Subject to Completion, Dated June 6, 2002

OFFERING MEMORANDUM **CONFIDENTIAL**

€270,000,000

KRONOS INTERNATIONAL, INC.

% Senior Secured Notes due 2009

We are offering €270,000,000 aggregate principal amount of our % Senior Secured Notes due 2009.

The notes will mature on , 2009. We will pay interest on the notes on and , commencing on , 2002.

We may redeem the notes at any time on or after , 2005. In addition, until , 2005 we may redeem up to 35% of the notes with the net proceeds of a public equity offering. If we undergo a change of control or sell certain of our assets, we may be required to offer to purchase notes from holders or we may elect to redeem the notes.

The notes will be senior obligations of ours secured by a pledge of 65% of the stock or other equity interests of certain of our first-tier subsidiaries. The notes will rank equally in right of payment with all of our senior debt and senior in right of payment to all of our subordinated debt. The notes will be structurally subordinated to the debt and liabilities of our subsidiaries.

We have agreed to make an offer to exchange the notes for registered, publicly tradable notes that have substantially identical terms as the notes. This offering memorandum includes additional information on the terms of the notes, including redemption and repurchase prices, covenants and transfer restrictions.

We will apply for the notes to be listed on the Luxembourg Stock Exchange.

Investing in the notes involves a high degree of risk. See ''Risk Factors'' beginning on page 13.

We have not registered the notes under the federal securities laws or the securities laws of any state of the United States. The initial purchasers named below are offering the notes only to qualified institutional buyers under Rule 144A and to persons outside the United States under Regulation S. See ''Notice to Investors'' for additional information about eligible offerees and transfer restrictions. The notes will be offered on a firm commitment basis if and when a purchase agreement is executed by the initial purchasers at the time of pricing of the offering.

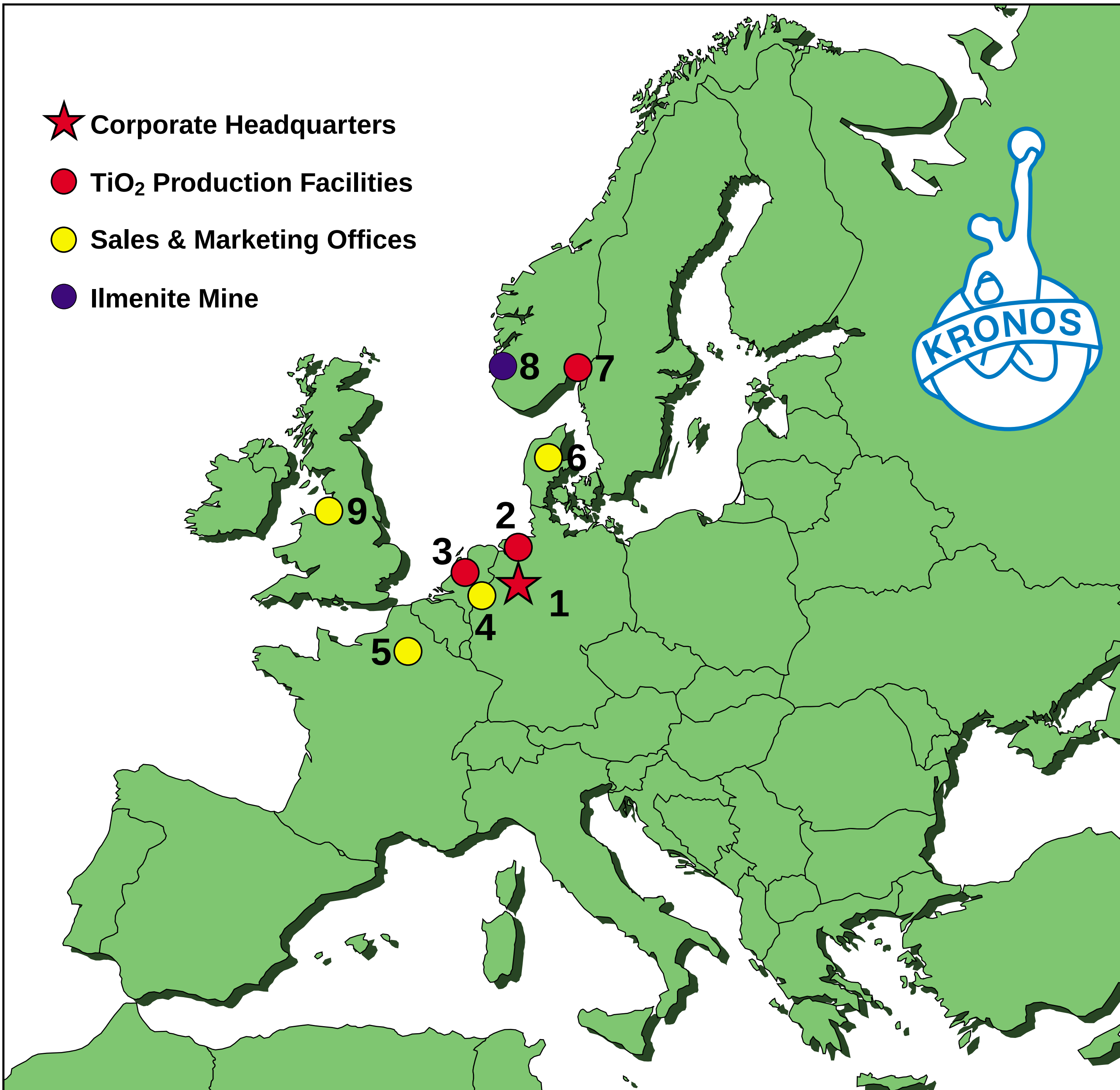
Price: % plus accrued interest from the issue date.

We expect that the notes will be ready for delivery through Euroclear and Clearstream Luxembourg on or about , 2002.

Deutsche Bank
Sole Book-Running Lead Manager

Dresdner Kleinwort Wasserstein

The date of this Offering Memorandum is , 2002.



1. Leverkusen, Germany:
Corporate Headquarters;
Research & Development;
Sales & Marketing;
126,000 MT Chloride Plant
and 28,000 MT Sulfate Plant

2. Nordenham, Germany:
61,000 MT Sulfate Plant

3. Langerbrugge, Belgium:
Sales & Marketing;
68,000 MT Chloride Plant

4. Brussels, Belgium:
Headquarters European
Sales & Marketing;
European Treasury Center

5. Paris, France:
Sales & Marketing

6. Copenhagen, Denmark:
Sales & Marketing

7. Fredrikstad, Norway:
Sales & Marketing;
30,000 MT Sulfate Plant

8. Hauge i Delane, Norway:
900,000 MT/year ilmenite
mine and processing facility

9. Wilmslow, U.K.:
Sales & Marketing

IMPORTANT NOTICE TO READERS

This offering memorandum has been prepared by us based on information we have or have obtained from sources we believe to be reliable. Summaries of documents contained in this offering memorandum may not be complete; we will make copies of actual documents available to you upon request. Neither we nor the initial purchasers represent that the information herein is complete. The information in this offering memorandum is current only as of the date on the cover, and our business or financial condition and other information in this offering memorandum may change after that date. You should consult your own legal, tax and business advisors regarding an investment in the notes. Information in this offering memorandum is not legal, tax or business advice.

You should base your decision to invest in the notes solely on information contained or incorporated by reference in this offering memorandum. Neither we nor the initial purchasers have authorized anyone to provide you with any different information.

Please contact the initial purchasers with any questions concerning this offering or to obtain documents or additional information to verify the information in this offering memorandum.

Interests in the notes will be available initially only in book-entry form. We expect that the notes sold will be issued in the form of one or more global notes. The global notes will be deposited with and registered in the name of a common depositary through the facilities of Euroclear Bank S.A./N.V. as operator of the Euroclear System (''Euroclear'') and Clearstream Banking, Societe Anonyme (''Clearstream''). Transfers of interests in the global notes will be effected through records maintained by Euroclear and Clearstream and their respective participants. After the initial issuance of the global notes, the notes will not be issued in definitive registered form except only under the circumstances described in the section ''Book-Entry; Delivery and Form.''

We are offering the notes in reliance on an exemption from registration under the Securities Act of 1933, as amended (the ''Securities Act''), for an offer and sale of securities that does not involve a public offering. If you purchase the notes, you will be deemed to have made certain acknowledgments, representations and warranties as detailed under ''Notice to Investors.'' Neither we nor the initial purchasers are making an offer to sell the notes in any jurisdiction where the offer and sale of the notes is prohibited. We do not make any representation to you that the notes are a legal investment for you.

Each prospective purchaser of the notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the notes and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither we nor the initial purchasers shall have any responsibility therefor.

Neither the Securities and Exchange Commission (the ''Commission'') nor any state securities commission has approved or disapproved of the notes or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

We have prepared this offering memorandum solely for use in connection with the offer of the notes to institutional investors. You agree that you will hold the information contained in this offering memorandum and the transactions contemplated hereby in confidence. You may not distribute this offering memorandum to any person, other than a person retained to advise you in connection with the purchase of the notes. We and the initial purchasers may reject in whole or in part any offer to purchase notes, sell less than the entire principal amount of the notes offered hereby or allocate to any purchaser less than all of the notes for which it has subscribed.

THE NOTES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. PROSPECTIVE PURCHASERS SHOULD BE AWARE THAT THEY MIGHT BE

REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955, AS AMENDED, WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO NON-U.S. INVESTORS

This offering memorandum does not constitute an offer to sell or an invitation to subscribe for or purchase any of the notes in any jurisdiction in which such offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this offering memorandum and this offering of the notes may be restricted by law in certain jurisdictions. Persons into whose possession this offering memorandum comes are required to inform themselves about and to observe any such restrictions.

Austria

The notes may only be offered in the Republic of Austria in compliance with the provisions of the Austrian Capital Market Act and other laws applicable in the Republic of Austria governing the offer and sale of the notes in the Republic of Austria. The notes are not registered or otherwise authorized for public offer either under the Capital Market Act or the Investment Fund Act. The recipients of this offering memorandum and other selling material in respect of the notes have been individually selected and are targeted exclusively on the basis of a private placement. Accordingly, the notes may not be, and are not being, offered or advertised publicly or offered similarly under either the Capital Market Act or the Investment Fund Act. This offer may not be made to any persons other than the recipients of this offering memorandum.

Belgium

The notes may not be offered or sold directly or indirectly by way of a public offering in Belgium. Consequently, in Belgium, the notes will only be available for subscription pursuant to this offering to registered Belgian credit institutions, European Economic Area banks having a branch in Belgium, registered Belgian stockbroking companies, investment funds registered with the Belgian Banking and Finance Commission or insurance companies and pension funds registered with the Belgian Insurance Control Authority, provided in each case that these institutions are investing for their own account.

Denmark

This offering memorandum has not been filed with or approved by the Danish Securities Council, the Copenhagen Stock Exchange or any other regulatory authority or market in the Kingdom of Denmark. The notes have not been offered or sold and may not be offered, sold or delivered, directly or indirectly, in the

Kingdom of Denmark, unless in compliance with the Danish Consolidation Act No. 168 of 14 March 2001 on Trading in Securities as amended and executive orders issued thereunder.

Finland

This offering memorandum has been prepared for private information purposes of interested investors only. It may not be used and shall not be deemed a public offering of the notes. The *Rahoitustarkastus* has not authorized any offering of the subscription of the notes; accordingly, the notes may not be offered or sold in Finland or to residents thereof except as permitted by Finnish law. This offering memorandum is strictly for private use by its holder and may not be passed on to third parties.

France

In France, the notes may not be directly or indirectly offered or sold to the public, and offers and sales of the notes will only be made in France to qualified investors or to a close circle of investors, in accordance with Articles L411-1 and L411-2 of the Code Monétaire et Financier and Decree no. 98-880 dated October 1, 1998. Accordingly, this offering memorandum has not been submitted to the *Commission des Operations de Bourse*. Neither this offering memorandum nor any other offering material may be distributed to the public in France.

Les titres ne peuvent être offerts ni vendus directement ou indirectement au public en France et l'offre ou la vente de ces titres ne pourra être proposée qu'à des investisseurs qualifiés conformément aux Articles L411-1 et L411-2 du Code Monétaire et Financier et au décrêt no. 98-880 du 1 octobre 1998. Par conséquent, ce prospectus n'a pas été soumis au visa de la Commission des Operations de Bourse. Ni ce prospectus ni aucun autre document promotionnel ne pourront être communiqués au public en France.

Germany

The notes may be offered and sold in the Federal Republic of Germany only in accordance with the provisions of the Securities Sales Prospectus Act of the Federal Republic of Germany (*Wertpapier Verkaufsprospektgexte*) of December 13, 1990 (as amended) and any other applicable German legal and regulatory requirements. Consequently, in Germany, the notes will only be available to persons who by profession or by trade business buy or sell securities for their own or a third party's account.

Greece

This offering memorandum and the notes to which it relates and any other material related thereto may not be advertised, distributed or otherwise made available to the public in Greece. The Greek Capital Market Committee has not authorized any public offering of the subscription of notes. Accordingly, notes may not be advertised, distributed or in any way offered or sold in Greece or to residents thereof except as permitted by Greek law.

Ireland

The notes will not and may not be offered, sold, transferred or delivered, whether directly or indirectly, otherwise than in circumstances which do not constitute an offer to the public within the meaning of the Irish Companies Acts, 1963-1999 and the notes will not and may not be the subject of an offer in the Republic of Ireland to which the European Community (Transferable Securities and Stock Exchange) Regulations, 1992 of Ireland would apply. No application form has been issued or will be issued in the Republic of Ireland in respect of the notes.

Italy

In Italy, this offering memorandum has not been submitted to the clearance procedure of the *Commissione Nazionale per la Società e la Borsa* (''CONSOB'') and, therefore, the notes may not be offered, sold or delivered, nor may copies of this offering memorandum or of any other document relating to the notes be distributed in Italy, except to professional investors *(operatori qualificati)*, as defined in Article 31.2 of CONSOB Regulation No. 11522 of July 1, 1998.

Luxembourg

The notes may not be directly or indirectly offered or sold to the public in the Grand-Duchy of Luxembourg and neither this offering memorandum nor any form of application, advertisement or other material in connection therewith may be distributed, published or made otherwise available in the Grand-Duchy of Luxembourg, unless the requirements of Luxembourg law concerning public offerings of securities and, if applicable, the relevant conditions of the Luxembourg act dated April 5, 1993 concerning the financial sector, as amended, have first been met.

The Netherlands

The notes may not be offered, sold, transferred or delivered in or from The Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, other than to banks, pension funds, insurance companies, securities firms, investment institutions, central governments, large international and supranational institutions and other comparable entities, including, *inter alia*, treasuries and finance companies of large enterprises that trade or invest in securities in the conduct of their profession or trade. Individuals or legal entities who or that do not trade or invest in securities in the conduct of their profession or trade may not participate in this offering and this offering memorandum may not be considered an offer or the prospect of an offer to any such individual or entity to sell or exchange the notes.

Portugal

The notes have not been offered, advertised, sold or delivered and will not be directly or indirectly offered, advertised, sold, re-sold, re-offered or delivered in circumstances which could qualify as a public offer pursuant to the *Código Dos Valores Mobiliários* or in circumstances which could qualify the issue of the notes as an issue in the Portuguese market, and the notes have not been directly or indirectly distributed and the agreement, any other document, circular, advertisement or any offering material will not be directly or indirectly distributed except in accordance with all applicable laws and regulations.

Sweden

This offering memorandum has not and will not be registered with the Swedish Financial Supervisory Authority. Accordingly, this offering memorandum may not be made available, nor may the notes otherwise be marketed and offered for sale, in Sweden under the Financial Instruments Trading Act (1991:980).

Switzerland

This offering memorandum has been prepared for private information purposes of interested investors only. It may not be used for and shall not be deemed a public offering of the notes. No application has been made under Swiss law to publicly market the notes in or out of Switzerland. Therefore, no public offer of the notes or public distribution of this offering memorandum may be made in or out of Switzerland. This offering memorandum is strictly for private use by its holder and may not be passed on to third parties.

United Kingdom

The notes will only be available for subscription pursuant to this offering to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances that do not, and will not, constitute an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended. This offering memorandum is being distributed on the basis that each person in the United Kingdom to whom this offering memorandum is delivered is a person of the kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2001 (the ''FPO'') or a high net worth company or unincorporated association or high value trust or other person of a kind described in

Article 49(2) of the FPO and, accordingly, by accepting delivery of this offering memorandum the recipient warrants and acknowledges that it is such a person.

FINANCIAL STATEMENT PRESENTATION

In this offering memorandum, all financial information presented has been prepared in accordance with accounting principles generally accepted in the United States of America (''GAAP'') unless otherwise indicated. Some amounts and percentages included in this offering memorandum have been rounded and accordingly may not total.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION REVIEW

The Commission is entitled to review the registration statement for the exchange offer referred to below that we have agreed to prepare and file. Comments by the Commission on the registration statement for the exchange offer may require modification or reformulation of the description of our business and the other information contained in this offering memorandum. In addition, comments by the Commission on our financial data in the registration statement may require modification or reformulation.

MARKET SHARE AND INDUSTRY DATA

The market data included in this offering memorandum, including growth rates and information relating to our relative position in the industry, are based on internal surveys, market research, publicly available information and industry publications. References in this offering memorandum to our market position and to industry trends are based on information supplied by International Business Management Associates, an industry research and consulting firm. Although we believe that such independent sources are reliable, we have not independently verified the information contained in them, and neither we nor the initial purchasers can guarantee the accuracy or completeness of this information.

EXCHANGE RATE INFORMATION AND REGULATIONS

The following table sets forth, for information purposes only, for the periods ended and dates indicated, information concerning the exchange rate for U.S. dollars to euros based on the closing spot rate as reported by Bloomberg. No representation is made that dollar amounts have been, could have been or could be converted into euros, or vice versa, at such spot rates or at any other rate. Except as otherwise noted, Euro amounts in this offering memorandum have been presented in U.S. dollars at an exchange rate of €1.00 to $0.87, based on the closing spot rate on March 31, 2002 reported by Bloomberg. On June 5, 2002, the closing spot rate was €1.00 = $0.94.

	U.S. Dollars Per One Euro			
	Period Ended(1)	Average Rate(2)	High	Low
Year Ended December 31, 2000	$0.94	$0.92	$1.03	$0.83
Year Ended December 31, 2001	0.89	0.90	0.96	0.84
Three months ended March 31, 2002	0.87	0.88	0.90	0.84

(1) Represents the closing spot rate on the last business day of the applicable period as reported by Bloomberg.

(2) Represents the average of the closing spot rate for each business day during the relevant period as reported by Bloomberg.

On January 1, 1999, the final stage of the European Monetary Union came into effect and the currencies of eleven member states (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain) were replaced by the euro. Greece adopted the euro on January 1, 2001. Monetary policy with respect to the euro is now conducted by the new European Central Bank, which sets interest rate policy for and manages the foreign reserves of the euro states.

Three other members of the European Union, Denmark, Sweden and the United Kingdom, have not adopted the euro, although they may choose to do so at a later date.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

All statements other than statements of historical facts included in this offering memorandum or subsequently attributable to us, or persons acting on our behalf, including, without limitation, statements regarding our future financial position, business strategy, budgets, market conditions, sales volumes, titanium dioxide pigments supply, demand and prices, projected costs and plans and objectives of management for future operations, are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as ''believes,'' ''intends,'' ''may,'' ''will,'' ''should,'' ''anticipates,'' ''expects,'' ''could'' or comparable terminology or by discussions of strategy or trends. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we 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 offering memorandum. While it is not possible to identify all factors, we continue to face many risks and uncertainties including, but not limited to, the cyclicality of the titanium dioxide industry, global economic and political conditions, changes in global productive capacity, changes in 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), recoveries from insurance claims and the timing thereof and the outcome of litigation. Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those expected. We disclaim any intention or obligation to update publicly or revise such statements whether as a result of new information, future events or otherwise. Important factors that could cause actual results to differ materially from our expectations are disclosed under ''Risk Factors'' and elsewhere in this offering memorandum, including, without limitation, in conjunction with the forward-looking statements included in this offering memorandum.

OFFERING MEMORANDUM SUMMARY

In this offering memorandum, the words ''KII,'' ''we,'' ''us'' and ''our'' refer to Kronos International, Inc., the issuer of the notes, and its subsidiaries. The following summary contains basic information about us and this offering. It likely does not contain all the information that is important to you. For a more complete understanding of this offering, we encourage you to read this entire document and the documents we have referred you to.

The Company

We are the second largest producer of titanium dioxide pigments (''TiO_2'') in Europe, with an estimated 18% share of European TiO_2 sales volume. We are the leading producer and marketer of TiO_2 in Germany, with an estimated 25% share of sales volume in 2001, and are among the leading marketers of TiO_2 in the Benelux and Scandinavian markets. TiO_2 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_2 for use in these applications. We market over 40 different TiO_2 grades to over 4,000 customers in over 100 countries. We market our products through a dedicated sales force in Europe and provide our customers with significant technical and application-related services. Our predecessor companies were the first producers of TiO_2 in the world, and we have achieved and maintained our market position through our long-term customer relationships, our new product development efforts, our commitment to product quality and by offering extensive technical and sales services.

We currently manufacture TiO_2 in five plants in Europe (two in Leverkusen, Germany; one in Nordenham, Germany; one in Langerbrugge, Belgium; and one in Fredrikstad, Norway), and sell and distribute TiO_2 from our plants and sales and distribution facilities located throughout Europe. Our plants are currently capable of producing approximately 313,000 metric tons of TiO_2 per year. Projected annual capacity is expected to increase to approximately 328,000 metric tons in 2004 as a result of additional debottlenecking that can be achieved through low cost capital investment.

For the twelve months ended March 31, 2002, we had net sales of $535.2 million and operating income plus depreciation and amortization expense less other general corporate expense, net (''EBITDA''), of $122.6 million.

Some of the principal applications for our products include:

TiO_2 for paints and coatings. Our TiO_2 is used to provide opacity, hiding power, durability, tinting strength and brightness in industrial coatings, as well as for paints and coatings for home interiors and exteriors, automobiles, aircraft, machines, appliances, traffic paint and other special purpose coatings. The amount of TiO_2 used in paints and coatings varies widely depending on the opacity, color and quality desired. Generally, the higher the opacity requirement of the coating, the greater the TiO_2 content. Recent trends toward white and pastel-colored surface coatings and extended warranties for appliances and other surface coated consumer durable items have resulted in higher usage in some applications.

TiO_2 for plastics. We produce TiO_2 pigments that improve the physical and optical properties in plastics, including whiteness and opacity. TiO_2 is used to provide opacity in items such as plastic grocery bags, vinyl window and door profiles and vinyl siding, as well as in agricultural and packaging film to provide opacity and allow the film to be printed for informational or advertising purposes. TiO_2 also provides hiding power, neutral undertone, brightness and durability for housewares, appliances, toys, computer cases and food packages. TiO_2's high brightness, along with its opacity, is used in some engineering plastics to help mask their undesirable natural color.

TiO_2 for paper. Our TiO_2 is used in the production of paper to provide whiteness, brightness, color stability and opacity. TiO_2 is used in the production of several types of paper, including filled paper, coated paper and laminate (decorative) paper. In filled paper applications, TiO_2 is added directly to the pulp and becomes part of the sheet itself. TiO_2 is particularly useful in filled paper applications because of its ability to improve the physical appearance of paper without significant negative impact on other performance characteristics as a result of the minimal quantities required. Without TiO_2, high opacity, lightweight papers could not be produced. TiO_2 is used in paper coatings for production of high gloss papers. TiO_2 is also used in paper laminates, where several layers of paper are laminated together using melamine resin under high temperature and pressure. The top layer of paper contains as much as 50% TiO_2 and is the layer that is printed with decorative patterns. Paper laminates are used to replace materials such as wood and tile for such applications as counter tops, furniture and wallboard. TiO_2 is beneficial in these applications because it assists in preventing the material from fading or changing color after prolonged exposure to sunlight and other weathering agents.

TiO_2 for inks and textiles. We produce TiO_2 to improve the opacity and hiding power of printing inks. TiO_2 allows inks to achieve very high print quality while not interfering with the technical requirements of printing machinery, including speed and high temperatures. Our TiO_2 is also used in textile applications. TiO_2 functions as an opacifying, brightening and delustering agent. In manmade fibers such as rayon and polyester, TiO_2 corrects undesirable characteristics such as glossy and translucent appearance. Without the presence of TiO_2, these materials would be unsuitable for use in many textile applications.

TiO_2 for other applications. We produce high purity sulfate process anatase TiO_2 used to provide opacity, whiteness and brightness in a variety of cosmetic and personal care products, such as skin cream, lipstick, eye shadow and toothpaste. Our TiO_2 is also found in food products, such as candy and confectionary, and in pet foods where it is used to obtain uniformity of color and appearance. In pharmaceuticals, our TiO_2 is used commonly as a colorant in pill and capsule coatings as well as in liquid medicines to provide uniformity of color and appearance. Kronos purified anatase grades meet the applicable requirements of the CTFA (Cosmetics, Toiletries and Fragrances Association), USP and BP (United States Pharmacopoeia and British Pharmacopoeia) and the FDA (United States Food and Drug Administration).

We are also engaged in the mining and sale of ilmenite ore, a raw material used as a feedstock by certain TiO_2 plants. Our mining operations have an estimated annual production capacity of approximately 900,000 metric tons, and we have estimated ilmenite reserves of at least 20 years at the current rate of usage. In 2001, we sold approximately 793,000 metric tons of ilmenite (699,000 metric tons in 2000), of which 243,000 metric tons were used internally in our sulfate-process TiO_2 plants (304,000 metric tons in 2000) and 550,000 metric tons were sold to third-party customers (395,000 metric tons in 2000). The decrease in our internal usage in 2001 was primarily due to a fire that occurred on March 20, 2001 that damaged a section of our Leverkusen, Germany sulfate-process TiO_2 plant and temporarily halted production at such plant. Approximately 7% of our consolidated net sales in 2001 and 4% in 2000 represented ilmenite sales to external customers.

The TiO_2 Industry

The global TiO_2 industry is concentrated. We, along with our North American affiliates and our five largest competitors (E.I. du Pont de Nemours & Co.; Millennium Chemicals, Inc.; Huntsman International Holdings LLC; Kerr-McGee Corporation; and Ishihara Sangyo Kaisha, Ltd.) account for approximately 80% of worldwide TiO_2 production volume and approximately 86% of European TiO_2 production volume. The TiO_2 industry has substantial requirements for entry, including proprietary production technology and significant capital investment. Currently, total global capacity is approximately 4.4 million metric tons, according to International Business Management Associates. Based upon current selling prices, the long lead times required for planning, obtaining government approvals and construction and the fact that no new plants are currently under construction, additional greenfield capacity is not expected in the next three to five years. While we believe that current selling prices do not support new greenfield capacity, it is likely that producers will continue to increase capacity over the next several years through incremental debottlenecking of existing facilities. According to International Business Management Associates, prices of TiO_2 are expected to be positively impacted by limited investment in new capacity over the next three to five years.

