6,713
	-----	-----	-----	-----	-----
	11,901	(4,242)	10,755	7,393	5,852
	-----	-----	-----	-----	-----
	\$ 65,625	\$ 33,759	\$ 25,500	\$ 14,945	\$ (6,674)
	=====	=====	=====	=====	=====
Comprehensive provision (benefit) for income taxes allocable to:					
Pretax income .....	\$ 65,625	\$ 33,759	\$ 25,500	\$ 14,945	\$ (6,674)
Other comprehensive income (loss):					
Pension liabilities .....	--	(2,160)	(2,882)	--	--
	-----	-----	-----	-----	-----
	\$ 65,625	\$ 31,599	\$ 22,618	\$ 14,945	\$ (6,674)
	=====	=====	=====	=====	=====

The components of the net deferred tax liability are summarized below:

	December 31,			
	2001		2002	
	Deferred tax		Deferred tax	
	Assets	Liabilities	Assets	Liabilities
(In thousands)				
Tax effect of temporary differences relating to:				
Inventories .....	\$ 3,202	\$ (2,849)	\$ 3,427	\$ (3,302)
Property and equipment .....	42,721	(54,432)	43,868	(59,058)
Accrued postretirement benefits cost .....	4,953	--	4,516	--
Accrued (prepaid) pension cost .....	1,473	(21,665)	3,043	(24,785)
Other accrued liabilities and deductible differences .....	11,993	--	9,627	--
Other taxable differences .....	--	(26,591)	--	(35,291)
Tax on unremitted earnings of non-U.S. subsidiaries ..	--	(3,933)	--	(4,156)
Tax loss and tax credit carryforwards .....	106,067	--	139,674	--
Valuation allowance .....	(121,681)	--	(153,678)	--
Gross deferred tax assets (liabilities) .....	48,728	(109,470)	50,477	(126,592)
Reclassification, principally netting by tax jurisdiction .....	(43,402)	43,402	(44,139)	44,139
Net total deferred tax assets (liabilities) .....	5,326	(66,068)	6,338	(82,453)
Net current deferred tax assets (liabilities) ...	4,640	(1,530)	4,404	(3,219)
Net noncurrent deferred tax assets (liabilities)\$	686	\$ (64,538)	\$ 1,934	\$ (79,234)

Changes in the Company's deferred income tax valuation allowance are summarized below.

	Years ended December 31,		
	2000	2001	2002
(In thousands)			
Balance at the beginning of year .....	\$ 196,630	\$ 155,572	\$ 121,681
Recognition of certain deductible tax attributes which previously did not meet the "more-likely-than-not" recognition criteria ..	(375)	(23,247)	(1,808)
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 .....	(24,955)	(3,157)	12,187
Foreign currency translation .....	(15,728)	(7,487)	21,618
Balance at the end of year .....	\$ 155,572	\$ 121,681	\$ 153,678

A reduction in the German "base" income tax rate from 30% to 25%, enacted in October 2000, became effective January 1, 2001. The reduction in the German income tax rate resulted in \$5.7 million of additional deferred income tax expense in the fourth quarter of 2000 due to a reduction of the Company's deferred income tax asset related to certain German tax attributes.

A reduction in the Belgian income tax rate from 40.17% to 33.99%, enacted in December 2002, became effective January 1, 2003. The reduction in the Belgian

income tax rate resulted in a \$2.3 million decrease in deferred income tax expense in the fourth quarter of 2002 due to a reduction of the Company's deferred income tax liabilities related to certain Belgian temporary differences.

Certain of the Company's tax returns in various U.S. and non-U.S. jurisdictions are being examined and tax authorities have proposed or may propose tax deficiencies, including penalties and interest.

In 2002 the Company received a notification from the Norwegian tax authorities of their intent to assess tax deficiencies of approximately NOK 12.2 million (\$1.7 million at December 31, 2002 and at June 30, 2003) relating to 1998 through 2000. The Company has objected to this proposed assessment in a written response to the Norwegian tax authorities.

The Company has received preliminary tax assessments for the years 1991 to 1997 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately (euro)10.1 million (\$10.5 million at December 31, 2002 and \$11.6 million at June 30, 2003). The Company has filed protests to the assessments for the years 1991 to 1997. The Company is in discussions with the Belgian tax authorities and believes that a significant portion of the assessments is without merit.

In April 2003 the Company received a notification from the Belgian tax authorities of their intent to assess a tax deficiency related to 1999. The anticipated assessment, including interest, is expected to approximate (euro)13.1 million (\$15.0 million at June 30, 2003). The Company believes the proposed assessment related to 1999 is without merit and in April 2003 filed a written response in opposition to the notification of intent to assess.

In the first quarter of 2003, the Company was notified by the German Federal Fiscal Court (the "Court") that the Court had ruled in the Company's favor concerning a claim for refund suit in which the Company sought refunds of prior taxes paid during the periods 1990 through 1997. The Company has filed certain amended German tax returns and expects to file additional amended German tax returns claiming such refunds for all years affected by the Court's decision, which is expected to result in an estimated total net refund of taxes and interest of approximately \$40 million. Receipt of the German tax refunds is subject to satisfaction of various procedural requirements, including a review and acceptance of the amended German tax returns by the German tax authorities. Certain of these procedural requirements were satisfied in the second quarter of 2003 with respect to a portion of the refund claim, and in July 2003 the German tax authorities refunded the Company a portion of the total anticipated refund. The portion received in July was (euro)21.5 million (\$24.6 million using June 30, 2003 exchange rates). The Company has reflected this tax refund in its second quarter 2003 results of operations. The Company expects to receive the remaining refunds over the next six to nine months, a portion of which may result in an additional income tax benefit.

No assurance can be given that the Company's tax matters will be favorably resolved due to the inherent uncertainties involved in 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 the Company's consolidated financial position, results of operations or liquidity.

During the fourth quarter of 2001, the Company completed a restructuring of its German subsidiaries, and as a result recognized a \$23.2 million net income tax benefit attributable to a decrease in the valuation allowance due to a change in estimate of the Company's ability to utilize certain German income tax attributes that did not previously meet the "more-likely-than-not" recognition criteria.

At December 31, 2002 and at June 30, 2003, the Company had the equivalent of approximately \$414 million and \$470 million, respectively, of income tax loss carryforwards in Germany with no expiration date. However, the Company has provided a deferred tax valuation allowance against substantially all of these income tax loss carryforwards because the Company currently believes they do not meet the "more-likely-than-not" recognition criteria. In 2002 the German federal government proposed certain changes to its income tax law, including certain changes that would have imposed limitations on the annual utilization of income tax loss carryforwards. Such proposal, if enacted, would have significantly affected Kronos' 2003 and future income tax expense and cash tax payments. In

April 2003 the German federal government passed a new tax law which does not contain the provision that would have restricted the utilization of tax loss carryforwards. Furthermore, the provisions contained in the new law are not expected to materially impact Kronos' income tax expense or cash tax payments. On August 1, 2003, the German federal government proposed new tax law amendments that, among other things, reintroduced the limitations on the annual utilization of income tax loss carryforwards, to become effective in 2004. There can be no assurance that these proposed law amendments will be enacted and, if enacted, when they would become effective. Such proposal, if enacted as proposed, would significantly affect the Company's future income tax expense and cash tax payments.

At December 31, 2002 and June 30, 2003, the Company had net deferred tax liabilities of \$ 76.1 million and \$86.9 million, respectively. The Company operates in numerous tax jurisdictions, in certain of which it has temporary differences that net to deferred tax assets (before valuation allowance). The Company has provided a deferred tax valuation allowance of \$153.7 million at December 31, 2002 and \$166.0 million at June 30, 2003, principally related to Germany, partially offsetting deferred tax assets which the Company believes do not currently meet the "more-likely-than-not" recognition criteria.

Note 15 - Leverkusen fire and insurance claim:

A fire on March 20, 2001 damaged a section of the Company's Leverkusen, Germany 35,000 metric ton sulfate-process TiO2 plant ("Sulfate Plant") and, as a result, production of TiO2 at the Leverkusen facility was halted. The fire did not enter the Company's adjacent 125,000 metric ton chloride-process TiO2 plant ("Chloride Plant"), but did damage certain support equipment necessary to operate that plant. The damage to the support equipment resulted in a temporary shutdown of the Chloride Plant.