TiO_2 is considered a ‘‘quality-of-life’’ product with demand affected by underlying global macroeconomic variables such as GDP growth, consumer disposable income and population. According to International Business Management Associates, since 1980, growth in TiO_2 consumption has averaged 2.9% per year and did not decline during any two consecutive years. Although short-term influences, such as customer and producer stocking and destocking activities, may have distorted TiO_2’s growth trend, over the long-term, GDP growth has historically been the primary underlying factor influencing growth in TiO_2 demand. Additionally, the TiO_2 industry experiences some seasonality in its sales as paint sales generally peak during the spring and summer months in the northern hemisphere, resulting in greater TiO_2 sales volume during the first half of the year. Per capita consumption of TiO_2 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_2. TiO_2 demand in other regions of the world could increase as these economies develop to the point that ‘‘quality-of-life’’ products using TiO_2 become in greater demand.

The selling price of TiO_2 is significantly affected by industry capacity and demand, with the last cyclical peak for TiO_2 prices having occurred in late 2000 and the highest peak pricing for TiO_2 having occurred in 1990. Since late 2000 through early 2002, weak economic conditions worldwide have resulted in lower customer purchasing and, as a result, TiO_2 producers reduced their operating rates and the selling prices of TiO_2 declined. For example, our current TiO_2 prices in billing currencies are approximately 8% below the five-year average and approximately 25% below their historical high. Our average selling prices in billing currencies in March 2002 were approximately 17% lower than prices in November 2000.

In the first quarter of 2002, all major producers announced price increases worldwide of 5% to 8% to be implemented during the second quarter of 2002. During the period March 2002 through May 2002, TiO_2 sales volume increased 22% over the 2001 comparable period. We believe that this strong demand is primarily attributable to improving economies and customers restocking their inventory levels ahead of the previously announced price increases. Through May 2002, we have partially implemented the announced price increases, with May 2002 prices in billing currencies up 2% over March 2002 prices. Also, in May 2002, we and other major producers announced a second round of price increases for certain regions of the world, including Europe. However, the extent, if any, to which price increases will be realized will depend on market conditions.

TiO_2 is manufactured using either the chloride or sulfate production process. Although most end-use applications can use pigments produced by either process, chloride process pigments are generally preferred in certain coatings and plastics applications and sulfate process pigments are generally preferred for paper, fibers and ceramics applications. Due to environmental factors and customer considerations, the proportion of TiO_2 industry sales represented by chloride process pigments has increased relative to sulfate process pigments. In general, the chloride process is less intensive than the sulfate process in terms of capital investment, labor and energy. Approximately 60% of global production capacity (and approximately 62% of our production capacity) is based on chloride process technology with the remainder thereof based upon the sulfate process.

Our Competitive Strengths

We believe that we have the following competitive strengths:

Leading market positions. We enjoy a leading market position in TiO_2, which gives us an advantage over many of our competitors. Our predecessor companies were the first TiO_2 producers in the world and have manufactured TiO_2 for 86 years. We are the second largest producer of TiO_2 in Europe and the largest in Germany, which has the largest economy in Europe. We are also among the leading sellers of TiO_2 in the Scandinavian, Benelux, Austrian and Swiss markets. We have a global presence through our parent, Kronos, Inc. (''Kronos''), which sells our products in North America. We believe that our strong presence in Western Europe strategically positions us to take advantage of growth within the Eastern European markets.

Strong customer base. Our experience in and commitment to the TiO_2 industry are known by our customers. We enjoy a high level of customer loyalty, which helps us maintain our leading market positions. We have developed many long-term customer relationships through our broad product offerings, packaging flexibility, strong technical support and customer service. We currently have over 4,000 customers, with the top ten customers accounting for approximately 23% of our sales and no individual customer accounting for more than 6% of our sales. We also collaborate with our customers to develop new TiO_2 grades for key applications.

Broad product range. We have one of the broadest product offerings in the TiO_2 industry. We supply grades made via both the chloride and the sulfate processes. We offer over 40 different TiO_2 grades, including rutile, anatase and non-pigmentary grades, surface treated and non-surface treated grades and dry and paper slurry grades. We offer a variety of packaging options to meet our customers' needs, including 25 kilogram plastic and paper bags, Intermediate Bulk Containers in various sizes, bulk deliveries of dry pigments to our customers' silos and slurried pigments to the paper industry. We use our product offering and packaging flexibility to help differentiate ourselves from the competition.

High performance products. We have several key grades within our product range that we believe have superior performance characteristics. We supply the leading chloride grade used in the manufacture of PVC profiles in Europe, which are used to construct window frames, doorframes, window shades and siding. This grade, with over 30 years of proven performance, holds over 50% of the market for European PVC profiles. Other applications where we believe we hold a performance advantage include chloride grades for paper laminate applications and engineering plastics and sulfate grades for photographic films; purified anatase grades for the food, pharmaceutical and cosmetics markets; and specialty anatase grades for the dry cell battery, capacitor, textile and fiber markets. We believe that our customer relationships, the breadth of our product offerings and the performance of our grades in several applications make it difficult for competitive grades to win the favor of our customers.

Proprietary chloride production technology. We are the leading European chloride process manufacturer, with annual chloride process capacity of approximately 194,000 metric tons using proprietary technology. Certain of our customers, including many in the paint and plastics industries, generally prefer chloride process pigments in part due to higher durability, high temperature tolerance and blue tone characteristics. Proprietary production technology is also an important barrier to entry in the TiO_2 industry, as companies that possess such chloride technology are reluctant to license it to competitors. Through debottlenecking, we have increased our chloride capacity by 40% since 1994, including a debottlenecking project between 1996 and 1998 at our Leverkusen, Germany facility, which added 20,000 metric tons of capacity. Approximately 62% of our product is produced with this technology, while only 22% of competitors' capacity in Europe utilizes the chloride process.

Experienced management team. We are managed by an experienced and motivated group of senior executive officers, with an average of 21 years of experience in the chemical industry. In addition to our strong executive management team, we have an experienced group of operating managers who work to maintain our strong TiO_2 position.

Captive ilmenite ore mining operations. Our captive mining operations provide us a reliable source of TiO_2 feedstock for our sulfate process production plants at reduced cost, providing 100% of the ore required for these plants. Nearly 40% of our mine's production is used internally, and the balance is sold to other pigment and titanium slag producers at competitive prices yielding profitable margins.

Our Strategy

Our strategy is to increase value by:

- maximizing our earnings, cash flows and return on capital employed by reducing costs, increasing efficiencies and optimizing existing assets; and
- increasing our competitiveness by expanding our size and market presence through internal growth initiatives and technology innovation.

Specifically, to meet our goals, we strive to:

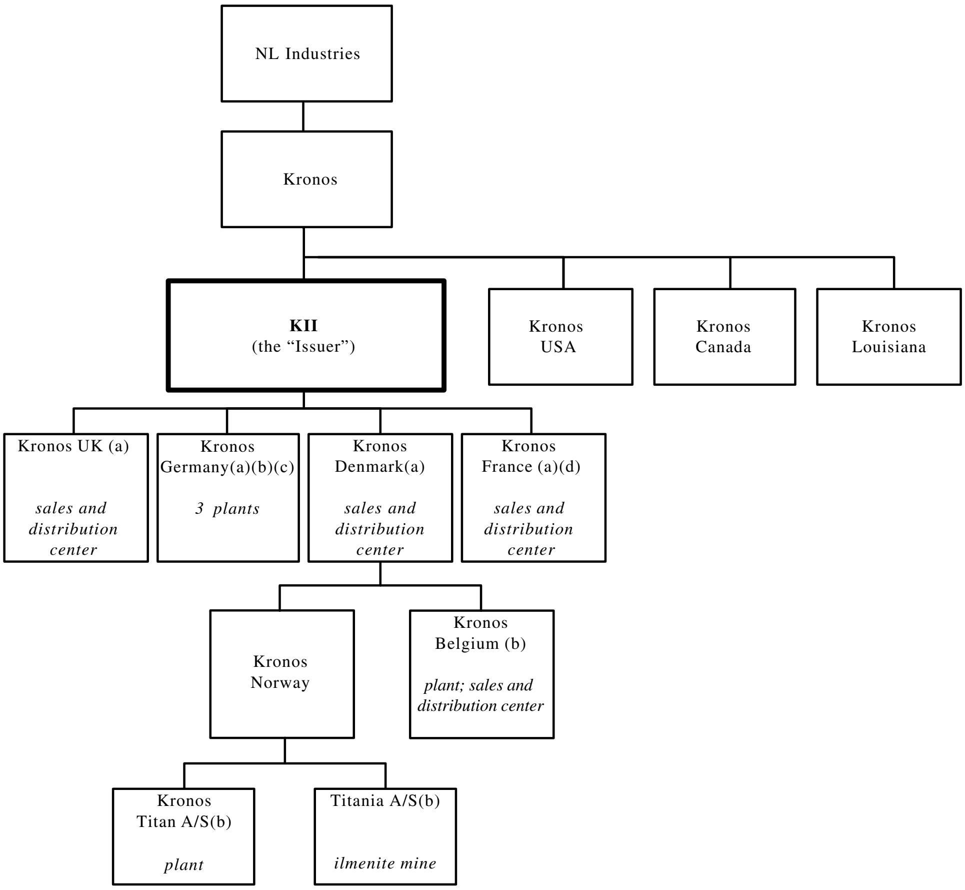
Improve operating efficiencies and margins. We believe that our operations are among the most efficient in the industry. We continue to focus on increasing manufacturing efficiencies through selected capital projects, process improvement and best practices, in order to lower unit costs and improve our margins. Our research and development, including process technology, focuses on improving production processes, yields and qualities. These operating efficiencies have been accomplished through aggressive operator training, innovative technology changes and constant equipment improvements. For example, we continue to improve our chloride plants' on-stream efficiency, and we anticipate further maintenance cost reductions by extending by 40% to 50% the time that the plants' chlorinators are in use, yielding annual maintenance savings of approximately $4 million. We also have a newly designed acid scrubber and newly designed pigment bag filter, which are expected to add approximately nine additional production days per year per line. This is equivalent to approximately 4,500 metric tons per year. Prudent personnel cost reductions are a continuous effort, which over approximately the last six years have resulted in an approximate 13% reduction in manufacturing and support staff personnel, yielding annual savings of approximately $11 million. These cost reduction programs have resulted in a significant improvement in our fixed cost structure during a time when our production capacity has increased over 20%, leading to a significant improvement in our margins. We intend to continue to use our manufacturing expertise to lower costs, improve efficiency and enhance the performance and reliability of our product line.

Grow through technology and innovation. We continue to improve the consistency of our grades and develop new grades for existing and new applications to meet the needs of our customers and increase product life cycles. For example, we have enhanced our product consistency and added new grades for plastics, coatings, fiber and paper laminate applications. Specifically, in plastics applications, one grade targeted for the growing engineering plastic segment provides excellent masking of the natural yellowness of engineering plastics at high temperatures. Two other plastic grades were designed for use in a range of polyolefin plastic resin applications, as they impart a desirable blue undertone to these resins. We have also developed a new paper laminate grade that we expect to introduce later this year designed to deliver higher opacity in this fast growing market segment.

Debottleneck existing facilities. Increasing our production capacity with only moderate capital outlays continues to be a major goal. Without any new plant or new line construction, our production capacity has increased 20% over the last six years and we believe that our capacity can reach approximately 328,000 metric tons during 2004 as a result of additional debottlenecking that can be achieved through low cost capital investment.

Corporate Structure

We conduct our manufacturing and distribution operations through our principal subsidiaries, Kronos Titan GmbH & Co. OHG (''Kronos Germany''), Kronos Europe S.A./N.V. (''Kronos Belgium''), Kronos Norge A/S (''Kronos Norway''), Kronos Limited (''Kronos UK''), Kronos Denmark ApS (''Kronos Denmark'') and Societe Industrielle Du Titane, S.A. (''Kronos France''). We are a wholly-owned subsidiary of Kronos, which in turn is a wholly-owned subsidiary of NL Industries, Inc. (''NL Industries''), the world's fifth largest producer of TiO_2. Kronos conducts its North American operations through its principal wholly-owned subsidiaries, Kronos Louisiana, Inc. (''Kronos Louisiana''), Kronos (US), Inc. (''Kronos USA'') and Kronos Canada, Inc. (''Kronos Canada''). The following chart summarizes this corporate structure (ownership is 100% unless otherwise noted):



(a) 65% of the stock or other equity interests of these first-tier subsidiaries will be pledged to secure the notes.

(b) Borrowers under our subsidiaries' new €80 million credit facility.

(c) 0.05% of Kronos Germany is held by NL Industries through its wholly-owned German subsidiary, NL Industries Chemie GmbH.

(d) 6% of Kronos France is held by the public.

We are parties to various intercorporate agreements with Kronos and its affiliates, which are described under ''Certain Relationships and Related Transactions.''

Certain Transactions and Refinancing

In April 2002, we completed an internal restructuring of our operations in which we transferred our Canadian operations to Kronos in contemplation of this offering. Pursuant to GAAP, our financial statements were retroactively restated to exclude the assets, liabilities, results of operations and cash flows of such Canadian operations for all periods presented. See note 1 to the consolidated financial statements included elsewhere in this offering memorandum. Because of the April 2002 transfer of such Canadian operations, our consolidated financial statements included elsewhere in this offering memorandum include a consolidated balance sheet as of April 30, 2002, and consolidated results of operations and cash flows for the four-month periods ended April 30, 2001 and 2002.

We are implementing a refinancing of certain of our outstanding indebtedness. The sources of funds of this refinancing are:

- the offering of the notes pursuant to this offering memorandum, and
- entering into our subsidiaries' new €80 million credit facility.

As described in ''Use of Proceeds'' and ''Capitalization,'' we will use the net proceeds from this offering, plus cash on hand, to repay a portion of our outstanding indebtedness owed to Kronos. We will use a portion of the borrowing available to us under our subsidiaries' new credit facility, plus cash on hand, to repay our outstanding short-term notes payable to third parties.

Upon completion of this offering, Kronos has agreed with us to contribute to our equity the remaining balance of our outstanding indebtedness owed to it.

At March 31, 2002, we had approximately $691 million of outstanding redeemable preferred stock and profit participation certificates (including cumulative and unpaid dividends thereon), all of which are held by Kronos and are redeemable at our option or Kronos' option. See note 16 to the consolidated financial statements included elsewhere in this offering memorandum. Subsequent to the completion of this offering, we will redeem such profit participation certificates in exchange for a portion of our outstanding notes receivable from affiliates (as discussed in the immediately following paragraph), and we will convert the redeemable preferred stock into our common stock, in one or more non-cash transactions. The ultimate result of these transactions will be that our stockholder's equity will increase by an amount equal to the carrying value of all such redeemable preferred stock and profit participation certificates redeemed or converted into our common stock. The redemption or conversion transactions will occur as soon as practicable after the completion of this offering. See ''Capitalization'' and ''Unaudited Pro Forma Financial Data.''

As of March 31, 2002, we had approximately $675 million of outstanding notes receivable from affiliates, all of which are owed by either Kronos or NL Industries. Settlement of such notes receivable is not currently contemplated in the foreseeable future, and consequently such notes receivable from affiliates are reported in our consolidated balance sheet as a reduction of our stockholder's equity in accordance with GAAP. See note 17 to the consolidated financial statements included elsewhere in this offering memorandum. As soon as practicable following the completion of this offering, we will transfer such notes receivable from affiliates to Kronos in one or more non-cash transactions (by using a portion of them to redeem all of our outstanding profit participation certificates and using the remainder as consideration to redeem a portion of our outstanding common stock). Our reported stockholder's equity would not be affected to the extent that such notes receivable are used to redeem common stock. See ''Capitalization'' and ''Unaudited Pro Forma Financial Data.''

THE OFFERING

The summary below describes the principal terms of the notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The ''Description of the Notes'' section of this offering memorandum contains a more detailed description of the terms and conditions of the notes.

Issuer	Kronos International, Inc.
Securities Offered	€270,000,000 principal amount of % senior secured notes due 2009.
Maturity	, 2009.
Interest Rate	% per year (calculated using a 360-day year).
Interest Payment Dates	and , beginning on , 2002. Interest will accrue from the issue date of the notes.
Ranking	The notes will rank equally in right of payment with all of our senior debt and senior in right of payment to all of our subordinated debt. The notes will be structurally subordinated to the debt and liabilities of our subsidiaries. As of March 31, 2002, after giving pro forma effect to the issuance of €270,000,000 notes in this offering, the repayment of existing indebtedness and new borrowings of €40 million ($35 million) under our subsidiaries' new credit facility and other transactions affecting our stockholder's equity, we estimate that our subsidiaries would have had approximately $220 million of debt and other liabilities (including approximately $74 million of deferred income taxes) recorded on our pro forma balance sheet, excluding approximately €40 million ($35 million) that we expect our subsidiaries to have available to borrow under the new credit facility. See ''Capitalization.''
Security	The notes will be secured by a pledge of 65% of the stock or other equity interests of certain of our first-tier subsidiaries.
Sinking Fund	None.
Optional Redemption	We cannot redeem the notes until , 2005. On that date and thereafter we may redeem some or all of the notes at the redemption prices listed in the ''Description of the Notes'' section under the heading ''Optional Redemption,'' plus accrued interest.
Optional Redemption After Public Equity Offerings	At any time (which may be more than once) before , 2005, we can choose to redeem up to 35% of the outstanding notes with money that we, Kronos or NL Industries raise in one or more public equity offerings, as long as: • we pay % of the face amount of the notes, plus interest; • we redeem the notes within 90 days of completing the public equity offering; and • at least 65% of the aggregate principal amount of notes originally issued remains outstanding afterwards.
Change of Control Offer	If we undergo a change of control, we must give holders of the notes the opportunity to sell us their notes at 101% of their face amount, plus accrued interest. See ''Description of Notes — Repurchase at the Option of Holders upon Change of Control.''

Asset Sale Proceeds — If we or our subsidiaries engage in asset sales, we generally must either invest the net cash proceeds from such sales in our business within a period of time, prepay senior debt or make an offer to purchase a principal amount of the notes equal to the excess net cash proceeds. The purchase price of the notes will be 100% of their principal amount, plus accrued interest. See ''Description of Notes — Certain Covenants — Limitation on Asset Sales.''

Certain Indenture Provisions — The indenture governing the notes will contain covenants limiting our (and most or all of our subsidiaries') ability to:

- incur additional debt or enter into sale and leaseback transactions;
- pay dividends or distributions on our capital stock or repurchase our capital stock;
- issue stock of subsidiaries;
- make certain investments;
- create liens on our assets to secure debt;
- enter into transactions with affiliates;
- merge or consolidate with another company; and
- transfer and sell assets.

These covenants are subject to a number of important limitations and exceptions.

Transfer Restrictions — We have not registered the notes under the Securities Act.

The notes are subject to certain transfer restrictions and may be offered or sold only in transactions exempt from or not subject to the registration requirements of the Securities Act. See ''Notice to Investors.''

Exchange Offer; Registration Rights — We will use our best efforts to register notes with the Commission (the ''Exchange Notes'') having substantially identical terms as the notes as part of an offer to exchange freely tradable Exchange Notes for the notes. We will use our best efforts to file a registration statement for the Exchange Notes with the Commission within 120 days of the issue date of these notes and to cause that registration statement to be declared effective within 270 days of the issue date of these notes.

We will pay additional interest on the notes if:

- we do not file the required registration statement on time;
- the Commission does not declare the required registration statement effective on time; or
- we do not complete the offer to exchange these notes for the Exchange Notes within 300 days from the issue date of the notes.

If we fail to meet the targets listed above (a ''Registration Default''), the annual interest rate on the notes will increase by 0.25%. The annual interest rate on the notes will increase by an

	additional 0.25% for each subsequent 90 day period during which the registration default continues, up to a maximum additional interest rate of 0.75% per year over the interest rate shown on the cover of this offering memorandum. If we correct the registration default, the interest rate on the notes will revert to the original level. If we must pay additional interest, we will pay it to you in cash on the same dates that we make other interest payments on the notes, until we correct the registration default.
Use of Proceeds	We are using the money raised from the notes (together with borrowings under our subsidiaries' new credit facility) to repay existing indebtedness. See ''Use of Proceeds.''
Listing	We will apply for the notes to be listed on the Luxembourg Stock Exchange.
Risk Factors	Investing in the notes involves substantial risks. See ''Risk Factors'' for a description of certain of the risks you should consider before investing in the notes.

SUMMARY HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

The historical income statement and cash flow data for the years ended December 31, 1999, 2000 and 2001, and the historical balance sheet data as of December 31, 2000 and 2001, have been derived from our audited consolidated financial statements. The historical income statement and cash flow data for the years ended December 31, 1997 and 1998, the three-month periods ended March 31, 2001 and 2002 and the latest 12 months ended March 31, 2002 and the historical balance sheet data as of December 31, 1997, 1998 and 1999 and as of March 31, 2001 and 2002, have been derived from our unaudited consolidated financial statements covering such periods. The summary historical data below should be read in conjunction with ''Selected Historical Financial and Other Data,'' ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and our consolidated financial statements and related notes included elsewhere in this offering memorandum (except for the unconsolidated financial statements as of December 31, 1997, 1998 and 1999, and for the years ended December 31, 1997 and 1998, which are not included in this offering memorandum). We have derived the summary unaudited pro forma financial information below from the ''Unaudited Pro Forma Condensed Consolidated Financial Statements,'' which include the detailed adjustments and assumptions used to prepare this information. Such summary unaudited pro forma financial information should be read in conjunction with such ''Unaudited Pro Forma Condensed Consolidated Financial Statements'' included elsewhere in this offering memorandum. While this pro forma information is based on adjustments we deem 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 our financial results for future periods.

	Actual			Pro Forma	
	Three Months Ended March 31,		Latest Twelve Months Ended March 31,	Three Months Ended March 31,	Latest Twelve Months Ended March 31,
	2001	2002	2002	2002	2002
	(in millions, except ratio information)				
Operating Data:					
Net sales	$ 159.0	$ 139.6	$ 535.2	$139.6	$535.2
Operating income(a)	38.3	14.3	99.8	14.3	99.8
Income from continuing operations	19.7	8.0	102.0	5.9	83.9
Other Data:					
Depreciation and amortization	$ 6.1	$ 6.3	$ 24.3	$ 6.3	$ 24.3
EBITDA(b)	44.4	20.6	122.6	20.6	122.6
Net cash provided by operating activities	5.6	17.4	87.2	N/A	N/A
Net cash used by investing activities	(4.8)	(4.8)	(27.9)	N/A	N/A
Net cash used by financing activities	(0.2)	(0.3)	(52.9)	N/A	N/A
Capital expenditures(c)	4.9	3.6	24.8	3.6	24.8
Ratio of EBITDA to interest	6.3x	2.0x	2.9x	3.4x	5.1x
Balance Sheet Data (at period end):					
Working capital(d)	$ 100.4	$ 111.7	$ 111.7	$125.6	$125.6
Total assets	530.2	539.0	539.0	512.5	512.5
Notes payable	67.1	46.4	46.4	—	—
Long-term debt, including current maturities	195.9	454.1	454.1	272.9	272.9
Total liabilities	435.9	665.0	665.0	437.4	437.4
Redeemable preferred stock and profit participation certificates	509.4	690.9	690.9	—	—
Stockholder's equity (deficit)	(415.4)	(817.2)	(817.2)	74.8	74.8

	Actual-Year Ended December 31,					Pro Forma-Year Ended December 31,
	1997	1998	1999	2000	2001	2001
	(in millions, except ratio information)					
Operating Data:						
Net sales	$ 601.8	$ 631.6	$ 620.3	$ 620.5	$ 554.6	$554.6
Operating income(a)	43.2	100.0	90.5	146.1	123.8	123.8
Income (loss) from continuing operations	(88.6)	38.6	41.9	80.1	113.7	101.1
Other Data:						
Depreciation and amortization	$ 29.9	$ 29.7	$ 28.4	$ 24.1	$ 24.1	$ 24.1
EBITDA(b)	73.1	129.7	118.9	170.2	146.4	146.4
Net cash provided by operating activities	20.3	8.9	77.6	97.8	75.4	N/A
Net cash used by investing activities	(23.3)	(17.6)	(26.9)	(26.6)	(27.9)	N/A
Net cash used by financing activities	(4.6)	(1.6)	(10.2)	(96.1)	(52.8)	N/A
Capital expenditures(c)	26.3	19.6	29.2	26.7	26.1	26.1
Ratio of EBITDA to interest	1.0x	1.9x	3.2x	5.6x	3.8x	6.1x
Balance Sheet Data (at period end):						
Working capital(d)	$ 63.9	$ 79.5	$ 70.6	$ 73.0	$ 101.5	N/A
Total assets	564.5	626.5	580.4	530.1	532.5	N/A
Notes payable	14.0	36.4	57.1	70.0	46.2	N/A
Long-term debt, including current maturities	756.2	549.7	244.5	196.1	482.9	N/A
Total liabilities	1,007.1	833.3	533.9	452.6	692.3	N/A
Redeemable preferred stock and profit participation certificates	—	—	489.1	504.9	617.4	N/A
Stockholder's deficit	(442.9)	(207.1)	(442.9)	(427.7)	(777.5)	N/A

(a) Operating income is defined as income before income taxes, minority interest, interest expense, interest expense to affiliates, certain nonrecurring items and certain general corporate items. Corporate items excluded from operating income include corporate expense, interest income from affiliates, gains and losses from the disposal of long-lived assets outside of the ordinary course of business and currency transaction gains and losses related to our U.S. dollar-denominated note payable to Kronos. See note 3 to the consolidated financial statements included elsewhere in this offering memorandum.

(b) EBITDA, as presented, represents operating income plus depreciation and amortization expense less other general corporate expenses, net, of $1.5 million in 2001. EBITDA is presented as a supplement to our operating income and cash flow from operations because we believe that EBITDA is a widely accepted financial indicator of cash flows and the ability to service debt. EBITDA should not be considered as an alternative to, or more meaningful than, operating income or net income determined under GAAP as an indicator of our operating performance, or cash flows from operating, investing and financing activities determined under GAAP as a measure of liquidity. EBITDA is not intended to depict funds available for reinvestment or other discretionary uses, as we have significant debt requirements and other commitments. Investors should consider certain factors in evaluating our EBITDA, including interest expense, income taxes, noncash income and expense items, changes in assets and liabilities, capital expenditures and other items included in GAAP cash flows as well as future debt repayment requirements and other commitments, including those described in our consolidated financial statements included elsewhere in this offering memorandum. We believe that the trend of our EBITDA is consistent with the trend of our GAAP operating income. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' for a discussion of operating income and cash flows during the last three years and our outlook. EBITDA as a measure of our performance may not be comparable to similarly titled captions of other companies due to potential differences in the method of calculation.