On April 8, 2001, repairs to the damaged support equipment were substantially completed and full production resumed at the Chloride Plant. The Sulfate Plant became approximately 50% operational in September 2001 and became fully operational in late October 2001. The damages to property and the business interruption losses caused by the fire were covered by insurance as noted below, but the effect on the financial results of the Company on a quarter-to-quarter basis was impacted by the timing and amount of insurance recoveries.

The Company reached an agreement and settled the coverage claim involving the Leverkusen fire for \$56.4 million during the fourth quarter of 2001 (\$46.9 million received as of December 31, 2001, with the remaining \$9.5 million received in January 2002), of which \$27.3 million related to business interruption and \$29.1 million related to property damage, clean-up costs and other extra expenses. The Company recognized a \$17.5 million pre-tax gain in 2001 related to the property damage recovery after deducting \$11.6 million of clean-up costs and other extra expenses incurred and the carrying value of assets destroyed in the fire. The gain was excluded from the determination of operating income. The \$27.3 million of business interruption proceeds recognized in 2001 were allocated between other income, excluding corporate, which reflects recovery of lost margin (\$7.2 million) and as a reduction of cost of sales to offset unallocated period costs (\$20.1 million). No additional recoveries related to the Leverkusen fire are expected to be received.

Note 16 - Other items:

Advertising costs are expensed as incurred and were \$1 million in each of 2000, 2001 and 2002.

Research, development and certain sales technical support costs are expensed as incurred and approximated \$6 million in each of 2000, 2001 and 2002.

Interest capitalized in connection with long-term capital projects was nil in each of 2000, 2001 and 2002.

Note 17- Related party transactions:

The Company may be deemed to be controlled by Harold C. Simmons. 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, tax

sharing agreements, 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, Valhi, NL and related entities consider, review and evaluate, such transactions. Depending upon the business, tax and other objectives then relevant, and restrictions under the indentures and other agreements, it is possible that the Company might be a party to one or more such transactions in the future.

The Company is a party to various intercorporate services agreements ("ISA") with various related parties discussed below. Under the ISA's, 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 of such persons.

The Company is a party to an intercorporate services agreement with NL ("NL ISA") whereby NL provides certain management, financial and administrative services to the Company on a fee basis. Intercorporate services fee expense related to the NL ISA was \$5.0 million in 2000, \$3.5 million in 2001, \$3.7 million in 2002, and \$1.8 million and \$1.9 million in the first six months of 2002 and 2003, respectively. Following completion of NL's distribution of 48.7% of the outstanding shares of Kronos common stock to NL shareholders, Kronos expects that the NL ISA will be amended with terms similar to the original agreement.

Purchases of TiO<sub>2</sub> from LPC were \$92.5 million in 2000, \$93.4 million in 2001, \$92.4 million in 2002, and \$44.7 million and \$53.6 million in the first six months of 2002 and 2003, respectively.

Interest income from affiliates related to notes receivable from affiliates was \$20.3 million in 2000, \$33.4 million in 2001, \$20.8 million in 2002, and \$17.5 million and \$7 million in the first six months of 2002 and 2003, respectively. Interest expense to affiliates related to notes payable to affiliates was \$29.0 million in 2000, \$23.0 million in 2001, \$12.3 million in 2002, and \$12.2 million and \$7 million in the first six months of 2002 and 2003, respectively.