(c) Capital expenditures in 2001, the three months ended March 31, 2002 and the latest twelve months ended March 31, 2002 exclude an aggregate of $22.3 million, $1.2 million and $23.5 million, respectively, related to the rebuilding of our Leverkusen, Germany sulfate plant destroyed by fire, substantially all of which was reimbursed by insurance proceeds. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Investing cash flow'' and note 14 to the consolidated financial statements included elsewhere in this offering memorandum.

(d) Calculated as current assets less current liabilities.

RISK FACTORS

Before you invest in the notes, you should carefully consider the following factors in addition to the other information contained in this offering memorandum.

Risks Related to the Notes

Our leverage may impair our financial condition.

We currently have, and after the issuance of the notes will continue to have, a significant amount of debt. As of March 31, 2002, after giving effect to this offering and the application of the proceeds from the sale of the notes as described in ''Use of Proceeds'' and certain other transactions affecting our indebtedness described in ''Capitalization'' as if these transactions occurred on March 31, 2002, our total consolidated debt would have been $272.9 million. See ''Capitalization'' for additional information.

Our level of debt could have important consequences to you, including:

- making it more difficult for us to satisfy our obligations with respect to the notes;
- increasing our vulnerability to adverse general economic and industry conditions;
- requiring that a substantial portion of our cash flow from operations be used for the payment of interest on our debt, therefore reducing our ability to use our cash flow to fund working capital, capital expenditures, acquisitions and general corporate requirements;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions and general corporate requirements;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- placing us at a competitive disadvantage relative to other less leveraged competitors.

Subject to specified limitations, the indenture will permit us and our subsidiaries to incur additional debt, including secured debt that may be secured by the collateral on a *pari passu* basis. In addition, following the completion of this offering, we expect that our subsidiaries will have unused borrowing availability of approximately $35 million under our subsidiaries' new credit facility, subject to certain tests, all of which borrowings would be senior, structurally, to the notes and would be secured by substantially all of the current assets of such subsidiaries. If new debt is added to our and our subsidiaries' current debt levels, then the related risks that we and they now face could intensify. See ''Description of Our Subsidiaries' New Credit Facility'' for additional information.

The notes are secured only by the pledge of 65% of the stock or other equity interests of certain of our first-tier subsidiaries, and assets of our subsidiaries will first be applied to repay indebtedness and liabilities of our subsidiaries and may not be sufficient to repay the notes.

The notes are secured only by the pledge of 65% of the stock or other equity interests of certain of our first-tier subsidiaries. Each of the stock pledges securing the notes will be made under and will be governed by the local law of Denmark, France, Germany and the United Kingdom, as applicable, the jurisdictions where our pledged subsidiaries are formed. As a result, the validity of those pledges and the ability of noteholders to realize any benefits associated with the pledged shares may be limited under applicable local law as any action to enforce the stock pledges must be taken under the laws of the applicable jurisdiction and such laws may differ in significant respects from the laws of the United States. The rights of the trustee or the noteholders to foreclose upon and sell the pledged shares upon the occurrence of a default will be subject to limitations under applicable local bankruptcy laws if a bankruptcy proceeding were commenced against us or our subsidiaries. Any delay or inability to realize any benefit associated with the security interest in any jurisdiction or the application of local bankruptcy laws that are contrary to noteholders' interests could have a material adverse effect on the security interest we have granted in our subsidiaries and could result in an inability to realize the full value of the share pledges entered into in connection with the issuance of the notes.

In addition to the foregoing, the notes will be effectively subordinated in right of payment to all of the indebtedness and other liabilities of our subsidiaries, which, on a pro forma basis as of March 31, 2002, would have been approximately $220 million (including approximately $74 million in deferred income taxes) recorded on our pro forma balance sheet. Furthermore, our debt under our subsidiaries' new credit facility will be secured by liens on substantially all of the current assets of our subsidiaries. The notes will not have the benefit of this collateral, nor any other assets of our subsidiaries. Accordingly, if an event of default occurs under our subsidiaries' new credit facility, the lenders under our subsidiaries' new credit facility will have a right to such assets and may foreclose upon the collateral. In that case, such assets would first be used to repay in full amounts outstanding under our subsidiaries' new credit facility and may not be available to repay the notes. In the event of a bankruptcy event affecting any of our subsidiaries, local bankruptcy law would be likely to apply. In general, such local bankruptcy law affords significant protection for senior secured creditors, and there can be no assurance that, in the event of a bankruptcy event, such creditors could not take actions that would materially and adversely affect the value of our ongoing business and the equity value of such subsidiaries. The remaining value, if any, of our assets may not be sufficient to repay the notes.

Servicing our debt will require a significant amount of cash and our ability to generate sufficient cash depends on many factors, some of which are beyond our control.

Our ability to make payments on and refinance our debt and to fund planned capital expenditures depends on our future ability to generate cash flow. To some extent, this is subject to general economic, financial, competitive, legislative and regulatory and other factors that are beyond our control. In addition, our ability to borrow funds under our subsidiaries' new 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 our subsidiaries' new credit facility. As of March 31, 2002, after giving pro forma effect to this offering and repayment of our then outstanding indebtedness with the net proceeds therefrom, as if these transactions occurred on March 31, 2002, approximately $35 million would have been available for general corporate purposes borrowing under our subsidiaries' new credit facility. We cannot assure you that our business will generate cash flow from operations or that future borrowings will be available to us under our subsidiaries' new credit facility in an amount sufficient to enable us to pay our debt or to fund other liquidity needs. As a result, we may need to refinance all or a portion of our debt before maturity, and it is likely that we will need to refinance all or a portion of our debt on maturity. Our subsidiaries' new three-year credit facility matures in 2005. We cannot assure you that we will be able to refinance any of our debt on favorable terms, if at all. Any inability to generate sufficient cash flow or refinance our debt on favorable terms could have a material adverse effect on our financial condition.

Covenant restrictions under our subsidiaries' new credit facility and the indenture may limit our ability to operate our business.

Our subsidiaries' new credit facility and the indenture governing the notes will contain, among other things, covenants that may restrict our ability to finance future operations or capital needs or to engage in other business activities. Our subsidiaries' new credit facility and the indenture will restrict, among other things, our ability and the ability of our restricted subsidiaries to:

- borrow money, pay dividends or make distributions;
- purchase or redeem stock;
- make investments and extend credit;
- engage in transactions with affiliates;
- engage in sale-leaseback transactions;
- freely distribute the proceeds from certain asset sales;

- effect a consolidation or merger or sell, transfer, lease or otherwise dispose of all or substantially all of our assets; and
- create liens on our assets.

In addition, our subsidiaries' new credit facility will require these subsidiaries to maintain specified financial ratios and satisfy certain financial condition tests, which may require that action be taken to reduce debt or to act in a manner contrary to our business objectives. Events beyond our control, including changes in general business and economic conditions, may affect our ability to meet those financial ratios and financial condition tests. We cannot assure you that we 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 our subsidiaries' new credit facility and any resulting acceleration under the credit facility may result in a default under the indenture. If an event of default under our subsidiaries' new credit facility occurs, the lenders could elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. See ''Description of Our Subsidiaries' New Credit Facility'' and ''Description of the Notes'' for additional information.

If our subsidiaries do not make sufficient distributions to us, we will not be able to make payments on our debt, including the notes.

Our assets consist primarily of investments in our operating subsidiaries. Our cash flow and our ability to service indebtedness, including our ability to pay the interest on and principal of the notes, depend upon cash dividends and distributions or other transfers from our subsidiaries. In addition, any payment of dividends, distributions, loans or advances by our subsidiaries to us 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 our subsidiaries operate, and any restrictions imposed by the current and future debt instruments of our subsidiaries. Such payments to us by our subsidiaries are contingent upon our subsidiaries' earnings.

Our subsidiaries are separate and distinct legal entities that have no obligation, contingent or otherwise, to pay any amounts due pursuant to the notes or to make any funds available therefor, whether by dividends, loans, distributions or other payments, and do not guarantee the payment of interest on, or principal of, the notes. Any right that we have to receive any assets of any of our subsidiaries upon the liquidation or reorganization of any such subsidiary, and the consequent right of holders of notes to realize proceeds from the sale of such assets, will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors and holders of debt issued by the subsidiary.

No public market exists for the notes, and this offering and sale of the notes are subject to significant legal restrictions as well as uncertainties regarding the liquidity of the trading market for the notes.

The notes have not been registered under the Securities Act or any state or foreign securities laws. As a result, you may only sell or resell notes if:

- there is an applicable exemption from the registration requirement of the Securities Act and applicable state laws or foreign laws that applies to the circumstances of the sale; or
- we file a registration statement and it becomes effective.

Under the registration rights agreement applicable to the notes, we will be required to use our best efforts to commence the exchange offer to exchange the notes for equivalent securities registered under the Securities Act or to register the notes under the Securities Act. However, we cannot assure you that we will be successful in having any such registration statement declared effective. See ''Exchange Offer; Registration Rights'' and ''Notice to Investors'' for additional information.

The notes are a new issue of securities with no established trading market. Application will be made to list the notes on the Luxembourg Stock Exchange. The initial purchasers have informed us that they intend to make a market in the notes after this offering is completed. However, the initial purchasers are not obligated to do so, and may cease market-making activities at any time. Accordingly, we cannot give any assurance as to:

- the likelihood that an active market for the notes will develop;
- the liquidity of any such market;
- the ability of holders to sell their notes; or
- the prices that holders may obtain for their notes upon any sale.

In addition, the liquidity of the trading market for the notes, if any, and the market price quoted for the notes, will depend on many factors, including our operating results, the market for similar securities, currency exchange rates and interest rates. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes. We cannot guarantee that the market for the notes will not be subject to similar disruptions or that any such disruptions will not have an adverse effect on the value or marketability of the notes.

We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture.

Upon a change of control, we are required to offer to repurchase all outstanding notes at 101% of the face amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase. The source of funds for any such purchase of notes will be our available cash or cash generated from our subsidiaries' operations or other sources, including borrowing, sales of assets or sales of equity. We cannot assure you that sufficient funds will be available at the time of any change of control to make any required repurchases of notes tendered. If the holders of the notes exercise their right to require us to repurchase all of the notes upon a change of control, the financial effect of this repurchase could cause a default under our other debt, even if the change of control itself would not cause a default. Accordingly, it is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of notes. See ''Description of the Notes — Change of Control'' and ''Description of Our Subsidiaries' New Credit Facility'' for additional information.

Risks Related to Our Business

Demand for our products is cyclical and we may experience prolonged depressed market conditions for our products, which may adversely affect our ability to make payments on the notes.

Substantially all of our revenue is attributable to sales of TiO_2, the price of which has been historically cyclical and sensitive to relative changes in supply and demand and general market and economic conditions. Historically, the market for TiO_2 has experienced alternating periods of tight supply, causing prices and profit margins to increase, followed by periods of oversupply and declining prices and profit margins. Recently, our markets are experiencing periods of oversupply due to a global economic downturn, which has contributed to depressed pricing of our products in these markets. We cannot guarantee that future growth in demand for these products will be sufficient to alleviate any existing or future conditions of excess industry capacity or that such conditions will not be sustained or further aggravated by anticipated or unanticipated changes in economic conditions, capacity additions or other events.

We sell our products in a mature and highly competitive industry and face price pressure in the markets in which we operate.

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

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

We are 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. We may incur substantial costs, including fines, damages and criminal penalties or civil sanctions, or experience interruptions in our operations for actual or alleged violations or compliance requirements arising under environmental laws. Our operations could result in violations under environmental laws, including spills or other releases of hazardous substances to the environment. Some of our operating facilities are in densely populated urban areas or in industrial areas adjacent to other operating facilities. In the event of a catastrophic incident, we could incur material costs as a result of addressing such an event and in implementing measures to prevent such incidents. Given the nature of our business, violations of environmental laws may result in restrictions imposed on our operating activities, substantial fines, penalties, damages or other costs, including as a result of private litigation, any of which could have a material adverse effect on our business, financial condition, results of operations or cash flows. See ''Business — Regulatory and Environmental Matters'' and ''— Legal Proceedings.''

In addition, we could incur significant expenditures to comply with existing or future environmental laws. Capital expenditures and, to a lesser extent, costs and operating expenses relating to environmental matters will be subject to evolving regulatory requirements and will depend on the timing of promulgation and enforcement of specific standards that impose requirements on our operations. We cannot, therefore, assure you that capital expenditures beyond those currently anticipated will not be required under environmental laws. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations.''

We have a limited number of suppliers for some of our raw materials, which could negatively affect us.

We have a limited number of suppliers for some of our raw materials, and 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 2001, we 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, we could suffer reduced supplies or be forced to incur increased prices for our raw materials.

If we are unable to maintain our relationship with Kronos and its affiliates, we may not be able to replace on favorable terms our contracts with them and facilities that they provide, if at all.

We have entered into and intend to continue to enter into certain agreements, including service, supply and buy/sell agreements, with Kronos and its affiliates. If Kronos or any of its affiliates fails to perform its obligations under any of these agreements, or if any of these agreements terminate or we are otherwise unable to obtain the benefits thereunder for any reason, there could be a material adverse effect on our business, financial condition, results of operations or cash flows if we are unable to obtain similar agreements on the same terms from third parties. See ''Certain Relationships and Related Transactions.''

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

For so long as Kronos and its affiliates retain their direct and indirect ownership interests in KII, conflicts of interest could arise with respect to transactions involving business dealings between us and them, potential acquisitions of business or properties, the issuance of additional securities, our payment of dividends and other matters. In addition, affiliates of Kronos are also engaged in the business of producing and selling

TiO_2 and may compete with us. See ''Description of Notes — Certain Covenants — Limitations on Transactions with Affiliates.''

We could be adversely affected if NL Industries suffers adverse consequences from lawsuits.

We are wholly-owned by Kronos, which in turn is wholly-owned by NL Industries, a publicly-held corporation subject to the reporting and disclosure requirements of the Commission. NL Industries is a defendant in numerous lawsuits, including environmental claims and claims involving the past manufacture and sale in the United States of lead pigments for use in paint for buildings, all as disclosed in NL Industries' filings with the Commission. Neither we nor our subsidiaries has ever been named as a defendant in any of such lawsuits against NL Industries. Nevertheless, judgments against NL Industries in litigation could have adverse consequences for us and holders of the notes. Such events could impose economic hardships on NL Industries, which in turn could make future financings, including bank borrowings, more difficult for Kronos and for us and also could adversely affect our customers' perceptions of us as an affiliate of NL Industries. In addition, judgments against NL Industries might force NL Industries to divest its equity ownership of Kronos or us to raise cash, which could result in a change of control of us. See ''Description of the Notes — Change of Control'' for additional information.

Terrorist attacks, such as the attacks in New York and Washington, D.C. on September 11, 2001, and other attacks or acts of war, may adversely affect the markets in which we operate, our operations and our profitability.

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope. These attacks caused major instability in the U.S. and other financial markets. Leaders of the U.S. government have announced their intention to actively pursue those behind the attacks and to possibly initiate broader action against global terrorism. The attacks and any response may lead to armed hostilities or further acts of terrorism in the United States or elsewhere, and such developments would likely cause further instability in financial markets. In addition, armed hostilities and further acts of terrorism may directly impact our physical facilities and operations, which are located in Europe, or those of our customers. Furthermore, the recent terrorist attacks and future developments may result in reduced demand from our customers for our products or disruption of supplies of raw materials. These developments may subject our operations to increased risks and, depending on their magnitude, could have a material adverse effect on our business and your investment.

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

We conduct all of our business in several foreign jurisdictions and are subject to risks normally associated with international operations. These risks include the need to convert currencies that we may receive for some of our products into currencies required to pay some of our debt, or into currencies in which we purchase certain raw materials or pay 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 our patents are declared invalid or our trade secrets become known to competitors, our ability to compete may be adversely affected.

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

We also rely on unpatented proprietary know-how and continuing technological innovation and other trade secrets to develop and maintain our competitive position. Although it is our policy to enter into confidentiality agreements with our employees and third parties to protect our intellectual property, because these confidentiality agreements may be breached, such agreements may not provide meaningful protection for our trade secrets or proprietary know-how, or adequate remedies may not be available in the event of an unauthorized use or disclosure of such trade secrets and know-how. In addition, others could obtain knowledge of such trade secrets through independent development or other access by legal means. The failure of our patents or confidentiality agreements to protect our processes, apparatuses, technology, trade secrets or proprietary know-how could have a material adverse effect on our business, financial condition, results of operations or cash flows.

USE OF PROCEEDS

The net proceeds to be received by us from the sale of the notes, after deducting placement fees and commissions and estimated offering expenses payable by us, are estimated to be approximately $229.7 million. We intend to use all of such net proceeds to repay in full the principal and accrued interest on our 11.75% second-tier senior mirror note and repay a portion of other notes payable to affiliates. See note 8 to the consolidated financial statements included elsewhere in this offering memorandum.

As our 11.75% second-tier senior mirror note does not permit prepayment, the underlying NL Industries 11.75% senior secured notes must first or contemporaneously be repurchased or redeemed in order for each of us and Kronos to prepay our respective mirror notes. There is a 45-day notice period for NL Industries' redemption of its 11.75% senior secured notes, consisting of 15 days notice to the trustee for such notes and 30 days notice to the holders of such notes. NL Industries has agreed in writing with us that, on or before June 10, 2002, NL Industries will transmit a notice to the trustee for NL Industries' 11.75% senior secured notes with irrevocable instructions to transmit notice of redemption to the holders of such notes promptly following the closing of the sale of our notes and receipt by the trustee, in the trust account described below, of an amount sufficient to repay in full the principal and accrued interest on NL Industries' 11.75% senior secured notes (the ''Repayment Funds''). NL Industries has also agreed in writing with us that, immediately following the closing of this offering, the portion of the net proceeds from this offering constituting Repayment Funds will be transferred to a trust account to be maintained by the trustee, effectively constituting a loan to NL Industries. The Repayment Funds will be invested by the trustee in short term United States government securities, with the Repayment Funds to be applied to redeem in full NL Industries' 11.75% senior secured notes upon expiration of the notice period to the holders, and with any funds remaining in escrow following such repayment in full to be paid to us. Upon redemption of NL Industries' 11.75% senior secured notes, our 11.75% second-tier senior mirror note will be deemed repaid in full.

Except as otherwise noted, Euro amounts in this offering memorandum have been presented in U.S. dollars at an exchange rate of €1.00 to $0.87, based on the closing spot rate on March 31, 2002 reported by Bloomberg. The closing spot rate on June 5, 2002 was €1.00 to $0.94 as reported by Bloomberg.

CAPITALIZATION

The following table sets forth our unaudited historical consolidated cash and cash equivalents and capitalization as of March 31, 2002 and our pro forma cash and cash equivalents and capitalization at such date after giving effect to (i) this offering and the application of the net proceeds from the sale of the notes as described in ''Use of Proceeds,'' (ii) borrowing under our subsidiaries' new credit facility and the repayment of short-term notes payable and (iii) other transactions affecting our stockholder's equity described below. The information set forth below should be read in conjunction with ''Use of Proceeds,'' ''Management's Discussion and Analysis of Financial Condition and Results of Operations,'' ''Unaudited Pro Forma Financial Data'' and our audited and unaudited consolidated financial statements and the related notes included elsewhere in this offering memorandum. Euro amounts have been presented in U.S. dollars at an exchange rate of €1.00 to $0.87, based on the closing spot rate on March 31, 2002 reported by Bloomberg.

	As of March 31, 2002		
	Actual	Pro Forma Adjustments	Pro Forma
		(in millions)	
Cash and cash equivalents	$ 42.5	$ (32.5)	$ 10.0
Debt:			
Notes payable	$ 46.4	$ (46.4)(a)	$ —
New revolving credit facility of subsidiaries	—	34.9 (b)	34.9
Notes offered hereby	—	235.7 (c)	235.7
Notes payable to affiliate	451.8	(451.8)(d)	—
Other	2.3	—	2.3
Total debt	500.5	(227.6)	272.9
Redeemable preferred stock and profit participation certificates	690.9	(690.9)(e)	—
Stockholder's equity (deficit)	(817.2)	892.0 (d)(e)	74.8
Total capitalization	$ 374.2	$ (26.5)	$347.7

(a) Represents the pay off of short-term notes payable to third parties with proceeds from new revolving credit facility of subsidiaries and available cash.

(b) Represents borrowings under our new €80 million ($70 million) revolving credit facility, after which we would have $35 million of undrawn borrowing availability under such facility.

(c) Represents €270 million ($236 million) aggregate principal amount of notes offered hereby.

(d) Represents the payoff of our 11.75% second-tier senior mirror note payable to affiliate ($169 million) and the payoff of a portion of our other note payable to affiliate ($82 million) using the net proceeds of this offering and available cash, and the contribution of the remaining balance of our other note payable to affiliate ($201 million) to our equity.

(e) Represents the elimination, by way of redemption or conversion into our common stock of $691 million of our redeemable preferred stock and profit participation certificates in one or more non-cash transactions, the ultimate result of which will be that our stockholder's equity will increase by an amount equal to the carrying value of such redeemable preferred stock and profit participation certificates redeemed or converted.

We have a significant amount of notes payable to affiliates (see note 8 to the consolidated financial statements included elsewhere in this offering memorandum). A portion of such notes payable to affiliates will be repaid using the net proceeds of this offering and available cash. Kronos, which holds such notes payable, has agreed that any remaining amount of such notes payable to affiliates will be contributed to our equity following completion of this offering.

At March 31, 2002, we had approximately $691 million of outstanding redeemable preferred stock and profit participation certificates (including cumulative and unpaid dividends thereon), all of which are held by Kronos and are redeemable at our option or Kronos' option. See note 16 to the consolidated financial statements included elsewhere in this offering memorandum. Subsequent to the completion of this offering, we will redeem such profit participation certificates in exchange for a portion of our outstanding notes receivable from affiliates (as discussed in the immediately following paragraph), and we will convert the redeemable preferred stock into our common stock, in one or more non-cash transactions. The ultimate result of these transactions will be that our stockholder's equity will increase by an amount equal to the carrying value of all such redeemable preferred stock and profit participation certificates redeemed or converted into our common stock. The redemption or conversion transactions will occur as soon as practicable after the completion of this offering. See ''Offering Memorandum Summary — Certain Transactions and Refinancing'' and ''Unaudited Pro Forma Financial Data.''

As of March 31, 2002, we had approximately $675 million of outstanding notes receivable from affiliates, all of which are owed by either Kronos or NL Industries. Settlement of such notes receivable is not currently contemplated in the foreseeable future, and consequently such notes receivable from affiliates are reported in our consolidated balance sheet as a reduction of our stockholder's equity in accordance with GAAP. See note 17 to the consolidated financial statements included elsewhere in this offering memorandum. As soon as practicable following the completion of this offering, we will transfer such notes receivable from affiliates to Kronos in one or more non-cash transactions (by using a portion of them to redeem all of our outstanding profit participation certificates and using the remainder as consideration to redeem a portion of our outstanding common stock). Our reported stockholder's equity would not be affected to the extent such notes receivable are used to redeem our common stock. See ''Offering Memorandum Summary — Certain Transactions and Refinancing'' and ''Unaudited Pro Forma Financial Data.''

UNAUDITED PRO FORMA FINANCIAL DATA

The following unaudited pro forma financial data is based on our historical financial statements and reflects the following:

- the issuance of €270 million (approximately $235.7 million) of notes in this offering;
- borrowings outstanding of approximately $35 million under our subsidiaries' new credit facility;
- the repayment in full of all outstanding principal on our 11.75% second-tier senior mirror note ($169 million at March 31, 2002);
- the repayment in full of short-term notes payable to third parties ($46 million at March 31, 2002);
- the repayment of other of our existing affiliate indebtedness ($82 million at March 31, 2002);
- the contribution of the remaining balance of our other note payable to affiliate ($201 million at March 31, 2002) to our equity;
- the elimination, by way of redemption or conversion into our common stock, of our redeemable preferred stock and profit participation certificates held by Kronos ($691 million at March 31, 2002) in one or more non-cash transactions, the ultimate result of which will be that our stockholder's equity will increase by an amount equal to the carrying value of such redeemable preferred stock and profit participation certificates redeemed or converted; and
- the elimination of our notes receivable from Kronos and NL Industries.

Pro forma adjustments to historical financial statements include adjustments that we deem appropriate, reflecting items of recurring significance and that are factually supported based on currently available information. We assumed that the transactions described above occurred on March 31, 2002 for purposes of preparing the pro forma condensed consolidated balance sheet as of that date, and we assumed that the transactions described above occurred on January 1, 2001 for purposes of preparing the pro forma condensed consolidated statement of earnings for the year ended December 31, 2001 and the three months ended March 31, 2002 and 2001. The pro forma financial statements may not be indicative of what actually would have been, nor do the pro forma financial statements purport to present our consolidated financial results for future periods.

The unaudited pro forma financial data have been derived from our 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 management believes to be reasonable. You should read this information in conjunction with our consolidated financial statements and related notes included elsewhere in this offering memorandum. The unaudited pro forma financial data are included for comparative purposes only.

Amounts in U.S. dollars have been translated from euro at the rate of €1.00 to $0.87, in the unaudited pro forma condensed consolidated balance sheet and at the rate of €1.00 to $0.90, $0.92, $0.87 and $0.88 for the respective unaudited pro forma condensed statements of income for the year ended December 31, 2001, the three months ended March 31, 2001, the three months ended March 31, 2002 and the last twelve months ended March 31, 2002, respectively.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
as of March 31, 2002

	Actual	Pro Forma Adjustments	Pro Forma
		(in millions)	
Assets:			
Cash and cash equivalents	$ 42.5	$ 235.7 (a) 34.9 (b) (250.7)(c) (46.4)(d) (6.0)(e)	$ 10.0
Accounts and notes receivable	88.6	—	88.6
Inventories	107.9	—	107.9
Other current assets	16.2	—	16.2
Total current assets	255.2	(32.5)	222.7
Prepaid pension cost	14.6		14.6
Other noncurrent assets	4.1	6.0 (e)	10.1
Property and equipment, net	265.1		265.1
Total assets	$ 539.0	$ (26.5)	$512.5
Liabilities and Stockholder's Equity (Deficit):			
Notes payable	$ 46.4	$ (46.4)(d)	$ —
Current maturities of long-term debt	1.0	—	1.0
Accounts payable and accrued liabilities	73.2	—	73.2
Other current liabilities	22.9	—	22.9
Total current liabilities	143.5	(46.4)	97.1
Long-term debt:			
Notes payable to affiliate	451.8	(451.8)(c)	—
Senior secured notes	—	235.7 (a)	235.7
Revolving credit facility	—	34.9 (b)	34.9
Other	1.3	—	1.3
Deferred income taxes	38.9	—	38.9
Accrued pension cost	17.8	—	17.8
Other noncurrent liabilities	11.7	—	11.7
Total noncurrent liabilities	521.5	(181.2)	340.3
Total liabilities	665.0	(227.6)	437.4
Minority interest	0.3	—	0.3
Redeemable preferred stock and profit participation certificates	690.9	(690.9)(f)	—
Stockholder's equity (deficit)	(817.2)	892.0 (c)(f)	74.8
Total liabilities and stockholder's equity	$ 539.0	$ (26.5)	$512.5

(a) Represents €270 million ($236 million) aggregate principal amount of notes offered hereby.