Tall Pines Insurance Company ("Tall Pines"), Valmont Insurance Company ("Valmont") and EWI provide for or broker certain of the Company's, its joint venture's and its affiliates' insurance policies. Valmont and Tall Pines are wholly-owned by Valhi. A son-in-law of Mr. Simmons is the Chairman of the Board of EWI. Consistent with insurance industry practices, Tall Pines, Valmont and EWI receive commissions from the insurance and reinsurance underwriters for the policies that they provide or broker. The Company and its joint venture paid approximately \$5.6 million, \$9.7 million, \$10.1 million in 2000, 2001, 2002, respectively, and \$1.1 million in each of the first six months of 2002 and 2003, for policies provided or brokered by Tall Pines, Valmont and EWI. The premiums paid by affiliates (other than the Company and its joint venture) for policies provided or brokered by EWI was approximately \$7.6 million in 2002, and approximately \$1.5 million and \$1.8 million in the first six months of 2002 and 2003, respectively. These amounts principally included payments for reinsurance and insurance premiums paid to unrelated third parties, but also included commissions paid to Tall Pines, Valmont and EWI. In the Company's opinion, the amounts that the Company paid for these insurance policies and the allocation among the Company and its affiliates of relative insurance premiums are reasonable and similar to those they could have obtained through unrelated insurance companies and/or brokers. The Company expects that these relationships with Tall Pines, Valmont and EWI will continue through 2003.

During 2000 NL and an officer of both the Company and NL entered into an agreement whereby stock options held by the officer to purchase an aggregate of 100,000 shares of NL's common stock were exercised. On a net basis, NL made aggregate cash payments to the officer of approximately \$1.3 million and NL charged the Company an equivalent amount for stock compensation expense. See Note 2.



During 2002 NL and an officer of both the Company and NL entered into an agreement whereby stock options held by the officer to purchase an aggregate of 160,400 shares of NL's common stock were exercised or canceled for value. On a net basis, NL made aggregate cash payments to the officer of approximately \$.7 million, and NL charged the Company an equivalent amount for stock compensation expense. See Note 2.

From time to time, the Company loans funds to related parties. See Notes 11 and 13. These loans permit the Company to earn a higher rate of return on cash not needed at the time for use in its operations than it could otherwise earn. While such loans are 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 loans.

Amounts receivable from and payable to affiliates are summarized in the following table.

	December 31, 2001	December 31, 2002	June 30, 2003
	-----	-----	-----
			(Unaudited)
			(In thousands)
Current receivable from affiliates:			
NL - income taxes .....	\$ --	\$ 978	\$ --
Other .....	47	54	62
	-----	-----	-----
	\$ 47	\$ 1,032	\$ 62
	=====	=====	=====
Current payable to affiliates:			
NL .....	\$ 4,939	\$ 319	\$ 106
NL - income taxes .....	64	--	2,923
LPC .....	6,362	7,614	8,291
	-----	-----	-----
	\$11,365	\$ 7,933	\$11,320
	=====	=====	=====

Amounts payable to LPC are generally for the purchase of TiO2 (see Note 7), and amounts payable to NL principally relate to accrued interest on affiliate loans.

Note 18 - Commitments and contingencies:

Leases

The Company leases, pursuant to operating leases, various manufacturing and office space and transportation equipment. Most of the leases contain purchase and/or various term renewal options at fair market and fair rental values, respectively. In most cases management expects that, in the normal course of business, leases will be renewed or replaced by other leases.

Kronos' principal German operating subsidiary leases the land under its Leverkusen TiO2 production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with approximately one-third of Kronos' current TiO2 production capacity, is located within the lessor's extensive manufacturing complex. Rent for the Leverkusen facility is periodically established by agreement with the lessor for periods of at least two years at a time. Under a separate supplies and services agreement expiring in 2011, the lessor provides some raw materials, including chlorine and certain amounts of sulfuric acid, auxiliary and operating materials and utilities services necessary to operate the Leverkusen facility. Both the lease and the supplies and services agreements restrict the Company's ability to transfer ownership or use of the Leverkusen facility.

Net rent expense aggregated \$9 million in 2000, \$8 million in 2001 and \$10 million in 2002. At December 31, 2002, minimum rental commitments under the terms of noncancellable operating leases were as follows:

	Real Estate -----	Equipment -----
	(In thousands)	
Years ending December 31,		
2003	\$ 2,164	\$2,232
2004	2,116	1,643
2005	1,692	984
2006	1,424	382
2007	1,414	174
2008 and thereafter	18,110	692
	-----	-----
	\$26,920	\$6,107
	=====	=====

Approximately \$16.5 million of the \$26.9 million real estate minimum rental commitment is attributable to the Leverkusen, Germany facility. The minimum commitment is determined by taking the current annual rental rate in effect at December 31, 2002 and extending out the annual rate to the year 2050.