(b) Represents borrowings under our new €80 million ($70 million) revolving credit facility, after which we would have $35 million of undrawn borrowing availability under such facility.

(c) Represents the payoff of our 11.75% second-tier senior mirror note payable to affiliate ($169 million) and the payoff of a portion of our other note payable to affiliate ($82 million) using the net proceeds of this offering and available cash, and the contribution of the remaining balance of our other note payable to affiliate ($201 million) to our equity.

(d) Pay off of short-term notes payable to third parties with proceeds from new revolving credit facility of subsidiaries and available cash.

(e) Fees for underwriting, commitment fees and other offering costs.

(f) Represents the elimination, by way of redemption or conversion into our common stock of $691 million of our redeemable preferred stock and profit participation certificates in one or more non-cash transactions, the ultimate result of which will be that our stockholder's equity will increase by an amount equal to the carrying value of such redeemable preferred stock and profit participation certificates redeemed or converted.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
Year Ended December 31, 2001

	Actual	Pro Forma Adjustments	Pro Forma Adjustments	Pro Forma
		(in millions)		
Net sales	$554.6	$ —	$ —	$554.6
Cost of sales	379.6	—	—	379.6
Gross margin	175.0	—	—	175.0
Selling, general and administrative	66.9	—	—	66.9
Other income	15.7	—	—	15.7
Operating income	123.8	—	—	123.8
Insurance recoveries, net	17.5	—	—	17.5
Interest expense	(4.3)	4.1 (a)	(22.8)(b) (0.9)(c)	(23.9)
Interest expense to affiliates	(34.1)	34.1 (d)	—	—
Interest income from affiliates	36.2	(36.2)(e)	—	—
Other, net	(1.5)	—	—	(1.5)
Currency transaction loss on affiliate loans	(9.4)	9.4 (f)	—	—
Income before income taxes	128.2	11.4	(23.7)	115.9
Income tax expense	14.5	0.6 (g)	(0.3)(g)	14.8
Income from continuing operations	$113.7	$ 10.8	$(23.4)	$101.1

(a) Represents the elimination of interest expense associated with the repayment of short-term notes payable to third parties.

(b) Represents interest expense (assumed 9% interest rate) associated with the €270 million principal amount of the notes offered hereby ($21.2 million) and our subsidiaries' new variable rate (assumed 5%) €80 million revolving credit facility of which an average $31 million is assumed to be outstanding during the period ($1.6 million).

(c) Represents amortization of underwriting fees, commitment fees and other offering costs.

(d) Represents the elimination of interest expense associated with our notes payable to affiliates either contributed to our equity or repaid.

(e) Represents elimination of interest income on notes receivable from affiliates due to the transfer of such notes receivable to Kronos in one or more non-cash transactions.

(f) Represents elimination of currency transaction gains (losses) on affiliate loans contributed to equity or repaid.

(g) Related tax effect calculated using respective statutory rates in jurisdictions where repayments or borrowings occur. Substantially all of the pre-tax effect of the pro forma adjustments relates to KII itself. We have a significant amount of net operating loss carryforwards in Germany, the benefit of which has not previously been recognized in accordance with GAAP. Accordingly, the pro forma tax effect differs from the amount that would be expected by applying the statutory tax rate to the amount of the pre-tax pro forma adjustments due to such carryforwards.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
Latest Twelve Months Ended March 31, 2002

	Actual	Pro Forma Adjustments	Pro Forma Adjustments	Pro Forma
		(in millions)		
Net sales	$535.2	$ —	$ —	$535.2
Cost of sales	385.0	—	—	385.0
Gross margin	150.2	—	—	150.2
Selling, general and administrative	66.1	—	—	66.1
Other income	15.7	—	—	15.7
Operating income	99.8	—	—	99.8
Insurance recoveries, net	17.5	—	—	17.5
Interest expense	(3.8)	3.6(a)	(22.8)(b) (0.9)(c)	(23.9)
Interest expense to affiliates	(38.1)	38.1(d)	—	—
Interest income from affiliates	38.4	(38.4)(e)	—	—
Other, net	(1.5)	—	—	(1.5)
Currency transaction loss on affiliate loans	(2.6)	2.6(f)	—	—
Income before income taxes	109.7	5.9	(23.7)	91.9
Income tax expense	7.7	0.6(g)	(0.3)(g)	8.0
Income from continuing operations	$102.0	$ 5.3	$(23.4)	$ 83.9

(a) Represents the elimination of interest expense associated with the repayment of short-term notes payable to third parties.

(b) Represents interest expense (assumed 9% interest rate) associated with the €270 million principal amount of the notes offered hereby ($21.2 million) and our subsidiaries' new variable rate (assumed 5%) €80 million revolving credit facility of which an average $31 million is assumed to be outstanding during the period ($1.6 million).

(c) Represents amortization of underwriting fees, commitment fees and other offering costs.

(d) Represents the elimination of interest expense associated with our notes payable to affiliates either contributed to our equity or repaid.

(e) Represents elimination of interest income on notes receivable from affiliates due to the transfer of such notes receivable to Kronos in one or more non-cash transactions.

(f) Represents elimination of currency transaction gains (losses) on affiliate loans contributed to equity or repaid.

(g) Related tax effect calculated using respective statutory rates in jurisdictions where repayments or borrowings occur. Substantially all of the pre-tax effect of the pro forma adjustments relates to KII itself. We have a significant amount of net operating loss carryforwards in Germany, the benefit of which has not previously been recognized in accordance with GAAP. Accordingly, the pro forma tax effect differs from the amount that would be expected by applying the statutory tax rate to the amount of the pre-tax pro forma adjustments due to such carryforwards.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
Three Months Ended March 31, 2001

	Actual	Pro Forma Adjustments	Pro Forma Adjustments	Pro Forma
		(in millions)		
Net sales	$159.0	$ —	$ —	$159.0
Cost of sales	105.3	—	—	105.3
Gross margin	53.7	—	—	53.7
Selling, general and administrative	17.5	—	—	17.5
Other income	2.1	—	—	2.1
Operating income	38.3	—	—	38.3
Interest expense	(1.2)	1.1(a)	(5.7)(b)	(6.0)
		—	(0.2)(c)	
Interest expense to affiliates	(5.8)	5.8(d)	—	—
Interest income from affiliates	6.7	(6.7)(e)	—	—
Currency transaction loss on affiliate loans	(9.1)	9.1(f)	—	—
Income before income taxes	28.9	9.3	(5.9)	32.3
Income tax expense	9.2	0.1(g)	(0.1)(g)	9.2
Income from continuing operations	$ 19.7	$ 9.2	$(5.8)	$ 23.1

(a) Represents the elimination of interest expense associated with the repayment of short-term notes payable to third parties.

(b) Represents interest expense (assumed 9% interest rate) associated with the €270 million principal amount of the notes offered hereby ($5.3 million) and our subsidiaries' new variable rate (assumed 5%) €80 million revolving credit facility of which an average $31 million is assumed to be outstanding during the period ($0.4 million).

(c) Represents amortization of underwriting fees, commitment fees and other offering costs.

(d) Represents the elimination of interest expense associated with our notes payable to affiliates either contributed to our equity or repaid.

(e) Represents elimination of interest income on notes receivable from affiliates due to the transfer of such notes receivable to Kronos in one or more non-cash transactions.

(f) Represents elimination of currency transaction gains (losses) on affiliate loans contributed to equity or repaid.

(g) Related tax effect calculated using respective statutory rates in jurisdictions where repayments or borrowings occur. Substantially all of the pre-tax effect of the pro forma adjustments relates to KII itself. We have a significant amount of net operating loss carryforwards in Germany, the benefit of which has not previously been recognized in accordance with GAAP. Accordingly, the pro forma tax effect differs from the amount that would be expected by applying the statutory tax rate to the amount of the pre-tax pro forma adjustments due to such carryforwards.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
Three Months Ended March 31, 2002

	Actual	Pro Forma Adjustments	Pro Forma Adjustments	Pro Forma
		(in millions)		
Net sales	$139.6	$ —	$ —	$139.6
Cost of sales	110.7	—	—	110.7
Gross margin	28.9	—	—	28.9
Selling, general and administrative	16.7	—	—	16.7
Other income	2.1	—	—	2.1
Operating income	14.3	—	—	14.3
Interest expense	(0.7)	0.6(a)	(5.7)(b)	(6.0)
		—	(0.2)(c)	
Interest expense to affiliates	(9.8)	9.8(d)	—	—
Interest income from affiliates	8.9	(8.9)(e)	—	—
Currency transaction loss on affiliate loans	(2.3)	2.3(f)	—	—
Income before income taxes	10.4	3.8	(5.9)	8.3
Income tax expense	2.4	0.1(g)	(0.1)(g)	2.4
Income from continuing operations	$ 8.0	$ 3.7	$(5.8)	$ 5.9

(a) Represents the elimination of interest expense associated with the repayment of short-term notes payable to third parties.

(b) Represents interest expense (assumed 9% interest rate) associated with the €270 million principal amount of the notes offered hereby ($5.3 million) and our subsidiaries' new variable rate (assumed 5%) €80 million revolving credit facility of which an average $31 million is assumed to be outstanding during the period ($0.4 million).

(c) Represents amortization of underwriting fees, commitment fees and other offering costs.

(d) Represents the elimination of interest expense associated with our notes payable to affiliates either contributed to our equity or repaid.

(e) Represents elimination of interest income on notes receivable from affiliates due to the transfer of such notes receivable to Kronos in one or more non-cash transactions.

(f) Represents elimination of currency transaction gains (losses) on affiliate loans contributed to equity or repaid.

(g) Related tax effect calculated using respective statutory rates in jurisdictions where repayments or borrowings occur. Substantially all of the pre-tax effect of the pro forma adjustments relates to KII itself. We have a significant amount of net operating loss carryforwards in Germany, the benefit of which has not previously been recognized in accordance with GAAP. Accordingly, the pro forma tax effect differs from the amount that would be expected by applying the statutory tax rate to the amount of the pre-tax pro forma adjustments due to such carryforwards.

SELECTED HISTORICAL FINANCIAL AND OTHER DATA

The historical income statement and cash flow data for the years ended December 31, 1999, 2000 and 2001, and the historical balance sheet data as of December 31, 2000 and 2001, have been derived from our audited consolidated financial statements. The historical income statement and cash flow data for the years ended December 31, 1997 and 1998 and the three-month periods ended March 31, 2001 and 2002, and the historical balance sheet data as of December 31, 1997, 1998 and 1999 and as of March 31, 2001 and 2002, have been derived from our unaudited consolidated financial statements. The selected historical financial and other data below should be read in conjunction with ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and our consolidated financial statements and related notes included elsewhere in this offering memorandum (except for the consolidated financial statements as of December 31, 1997, 1998 and 1999, and for the years ended December 31, 1997 and 1998, which are not included in this offering memorandum).

	Year Ended December 31,					Three Months Ended March 31,	
	1997	1998	1999	2000	2001	2001	2002
	(in millions, except financial ratios)						
Statement of Income Data:							
Net sales	$ 601.8	$ 631.6	$ 620.3	$ 620.5	$ 554.6	$ 159.0	$ 139.6
Cost of sales	485.1	457.3	469.2	413.5	379.6	105.3	110.7
Gross margin	116.7	174.3	151.1	207.0	175.0	53.7	28.9
Selling, general and administrative	85.7	78.1	79.9	72.5	66.9	17.5	16.7
Other income	12.2	3.8	19.3	11.6	15.7	2.1	2.1
Operating income(a)	43.2	100.0	90.5	146.1	123.8	38.3	14.3
Interest income from affiliates	5.9	4.7	1.5	23.1	36.2	6.7	8.9
Insurance recoveries, net	—	—	—	—	17.5	—	—
Currency transaction gains (losses) on affiliate loans	(60.5)	27.0	(36.9)	(15.6)	(9.4)	(9.1)	(2.3)
Other, net	—	—	—	—	(1.5)	—	—
Interest expense	(12.5)	(11.1)	(7.6)	(1.9)	(4.3)	(1.2)	(0.7)
Interest expense to affiliates	(58.6)	(57.2)	(29.9)	(28.7)	(34.1)	(5.8)	(9.8)
Income (loss) before income taxes and discontinued operations	(82.5)	63.4	17.6	123.0	128.2	28.9	10.4
Income tax expense (benefit)	6.1	24.8	(24.3)	42.9	14.5	9.2	2.4
Income (loss) before discontinued operations	(88.6)	38.6	41.9	80.1	113.7	19.7	8.0
Discontinued operations	—	1.0	—	—	—	—	—
Net income (loss)	$ (88.6)	$ 39.6	$ 41.9	$ 80.1	$ 113.7	$ 19.7	$ 8.0
Other Data:							
Depreciation and amortization	$ 29.9	$ 29.7	$ 28.4	$ 24.1	$ 24.1	$ 6.1	$ 6.3
Capital expenditures(b)	26.3	19.6	29.2	26.7	26.1	4.9	3.6
EBITDA(c)	73.1	129.7	118.9	170.2	146.4	44.4	20.6
Ratio of EBITDA to interest	1.0x	1.9x	3.2x	5.6x	3.8x	6.3x	2.0x
Ratio of total debt to EBITDA	10.5x	4.5x	2.5x	1.6x	3.6x	N/A	N/A
Ratio of total debt to total capitalization	2.4x	1.5x	0.9x	0.8x	1.4x	0.7x	1.3x
Cash Flow Data:							
Net cash provided by operating activities	$ 20.3	$ 8.9	$ 77.6	$ 97.8	$ 75.4	$ 5.6	$ 17.4
Net cash used by investing activities	(23.3)	(17.6)	(26.9)	(26.6)	(27.9)	(4.8)	(4.8)
Net cash used by financing activities	(4.6)	(1.6)	(10.2)	(96.1)	(52.8)	(0.2)	(0.3)

	Year Ended December 31,					Three Months Ended March 31,	
	1997	1998	1999	2000	2001	2001	2002
	(in millions, except financial ratios)						
Balance sheet data (at period end):							
Cash and cash equivalents	$ 34.5	$ 25.3	$ 62.8	$ 36.7	$ 30.3	$ 35.6	$ 42.5
Working capital(d)	63.9	79.5	70.6	73.0	101.5	100.4	111.7
Total assets	564.5	626.5	580.4	530.1	532.5	530.2	539.0
Notes payable	14.0	36.4	57.1	70.0	46.2	67.1	46.4
Long-term debt including current maturities	756.2	549.7	244.5	196.1	482.9	195.9	454.1
Total liabilities	1,007.1	833.3	533.9	452.6	692.3	435.9	665.0
Redeemable preferred stock and profit participation certificates	—	—	489.1	504.9	617.4	509.4	690.9
Stockholder's deficit	(442.9)	(207.1)	(442.9)	(427.7)	(777.5)	(415.4)	(817.2)

(a) Operating income is defined as income before income taxes, minority interest, interest expense, interest expense to affiliates, certain nonrecurring items and certain general corporate items. Corporate items excluded from operating income include corporate expense, interest income from affiliates, gains and losses from the disposal of long-lived assets outside of the ordinary course of business and currency transaction gains and losses related to our U.S. dollar-denominated note payable to Kronos. See note 3 to the consolidated financial statements included elsewhere in this offering memorandum.

(b) Capital expenditures in 2001 and the three months ended March 31, 2002 exclude an aggregate of $22.3 million and $1.2 million, respectively, related to the rebuilding of our Leverkusen, Germany sulfate plant destroyed by fire, substantially all of which was reimbursed by insurance proceeds. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Investing cash flow'' and note 14 to the consolidated financial statements included elsewhere in this offering memorandum.

(c) EBITDA, as presented, represents operating income plus depreciation and amortization expense less other general corporate expenses, net, of $1.5 million in 2001. EBITDA is presented as a supplement to our operating income and cash flow from operations because we believe that EBITDA is a widely accepted financial indicator of cash flows and the ability to service debt. EBITDA should not be considered as an alternative to, or more meaningful than, operating income or net income determined under GAAP as an indicator of our operating performance, or cash flows from operating, investing and financing activities determined under GAAP as a measure of liquidity. EBITDA is not intended to depict funds available for reinvestment or other discretionary uses, as we have significant debt requirements and other commitments. Investors should consider certain factors in evaluating our EBITDA, including interest expense, income taxes, noncash income and expense items, changes in assets and liabilities, capital expenditures, and other items included in GAAP cash flows as well as future debt repayment requirements and other commitments, including those described in our consolidated financial statements included elsewhere in this offering memorandum. We believe that the trend of our EBITDA is consistent with the trend of our GAAP operating income. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' for a discussion of operating income and cash flows during the last three years and our outlook. EBITDA as a measure of our performance may not be comparable to similarly titled captions of other companies due to potential differences in the method of calculation.

(d) Calculated as current assets less current liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies and Estimates

The accompanying ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reported period. On an on-going basis we evaluate our estimates, including those related to inventory reserves, the recoverability of other long-lived assets, pensions and the underlying actuarial assumptions related thereto, and the realization of deferred income tax assets and accruals for environmental remediation, income tax and other contingencies. We base our estimates on historical experience and on various other assumptions that we believe 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.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

- We provide 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 our products and market conditions. If actual market conditions are less favorable than those projected by us, additional finished goods inventory reserves may be required. We provide reserves for tools and supplies inventory generally based on both historical and expected future usage requirements.

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

- We record a valuation allowance to reduce our deferred income tax assets to the amount that we believe to be realizable under the ''more-likely-than-not'' recognition criteria. While we have 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 we may change our 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.

- We record an accrual for environmental, 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).

Results of Operations

General

We derive the majority of our revenues, earnings and cash flow from the production and sale of TiO_2. As discussed below, average TiO_2 selling prices in billing currencies (which excludes the effects of foreign currency translation), were decreasing during the first three quarters of 1999, were generally increasing during the fourth quarter of 1999 and most of 2000, and were generally decreasing during most of 2001 and the first quarter of 2002.

Many factors influence TiO_2 pricing levels, including (i) industry capacity, (ii) worldwide demand growth, (iii) customer inventory levels and purchasing decisions, (iv) competitor actions and decisions and (v) relative changes in foreign currency exchange rates. We believe that the TiO_2 industry has long-term growth potential, as discussed in ''Business — Industry'' and ''— Competition.''

The following table sets forth certain information concerning our results of operations for the years ended December 31, 1999, 2000 and 2001, and the first three months of 2001 and 2002.

	Year Ended December 31,			Three Months Ended March 31,	
	1999	2000	2001	2001	2002
			(in millions)		
Net sales	$620.3	$620.5	$554.6	$159.0	$139.6
Operating income	$ 90.5	$146.1	$123.8	$ 38.3	$ 14.3
General corporate items:					
Interest income from affiliates	1.5	23.1	36.2	6.7	8.9
Insurance recoveries, net	—	—	17.5	—	—
Currency transaction loss	(36.9)	(15.6)	(9.4)	(9.1)	(2.3)
Other, net	—	—	(1.5)	—	—
Interest expense	(37.5)	(30.6)	(38.4)	(7.0)	(10.5)
Income before income taxes	17.6	123.0	128.2	28.9	10.4
Income tax expense (benefit)	(24.3)	42.9	14.5	9.2	2.4
Net income	$ 41.9	$ 80.1	$113.7	$ 19.7	$ 8.0

We expect TiO_2 industry demand in 2002 to continue to improve over 2001 levels, as we expect worldwide economic conditions to improve and customer inventory levels to increase. Sales volumes for our TiO_2 in the March 2002 to May 2002 period increased 22% over the 2001 comparable period. We believe that this strong demand is primarily attributable to improving economic conditions and customers restocking their inventory levels ahead of the price increases noted below. Our TiO_2 production volume in 2002 is expected to approximate our 2002 TiO_2 sales volume. In January 2002, we announced price increases in all major markets of approximately 8% above existing December 2001 prices, scheduled to be implemented during the second quarter of 2002. Through May 2002, we have partially implemented the increase announced in January 2002, with May 2002 prices in billing currencies up 2% over March 2002 prices. Also, in May 2002, we and other major producers announced a second round of price increases for certain regions of the world, including Europe. However, the extent, if any, to which price increases will be realized will depend on market conditions. In addition, because TiO_2 prices were declining in 2001 and the first quarter of 2002, we believe that our average 2002 prices in billing currencies will be significantly below our average 2001 prices, even if price increases are realized. Overall, we expect our TiO_2 operating income in 2002 will be significantly lower than 2001, primarily due to lower average TiO_2 selling prices. Our expectations as to our and the TiO_2 industry's future prospects are based upon a number of factors beyond our control, including worldwide growth of gross domestic product, competition in the marketplace, unexpected or earlier-than-expected capacity additions and technological advances. If actual developments differ from our expectations, our results of operations could be unfavorably affected.

Net Sales and Operating Income

Three months ended March 31, 2001 and 2002

	Three Months Ended March 31, 2001	2002	% Change
	(in millions, except metric tons)		
Net sales and operating income			
Net sales	$159.0	$139.6	(12)%
Operating income	$ 38.3	$ 14.3	(63)%
Operating income margin percentage	24%	10%	N/A
TiO_2 operating statistics			
Percent change in average selling price (in billing currencies)	N/A	N/A	(16)%
Sales volume (metric tons in thousands)	72	79	10%
Production volume (metric tons in thousands)	72	72	—
Production rate as a percentage of capacity	98%	97%	N/A

Our operating income in the first quarter of 2002 decreased $24.0 million or 63% from the first quarter of 2001 due to lower average selling prices partially offset by higher sales volume.

Our average selling price in billing currencies (which excludes the effects of foreign currency translation) during the first quarter of 2002 was 16% lower than the first quarter of 2001 and 5% lower than the fourth quarter of 2001. Compared with the fourth quarter of 2001, prices in billing currencies were lower in all major markets. The average selling price in billing currencies in March was less than 1% lower than the average selling price during the first quarter. Average selling prices in billing currencies continued to decline throughout the first quarter, however, the rate of decline slowed during the first quarter.

Our sales volume in the first quarter of 2002 increased 10% from the first quarter of 2001 and increased 32% from the fourth quarter of 2001. Finished goods inventory decreased approximately 6,900 metric tons during the quarter and inventory levels at the end of March represented about two months of sales.

Our production volume in the first quarter of 2002 was comparable to the 2001 prior period with operating rates at 97% in the first quarter of 2002 compared with near full capacity in the first quarter of 2001.

A fire on March 20, 2001 damaged a section of our Leverkusen, Germany 35,000 metric ton sulfate-process TiO_2 plant and, as a result, production of TiO_2 at the Leverkusen facility was halted. The fire did not enter our adjacent 125,000 metric ton chloride-process TiO_2 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. The chloride plant became fully operational in April 2001 and the sulfate plant became approximately 50% operational in September 2001 and fully operational in late October 2001.

Compared to the year-earlier period, cost of sales as a percentage of net sales increased in the first quarter of 2002 primarily due to lower average selling prices in billing currencies, partially offset by lower energy costs. Excluding the effects of foreign currency translation, which decreased our expenses in the first quarter of 2002 compared to year-earlier period, our selling, general and administrative expenses in the first quarter of 2002 were comparable to the first quarter of 2001.

The majority of our sales and operating costs are denominated in currencies other than the U.S. dollar. Fluctuations in the value of the U.S. dollar relative to other currencies, primarily a stronger U.S. dollar compared to the euro in the first quarter of 2002 versus the year-earlier period, decreased the dollar value of sales in the first quarter of 2002 when compared to the year-earlier period. When translated from billing currencies to U.S. dollars using currency exchange rates prevailing during the respective periods, our first-quarter 2002 average selling price in U.S. dollars was 14% lower than in the first quarter of 2001 and 4% lower than the fourth quarter of 2001. The effect of the stronger U.S. dollar on our operating costs that are not denominated in U.S. dollars reduced operating costs in the first quarter of 2002 compared to the year-earlier period. In addition, sales to export markets are typically denominated in U.S. dollars and a stronger U.S. dollar improves margins on these sales. The favorable margin on export sales tends to offset the unfavorable effect of translating local currency profits to U.S. dollars when the dollar is stronger. As a result, the net impact of currency exchange rate fluctuations on operating income in the first quarter of 2002 was not significant when compared to the first quarter of 2001.

Years ended December 31, 1999, 2000 and 2001

	Year Ended December 31,			% Change	
	1999	2000	2001	1999-2000	2000-2001
	(in millions, except metric tons)				
Net sales and operating income					
Net sales	$620.3	$620.5	$554.6	—	(11)%
Operating income	$ 90.5	$146.1	$123.8	61%	(15)%
Operating income margin percentage	15%	24%	22%	N/A	N/A
TiO_2 operating statistics					
Percent change in average selling prices (in billing currencies)	N/A	N/A	N/A	7%	(2)%
Sales volume (metric tons in thousands)	291	294	265	1%	(10)%
Production volume (metric tons in thousands)	272	297	269	9%	(9)%
Production rate as a percent of capacity	90%	100%	89%	N/A	N/A

Our operating income in 2001, including business interruption proceeds of approximately $27 million, was lower than 2000, primarily due to lower average TiO_2 selling prices in billing currencies and lower sales and production volumes. Our operating income for 2000 was higher than 1999 due to higher average TiO_2 selling prices in billing currencies and higher production and sales volumes.

Average TiO_2 selling prices in billing currencies during 2001 were 2% lower than 2000, with lower prices in all major regions. Pigment prices decreased from the preceding quarter during each quarter of 2001, reversing the upward trend that began in the fourth quarter of 1999 and continued through the fourth quarter of 2000. The rate of price declines increased in the fourth quarter of 2001 to 5% over the third quarter of 2001, and December 2001 prices were 2% lower than the average selling price for the quarter. The average selling price in billing currencies in December 2001 was 13% below the December 2000 average selling price. The most significant price erosion during this time period occurred in the European and export markets. Average TiO_2 selling prices in billing currencies in 2000 were 7% higher than 1999, with higher prices in all major regions.

Industry-wide demand was weak throughout 2001 as compared to 2000 and 1999 levels. Sales volume of 265,000 metric tons of TiO_2 in 2001 was 10% lower than 2000, primarily due to lower European sales. Sales volume in 2000 was 1% higher than 1999. Industry-wide demand was weak in early 1999. Demand in the second half of 1999 and the first three quarters of 2000 was stronger than comparable year-earlier periods we believe as a result of, among other things, customers buying in advance of anticipated price increases. Demand softened in the fourth quarter of 2000 and weakened throughout 2001.