#### Purchase commitments

The Company has long-term supply contracts that provide for the Company's chloride feedstock requirements through 2006. The agreements require the Company purchase certain minimum quantities of feedstock with average minimum annual purchase commitments aggregating approximately \$156 million.

#### Environmental, product liability and litigation matters

The Company's operations are governed by various foreign environmental laws and regulations. Certain of the Company's businesses 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. 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 policy of the Company is to maintain compliance with applicable foreign environmental laws and regulations at all of its facilities and to strive to improve its environmental performance. It is possible that future changes in environmental laws and enforcement policies thereunder, could affect the Company's production, handling, use, storage, transportation, sale or disposal of such substances as well as adversely affect the Company's consolidated financial position, results of operations or liquidity.

The Company's production facilities operate within an environmental regulatory framework in which governmental authorities typically are granted broad discretionary powers which allow them to issue operating permits under which the plants must operate. The Company believes all of its plants are in substantial compliance with applicable environmental laws. Neither Kronos nor any of its subsidiaries have been notified of any environmental claim in the United States or any foreign jurisdiction by the U.S. EPA or any applicable foreign authority or any state, provincial or local authority.

While the laws regulating operations of industrial facilities in Europe vary from country to country, a common regulatory denominator 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, generally patterns its environmental regulatory actions after the EU. The Company believes that Kronos has obtained all required permits and is in substantial compliance with applicable EU requirements, including EU Directive 92/112/EEC regarding establishment of procedures for reduction and eventual elimination of pollution caused by waste from the TiO2 industry.

At all of the Company's sulfate plant facilities other than Fredrikstad, Norway, the Company recycles spent acid either through contracts with third parties or using the Company's own facilities. At its Fredrikstad, Norway plant, the Company ships its spent acid to a third party location where it is treated and disposed. The Company has a contract with a third party to treat certain by-products of its German sulfate-process plants. Either party may terminate the contract after giving four years advance notice with regard to its Nordenham, Germany plant. Under certain circumstances, Kronos may terminate the contract after giving six months notice with respect to treatment of by-products from the Leverkusen, Germany plant.

The Company landfills waste generated at its Nordenham, Germany and Langerbrugge, Belgium plants and mine tailings waste generated at its mining facility in Norway. The Company maintains reserves, as required under GAAP, to cover the anticipated cost of closure of these landfills, which were approximately \$1.1 million and \$5 million as of December 31, 2001 and 2002, respectively.

The Company is responsible for certain closure costs at landfills used and formerly used by its Leverkusen, Germany TiO2 plants. The Company has a reserve of approximately \$5 million and \$6 million related to such landfills as of December 31, 2001 and 2002, respectively.

The Company's Belgian subsidiary and various of its Belgian employees are the subject of an investigation by Belgian authorities relating to an accident resulting in two fatalities that occurred in its Langerbrugge, Belgium facility in October 2000. The investigation stage, which could ultimately result in civil and criminal sanctions against the Company, was completed in 2002. In May 2003 the Belgian authorities referred the proceedings against the Company's Belgian subsidiary and certain of its Belgian employees to the criminal court for trial. The matter has been set for trial in October 2003.

The Company is also involved in various other environmental, contractual, product liability and other claims and disputes incidental to its business.

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

#### Concentrations of credit risk

Sales of TiO2 accounted for more than 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 (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 25% of net sales in each of the last three years. Approximately one-half of the Company's TiO2 sales by volume were to Europe in each of the past three years and approximately 37% in 2000, 38% in 2001 and 39% in 2002 of sales were attributable to North America.

Consolidated cash, cash equivalents and current restricted cash equivalents includes \$17.7 million and \$13.8 million invested in U.S. Treasury securities purchased under short-term agreements to resell at December 31, 2001 and 2002, respectively, of which \$9.6 million and \$10.4 million, respectively, of such securities are held in trust for the Company by a single U.S. bank.