Our production volume was 269,000 metric tons in 2001, a decrease of 9% from 297,000 metric tons produced in 2000. Operating rates were down in 2001 from near full capacity in 2000, primarily due to lost production resulting from the Leverkusen fire and our decision to curtail production in the fourth quarter of 2001. Our production volume in 2000 increased 9% compared with the 272,000 metric tons produced in 1999. Operating rates in 1999 were 90%. Production volume was curtailed in the beginning of the first quarter of 1999 in order to manage inventory levels. Finished goods inventory levels increased in the fourth quarter of 2001 and at the end of 2001 represented approximately two months of sales.

A fire on March 20, 2001 damaged a section of our Leverkusen, Germany 35,000 metric ton sulfate-process TiO_2 plant and, as a result, production of TiO_2 at the Leverkusen facility was halted. The fire did not enter our adjacent 125,000 metric ton chloride-process TiO_2 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. The chloride plant became fully operational in April 2001 and the sulfate plant became approximately 50% operational in September 2001 and fully operational in late October 2001.

We settled our insurance 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. We 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 reflected recovery of lost margin ($7.2 million) and as a reduction of cost of sales to offset unallocated period costs ($20.1 million). We do not expect to receive any additional insurance recoveries related to the Leverkusen fire, and there was no impact on our results of operations in the first quarter of 2002.

Excluding the effects of foreign currency translation, which reduced our expenses in both 2001 and 2000 compared to the year-earlier periods, our cost of sales in 2001 was lower than 2000 due to lower sales volume partially offset by higher unit costs, which resulted primarily from lower production levels. The effects of lower TiO_2 sales volume and production volume were partially offset by business interruption proceeds. Our cost of sales in 2000 was lower than 1999 primarily due to lower unit costs, which resulted primarily from higher production levels. Cost of sales, as a percentage of net sales, increased in 2001 primarily due to the impact on net sales of lower average selling prices and higher unit costs partially offset by business interruption insurance recoveries, and decreased in 2000 primarily due to the impact on net sales of higher average selling prices and lower unit costs.

Excluding the effects of foreign currency translation, which reduced our expenses in both 2001 and 2000 compared to the year-earlier periods, selling, general and administrative expenses (''SG&A''), excluding corporate expenses, decreased in 2001 from the year-earlier period due to lower variable compensation expense and lower selling and distribution expenses associated with lower 2001 sales volume. SG&A, excluding corporate expenses, increased in 2000 from the year-earlier period primarily due to higher variable compensation expense and higher selling and distribution expenses associated with higher 2000 sales volumes. SG&A, excluding corporate expenses, as a percentage of net sales, was 12% in each of 2001 and 2000 and 13% in 1999. See discussion of corporate expenses below.

The majority of our sales and operating costs are subject to currency exchange rate fluctuations which may impact reported earnings and may affect the comparability of period-to-period revenues and expenses expressed in U.S. dollars. A significant amount of our sales (79% in 2001) are denominated in currencies other than the U.S. dollar, principally the euro and other major European currencies. Certain purchases of raw materials, primarily titanium-containing feedstocks for our chloride process plants, are denominated in U.S. dollars, while labor and other production costs are primarily denominated in local currencies. Fluctuations in the value of the U.S. dollar relative to other currencies, primarily a stronger U.S. dollar compared to the euro, decreased sales during 2001 and 2000, respectively, compared with the year-earlier period. When translated to U.S. dollars using currency exchange rates prevailing during the respective periods, our average selling prices for 2001 decreased 2% from 2000. Our average selling prices in U.S. dollars for 2000 increased 14% from 1999. The effect of the stronger U.S. dollar on our operating costs that are not denominated in U.S. dollars reduced operating costs in 2001 and 2000 compared with the respective prior year. In addition, sales to export markets are typically denominated in U.S. dollars and a stronger U.S. dollar improves margins on these sales. The favorable margin on export sales tends to offset the unfavorable effect of translating local currency profits to U.S. dollars when the dollar is stronger. As a result, the net impact of currency exchange rate fluctuations decreased operating income in 2001 and 2000 by approximately 7% and 19% when compared to the year-earlier periods.

General Corporate

The following table sets forth certain information regarding general corporate income (expense):

	Year Ended December 31,			Three Months Ended March 31,	
	1999	2000	2001	2001	2002
			(in millions)		
Interest income from affiliates	$ 1.5	$ 23.1	$ 36.2	$ 6.7	$ 8.9
Insurance recoveries, net	—	—	17.5	—	—
Currency transaction losses on affiliate loans	(36.9)	(15.6)	(9.4)	(9.1)	(2.3)
Other, net	—	—	(1.5)	—	—
Interest expense-bank debt	(7.6)	(1.9)	(4.3)	(1.2)	(0.7)
Interest expense-affiliate debt	(29.9)	(28.7)	(34.1)	(5.8)	(9.8)
	$(72.9)	$(23.1)	$ 4.4	$(9.4)	$(3.9)

We have certain loans to affiliates, more fully described in note 17 to the consolidated financial statements included elsewhere in this offering memorandum. Interest income on such notes receivable from affiliates was higher in 2000 and 2001 compared to the respective prior year, and was higher in the first three months of 2002 compared to the same period in 2001, due primarily to higher average balances of outstanding loans to affiliates. Subsequent to completion of this offering (and as more fully described above in ''Offering Memorandum Summary — Certain Transactions and Refinancing''), we will transfer such notes receivable from affiliates to Kronos, and accordingly we will no longer report interest income on such loans to affiliates.

The insurance recoveries, net 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 assets destroyed and the clean-up costs and extra expense incurred. See note 14 to the consolidated financial statements included elsewhere in this offering memorandum.

We have certain loans from affiliates that are denominated in U.S. dollars. Under GAAP, changes in the euro-equivalent of such indebtedness is recognized in our earnings as a foreign currency transaction gain or loss. The amount of such currency transaction gain or loss is dependent upon the relative change in the exchange rate between the euro and the U.S. dollar during each period, and the amount of such U.S. dollar-denominated indebtedness outstanding. See note 8 to the consolidated financial statements included elsewhere in this offering memorandum. As more fully described above in ''Offering Memorandum Summary — Certain Transactions and Refinancing,'' such U.S. dollar-denominated loans from affiliates will be repaid using a portion of the proceeds of this offering, and accordingly we will no longer report such currency transaction gains or losses related to such loans from affiliates.

Other corporate expenses, net in 2001 of $1.5 million, related to German real estate transfer taxes associated with a legal restructuring of our German operations.

Interest expense in the first quarter of 2002 was higher than the comparable period in 2001 due to a higher level of outstanding affiliate indebtedness, partially offset by reduced levels of short term notes payable. Interest expense in 2001 was higher than 2000 primarily due to higher levels of bank debt and affiliate debt. Interest expense in 2000 declined compared to 1999 due to reduced levels of outstanding euro-bank debt. See notes 7 and 8 to the consolidated financial statements included elsewhere in this offering memorandum. As more fully described above in ''Offering Memorandum Summary — Certain Transactions and Refinancing,'' a portion of such loans from affiliates will be repaid using the proceeds of this offering with the remaining balance contributed to our equity, and accordingly we will no longer report interest expense on such loans from affiliates.

Provision for income taxes

The principal reasons for the difference between the U.S. Federal statutory income tax rates and our effective income tax rates are explained in note 13 to the consolidated financial statements included elsewhere in this offering memorandum. Our operations are conducted in numerous jurisdictions, and the geographic mix of income can significantly impact our effective income tax rate. In 2001, our effective income tax rate varied from the normally expected rate primarily due to the recognition of certain German income tax attributes which previously did not meet the ''more-likely-than-not'' recognition criteria. In 2000, our effective income tax rate varied from the normally expected rate primarily due to the geographic mix of income and changes in the German income tax ''base'' rate. In 1999, our effective tax rate varied from the normally expected rate due predominantly to the recognition of certain deductible tax attributes which previously did not meet the ''more-likely-than-not'' recognition criteria. In each of 1999, 2000 and 2001, no income tax benefit has been provided on certain currency transaction losses. Also in 2000 and 1999, we recognized certain one-time benefits related to German tax settlements.

Related party transactions

We are a party to certain transactions with related parties. See ''Liquidity and Capital Resources — Investing Cash Flows,'' ''Certain Relationships and Related Transactions'' and note 15 to the consolidated financial statements included elsewhere in this offering memorandum.

Liquidity and Capital Resources

Consolidated cash flows

	Year Ended December 31,			Three Months Ended March 31,	
	1999	2000	2001	2001	2002
			(in millions)		
Net cash provided (used) by:					
Operating activities:					
Net income	$ 41.9	$ 80.1	$113.7	$ 19.7	$ 8.0
Depreciation and amortization	28.4	24.1	24.1	6.1	6.3
Noncash currency transaction loss	36.9	15.6	9.4	9.2	2.3
Noncash interest income from affiliates	—	(23.1)	(25.0)	(6.7)	(8.9)
Noncash interest expense to affiliates	—	—	—	—	4.1
Insurance recoveries, net	—	—	(17.5)	—	—
Deferred income taxes	(42.1)	5.2	(6.6)	1.7	1.1
Change in assets and liabilities, net	12.7	(2.5)	(21.0)	(23.6)	4.8
Other, net	(0.2)	(1.6)	(1.7)	(.8)	(.3)
	77.6	97.8	75.4	5.6	17.4
Investing activities:					
Capital expenditures	(29.2)	(26.7)	(48.4)	(4.8)	(4.8)
Property damaged by fire, net	—	—	20.2	—	—
Other, net	2.3	0.1	0.3	—	—
	(26.9)	(26.6)	(27.9)	(4.8)	(4.8)

	Year Ended December 31,			Three Months Ended March 31,	
	1999	2000	2001	2001	2002
			(in millions)		
Financing activities:					
Net borrowings (repayments)	$(73.8)	$ 15.7	$ (21.0)	$ (0.2)	$ (0.2)
Affiliate net borrowings (repayments)	52.0	(93.0)	—	—	(25.0)
Transactions with affiliates	11.6	(18.8)	(35.6)	—	25.0
Other, net	—	—	3.8	—	—
	(10.2)	(96.1)	(52.8)	(0.2)	(0.2)
Net cash provided (used) by operating, investing and financing activities	$ 40.5	$ (24.9)	$ (5.3)	$ 0.6	$ 12.4

Operating cash flows

Certain items included in the determination of net income do not represent current operating 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.

The TiO_2 industry is cyclical and changes in economic conditions within the industry significantly impact our earnings and operating cash flows. Cash flow from operations, before changes in assets and liabilities, decreased $18.5 million in the first three months of 2002 from the comparable period primarily due to $24.0 million of lower operating income, partially offset by $6.2 million of lower current tax expense.

Operating cash flows, before changes in assets and liabilities, in 2001 compared with 2000 were unfavorably affected by $22.3 million of lower operating income, $2.4 million of higher non-affiliate cash interest expense and $1.5 million of higher corporate expenses, partially offset by $16.6 million of lower current tax expense and $5.8 million of lower cash interest expense, net to affiliates. Operating cash flows, before changes in assets and liabilities, in 2000 compared with 1999 were favorably affected by $55.6 million higher operating income, $5.7 million of lower non-affiliate cash interest expense, partially offset by $19.8 million of higher current tax expense.

The net cash used to fund changes in our inventories, receivables and payables (excluding the effect of currency translation) in the first three months of 2002 was less than the first three months of 2001, with $9.1 million lower inventory balances, $16.8 million lower accounts and notes receivable balances, which included the collection of $9.5 million of insurance proceeds, and $9.2 million lower affiliate balances, partially offset by decreases in accounts payable and accrued liabilities of $3.1 million.

Changes in our assets and liabilities (excluding the effect of currency translation) in 2001 compared with 2000 were unfavorably affected by higher affiliate balances of $21.4 million, partially offset by $5.5 million lower accounts and notes receivable balances.

Changes in our assets and liabilities (excluding the effect of currency translation) in 2000 compared with 1999 were unfavorably affected by higher inventories of $28.4 million and $5.0 million of lower accounts payable and accrued liabilities, partially offset by lower accounts and notes receivable balances of $12.3 million and $7.9 million of higher affiliate balances.

Investing cash flows

Capital expenditures of $4.8 million in the first quarter of 2002 included approximately $1.2 million related to ongoing reconstruction of the Leverkusen, Germany sulfate plant.

Our capital expenditures were $48.4 million, $26.7 million and $29.2 million in 2001, 2000 and 1999, respectively. Capital expenditures in 2001 include an aggregate of $22.3 million for the rebuilding of our Leverkusen, Germany sulfate plant. We 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 in 1999 were higher compared with 2000 due to $6.0 million of expenditures for a landfill expansion for our Belgian facility.

Our capital expenditures during the past three years include an aggregate of $22.0 million ($4.7 million in 2001) for our ongoing environmental protection and compliance programs. Our estimated 2002 and 2003 capital expenditures are expected to be $28.5 million and $26.5 million, respectively, and include $3.8 million and $3.6 million, respectively, in the area of environmental protection and compliance. Included in the 2002 capital expenditure estimate is $4.0 million to complete reconstruction of the Leverkusen, Germany sulfate plant.

Financing cash flows

In 2001, we repaid €24 million ($21.4 million when paid), respectively, of our short-term bank debt with excess cash flow from operations.

In 2000, we repaid €30.9 million ($28.9 million when paid) of our short-term debt with cash flow from operations. Also, in December 2000, we borrowed $43 million of short-term non-U.S. dollar-denominated bank debt and used the proceeds along with cash on hand to repay certain loans to affiliates.

In the first quarter of 1999, we prepaid the remaining balance of DM107 million ($60 million when paid) of a term loan that was part of our previous DM bank credit facility, principally by drawing DM100 million ($56 million when drawn) on the revolving portion of the DM credit facility. In the second and third quarters of 1999, we repaid DM60 million ($33 million when paid) of the DM revolving credit facility. The revolver's outstanding balance of DM120 million was further reduced in October 1999 by DM20 million ($11 million when paid). In December 1999, we borrowed $26 million of short-term unsecured euro-denominated bank debt and used the proceeds along with cash on hand to prepay the remaining balance of DM100 million ($52 million when paid) of the revolving portion of the DM credit facility. The DM credit facility was then terminated, which released collateral and eliminated certain restrictive loan covenants.

During 1999, we borrowed $52 million from an affiliate. During 2000 and the first three months of 2002, we repaid $93 million and $25 million, respectively, of loans from affiliates (a portion of the 2000 repayment was funded through new third-party borrowings discussed above). As discussed above under ''Offering Memorandum Summary — Certain Transactions and Refinancing,'' we will repay a portion of our remaining balance of loans from affiliates using the proceeds of this offering, and the remainder of our loans from affiliates will be contributed to our equity upon completion of this offering.

Cash flows related to capital contributions and other transactions with affiliates aggregated a net cash inflow of $11.6 million in 1999, a net cash outflow of $18.8 million in 2000, a net cash outflow of $31.8 million in 2001, and a net cash inflow of $25 million in the first three months of 2002. Such amounts relate principally to cash flows related to dividends or loans we received from, or capital contributions or loans we made to, our former Canadian operations, or affiliates (such loans being reported as a reduction of our stockholder's equity, and therefore considered financing cash flows). As discussed above under ''Offering Memorandum Summary — Certain Transactions and Refinancing,'' we transferred our Canadian operations to Kronos in April 2002, and accordingly we will no longer report any such capital transaction cash flows related to such Canadian operations subsequent to April 2002. Also as discussed above under ''Offering Memorandum Summary — Certain Transactions and Refinancing,'' settlement of such notes receivable from affiliates is not currently contemplated in the foreseeable future. Subsequent to completion of this offering, we will transfer such notes receivable from affiliates to Kronos in one or more non-cash transactions, and accordingly we will no longer report cash flows related to such notes receivable from affiliates.

Cash and cash equivalents

At March 31, 2002, we had cash and cash equivalents aggregating $42.5 million. Based upon our expectations for the TiO_2 industry and anticipated demands on our cash resources as discussed herein, we expect to have sufficient liquidity to meet our near-term obligations including operations, capital expenditures and debt service. To the extent that actual developments differ from our expectations, our liquidity could be adversely affected.

Income tax contingencies

Certain of our 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 13 to the consolidated financial statements included elsewhere in this offering memorandum.

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 our deferred income tax asset related to certain German tax attributes. We do not expect our future current income tax expense to be affected by the rate change in Germany.

We received tax assessments from the Norwegian tax authorities proposing tax deficiencies, including related interest, of NOK39.3 million pertaining to 1994 and 1996. We were unsuccessful in appealing the tax assessments and in June 2001 paid NOK39.3 million ($4.3 million when paid) to the Norwegian tax authorities. We were adequately reserved for this contingency. The lien on our Fredrikstad, Norway TiO_2 plant in favor of the Norwegian tax authorities has been released.

We have received preliminary tax assessments for the years 1991 to 1997 from the Belgian tax authorities proposing tax deficiencies, including related interest, of approximately €10.4 million ($9.2 million at December 31, 2001 and $9.1 million at March 31, 2002). We have filed protests against the assessments for the years 1991 to 1997. We are in discussions with the Belgian tax authorities and believe that a significant portion of the assessments is without merit.

No assurance can be given that our tax matters will be favorably resolved due to the inherent uncertainties involved in court and tax proceedings. We believe that we have provided adequate accruals for additional taxes and related interest expense which may ultimately result from all such examinations. We further believe that the ultimate disposition of such examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

During the fourth quarter of 2001, we recognized a $23.2 million income tax benefit attributable to a decrease in the valuation allowance due to a change in estimate of our ability to utilize certain German income tax attributes that did not previously meet the ''more-likely-than-not'' recognition criteria.

We recognized a $40 million noncash income tax benefit in 1999 comprised of a favorable resolution of our tax contingency in Germany ($14 million) and a net reduction in our deferred income tax valuation allowance due to a change in estimate of our ability to utilize certain income tax attributes under the ''more-likely-than-not'' recognition criteria ($26 million).

The $26 million net reduction in our deferred income tax valuation allowance in 1999 is comprised of (i) a $50 million decrease in the valuation allowance to recognize the benefit of certain deductible income tax attributes which we now believe meet the recognition criteria as a result of, among other things, a corporate restructuring of our German subsidiaries offset by (ii) a $24 million increase in the valuation allowance to reduce the previously recognized benefit of certain other deductible income tax attributes which we now believe do not meet the recognition criteria due to a change in German tax law.

At December 31, 2001 and March 31, 2002, we had approximately $317 million and $312 million, respectively, of income tax loss carryforwards in Germany with no expiration date. At December 31, 2001 and March 31, 2002, we had deferred tax valuation allowance totaling $121.7 million and $117.6 million, respectively.

Redeemable preferred stock, profit participation certificates and notes receivable from affiliates

We had issued and outstanding Series A and Series B redeemable preferred stock and profit participation certificates totalling $617.4 million and $690.9 million at December 31, 2001, and March 31, 2002, respectively, including cumulative and unpaid dividends. The Series A redeemable preferred stock was issued to Kronos in February 1999 as a result of a capital contribution to us through the reduction of our affiliate notes payable to NL Industries and Kronos. The Series B redeemable preferred stock was issued to Kronos in February 1999 as a result of a contribution of intellectual property by Kronos to us. The intellectual property was contributed to us at Kronos' carryover basis of zero due to common control of us and Kronos. The profit participation certificates were issued to Kronos in December 1999 as part of a recapitalization. We had $700.8 million and $674.7 million of outstanding notes receivable from affiliates at December 31, 2001 and March 31, 2002, respectively. Settlement of such notes receivable is not currently contemplated in the foreseeable future, and consequently such notes receivable from affiliates are reported in our consolidated balance sheet as a reduction of our stockholder's equity in accordance with GAAP. These notes arose between us, NL Industries and Kronos through a series of transactions with affiliates, a substantial portion of which were noncash in nature. We periodically convert accrued interest receivable from affiliates to notes receivable from affiliates.

See ''Certain Transactions and Refinancing,'' ''Capitalization'' and notes 16 and 17 to the consolidated financial statements included elsewhere in this offering memorandum.

Foreign operations

As discussed above, we have 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 our assets and liabilities (and income and expenses) related to our non-U.S. operations, and therefore our consolidated net assets will fluctuate based upon changes in currency exchange rates. At March 31, 2002, we had substantial net assets denominated in the euro, Norwegian kroner and United Kingdom pound sterling.

Euro currency

Beginning January 1, 1999, certain members of the European Union (''EU''), including Germany, Belgium, the Netherlands and France, adopted a new European currency unit (the ''euro'') as their common legal currency. Following the introduction of the euro, the participating countries' national currencies remained legal tender as denominations of the euro from January 1, 1999 through January 1, 2002, and the exchange rates between the euro and such national currency units were fixed. Beginning January 1, 2002, national currency units were exchanged for euros and the euro became the primary legal tender currency.

We conduct substantial operations in Europe. As of January 1, 2001, the functional currency of our German, Belgian, Dutch and French operations have been converted to the euro from their respective national currencies.

New accounting principles not yet adopted

We will adopt Statement of Financial Accounting Standards (''SFAS'') No. 143, ''Accounting for Asset Retirement Obligations,'' no later than 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 would be recognized in the period in which the liability is incurred, with an offsetting increase in the carrying amount of the related long-lived asset. Over time, the liability would be accreted to its present value, and the capitalized cost would be depreciated over the useful life of the related asset. Upon settlement of the liability, an entity would either settle the obligation for its recorded amount or incur a gain or loss upon settlement. We are still studying this standard to determine, among other things, whether we have any asset retirement obligations which are covered under the scope of SFAS No. 143, and the effect, if any, of the adoption has not yet been determined.

Other

We periodically evaluate our liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, our debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, we in the past have sought, and in the future may seek, to reduce, refinance, repurchase or restructure indebtedness; raise additional capital; restructure ownership interests; sell interests in subsidiaries or other assets; or take a combination of such steps or other steps to manage our liquidity and capital resources. In the normal course of our business, we may review opportunities for acquisitions, divestitures, joint ventures or other business combinations in the chemical or other industries. In the event of any acquisition or joint venture transaction, we may consider using available cash, issuing equity securities or increasing our indebtedness to the extent permitted by the agreements governing our existing debt. See note 8 to the consolidated financial statements included elsewhere in this offering memorandum.

BUSINESS

General

We are the second largest producer of TiO_2 in Europe, with an estimated 18% share of European TiO_2 sales volume. We are the leading producer and marketer of TiO_2 in Germany, with an estimated 25% share of sales volume in 2001, and are among the leading marketers of TiO_2 in the Benelux and Scandinavian markets. TiO_2 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_2 for use in these applications. We market over 40 different TiO_2 grades to over 4,000 customers in over 100 countries. We market our products through a dedicated sales force in Europe and provide our customers with significant technical and application-related services. Our predecessor companies were the first producers of TiO_2 in the world, and we have achieved and maintained our market position through our long-term customer relationships, our new product development efforts, our commitment to product quality and by offering extensive technical and sales services.

We currently manufacture TiO_2 in five plants in Europe (two in Leverkusen, Germany; one in Nordenham, Germany; one in Langerbrugge, Belgium; and one in Fredrikstad, Norway), and sell and distribute TiO_2 from our plants and sales and distribution facilities located throughout Europe. Our plants are currently capable of producing approximately 313,000 metric tons of TiO_2 per year. Projected annual capacity is expected to increase to approximately 328,000 metric tons in 2004 as a result of additional debottlenecking that can be achieved through low cost capital investment.

Products and Operations

Some of the principal applications for our products include:

TiO_2 for paints and coatings. Our TiO_2 is used to provide opacity, hiding power, durability, tinting strength and brightness in industrial coatings, as well as for paints and coatings for home interiors and exteriors, automobiles, aircraft, machines, appliances, traffic paint and other special purpose coatings. The amount of TiO_2 used in paints and coatings varies widely depending on the opacity, color and quality desired. Generally, the higher the opacity requirement of the coating, the greater the TiO_2 content. Recent trends toward white and pastel-colored surface coatings and extended warranties for appliances and other surface coated consumer durable items have resulted in higher usage in some applications.

TiO_2 for plastics. We produce TiO_2 pigments that improve the physical and optical properties in plastics, including whiteness and opacity. TiO_2 is used to provide opacity in items such as plastic grocery bags, vinyl window and door profiles and vinyl siding, as well as in agricultural and packaging film to provide opacity and allow the film to be printed for informational or advertising purposes. TiO_2 also provides hiding power, neutral undertone, brightness and durability for housewares, appliances, toys, computer cases and food packages. TiO_2's high brightness, along with its opacity, is used in some engineering plastics to help mask their undesirable natural color.

TiO_2 for paper. Our TiO_2 is used in the production of paper to provide whiteness, brightness, color stability and opacity. TiO_2 is used in the production of several types of paper, including filled paper, coated paper and laminate (decorative) paper. In filled paper applications, TiO_2 is added directly to the pulp and becomes part of the sheet itself. TiO_2 is particularly useful in filled paper applications because of its ability to improve the physical appearance of paper without significant negative impact on other performance characteristics as a result of the minimal quantities required. Without TiO_2, high opacity, lightweight papers could not be produced. TiO_2 is used in paper coatings for production of high gloss papers. TiO_2 is also used in paper laminates, where several layers of paper are laminated together using melamine resin under high temperature and pressure. The top layer of paper contains as much as 50% TiO_2 and is the layer that is printed with decorative patterns. Paper laminates are used to replace materials such as wood and tile for such applications as counter tops, furniture and wallboard. TiO_2 is beneficial in these applications because it assists in preventing the material from fading or changing color after prolonged exposure to sunlight and other weathering agents.

TiO_2 for inks and textiles. We produce TiO_2 to improve the opacity and hiding power of printing inks. TiO_2 allows inks to achieve very high print quality while not interfering with the technical requirements of printing machinery, including speed and high temperatures. Our TiO_2 is also used in textile applications. TiO_2 functions as an opacifying, brightening and delustering agent. In manmade fibers such as rayon and polyester, TiO_2 corrects undesirable characteristics such as glossy and translucent appearance. Without the presence of TiO_2, these materials would be unsuitable for use in many textile applications.

TiO_2 for other applications. We produce high purity sulfate process anatase TiO_2 used to provide opacity, whiteness and brightness in a variety of cosmetic and personal care products, such as skin cream, lipstick, eye shadow and toothpaste. Our TiO_2 is also found in food products, such as candy and confectionary, and in pet foods where it is used to obtain uniformity of color and appearance. In pharmaceuticals, our TiO_2 is used commonly as a colorant in pill and capsule coatings as well as in liquid medicines to provide uniformity of color and appearance. Kronos purified anatase grades meet the applicable requirements of the CTFA (Cosmetics, Toiletries and Fragrances Association), USP and BP (United States Pharmacopoeia and British Pharmacopoeia) and the FDA (United States Food and Drug Administration).

TiO_2 is produced in two crystalline forms: rutile and anatase. Rutile TiO_2 is a more tightly bound crystal that has a higher refractive index than anatase TiO_2 and therefore better opacification and tinting strength in many applications. Although many end-use applications can use either form of TiO_2, rutile TiO_2 is the preferred form for use in certain coatings, plastics and ink applications. Anatase TiO_2 has a bluer undertone and is less abrasive than rutile TiO_2, and it is often preferred for use in paper, ceramics, rubber and man-made fibers.

While we believe that currently there are no effective substitutes for TiO_2 for use in the above applications, extenders such as kaolin clays, calcium carbonate and polymeric opacifiers are used in a number of our markets. Generally, extenders are used to reduce to some extent the use of higher-cost TiO_2. The use of extenders has not significantly changed TiO_2 consumption over the past decade because, to date, extenders generally have failed to match the performance characteristics of TiO_2. As a result, we believe that the use of extenders will not materially alter the growth of the TiO_2 business in the foreseeable future.

We currently produce over 40 different TiO_2 grades, sold under the *Kronos*™ trademark, which provide a variety of performance properties to meet customers' specific requirements. Our major customers include domestic and international paint, plastics and paper manufacturers.

We are also engaged in the mining and sale of ilmenite ore, a raw material used as a feedstock by certain TiO_2 plants. Our mining operations have an estimated annual production capacity of approximately 900,000 metric tons, and we have estimated ilmenite reserves of at least 20 years at the current rate of usage. In 2001, we sold approximately 793,000 metric tons of ilmenite (699,000 metric tons in 2000), of which 243,000 metric tons were used internally in our sulfate-process TiO_2 plants (304,000 metric tons in 2000) and 550,000 metric tons were sold to third-party customers (395,000 metric tons in 2000). The decrease in our internal usage in 2001 was primarily due to a fire that occurred on March 20, 2001 that damaged a section of our Leverkusen, Germany sulfate-process TiO_2 plant and temporarily halted production at that plant. Approximately 7% of our consolidated net sales in 2001 and 4% in 2000 represented ilmenite sales to external customers.

In addition, we are engaged in the manufacture and sale of iron-based water treatment chemicals worldwide (derived from co-products of pigment production processes). Our 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. Sales of water treatment chemicals were 5% of our revenue in both 2001 and 2000.

The TiO_2 Industry

The global TiO_2 industry is concentrated. We, along with our North American affiliates and our five largest competitors (E.I. du Pont de Nemours & Co.; Millennium Chemicals, Inc.; Huntsman International Holdings LLC; Kerr-McGee Corporation; and Ishihara Sangyo Kaisha, Ltd.) account for approximately 80%

of worldwide TiO_2 production volume and approximately 86% of European TiO_2 production volume. The TiO_2 industry has substantial requirements for entry, including proprietary production technology and significant capital investment. Currently, total global capacity is approximately 4.4 million metric tons, according to International Business Management Associates. Based upon current selling prices, the long lead times required for planning, obtaining government approvals and construction and the fact that no new plants are currently under construction, additional greenfield capacity is not expected in the next three to five years. While we believe that current selling prices do not support new greenfield capacity, it is likely that producers will continue to increase capacity over the next several years through incremental debottlenecking of existing facilities. According to International Business Management Associates, prices of TiO_2 are expected to be positively impacted by limited investment in new capacity over the next three to five years.

TiO_2 is considered a ''quality-of-life'' product with demand affected by underlying global macroeconomic variables such as GDP growth, consumer disposable income and population. According to International Business Management Associates, since 1980, growth in TiO_2 consumption has averaged 2.9% per year and did not decline during any two consecutive years. Although short-term influences, such as customer and producer stocking and destocking activities, may have distorted TiO_2's growth trend, over the long-term, GDP growth has historically been the primary underlying factor influencing growth in TiO_2 demand. Additionally, the TiO_2 industry experiences some seasonality in its sales as paint sales generally peak during the spring and summer months in the northern hemisphere, resulting in greater TiO_2 sales volume during the first half of the year. Per capita consumption of TiO_2 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_2. TiO_2 demand in other regions of the world could increase as these economies develop to the point that ''quality-of-life'' products using TiO_2 become in greater demand.

The selling price of TiO_2 is significantly affected by industry capacity and demand, with the last cyclical peak for TiO_2 prices having occurred in late 2000 and the highest peak pricing for TiO_2 having occurred in 1990. Since late 2000 through early 2002, weak economic conditions worldwide have resulted in lower customer purchasing. Accordingly, TiO_2 producers reduced their operating rates, and the selling prices of TiO_2 declined. For example, our current TiO_2 prices in billing currencies are approximately 8% below the five-year average and approximately 25% below their historical high. Our average selling prices in billing currencies in March 2002 were approximately 17% lower than prices in November 2000.

In the first quarter of 2002, all major producers announced price increases worldwide of 5% to 8% to be implemented during the second quarter of 2002. During the period March 2002 through May 2002, TiO_2 sales volume increased 22% over the 2001 comparable period. We believe that this strong demand is primarily attributable to improving economies and customers restocking their inventory levels ahead of the previously announced price increases. Through May 2002, we have partially implemented the announced price increases, with May 2002 prices in billing currencies up 2% over March 2002 prices. Also, in May 2002, we and other major producers announced a second round of price increases for certain regions of the world, including Europe. However, the extent, if any, to which price increases will be realized will depend on global market conditions.

TiO_2 is manufactured using either the chloride or sulfate production process. Although most end-use applications can use pigments produced by either process, chloride process pigments are generally preferred in certain coatings and plastics applications and sulfate process pigments are generally preferred for paper, fibers and ceramics applications. Due to environmental factors and customer considerations, the proportion of TiO_2 industry sales represented by chloride process pigments has increased relative to sulfate process pigments. In general, the chloride process is less intensive than the sulfate process in terms of capital investment, labor and energy. Approximately 60% of global production capacity (and approximately 62% of our production capacity) is based on chloride process technology with the remainder thereof based upon the sulfate process.

Our Competitive Strengths

We believe that we have the following competitive strengths:

Leading market positions. We enjoy a leading market position in TiO_2, which gives us an advantage over many of our competitors. Our predecessor companies were the first TiO_2 producers in the world and have manufactured TiO_2 for 86 years. We are the second largest producer of TiO_2 in Europe and the largest in Germany, which has the largest economy in Europe. We are also among the leading sellers of TiO_2 in the Scandinavian, Benelux, Austrian and Swiss markets. We have a global presence through our parent, Kronos, which sells our products in North America. We believe that our strong presence in Western Europe strategically positions us to take advantage of growth within the Eastern European markets.

Strong customer base. Our experience in and commitment to the TiO_2 industry are known by our customers. We enjoy a high level of customer loyalty, which helps us maintain our leading market positions. We have developed many long-term customer relationships through our broad product offerings, packaging flexibility, strong technical support and customer service. We currently have over 4,000 customers, with the top ten customers accounting for approximately 23% of our sales and no individual customer accounting for more than 6% of our sales. We also collaborate with our customers to develop new TiO_2 grades for key applications.

Broad product range. We have one of the broadest product offerings in the TiO_2 industry. We supply grades made via both the chloride and the sulfate processes. We offer over 40 different TiO_2 grades, including rutile, anatase and non-pigmentary grades, surface treated and non-surface treated grades and dry and paper slurry grades. We offer a variety of packaging options to meet our customers' needs, including 25 kilogram plastic and paper bags, Intermediate Bulk Containers in various sizes, bulk deliveries of dry pigments to our customers' silos and slurried pigments to the paper industry. We use our product offering and packaging flexibility to help differentiate ourselves from the competition.

High performance products. We have several key grades within our product range that we believe have superior performance characteristics. We supply the leading chloride grade used in the manufacture of PVC profiles in Europe, which are used to construct window frames, doorframes, window shades and siding. This grade, with over 30 years of proven performance, holds over 50% of the market for European PVC profiles. Other applications where we believe we hold a performance advantage include chloride grades for paper laminate applications and engineering plastics and sulfate grades for photographic films; purified anatase grades for the food, pharmaceutical and cosmetics markets; and specialty anatase grades for the dry cell battery, capacitor, textile and fiber markets. We believe that our customer relationships, the breadth of our product offerings and the performance of our grades in several applications make it difficult for competitive grades to win the favor of our customers.

Proprietary chloride production technology. We are the leading European chloride process manufacturer, with annual chloride process capacity of approximately 194,000 metric tons using proprietary technology. Certain of our customers, including many in the paint and plastics industries, generally prefer chloride process pigments in part due to higher durability, high temperature tolerance and blue tone characteristics. Proprietary production technology is also an important barrier to entry in the TiO_2 industry, as companies that possess such chloride technology are reluctant to license it to competitors. Through debottlenecking, we have increased our chloride capacity by 40% since 1994, including a debottlenecking project between 1996 and 1998 at our Leverkusen, Germany facility, which added 20,000 metric tons of capacity. Approximately 62% of our product is produced with this technology, while only 22% of competitors' capacity in Europe utilizes the chloride process.

Experienced management team. We are managed by an experienced and motivated group of senior executive officers, with an average of 21 years of experience in the chemical industry. In addition to our strong executive management team, we have an experienced group of operating managers who work to maintain our strong TiO_2 position.

Captive ilmenite ore mining operations. Our captive mining operations provide us a reliable source of TiO_2 feedstock for our sulfate process production plants at reduced cost, providing 100% of the ore required for these plants. Nearly 40% of our mine's production is used internally, and the balance is sold to other pigment and titanium slag producers at competitive prices yielding profitable margins.

Our Strategy

Our strategy is to increase value by:

- maximizing our earnings, cash flows and return on capital employed by reducing costs, increasing efficiencies and optimizing existing assets; and
- increasing our competitiveness by expanding our size and market presence through internal growth initiatives and technology innovation.

Specifically, to meet our goals, we strive to:

Improve operating efficiencies and margins. We believe that our operations are among the most efficient in the industry. We continue to focus on increasing manufacturing efficiencies through selected capital projects, process improvement and best practices, in order to lower unit costs and improve our margins. Our research and development, including process technology, focuses on improving production processes, yields and qualities. These operating efficiencies have been accomplished through aggressive operator training, innovative technology changes and constant equipment improvements. For example, we continue to improve our chloride plants' on-stream efficiency, and we anticipate further maintenance cost reductions by extending by 40% to 50% the time that the plants' chlorinators are in use, yielding annual maintenance savings of approximately $4 million. We also have a newly designed acid scrubber and newly designed pigment bag filter, which are expected to add approximately nine additional production days per year per line. This is equivalent to approximately 4,500 metric tons per year. Prudent personnel cost reductions are a continuous effort, which over approximately the last six years have resulted in an approximate 13% reduction in manufacturing and support staff personnel, yielding annual savings of approximately $11 million. These cost reduction programs have resulted in a significant improvement in our fixed cost structure during a time when our production capacity has increased over 20%, leading to a significant improvement in our margins. We intend to continue to use our manufacturing expertise to lower costs, improve efficiency and enhance the performance and reliability of our product line.

Grow through technology and innovation. We continue to improve the consistency of our grades and develop new grades for existing and new applications to meet the needs of our customers and increase product life cycles. For example, we have enhanced our product consistency and added new grades for plastics, coatings, fiber and paper laminate applications. Specifically, in plastics applications, one grade targeted for the growing engineering plastic segment provides excellent masking of the natural yellowness of engineering plastics at high temperatures. Two other plastic grades were designed for use in a range of polyolefin plastic resin applications, as they impart a desirable blue undertone to these resins. We have also developed a new paper laminate grade that we expect to introduce later this year designed to deliver higher opacity in this fast growing market segment.

Debottleneck existing facilities. Increasing our production capacity with only moderate capital outlays continues to be a major goal. Without any new plant or new line construction, our production capacity has increased 20% over the last six years and we believe that our capacity can reach approximately 328,000 metric tons during 2004 as a result of additional debottlenecking that can be achieved through low cost capital investment.

Manufacturing Process and Raw Materials

We manufacture TiO_2 using both the chloride process and the sulfate process. Approximately 62% of our current production capacity is based on our chloride process, which generates less waste than the sulfate process. The sulfate process is a batch chemical process that uses sulfuric acid to extract TiO_2. Sulfate technology normally produces either anatase or rutile pigment. The chloride process is a continuous process that utilizes chlorine to extract rutile TiO_2. In general, the chloride process is also less intensive than the sulfate process in terms of capital investment, labor and energy. Because much of the chlorine is recycled and higher titanium-containing feedstock is used, the chloride process produces less waste. Once an intermediate TiO_2 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 TiO_2 industry sales represented by chloride-process pigments has increased relative to sulfate-process pigments and, in 2001, chloride-process production facilities represented approximately 60% of global industry capacity.

A fire on March 20, 2001 damaged a section of our Leverkusen, Germany 35,000 metric ton sulfate-process TiO_2 plant and, as a result, production of TiO_2 at the Leverkusen facility was temporarily halted. The fire did not enter our adjacent chloride-process TiO_2 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-process TiO_2 plant. On April 8, 2001, repairs to the damaged support equipment were substantially completed and full production resumed at the chloride-process TiO_2 plant. The sulfate-process TiO_2 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. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations'' and note 14 to our consolidated financial statements included elsewhere in this offering memorandum.

We produced 72,000 metric tons of TiO_2 in each of the quarters ended March 31, 2001 and 2002. We produced 269,000 metric tons of TiO_2 in 2001, compared to a record 297,000 metric tons produced in 2000 and 272,000 metric tons in 1999. Our average production capacity utilization rate in 2001 was down from near full capacity in 2000, primarily due to lost production volume resulting from the Leverkusen fire and our decision to curtail production in the fourth quarter of 2001 as demand remained soft. We believe that our current annual attainable production capacity is approximately 313,000 metric tons. We expect that with low cost capital investment, our production capacity will be increased by approximately 12,000 metric tons primarily at our chloride facilities and 3,000 metric tons at our sulfate facilities, bringing our capacity to approximately 328,000 metric tons during 2004.

The primary raw materials used in the TiO_2 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 located in Australia, South Africa, Canada, India and the United States.

Through our affiliates we purchase 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 2006. Natural rutile ore is purchased by our affiliates primarily from Iluka Resources, Limited (Australia), a company formed through the merger of Westralian Sands Limited (Australia) and RGC Mineral Sands, Ltd., under a long-term supply contract that expires at the end of 2004. We, through our affiliates, do not expect to encounter difficulties obtaining long-term extensions to existing supply contracts or replacement contracts prior to the expiration of the contracts. We expect to meet our chloride feedstock requirements over the next several years from raw materials purchased under these contracts and extensions thereof.

The primary raw materials used in the TiO_2 sulfate production process are titanium-containing feedstock derived primarily from rock and beach sand ilmenite and sulfuric acid. Sulfuric acid is available from a number of suppliers. Titanium-containing feedstock suitable for use in the sulfate process is available from a limited number of suppliers around the world. Currently, the principal active sources are located in Norway, Canada, Australia, India and South Africa. Ore from our ilmenite mine is expected to supply all or substantially all of our sulfate-process feedstock requirements for the foreseeable future.

We believe that the availability of titanium-containing feedstock for both the chloride and sulfate processes is adequate for the next several years. We do not expect to experience any interruptions of our raw material supplies because of our long-term supply contracts. However, political and economic instability in certain countries from which we purchase our raw material supplies could adversely affect the availability of feedstock. Any interruption of supply or any price increase of raw materials could have a material adverse effect on our business, financial conditions, results of operations or cash flows. See ''Risk Factors — We have a limited number of suppliers for some our raw materials, which could negatively affect us.''

Organization and Relationship with Our Parent Company

We conduct our operations primarily through our principal wholly-owned subsidiaries, Kronos Germany, Kronos Belgium, Kronos Norway, Kronos UK and Kronos Denmark, and our 94%-owned subsidiary, Kronos France. We are a wholly-owned subsidiary of Kronos, which in turn is a wholly-owned subsidiary of NL Industries, the world's fifth largest producer of TiO_2. Kronos conducts its North American operations through its principal wholly-owned subsidiaries, Kronos Louisiana, Kronos USA and Kronos Canada (collectively, ''Kronos' North American Subsidiaries'').

NL Industries is a New Jersey corporation incorporated in 1891. The common stock of NL Industries is listed on the New York Stock Exchange, Inc. and NL Industries files annual, quarterly and current reports, proxy statements and other information with the Commission. We were formed in 1988; and our principal subsidiaries, Kronos Germany, Kronos Belgium and Kronos Norway, were initially formed in 1927, 1954 and 1916, respectively. Kronos' North American Subsidiaries process and sell TiO_2 in North America, and we and our subsidiaries sell TiO_2 in North America through Kronos' North American Subsidiaries pursuant to certain buy/sell agreements described below under ''Certain Relationships and Related Transactions.'' Kronos' North American Subsidiaries also sell TiO_2 in Europe through us and our subsidiaries pursuant to such agreements. We and our subsidiaries are also parties to other intercorporate agreements with NL Industries and its affiliates, which agreements are described below under ''Certain Relationships and Related Transactions.''

Competition

The global markets in which we operate our business are highly competitive. Competition is based on a number of factors, such as price, product quality and service. Although certain TiO_2 grades are considered specialty pigments, the majority of our grades and substantially all of our production are considered commodity pigments with price generally being the most significant competitive factor. We are the second largest producer of TiO_2 in Europe, the leading producer and marketer of TiO_2 in Germany and among the leading marketers of TiO_2 in the Benelux and Scandinavian markets. See ''Risk Factors — We sell our products in a mature and highly competitive industry and face price pressure in the markets in which we operate.''

Our principal competitors in Europe are E.I. du Pont de Nemours & Co.; Millennium Chemicals, Inc.; Huntsman International Holdings LLC; Kerr-McGee Corporation; and Ishihara Sangyo Kaisha, Ltd. Our five largest competitors have estimated individual shares of worldwide TiO_2 production capacity ranging from 23% to 5%, and, together with us and the Kronos North American Subsidiaries, an estimated aggregate 80% share of worldwide TiO_2 production volume. Huntsman International Holdings LLC is the largest producer in Europe.

Capacity additions through construction of greenfield plants in the worldwide TiO_2 market require significant capital investment and substantial lead time, typically three to five years. No greenfield plants are currently under construction, but industry capacity can be expected to increase as we and our competitors debottleneck existing plants. In addition to potential capacity additions, certain competitors have announced that they have either idled or shut down facilities.

No assurance can be given that future increases in TiO_2 industry production capacity and future average annual demand growth rates for TiO_2 will conform to our expectations. If actual developments differ from our expectations, our and the TiO_2 industry's performance could be unfavorably affected.

Research and Development

Our expenditures for research and development and certain technical support programs have averaged approximately $6 million annually during the past three years. Research and development activities are conducted principally at our Leverkusen, Germany facility. Such activities are directed primarily toward improving both the chloride and sulfate production processes, improving product quality and strengthening our competitive position by developing new pigment applications.

Patents and Trademarks

We believe that patents held for products and production processes are important to us and to our continuing business activities. We and our affiliates continually seek patent protection for our technical developments, principally in the United States, Canada and Europe, and from time to time enter into licensing arrangements with third parties.

There can be no assurance that any of our patents will not be challenged, invalidated, circumvented or rendered unenforceable. See ''Risk Factors — If our patents are declared invalid or our trade secrets become known to our competitors, our ability to compete may be adversely affected.''

Our major trademarks, including *Kronos*™ and *ecochem*™, are protected by registration in Europe, the United States and elsewhere with respect to the products we manufacture and sell.

Operations

We have operated in European markets since the 1920s. Our current production capacity is located in Europe with our net property and equipment aggregating $265 million at March 31, 2002. Our European operations include production facilities in Germany, Belgium and Norway. Approximately $425 million of our 2001 consolidated sales were to European customers and approximately $130 million of our 2001 consolidated sales were to customers in areas other than Europe. Sales to customers in the U.S. through Kronos' North American Subsidiaries pursuant to buy/sell agreements aggregated $32 million in 2001. Our operations are subject to, among other things, currency exchange rate fluctuations and our 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 our results of operations are discussed in ''Management's Discussion and Analysis of Financial Condition and Results of Operations.''

Our manufacturing and mining operations are also subject to extensive and diverse environmental regulation in each of the foreign countries in which we operate. See ''Regulatory and Environmental Matters'' below and ''Risk Factors — We are subject to many environmental and safety regulations that may result in unanticipated costs or liabilities.'' In addition, political and economic uncertainties in certain of the countries in which we operate may expose us to risk of loss.

Customer Base and Seasonality

We believe that neither our aggregate sales nor those of any of our principal product groups are concentrated in or materially dependent upon any single customer or small group of customers. Our ten largest customers accounted for approximately 23% of net sales in 2001. Neither our business as a whole nor that of any of our 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, TiO_2 sales are generally higher in the first half of the year than in the second half of the year.

Employees

As of March 31, 2002, we had approximately 1,950 employees, with approximately 1,200, 300 and 430 employees in Germany, Belgium and Norway, respectively, and approximately 20 employees elsewhere in Europe. Hourly employees in production facilities worldwide are represented by a variety of labor unions, with labor agreements having various expiration dates. We believe that our labor relations are good.

Regulatory and Environmental Matters

Certain of our 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 of our past and current operations and products have the potential to cause environmental or other damage. We have implemented and continue to implement various policies and programs in an effort to minimize these risks. Our policy is to maintain compliance with applicable environmental laws and regulations at all of our facilities and to strive to improve our environmental performance. It is possible that future developments, such as stricter requirements of environmental laws and enforcement policies thereunder, revisions of existing permits or discovery of previously unknown conditions, could adversely affect our production, handling, use, storage, transportation, sale or disposal of such substances as well as our consolidated financial position, results of operations or liquidity.

Our production facilities operate in an environmental regulatory framework in which governmental authorities typically are granted broad discretionary powers that allow them to issue operating permits required for the plants to operate. We believe that all of our plants are in substantial compliance with such permits and other applicable environmental requirements.

Although the laws regulating operations of industrial facilities in Europe vary from country to country, a common regulatory base 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. We believe that we have all required permits and are 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 TiO_2 industry.

At all of our plant facilities other than Fredrikstad, Norway, we recycle our spent acid wastes either through contracts with third parties or using our own facilities to provide sulfuric acid for our operations. We have a contract with a third party to treat spent acid wastes of our German sulfate-process plants. With regard to our Nordenham, Germany plant, either party may terminate the contract after giving four years advance notice. Under certain circumstances, we may terminate the contract after giving six months notice, with respect to treatment of effluents from the Leverkusen, Germany plant.

We landfill waste we generate at our Nordenham, Germany and Langerbrugge, Belgium plants, and mine tailings waste generated at our facility in Norway. We maintain reserves, as required under GAAP, to cover the anticipated cost of closure of these landfills, which were approximately $0.4 million as of March 31, 2002. These requirements for our landfills are expected to increase in the future in view of recently adopted EU requirements.

We are also responsible for certain closure costs at landfills used and formerly used by our Leverkusen, Germany sulfate process plant. We have a reserve of approximately $5 million related to such landfills.

Our capital expenditures related to our ongoing environmental protection and improvement programs were approximately $4.7 million in 2001, and are currently expected to be approximately $3.8 million in 2002 and $3.6 million in 2003.

Principal Shareholders

We are a wholly-owned subsidiary of Kronos, which, in turn, is a wholly-owned subsidiary of NL Industries. At March 31, 2002, Valhi, Inc. and Tremont Corporation, each of which is an affiliate of Contran Corporation, held approximately 62% and 21%, respectively, of NL Industries' outstanding common stock. At March 31, 2002, Contran Corporation and its subsidiaries held approximately 94% of Valhi, Inc.'s outstanding common stock, and a company 80% owned by Valhi, Inc. and 20% owned by NL Industries held approximately 80% of Tremont Corporation's outstanding common stock. Substantially all of Contran Corporation'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, the Chairman of the Board of NL Industries, Chairman of the Board and Chief Executive Officer of Contran Corporation and Valhi, Inc. and a director of Tremont Corporation, may be deemed to control each of such companies. For a discussion of potential conflicts of interest that may arise in connection with our ownership structure, see ''Risk Factors — Kronos and its affiliates may have conflicts of interest with us, and these conflicts could adversely affect our business.''

Properties

We currently operate five TiO_2 plants in Europe (two in Leverkusen, Germany; one in Nordenham, Germany; one in Langerbrugge, Belgium; and one in Fredrikstad, Norway). Our principal German operating subsidiary leases the land under our Leverkusen TiO_2 production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with about 50% of our current TiO_2 production capacity, is located within an extensive manufacturing complex owned by Bayer AG. Rent for the Leverkusen facility is established by agreement with Bayer AG to be an amount agreed to be reasonable by the parties 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 sulfuric acid, auxiliary and operating materials and utilities services necessary to operate the Leverkusen facility. Currently, both the lease and the supplies and services agreement have certain restrictions regarding our ability to transfer ownership or use of the Leverkusen facility.

All of our principal production facilities described above are owned, except for the land under the Leverkusen facility. We have a governmental concession with an unlimited term to operate our ilmenite mine in Norway.

We lease corporate and administrative offices located in Leverkusen, Germany and Brussels, Belgium as well as various sales offices located in France, the Netherlands, Denmark and the U.K.

Legal Proceedings

Kronos Belgium and various of its employees are the subject of an investigation by Belgian authorities relating to an accident resulting in two fatalities that occurred in our Langerbrugge, Belgium facility in October 2000. The initial stage of this investigation, which could ultimately result in civil and criminal sanctions against Kronos Belgium, has been completed. It is anticipated that this matter will continue in the investigative phase until the end of 2002 or early 2003. We are also involved in various other claims and disputes incidental to our business. While the resolution of the matters described in this paragraph cannot be predicted with certainty, we believe that the final outcome of such matters will not have a material adverse effect on our financial position, results of operations or liquidity.

MANAGEMENT

The table below sets forth information about our directors and officers as of May 31, 2002.

Name	Age	Principal Positions and Directorships
Dr. Lawrence A. Wigdor	60	Chief Executive Officer
Dr. Ulfert Fiand	53	President, Manufacturing and Technology and Director
Dr. Henry Basson	60	President, Sales and Marketing and Director
Dr. Ulrich Rothe	52	Senior Vice President, Technology
Robert D. Hardy	41	Vice President and Chief Financial Officer
Volker Roth	57	Vice President, Controller, Secretary and Director
Andrew Kasprowiak	55	Vice President, Treasurer and Director
Dieter Rohrbeck	46	Vice President, Human Resources and General Counsel
Joerg Kohlbecker	53	Director, Environmental, Health and Safety
Werner Thiel	57	President, Kronos Ecochem Division

Dr. Lawrence A. Wigdor has served as our Chief Executive Officer since 2002. Dr. Wigdor has served as President and Chief Executive Officer of Kronos and Executive Vice President of NL Industries since prior to 1996.

Dr. Ulfert Fiand has served as our President of Manufacturing and Technology and Director since 2001. Dr. Fiand joined our company in 1988, and has served as Group Leader and Director of Chloride Process Technology, Director of Process Technology, and VP Production & Process Technology.

Dr. Henry Basson has served as our President of Sales and Marketing and Director since 1997. From 1992 to 1997, Dr. Basson was President of Rheox Europe, a former subsidiary of NL Industries. Prior to 1992, Dr. Basson held positions in Sales, Marketing and General Management at Rohm and Haas Company.