Note 19 - Financial instruments:

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

	December 31, 2001		December 31, 2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In millions)				
Cash, cash equivalents, and noncurrent restricted marketable				
debt securities .....	\$ 55.3	\$ 55.3	\$ 47.1	\$ 47.1
Notes payable and long-term debt:				
Fixed rate with market quotes:				
11.75% First-Tier Senior Mirror Note to NL	\$194.0	\$194.9	\$ --	\$ --
8.875% Senior Secured Notes .....	--	--	296.9	299.9
Variable rate debt .....	48.7	48.7	29.0	29.0
Note payable to affiliate .....	--	--	44.6	44.6

Fair value of the noncurrent restricted marketable debt securities were based upon quoted market prices at December 31, 2001 and 2002. Fair value of the Company's 11.75% First-Tier Senior Mirror Note was based upon quoted market prices of the NL Notes at December 31, 2001. Fair value of the Company's Notes was based upon quoted market prices at December 31, 2002. Fair value approximated carrying value on the Company's variable rate debt and note payable to affiliate because the variable interest rate on all of such indebtedness is deemed to approximate market rates. The Company held no derivative financial instruments at December 31, 2001 or 2002.

Note 20 - Capital Contribution:

On January 31, 2000, NL contributed its investment of \$291.9 million in NL Capital Corporation ("NLCC"), a wholly owned subsidiary of NL, to the Company, which immediately contributed it to KII. NLCC then merged with KII (with KII being the surviving corporation in the merger.) The net assets acquired in the merger were recorded at predecessor carryover basis in accordance with GAAP due to the common control of KII and NLCC by NL. NLCC previously conducted NL's rheological additives business which was sold in 1998. Substantially all of the net proceeds from the sale of the operational assets related to the rheological additives business were loaned to NL and the Company. Subsequent to the sale, NLCC did not conduct any operations and its major assets held were such notes receivable from affiliates. Of the \$291.9 million, \$240.1 million represented noncurrent notes receivable from NL, which were classified as a reduction of stockholder's equity at the time of the merger.

Note 21 - Quarterly financial data (unaudited):

	Quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
(In thousands, except per share amounts)				
Year ended December 31, 2001:				
Net sales .....	\$226,060	\$220,105	\$206,952	\$181,982
Cost of sales .....	149,902	151,320	145,945	130,893
Operating income .....	51,916	45,170	36,222	35,879(a)
Net income .....	35,965	35,641	25,442	57,408(a)
	-----	-----	-----	-----
Basic and diluted net income per share ..	\$ .73	\$ .73	\$ .52	\$1.17(a)
	=====	=====	=====	=====
Basic and diluted weighted average common shares and potential common shares outstanding .....	48,943	48,943	48,943	48,943
	=====	=====	=====	=====
Year ended December 31, 2002:				
Net sales .....	\$202,357	\$226,909	\$234,061	\$211,861
Cost of sales .....	156,253	176,247	177,521	161,809
Operating income .....	22,159	24,665	29,619	20,064
Net income .....	17,038	23,273(b)	16,754	9,199
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Basic and diluted net income per share ..	\$ .35	\$ .48(b)	\$ .34	\$ .19
	=====	=====	=====	=====
Basic and diluted weighted average common shares and potential common shares outstanding .....	48,943	48,943	48,943	48,943
	=====	=====	=====	=====

Quarterly per share amounts are computed independently for each of the quarters presented and therefore may not sum to the total for the year.

- (a) Operating income in the fourth quarter of 2001 included \$16.6 million of pretax insurance recoveries for business interruption related to prior 2001 quarters due to the Leverkusen fire. Net income in the fourth quarter of 2001 also included \$11.6 million net of pretax insurance recoveries for property damage related to the Leverkusen fire and a \$17.6 million net income tax benefit related to a restructuring of the Company's German subsidiaries.
- (b) Net income in the second quarter of 2002 included a one-time foreign currency transaction gain of \$6.3 million related to the extinguishment of certain intercompany indebtedness. Net income in second quarter 2002 also included \$1.5 million pretax of additional interest expense related to the early extinguishment of the Company's 11.75% First-Tier Senior Mirror Note.