Dr. Ulrich Rothe has served as our Senior Vice President of Technology since 2001. Since prior to 1996, Dr. Rothe served as our Process Technology Project Chemist, Project Manager and Superintendent for Waste Acid Concentration Plant and Director of Process Technology.

Robert D. Hardy has served as our Vice President and Chief Financial Officer since 2002. Since prior to 1996, Mr. Hardy has served in various positions with Kronos and currently serves as Vice President and Chief Financial Officer of NL Industries and Kronos.

Volker Roth has served as our Vice President, Controller and Secretary and Director since 1992. Mr. Roth also serves as Company Manager of Unterstutzungskasse Kronos Titan, GmbH and Kronos Chemie, GmbH, subsidiaries of Kronos.

Andrew Kasprowiak joined us and our affiliates in 1986 and has served as our Vice President, Treasurer and Director since 1998. Prior to this time, he served in various positions with our affiliates, including General Manager and European Treasurer of Kronos World Services NV/SA.

Dieter Rohrbeck has served as our Vice President of Human Resources and General Counsel since joining us in 1998. Mr. Rohrbeck previously held various positions in the German iron and steel industry since 1984, including human resources manager since July 1993 for certain divisions of Thyssen Krupp Steel AG.

Joerg Kohlbecker has served as our Director of Environmental, Health and Safety since 1992. Prior to this time, Mr. Kohlbecker served as Computer Engineer for Applications for Mobil Oil, sales engineer for Bellmer GmbH & Co. KG and Senior Process Engineer for Krupp Koppers.

Werner Thiel has served as the President of our Kronos Ecochem Division (formerly the Water Treatment Chemicals Division) since 1989.

Compensation of Directors

During 2001, no fees were paid to any director for service as a director. Directors are reimbursed for reasonable expenses incurred in attending board of directors and committee meetings.

Summary of Cash and Certain Other Compensation of Executive Officers

The summary compensation table set forth below provides summary information regarding annual and long-term compensation awarded to, earned by or paid to or on behalf of our Chief Executive Officer and each of our other four most highly compensated executive officers for services rendered to us during the years ended December 31, 2001, 2000 and 1999.

SUMMARY COMPENSATION TABLE

		Annual Compensation (1)		Long-Term Compensation Awards
Name And Principal Position	Year	Salary (1)	Bonus	Securities Underlying Options/SARs (#)(2)
Dr. Lawrence A. Wigdor	2001	$ 0	$ 600,000(3)	100,000
Chief Executive Officer	2000	0	1,500,000	100,000
	1999	0	0	99,000
Robert D. Hardy	2001	0	250,000(3)	50,000
Vice President and Chief	2000	0	0	30,000
Financial Officer	1999	0	0	30,000
Dr. Ulfert Fiand	2001	117,520	182,111	6,000
President, Manufacturing	2000	113,977	43,596	5,000
and Technology	1999	116,956	22,941	5,000
Dr. Henry Basson	2001	154,747	76,755	6,000
President, Sales and	2000	159,097	129,186	5,000
Marketing	1999	176,670	87,204	7,500
Volker Roth	2001	104,005	86,514	2,000
Vice President, Controller	2000	108,729	23,935	1,500
and Secretary	1999	120,868	15,705	0

(1) Each of Dr. Wigdor and Mr. Hardy is also an executive officer of NL Industries and Kronos and divides his business time among us and NL Industries and other affiliates of NL Industries. As an executive officer of NL Industries, each of Dr. Wigdor and Mr. Hardy receives salary, bonus and other compensation from NL Industries. Dr. Wigdor and Mr. Hardy are generally not compensated directly by us or our subsidiaries. For the years 1999, 2000 and 2001, no portion of Dr. Wigdor's and Mr. Hardy's salary was allocated to us. Beginning in 2002, a portion of Dr. Wigdor's and Mr. Hardy's salary will be charged to us based on business time devoted.

(2) Represents options to purchase shares of common stock of NL Industries. None of these options for Dr. Wigdor or Mr. Hardy were charged to us, nor do we expect that any such options will be charged to us in the future. We are charged by NL Industries for options exercised by Dr. Fiand, Dr. Basson and Mr. Roth based upon the market price of NL Industries common stock at the date of exercise.

(3) Represents amounts paid by NL Industries and allocated to us.

Stock Option Grants

The following table provides information with respect to the individual stock option grants to purchase shares of common stock of NL Industries made to the persons named in the summary compensation table under NL Industries' 1998 Long-Term Incentive Plan (the ''Incentive Plan'') during 2001.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

	Individual Grants				Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation For Option Term(3)	
Name	Number Of Securities Underlying Option/SARs Granted (#)(1)	Percent of Total Options/SARs Granted To Employees In Fiscal Year	Exercise Or Base Price ($/Share) (2)	Expiration Date	5% ($)	10% ($)
Dr. Lawrence A. Wigdor	100,000	47.62%	$20.11	2/7/11	$1,264,707	$3,205,016
Robert D. Hardy	50,000	23.81%	$20.11	2/7/11	632,354	1,602,508
Dr. Ulfert Fiand	6,000	2.86%	$20.11	2/7/11	75,882	192,301
Dr. Henry Basson	6,000	2.86%	$20.11	2/7/11	75,882	192,301
Volker Roth	2,000	0.95%	$20.11	2/7/11	25,294	64,100

(1) Options vest over five years from the date of grant at a rate of 40% on the second anniversary of the date of grant and 20% on each of the next three succeeding anniversary dates. Options expire on the tenth anniversary date of the date of grant.

(2) The exercise price is equal to the mean of the high and low prices of NL Industries' common stock on the New York Stock Exchange Composite Tape on the date of grant.

(3) Pursuant to the rules of the Commission, these amounts reflect the calculations at assumed 5% and 10% annual appreciation rates. Such calculations are not intended to forecast future appreciation, if any, and do not necessarily reflect the actual value, if any, that may be realized. The actual value of such options, if any, would be realized only upon the exercise of such options and depends upon the future performance of NL Industries' common stock. No assurance can be made that the amounts reflected in these columns will be achieved. The potential realizable value was computed as the difference between the appreciated value (at the end of the ten-year term of the options) of NL Industries common stock into which these options are exercisable and the aggregate exercise price of these options. The appreciated value per share at the end of the ten-year term would be $32.76 and $52.16 at the assumed 5% and 10% rates, respectively, with respect to these options.

Stock Option Exercises and Holdings

The following table provides information with respect to the persons named in the summary compensation table concerning the exercise of options during 2001 and the value of unexercised options held as of December 31, 2001. The options described in the following table are options to purchase shares of common stock of NL Industries pursuant to the Incentive Plan. No stock appreciation rights were granted during 2001.

AGGREGATED OPTION/SAR EXERCISES IN 2001 AND DECEMBER 31, 2001 OPTION/SAR VALUES

Name	Shares Acquired On Exercise(#)	Value Realized($)	Number Of Securities Underlying Unexercised Options/SARs at 12/31/01 Exercisable/ Unexercisable(#)	Value Of Unexercised In-The-Money Options/SARs at 12/31/01 Exercisable/ Unexercisable($)
Dr. Lawrence A. Wigdor	0	0	163,600/310,400	118,549/227,914
Robert D. Hardy	0	0	43,000/116,000	45,124/ 87,847
Dr. Ulfert Fiand	2,300	21,416	0/ 14,000	0/ 17,226
Dr. Henry Basson	0	0	11,800/ 19,500	26,002/ 26,660
Volker Roth	0	0	0/ 3,500	0/ 1,560

Pension Plan

The following table provides information with respect to estimated annual benefits payable upon retirement under The Kronos, Inc. (Belgium) Group Insurance Plan (the ''Pension Plan''), which provides lifetime retirement benefits to eligible employees of Kronos in Belgium. Dr. Basson is the only named executive officer covered by the Pension Plan.

PENSION PLAN TABLE

Remuneration	Years of Service 15	20	25	30	35
	(in U.S. dollars)				
125,000	31,560	42,079	52,599	63,119	73,639
150,000	39,060	52,079	65,099	78,119	91,139
175,000	46,560	62,079	77,599	93,119	108,639
200,000	54,060	72,079	90,099	108,119	126,139
225,000	61,560	82,079	102,599	123,119	143,639
250,000	69,060	92,079	115,099	138,119	161,139
300,000	84,060	112,079	140,099	168,119	196,139
400,000	114,060	152,079	190,099	228,119	266,139
450,000	129,060	172,079	215,099	258,119	301,139
500,000	144,060	192,079	240,099	288,119	336,139

Under the Pension Plan, each employee contributes 1% of 13.9 times his or her gross monthly salary up to the social security wage base plus 5% of any salary in excess of this amount. The Pension Plan provides a benefit equal to (a) 70% or the average of such participant's annual salary (including additional vacation pay and bonus) over the last three full years immediately preceding retirement, less such participant's single person basic social security benefit, multiplied by (b) a fraction, the numerator of which is such participant's years of service up to 35 years and the denominator of which is 35. Benefits are payable upon retirement and the attainment of ages specified in Pension Plan. Dr. Basson has an estimated 9.75 years of service credited under the Pension Plan. Benefits under the Pension Plan are computed as an annual straight life annuity. The benefits listed in the pension plan table set forth above are net of basic social security benefits.

Dr. Fiand and Mr. Roth are eligible to receive their pension through Kronos Germany through the Bayer Pensionskasse and the Supplemental Pension Promise. All of our 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 €54,000) and the Bayer Pensionskasse provides a benefit of 44% of such employee's accumulated contributions (with a minimum benefit of approximately €13 per month). All of our 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 €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 or Mr. Roth in 2001. The estimated accrued annual benefits payable upon normal retirement at normal retirement age for Dr. Fiand and Mr. Roth are €23,440 and €30,431, respectively.

Compensation Committee Interlocks and Insider Participation

Compensation for the named executive officers is set by the management development and compensation committee of the board of directors of NL Industries. None of the named executive officers served on this committee during 2001.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As discussed above under ''Business — Principal Shareholders,'' we may be deemed to be controlled by Harold C. Simmons. It is our policy to engage in transactions with related parties on terms, in our opinion, no less favorable to us than could be obtained from unrelated parties. See note 15 to the consolidated financial statements included elsewhere in this offering memorandum.

The Indenture governing the notes offered hereby contains certain restrictions on our ability to enter into transactions with affiliates. See ''Description of the Notes.''

We share certain services and resources with Kronos and NL Industries, and we rely on Kronos to supply some of our raw materials and to purchase a portion of our products.

Certain of our sales are made to Kronos' North American Subsidiaries. Such sales, consisting primarily of TiO_2, were \$39 million in 2001, \$54 million in 2000 and \$57 million in 1999, and were \$18 million in the first three months of 2002 and \$13 million in the first three months of 2001. The transfer price for such TiO_2 sales is an amount equal to 95% of the North American trade price less certain selling expenses and approximates the selling price that would have been paid if the same product had been sold to our third-party distributors.

We purchase a nominal amount of TiO_2 from Kronos' North American Subsidiaries. Such purchases were \$1 million in 2001, \$7 million in 2000 and \$5 million in 1999, and were nil in the first three months of 2002 and \$1 million in the first three months of 2001. The transfer price for such TiO_2 purchases are determined in a manner similar to our sales of TiO_2 to affiliates.

We purchase rutile feedstock used as a raw material in all of our chloride process TiO_2 facilities from Kronos USA for use in our facilities for an amount equal to the amount paid by Kronos to the third-party supplier plus a 2.5% administrative fee. Such feedstock purchases were \$92 million in 2001, \$89 million in 2000 and \$88 million in 1999, and were \$23 million in the first three months of 2002 and \$18 million in the first three months of 2001.

We own certain technology and trademarks used in our TiO_2 business. We have granted a perpetual license to Kronos' North American Subsidiaries to use such technology and trademarks in their TiO_2 operations. Such license is royalty-free other than with respect to Kronos Canada, from which we receive a royalty based upon specified percentages of sales generated by Kronos Canada. Royalty income from Kronos Canada was \$5 million in 2001, \$6 million in each of 2000 and 1999, and was \$1 million in each of the first three months of 2002 and 2001.

Kronos' North American Subsidiaries and certain other affiliates provide certain management, financial, tax planning, risk management and other administrative services to us on a fee basis. Such charges are based upon estimates of the time devoted by the employees of the provider of the services to our affairs, and the compensation of such persons. Because of the number of companies affiliated with NL Industries, we believe that we benefit from cost savings and economies of scale gained by not having certain management, financial and administrative staffs duplicated at each entity, thus allowing certain individuals to provide services to multiple companies but only be compensated by one entity. Management fees we paid pursuant to these agreements were \$0.2 million in each of 2001 and 2000, \$0.7 million in 1999, and were \$0.3 million in the first three months of 2002 and \$0.1 million in the first three months of 2001. In addition, Dr. Wigdor and Mr. Hardy, each of whom is one of our officers, are also officers of NL Industries and Kronos. From time to time, our employees may also provide certain engineering services to Kronos' Canadian operations for which we are compensated based on a time-and-materials basis. The amount received for providing such services has not been material.

We and Kronos are both members of NL Industries' consolidated U.S. federal income tax group. As such, we are a party to an income tax sharing agreement with Kronos. Effective January 1, 2001, the NL Industries tax group, including us, are included in the consolidated U.S. federal income tax group of Contran. As a member of the Contran tax group, NL Industries is a party to a separate tax sharing agreement with Valhi. NL Industries' tax sharing agreement with Valhi provides that NL Industries calculate its liability for

U.S. income taxes on a separate-company basis using the tax elections made by Contran. During 2002, our tax sharing agreement with Kronos was amended pursuant to which our liability for U.S. income taxes is computed on a separate-company basis using tax elections consistent with Kronos' tax elections. We will make distributions to or receive contributions from Kronos in the amounts we would have paid to or received from the U.S. Internal Revenue Service had we not been a member of the NL Industries tax group, but rather a separate taxpayer. Any contribution we would receive from Kronos under the amended tax sharing agreement is limited to amounts we previously paid to Kronos under such agreement. We have never paid any distributions to Kronos nor have we received any contributions from Kronos under our tax sharing agreement with them. We would not have reported a different provision for income taxes in 1999, 2000 and 2001 if the provision for income taxes in such periods had been computed in accordance with the tax allocation policy contained in our amended tax sharing agreement with Kronos. See note 2 to the consolidated financial statements included elsewhere in this offering memorandum.

We have certain indebtedness owed to NL Industries and its affiliates. Such indebtedness is discussed in note 8 to the consolidated financial statements included elsewhere in this offering memorandum. Interest expense on such indebtedness was $34 million in 2001, $29 million in 2000 and $30 million in 1999, and was $10 million in the first three months of 2002 and $6 million in the first three months of 2001. All of this indebtedness either will be repaid with the proceeds from our sale of notes or contributed to our equity upon completion of our sale of the notes.

We are party to master global Contran and NL Industries insurance coverage policies with regard to property, business interruption, excess liability and other coverages. The costs associated with these policies aggregated $7.1 million, $3.1 million and $2.9 million in 2001, 2000 and 1999, respectively.

The amounts receivable from and payable to affiliates are summarized in note 15 to the consolidated financial statements included elsewhere in this offering memorandum.

DESCRIPTION OF OUR SUBSIDIARIES' NEW CREDIT FACILITY

We anticipate that two subsidiaries of Kronos Norway (Kronos Titan A/S and Titania A/S), Kronos Germany and Kronos Belgium (collectively the ''Bank Borrowers'') will enter into a new senior secured credit facility (the ''New Credit Facility'') with a syndicate of banks led by Deutsche Bank AG. The documentation for the New Credit Facility has not yet been negotiated, and the final documentation may contain provisions more or less restrictive than those set forth below. As such, all information relating to the New Credit Facility is qualified in its entirety by reference to the complete text of the documents anticipated to be entered into in connection with the New Credit Facility.

General

We expect the New Credit Facility to provide for up to €80 million in revolving credit loans available to refinance our outstanding indebtedness and provide for our ongoing operating needs. Upon the closing of the New Credit Facility and after the initial expected borrowing under the New Credit Facility, we expect that the Bank Borrowers will have approximately €40 million available for additional borrowing under that facility. The New Credit Facility is expected to replace existing bank arrangements in place, and is expected to mature in three years.

Guarantees; Security

We expect that the Bank Borrowers will be subject to covenants under the New Credit Facility, as will certain current and future subsidiaries, if any. We also expect that Kronos Germany and Kronos Belgium will guarantee all outstanding borrowings under the New Credit Facility. The New Credit Facility is expected to be secured by the working capital assets of the four co-borrowers and a pledge of the shares of Kronos Norway.

Interest; Fees

We expect that interest under the New Credit Facility will be payable at rates per annum equal to EURIBOR plus the applicable margin spread. Unused commitment fees will be due quarterly. We anticipate that the applicable margin spread will range between 175 basis points and 200 basis points, depending upon facility usage. Undrawn commitment fees are expected to be 75 basis points per annum.

Conditions to Funding

Borrowing under the New Credit Facility will be conditioned upon the issuance of the notes offered hereby, the repayment of certain outstanding bank loans, and other customary closing conditions.

Conditions and Events of Default

The New Credit Facility will contain affirmative and negative covenants customary for agreements of this type, including, among others, covenants restricting our ability to (i) incur additional indebtedness, (ii) create liens on our assets, (iii) make certain investments and loans, (iv) consolidate, merge or sell assets and (v) change the character of our business.

We also expect to be required to comply with certain financial tests and maintain certain financial ratios. These financial tests and ratios are expected to include requirements to maintain (i) a maximum leverage ratio and (ii) a minimum interest coverage ratio (as defined in the loan documentation).

The New Credit Facility will also include customary events of default. Events of default under the New Credit Facility will include non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations and warranties in any material respect, bankruptcy and insolvency events, cross-defaults and a default in the event of a change of control (as defined). An event of default under the facility will permit the lenders to accelerate the maturity of indebtedness under the facility, and may result in cross-defaults under other indebtedness of us or our subsidiaries.

DESCRIPTION OF THE NOTES

The Company will issue the Notes under an indenture (the ''Indenture'') between itself and The Bank of New York, as Trustee (the ''Trustee''). The following is a summary of the material provisions of the Indenture. It does not include all of the provisions of the Indenture. We urge you to read the Indenture because it defines your rights. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (the ''TIA''). A copy of the Indenture may be obtained from the Company or the initial purchasers. You can find definitions of certain capitalized terms used in this description under ''— Certain Definitions.'' For purposes of this section, references to the ''Company'' include only KII and not its Subsidiaries and ''Notes'' shall include the exchange notes to be issued pursuant to the exchange offer described in the ''Exchange Offer; Registration Rights'' section.

The Notes will be senior obligations of the Company, ranking equally in right of payment with all our other senior indebtedness. The Notes will be secured by a senior Lien on 65% of the Capital Stock of each of the first-tier operating Subsidiaries of the Company.

The Company will issue the Notes in fully registered form in denominations of €1,000 and integral multiples thereof. The Trustee will initially act as Paying Agent and Registrar for the Notes. The Notes may be presented for registration or transfer and exchange at the offices of the Registrar. The Company may change any Paying Agent and Registrar without notice to holders of the Notes (the ''Holders''). The Company will pay principal (and premium, if any) on the Notes at the Trustee's corporate office in New York. At the Company's option, interest may be paid at the Trustee's corporate trust office or by check mailed to the registered address of Holders. So long as the Notes are listed on the Luxembourg Stock Exchange, the Company will maintain a special agent or, as the case may be, a paying and transfer agent in Luxembourg. Any Notes that remain outstanding after the completion of the Exchange Offer, together with the Exchange Notes issued in connection with the Exchange Offer, will be treated as a single class of securities under the Indenture.

Principal, Maturity and Interest

An aggregate principal amount of €270 million of Notes will be issued in the offering. The Notes will mature on , 2009. Additional Notes may be issued from time to time, subject to the limitations set forth under ''— Certain Covenants — Limitation on Incurrence of Additional Indebtedness.'' Interest on the Notes will accrue at the rate of % per annum and will be payable semiannually in cash on each and commencing on , 2002, to the persons who are registered Holders at the close of business on the and immediately preceding the applicable interest payment date. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the date of issuance.

The Notes will not be entitled to the benefit of any mandatory sinking fund.

Redemption

Optional Redemption. Except as described below, the Notes are not redeemable before , 2005 (3.5 years after the Issue Date). Thereafter, the Company may redeem the Notes at its option, in whole or in part, upon not less than 30 nor more than 60 days notice, at the following redemption prices (expressed as percentages of the principal amount thereof) if redeemed during the twelve-month period (or, in the case of the period commencing on , 2007, six-month period) commencing on of the year set forth below:

Year	Percentage
2005	%
2006	%
2007	%
2008 and thereafter	100.000%

In addition, the Company must pay accrued and unpaid interest on the Notes redeemed.

Optional Redemption upon Public Equity Offerings. At any time, or from time to time, on or prior to , 2005, the Company may, at its option, use the net cash proceeds of one or more Public Equity Offerings (as defined below) to redeem up to 35% of the principal amount of the Notes issued under the Indenture at a redemption price of % of the principal amount thereof plus accrued and unpaid interest thereon, if any, to the date of redemption; *provided* that:

(1) at least 65% of the principal amount of Notes issued under the Indenture remains outstanding immediately after any such redemption; and

(2) the Company makes such redemption not more than 90 days after the consummation of any such Public Equity Offering.

''Public Equity Offering'' means an underwritten public offering of Qualified Capital Stock of the Company, Kronos or NL Industries pursuant to a registration statement filed with the Commission in accordance with the Securities Act (or pursuant to a similar or reasonably equivalent process in the European Union or in any one or more states that are members of the European Union as of the Issue Date or in Norway); provided that, in the event of a Public Equity Offering by Kronos or NL Industries, such issuer directly or indirectly contributes to the equity capital of the Company the portion of the net cash proceeds of such Public Equity Offering necessary to pay the aggregate redemption price (plus accrued interest to the date of redemption) of the Notes to be redeemed pursuant to the preceding paragraph.

Optional Redemption upon a Change of Control. At any time on or prior to , 2005, the Notes may also be redeemed or purchased (by the Company or any other Person) in whole but not in part, at the Company's option, upon the occurrence of a Change of Control, at a price equal to 100% of the principal amount thereof plus the Applicable Premium as of, and accrued but unpaid interest, if any, to, the date of redemption or purchase (the ''Redemption Date'') (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date). Such redemption or purchase may be made upon notice mailed by first-class mail to each Holder's registered address, not less than 30 nor more than 60 days prior to the Redemption Date (but in no event shall such notice be mailed more than 180 days after the occurrence of such Change of Control). The Company may provide in such notice that payment of such price and performance of the Company's obligations with respect to such redemption or purchase may be performed by another Person. Any such notice may be given prior to the occurrence of the related Change of Control, and any such redemption, purchase or notice may, at the Company's discretion, be subject to the satisfaction of one or more conditions precedent, including but not limited to the occurrence of the related Change of Control.

''Applicable Premium'' means, with respect to a Note at any Redemption Date, the greater of (i) 1.0% of the principal amount of such Note and (ii) the excess of (A) the present value at such Redemption Date of (1) the redemption price of such Note on , 2005 (such redemption price being that described in the first paragraph of this ''Redemption'' section) plus (2) all required remaining scheduled interest payments due on such Note through , 2005, computed using a discount rate equal to the Adjusted Bund Rate, over (B) the principal amount of such Note on such Redemption Date. Calculation of the Applicable Premium will be made by the Company or on behalf of the Company by such Person as the Company shall designate; *provided, however*, that such calculation shall not be a duty or obligation of the Trustee.

‘‘Adjusted Bund Rate’’ means, with respect to any Redemption Date, the mid-market yield, under the heading which represents the average for the immediately prior week, appearing on Reuters page AABBUND01, or its successor, for the maturity corresponding to , 2009 (if no maturity date is within three months before or after , 2009, yields for the two published maturities most closely corresponding to , 2009 shall be determined and the Bund yield shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month), plus 0.50%. The Bund Rate shall be calculated on the third Business Day preceding such Redemption Date.

Selection and Notice of Redemption

In the event that the Company chooses to redeem less than all of the Notes, selection of the Notes for redemption will be made by the Trustee either:

(1) in compliance with the requirements of the principal national securities exchange, if any, on which the Notes are listed; or

(2) on a *pro rata* basis, by lot or by such method as the Trustee shall deem fair and appropriate.

No Notes of a principal amount of €1,000 or less shall be redeemed in part. If a partial redemption is made with the proceeds of a Public Equity Offering, the Trustee will select the Notes only on a *pro rata* basis or on as nearly a *pro rata* basis as is practicable (subject to the procedures of Euroclear and Clearstream Luxembourg). Notice of redemption will be mailed by first-class mail at least 30 but not more than 60 days before the redemption date to each Holder of Notes to be redeemed at its registered address. In the event Notes are to be redeemed, the Company will also publish a notice of redemption in accordance with the procedures described under ‘‘— Notices.’’ On and after the redemption date, interest will cease to accrue on Notes or portions thereof called for redemption as long as the Company has deposited with the Paying Agent funds in satisfaction of the applicable redemption price.

Holding Company Structure

The Company’s assets consist primarily of investments in its operating Subsidiaries. The Company’s cash flow and its ability to service Indebtedness, including the Company’s ability to pay the interest on and principal of the Notes, depends upon the distribution of the earnings of its Subsidiaries, whether in the form of dividends, partnership distributions, advances or payments on account of intercompany obligations, to service its debt obligations. In addition, the claims of the Holders are subject to the prior payment of all liabilities (whether or not for borrowed money) and to any preferred stock interest of such Subsidiaries of the Company. There can be no assurance that, after providing for all prior claims, there would be sufficient assets available from the Company and its Subsidiaries to satisfy the claims of the Holders of Notes. See ‘‘Risk Factors — If our subsidiaries do not make sufficient distributions to us, then we will not be able to make payments on our debt, including the notes’’ and ‘‘Risk Factors — The notes are secured only by the pledge of 65% of the stock or other equity interests of certain of our first-tier subsidiaries, and assets of our subsidiaries will first be applied to repay indebtedness and liabilities of our subsidiaries and may not be sufficient to repay the notes.’’

In addition to the foregoing, the Notes will be structurally subordinated in right of payment to all of the Indebtedness and other liabilities of the Company’s Subsidiaries, which, on a pro forma basis as of March 31, 2002, would have been approximately $220 million (including approximately $74 million in deferred income taxes) recorded on our pro forma balance sheet. Furthermore, the Indebtedness of certain of the Company’s Subsidiaries under the Credit Agreement is or will be secured by Liens on substantially all current assets of such Subsidiaries. The Notes will not have the benefit of this collateral, nor any other assets of the Company’s Subsidiaries. Accordingly, if an event of default occurs under the Credit Agreement, the lenders under the Credit Agreement will have a right to such assets and may foreclose upon their collateral. In that case, such assets would first be used to repay in full amounts outstanding under the Credit Agreement and may not be available to repay the Notes. In the event of a bankruptcy event affecting any of the Subsidiaries, local bankruptcy law would be likely to apply. In general, such local bankruptcy law affords significant protection for senior secured creditors and there can be no assurances that, in the event of bankruptcy events affecting Subsidiaries of the Company, senior secured creditors could take actions that would materially and adversely affect the value of the Company's ongoing business and the equity value of such Subsidiaries. The remaining value, if any, of the Company's assets may not be sufficient to repay the Notes.

Security

The Notes are secured only by the pledge of 65% of the Capital Stock of the Company's first-tier operating Subsidiaries. Each of the pledges securing the Notes will be made under and will be governed by the local law of the jurisdiction where each of our pledged Subsidiaries are formed; those jurisdictions are Denmark, France, Germany and the United Kingdom. As a result, the validity of those pledges and the ability of Holders to realize any benefit associated with the pledged shares may be limited under applicable local law as any action to enforce the stock pledges must be taken under the laws of the applicable jurisdiction and such laws may differ in significant respects from the laws of the United States. Furthermore, the rights of the Trustee or the Holders to foreclose upon and sell the pledged shares upon the occurrence of a default will be subject to limitations under applicable local bankruptcy laws if a bankruptcy proceeding were commenced against the Company or its Subsidiaries. Any delay or inability to realize any benefit associated with the Lien in any jurisdiction or the application of local bankruptcy laws that are contrary to Holders' interests could have a material adverse effect on the Lien we have granted on certain of the Company's first-tier Subsidiaries and could result in an inability to realize the full value of the share pledges entered into in connection with the issuance of the Notes.

Change of Control

Upon the occurrence of a Change of Control, each Holder will have the right to require that the Company purchase all or a portion of such Holder's Notes pursuant to the offer described below (the ''Change of Control Offer''), at a purchase price equal to 101% of the principal amount thereof plus accrued interest to the date of purchase.

Within 60 days following the date upon which the Change of Control occurred, the Company must send, by first class mail, a notice to each Holder, with a copy to the Trustee, which notice shall govern the terms of the Change of Control Offer. Such notice shall state, among other things, the purchase date, which must be no earlier than 30 days nor later than 45 days from the date such notice is mailed, other than as may be required by law (the ''Change of Control Payment Date''). In the event of a Change of Control, the Company will also publish a notice of the offer to purchase in accordance with the procedures described under ''— Notices.'' Holders electing to have a Note purchased pursuant to a Change of Control Offer will be required to surrender the Note, with the form entitled ''Option of Holder to Elect Purchase'' on the reverse of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the third business day prior to the Change of Control Payment Date.

The Company will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

If a Change of Control Offer is made, there can be no assurance that the Company will have available funds sufficient to pay the Change of Control purchase price for all the Notes that might be delivered by Holders seeking to accept the Change of Control Offer. In the event the Company is required to purchase outstanding Notes pursuant to a Change of Control Offer, the Company expects that it would seek third party financing to the extent it does not have available funds to meet its purchase obligations. However, there can be no assurance that the Company would be able to obtain such financing.

Neither the Board of Directors of the Company nor the Trustee may waive the covenant relating to a Holder's right to redemption upon a Change of Control. Restrictions in the Indenture described herein on the ability of the Company and its Restricted Subsidiaries to incur additional Indebtedness, to grant Liens on its property, to make Restricted Payments and to make Asset Sales may also make more difficult or discourage a takeover of the Company, whether favored or opposed by the management of the Company. Consummation of any such transaction in certain circumstances may require redemption or repurchase of the Notes, and there can be no assurance that the Company or the acquiring party will have sufficient financial resources to effect such redemption or repurchase. Such restrictions and the restrictions on transactions with Affiliates may, in certain circumstances, make more difficult or discourage any leveraged buyout of the Company or any of its Subsidiaries by the management of the Company. While such restrictions cover a wide variety of arrangements which have traditionally been used to effect highly leveraged transactions, the Indenture may not afford the Holders protection in all circumstances from the adverse aspects of a highly leveraged transaction, reorganization, restructuring, merger or similar transaction.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of Notes pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the ''Change of Control'' provisions of the Indenture, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under the ''Change of Control'' provisions of the Indenture by virtue thereof.

Certain Covenants

The Indenture will contain, among others, the following covenants:

Limitation on Incurrence of Additional Indebtedness. The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume, guarantee, acquire, become liable, contingently or otherwise, with respect to, or otherwise become responsible for payment of (collectively, ''incur'') any Indebtedness (other than Permitted Indebtedness); *provided, however,* that if no Default or Event of Default shall have occurred and be continuing at the time of or as a consequence of the incurrence of any such Indebtedness, the Company or any of its Restricted Subsidiaries that is, or, upon such incurrence, becomes, a Guarantor may incur Indebtedness (including, without limitation, Acquired Indebtedness) and any Restricted Subsidiary of the Company that is not or will not, upon such incurrence, become a Guarantor may incur Acquired Indebtedness, in each case if on the date of the incurrence of such Indebtedness, after giving effect to the incurrence thereof, the Consolidated Fixed Charge Coverage Ratio of the Company is greater than 2.5 to 1.0.

The Company and any Restricted Subsidiary that is a Guarantor will not incur any Indebtedness that is expressly subordinated to any senior Indebtedness of the Company or any such Guarantor unless such Indebtedness is also expressly subordinated on the same basis to the Notes or any such guarantees.

Limitation on Restricted Payments. The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any distribution (other than dividends or distributions payable in Qualified Capital Stock of the Company) on or in respect of shares of the Company's Capital Stock to holders of such Capital Stock;

(2) purchase, redeem or otherwise acquire or retire for value any Capital Stock of the Company or any warrants, rights or options to purchase or acquire shares of any class of such Capital Stock;

(3) make any principal payment on, purchase, defease, redeem, prepay, decrease or otherwise acquire or retire for value, prior to any scheduled final maturity, scheduled repayment or scheduled sinking fund payment, any Indebtedness of the Company that is subordinate or junior in right of payment to the Notes; or

(4) make any Investment (other than Permitted Investments) (each of the foregoing actions set forth in clauses (1), (2), (3) and (4) being referred to as a ''Restricted Payment'');

if at the time of such Restricted Payment or immediately after giving effect thereto,

(i) a Default or an Event of Default shall have occurred and be continuing; or

(ii) the Company is not able to incur at least $1.00 of additional Indebtedness (other than Permitted Indebtedness) in compliance with the ''Limitation on Incurrence of Additional Indebtedness'' covenant; *provided, however*, that for purposes of this clause (ii), the Consolidated Fixed Charge Coverage Ratio of the Company, after giving effect to such Restricted Payment, must be greater than 3.0 to 1.0; or

(iii) the aggregate amount of Restricted Payments (including such proposed Restricted Payment) made subsequent to the Issue Date (the amount expended for such purposes, if other than in cash, being the fair market value of such property as determined in good faith by the Board of Directors of the Company) shall exceed the sum of:

(v) 75% of the cumulative Consolidated Net Income (or if cumulative Consolidated Net Income shall be a loss, minus 100% of such loss) of the Company earned subsequent to the Issue Date and on or prior to the date the Restricted Payment occurs (the ''Reference Date'') (treating such period as a single accounting period); plus

(w) 100% of the aggregate net cash proceeds received by the Company from any Person (other than a Restricted Subsidiary of the Company) from the issuance and sale subsequent to the Issue Date and on or prior to the Reference Date of Qualified Capital Stock of the Company or warrants, options or other rights to acquire Qualified Capital Stock of the Company (but excluding any debt security that is convertible into, or exchangeable for, Qualified Capital Stock); plus

(x) without duplication of any amounts included in clause (iii)(w) above, 100% of the aggregate net cash proceeds of any equity contribution received by the Company from a holder of the Company's Capital Stock (excluding, in the case of clause (iii)(w) and this clause (iii)(x), any net cash proceeds from a Public Equity Offering to the extent used to redeem the Notes in compliance with the provisions set forth under ''Redemption — Optional Redemption upon Public Equity Offerings.''); plus

(y) without duplication, the sum of:

(1) the aggregate amount returned in cash on or with respect to Investments (other than Permitted Investments) made subsequent to the Issue Date whether through interest payments, principal payments, dividends or other distributions or payments;

(2) the net cash proceeds received by the Company or any of its Restricted Subsidiaries from the disposition of all or any portion of Investments (other than Permitted Investments) made subsequent to the Issue Date other than to a Restricted Subsidiary of the Company; and

(3) upon redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary, the fair market value of such Subsidiary; *provided, however*, that the sum of amounts governed by clauses (1), (2) and (3) above shall first be included under this clause (y) and, to the extent that the sum of clauses (1), (2) and (3) above exceeds the aggregate amount of all Investments (other than Permitted Investments) made subsequent to the Issue Date, shall be included under clause (v) above as included in Consolidated Net Income; plus

(z) $25 million.

Notwithstanding the foregoing, the provisions set forth in the immediately preceding paragraph do not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration of such dividend if the dividend would have been permitted on the date of declaration;

(2) the acquisition or redemption of any shares of Capital Stock of the Company, either (i) solely in exchange for shares of Qualified Capital Stock of the Company or (ii) through the application of net proceeds of a substantially concurrent sale for cash (other than to a Restricted Subsidiary of the Company) of shares of Qualified Capital Stock of the Company;

(3) the acquisition or redemption of any Indebtedness of the Company that is subordinate or junior in right of payment to the Notes either (i) solely in exchange for shares of Qualified Capital Stock of the Company or (ii) through the application of net proceeds of (a) a substantially concurrent sale for cash (other than to a Restricted Subsidiary of the Company) of shares of Qualified Capital Stock of the Company or (b) if no Default or Event of Default shall have occurred and be continuing, Refinancing Indebtedness;

(4) so long as no Default or Event of Default shall have occurred and be continuing, repurchases by the Company of Common Stock of the Company (or options or warrants to purchase such Common Stock) from directors, officers and employees of the Company or any of its Subsidiaries or their authorized representatives upon the death, disability, retirement or termination of employment of such directors, officers and employees, in an aggregate amount not to exceed $3 million in any calendar year;

(5) on or before 200 days after the Issue Date, the partial or complete redemption of any one or more of (i) the 738 shares of the Company's outstanding Series A Preferred Stock, $100 par value, (ii) the 647 shares of the Company's outstanding Series B Preferred Stock, $100 par value, and (iii) the 5,500,000 shares of the Company's outstanding Profit Participation Certificates, DM100 par value, in each case including any accrued and unpaid dividends thereon, using as consideration the Company's notes or loans receivable from its Affiliates and existing as of the Issue Date (including accrued and unpaid interest thereon);

(6) on or before 200 days from the Issue Date, the partial or complete conversion into Qualified Capital Stock of the Company of any one or more of (i) the 738 shares of the Company's outstanding Series A Preferred Stock, $100 par value, (ii) the 647 shares of the Company's outstanding Series B Preferred Stock, $100 par value, and (iii) the 5,500,000 shares of the Company's outstanding Profit Participation Certificates, DM100 par value, in each case including any accrued and unpaid dividends thereon;

(7) on or before 200 days from the Issue Date, the dividend or other transfer by the Company to Kronos of all or a portion of the Company's notes or loans receivable from its Affiliates and existing as of the Issue Date (including accrued and unpaid interest thereon);

(8) on or before 200 days from the Issue Date, the redemption of any Qualified Capital Stock of the Company, using as consideration all or a portion of the Company's notes receivable from Affiliates and existing as of the Issue Date (including accrued and unpaid interest thereon); and

(9) one or more Restricted Payments of the net proceeds from the issuance and sale of the Notes, on or promptly after the Issue Date as set forth in, and for the purposes described under, ''Use of Proceeds'' and, if any net proceeds remain after such Restricted Payment(s), additional Restricted Payment(s), promptly after the Issue Date, in an aggregate amount up to the amount of such remaining net proceeds from such issuance and sale.

In determining the aggregate amount of Restricted Payments made subsequent to the Issue Date in accordance with clause (iii) of the immediately preceding paragraph, amounts expended pursuant to clauses (1), (2)(ii) (to the extent included in the calculation of net cash proceeds in clause (iii)(w) above), 3(ii)(a) (to the extent included in the calculation of net cash proceeds in clause (iii)(w) above) and (4) shall be included in such calculation and amounts expended pursuant to clauses (2)(i), (2)(ii) (to the extent not included in the calculation of net cash proceeds in clause (iii)(w) above), (3)(i), (3)(ii)(a) (to the extent not included in the calculation of net cash proceeds in clause (iii)(w) above), 3(ii)(b), (5), (6), (7), (8) and (9) shall be excluded from such calculation, in each case without duplication.

Limitation on Asset Sales. The Company will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

(1) the Company or the applicable Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Sale at least equal to the fair market value of the assets sold or otherwise disposed of (as determined in good faith by the Company's Board of Directors);

(2) at least 75% of the consideration received by the Company or the Restricted Subsidiary, as the case may be, from such Asset Sale shall be in the form of cash or Cash Equivalents and is received at the time of such disposition; provided, however, that for the purposes of this provision, the amount of any liability that would be shown on a consolidated balance sheet of the Company or such Restricted Subsidiary, as the case may be, in accordance with GAAP and immediately prior to the time of such Asset Sale, other than liabilities that are by their terms expressly subordinated to the Notes, that are assumed by the transferee of any such Asset Sale, will be deemed to be cash; and

(3) upon the consummation of an Asset Sale, the Company shall apply, or cause such Restricted Subsidiary to apply, the Net Cash Proceeds relating to such Asset Sale within 365 days of receipt thereof either:

(a) to prepay any secured senior Indebtedness of the Company or senior Indebtedness of a Restricted Subsidiary and, in the case of any such senior Indebtedness under any revolving credit facility, effect a permanent reduction in the availability under such revolving credit facility;

(b) to acquire or otherwise make an investment or enter into a binding commitment to acquire or otherwise make an investment in properties and assets (including Capital Stock) that replace the properties and assets (including Capital Stock) that were the subject of such Asset Sale or in properties and assets (including Capital Stock) that will be used in the business of the Company and its Restricted Subsidiaries as existing on the Issue Date or in businesses reasonably related thereto (''Replacement Assets''); and/or

(c) a combination of prepayment and investment permitted by the foregoing clauses (3)(a) and (3)(b).

On the 366th day after an Asset Sale or such earlier date, if any, as the Board of Directors of the Company or of such Restricted Subsidiary determines not to apply the Net Cash Proceeds relating to such Asset Sale as set forth in clauses (3)(a), (3)(b) and (3)(c) of the preceding paragraph (each, a ''Net Proceeds Offer Trigger Date''), the aggregate amount of Net Cash Proceeds which have not been applied on or before such Net Proceeds Offer Trigger Date as permitted in clauses (3)(a), (3)(b) and (3)(c) of the preceding paragraph (each a ''Net Proceeds Offer Amount'') shall be applied by the Company or such Restricted Subsidiary to make an offer to purchase (the ''Net Proceeds Offer'') on a date (the ''Net Proceeds Offer Payment Date'') not less than 30 nor more than 45 days following the applicable Net Proceeds Offer Trigger Date, from all Holders on a *pro rata* basis, that amount of Notes equal to the Net Proceeds Offer Amount at a price equal to 100% of the principal amount of the Notes to be purchased, plus accrued and unpaid interest thereon, if any, to the date of purchase; *provided, however*, that if at any time any non-cash consideration received by the Company or any Restricted Subsidiary of the Company, as the case may be, in connection with any Asset Sale is converted into or sold or otherwise disposed of for cash (other than interest received with respect to any such non-cash consideration), then such conversion or disposition shall be deemed to constitute an Asset Sale hereunder and the Net Cash Proceeds thereof shall be applied in accordance with this covenant.

Notwithstanding the foregoing provision, the Company and its Restricted Subsidiaries may consummate an Asset Sale without complying with such provision to the extent that (1) at least 80% of the consideration for such Asset Sale constitutes Replacement Assets and (2) such Asset Sale is for fair market value. Any consideration that does not constitute Replacement Assets that is received by the Company or any of its Restricted Subsidiaries in connection with any Asset Sale permitted under this paragraph will constitute Net Cash Proceeds and will be subject to the provisions set forth in the preceding paragraph.

The Company or such Restricted Subsidiary may defer the Net Proceeds Offer until there is an aggregate unutilized Net Proceeds Offer Amount equal to or in excess of $20 million resulting from one or more Asset Sales (at which time, the entire unutilized Net Proceeds Offer Amount, and not just the amount in excess of $20 million, shall be applied as required pursuant to this paragraph).

In the event of the transfer of substantially all (but not all) of the property and assets of the Company and its Restricted Subsidiaries as an entirety to a Person in a transaction permitted under ''— Merger, Consolidation and Sale of Assets,'' which transaction does not constitute a Change of Control, the successor corporation shall be deemed to have sold the properties and assets of the Company and its Restricted Subsidiaries not so transferred for purposes of this covenant, and shall comply with the provisions of this covenant with respect to such deemed sale as if it were an Asset Sale. In addition, the fair market value of such properties and assets of the Company or its Restricted Subsidiaries deemed to be sold shall be deemed to be Net Cash Proceeds for purposes of this covenant.

Each Net Proceeds Offer will be mailed to the record Holders as shown on the register of Holders within 25 days following the Net Proceeds Offer Trigger Date, with a copy to the Trustee, and shall comply with the procedures set forth in the Indenture. Upon receiving notice of the Net Proceeds Offer, Holders may elect to tender their Notes in whole or in part in integral multiples of €1,000 in exchange for cash. To the extent Holders properly tender Notes in an amount exceeding the Net Proceeds Offer Amount, Notes of tendering Holders will be purchased on a *pro rata* basis (based on amounts tendered). A Net Proceeds Offer shall remain open for a period of 20 business days or such longer period as may be required by law.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of Notes pursuant to a Net Proceeds Offer. To the extent that the provisions of any securities laws or regulations conflict with the ''Asset Sale'' provisions of the Indenture, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under the ''Asset Sale'' provisions of the Indenture by virtue thereof.

After consummation of any Net Proceeds Offers, any Net Proceeds Offer Amount not applied to any such purchase may be used by the Company for any purpose permitted by the other provisions of the Indenture.

To the extent that any or all of the Net Cash Proceeds related to an Asset Sale of a Restricted Subsidiary are prohibited or delayed by applicable law from being repatriated (in the form of dividends, loans or otherwise) to the Company, the portion of such Net Cash Proceeds so affected shall not be required to be applied at the time provided above, but may be retained by the applicable Restricted Subsidiary so long, but only so long, as such applicable law will not permit repatriation to the Company (the Company having agreed to cause the applicable Restricted Subsidiary to promptly take all actions required by the applicable law to permit such repatriation). After such repatriation of any such affected Net Cash Proceeds is permitted under such applicable law, such repatriation shall be immediately effected and such repatriated Net Cash Proceeds will be applied in a manner as described in this covenant.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries. The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary of the Company to:

(1) pay dividends or make any other distributions on or in respect of its Capital Stock;

(2) make loans or advances or to pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary of the Company; or

(3) transfer any of its property or assets to the Company or any other Restricted Subsidiary of the Company,

except, in each case, for such encumbrances or restrictions existing under or by reason of:

(a) applicable law;

(b) the Notes, the Exchange Notes or the Indenture;

(c) customary non-assignment provisions of any contract or any lease governing a leasehold interest of any Restricted Subsidiary of the Company;

(d) any instrument governing Acquired Indebtedness, which encumbrance or restriction is not applicable to properties or assets other than the properties or assets so acquired;

(e) agreements existing on the Issue Date to the extent and in the manner such agreements are in effect on the Issue Date and any amendments, extensions, renewals or substitutions thereof provided that the terms of such amendments, extensions, renewals or substitutions are not materially more restrictive in the aggregate as determined by the Board of Directors of the Company in its good faith judgment;

(f) customary restrictions in the Credit Agreement, to the extent and in the manner in effect on the Issue Date, and customary restrictions in other agreements governing Permitted Indebtedness to the extent such restrictions would not reasonably be expected to have an adverse effect on the ability of the Company to timely pay the principal and interest on the Notes;

(g) customary restrictions on the transfer of assets subject to any Lien permitted under the Indenture imposed by the holder of such Lien;

(h) customary restrictions imposed by any agreement to sell assets or Capital Stock permitted under the Indenture to any Person pending the closing of such sale;

(i) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business;

(j) contractual requirements of a Securitization Entity in connection with a Qualified Securitization Transaction; provided that such restrictions apply only to such Securitization Entity;

(k) in the case of a joint venture or similar entity 50% owned by the Company or a Restricted Subsidiary, customary provisions in joint venture agreements and other similar agreements (in each case relating solely to the respective joint venture or similar entity or the equity interests therein) entered into in the ordinary course of business; or

(l) an agreement governing Indebtedness incurred to Refinance the Indebtedness issued, assumed or incurred pursuant to an agreement referred to in clause (b), (d), (e), (f) or (j) above; *provided, however,* that the provisions relating to such encumbrance or restriction contained in any such Indebtedness are not materially more restrictive in the aggregate as determined by the Board of Directors of the Company in its good faith judgment than the provisions relating to such encumbrance or restriction contained in agreements referred to in such clause (b), (d), (e), (f) or (j).

Limitation on Preferred Stock of Restricted Subsidiaries. The Company will not permit any of its Restricted Subsidiaries to issue any Preferred Stock (other than to the Company or to a Wholly Owned Restricted Subsidiary of the Company) or permit any Person (other than the Company or a Wholly Owned Restricted Subsidiary of the Company) to own any Preferred Stock of any Restricted Subsidiary of the Company.

Limitation on Liens. The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or permit or suffer to exist any Liens of any kind against or upon any property or assets of the Company or any of its Restricted Subsidiaries whether owned on the Issue Date or acquired after the Issue Date, or any proceeds therefrom, or assign or otherwise convey any right to receive income or profits therefrom, unless:

(1) in the case of Liens securing Indebtedness that is expressly subordinate or junior in right of payment to the Notes, the Notes are secured by a Lien on such property, assets or proceeds that is senior in priority to such Liens; and

(2) in all other cases, the Notes are equally and ratably secured, except for:

(a) Liens existing as of the Issue Date to the extent and in the manner such Liens are in effect on the Issue Date and any amendments, extensions, renewals or substitutions thereof provided that the property subject to such Liens as amended, extended, renewed or substituted is not materially different from that initially subject to such Liens as determined by the Board of Directors of the Company in their good faith judgment;

(b) Liens securing Indebtedness under the Credit Agreement;

(c) Liens securing senior Indebtedness incurred pursuant to clauses (11) or (12) of the definition of Permitted Indebtedness;

(d) Liens securing the Notes and any Guarantees;

(e) Liens of the Company or a Wholly Owned Restricted Subsidiary of the Company on assets of any Restricted Subsidiary of the Company;

(f) Liens securing Indebtedness incurred to Refinance any Indebtedness which has been secured by a Lien permitted under the Indenture and which has been incurred without violation of the Indenture; *provided, however,* that such Liens do not extend to or cover any property or assets of the Company or any of its Restricted Subsidiaries not securing the Indebtedness so Refinanced; and

(g) Permitted Liens.

Merger, Consolidation and Sale of Assets. The Company will not, in a single transaction or series of related transactions, consolidate or merge with or into any Person, or sell, assign, transfer, lease, convey or otherwise dispose of (or cause or permit any Restricted Subsidiary of the Company to sell, assign, transfer, lease, convey or otherwise dispose of) all or substantially all of the Company's assets (determined on a consolidated basis for the Company and the Company's Restricted Subsidiaries) whether as an entirety or substantially as an entirety to any Person unless:

(1) either:

(a) the Company shall be the surviving or continuing corporation; or

(b) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Company and of the Company's Restricted Subsidiaries substantially as an entirety (the ''Surviving Entity''):

(x) shall be a corporation organized and validly existing under the laws of the United States, any State thereof or the District of Columbia; and

(y) shall expressly assume, by supplemental indenture (in form and substance satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of, and premium, if any, and interest on all of the Notes and the performance of every covenant of the Notes, the Indenture and the Registration Rights Agreement on the part of the Company to be performed or observed;

(2) immediately after giving effect to such transaction and the assumption contemplated by clause (1)(b)(y) above (including giving effect to any Indebtedness and Acquired Indebtedness incurred or anticipated to be incurred in connection with or in respect of such transaction), the Company or such Surviving Entity, as the case may be, (a) shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction and (b) shall be able to incur at least $1.00 of additional Indebtedness (other than Permitted Indebtedness) pursuant to the ''— Limitation on Incurrence of Additional Indebtedness'' covenant;

(3) immediately before and immediately after giving effect to such transaction and the assumption contemplated by clause (1)(b)(y) above (including, without limitation, giving effect to any Indebtedness and Acquired Indebtedness incurred or anticipated to be incurred and any Lien granted in connection with or in respect of the transaction), no Default or Event of Default shall have occurred or be continuing; and

(4) the Company or the Surviving Entity shall have delivered to the Trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with the applicable provisions of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied.

For purposes of the foregoing, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Restricted Subsidiaries of the Company the Capital Stock of which constitutes all or substantially all of the properties and assets of the Company, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

The Indenture will provide that upon any consolidation, combination or merger or any transfer of all or substantially all of the assets of the Company in accordance with the foregoing, in which the Company is not the continuing corporation, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, lease or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture and the Notes with the same effect as if such surviving entity had been named as such.

Without limiting any of the activities and transactions that Kronos Titan-GmbH & Co. OHG, a partnership, may engage in or undertake consistent with the Indenture, Kronos Titan-GmbH & Co. OHG may through a merger, consolidation or other business combination transaction continue or succeed as a corporation incorporated under the laws of Germany; provided that such transaction does not adversely affect the Lien on the Capital Stock of Kronos Titan-GmbH & Co. OHG for the benefit of the Holders.

Notwithstanding the foregoing, neither the Company nor any Subsidiary will consolidate or merge with NL Industries or any successor to NL Industries.

Each Guarantor (other than any Guarantor whose Guarantee is to be released in accordance with the terms of the Guarantee and the Indenture in connection with any transaction complying with the provisions of ''— Limitation on Asset Sales'') will not, and the Company will not cause or permit any Guarantor to, consolidate with or merge with or into any Person other than the Company or any other Guarantor unless:

(1) the entity formed by or surviving any such consolidation or merger (if other than the Guarantor) or to which such sale, lease, conveyance or other disposition shall have been made is a corporation organized and existing under the laws of the European Union, any state that is a member of the European Union on the Issue Date, the United States, any State thereof, the District of Columbia or Norway;

(2) such entity assumes by supplemental indenture all of the obligations of the Guarantor on the Guarantee;

(3) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing; and

(4) immediately after giving effect to such transaction and the use of any net proceeds therefrom on a *pro forma* basis, the Company (a) shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction and (b) shall be able to incur at least $1.00 of additional Indebtedness (other than Permitted Indebtedness) pursuant to the ''— Limitation on Incurrence of Additional Indebtedness'' covenant.

Any merger or consolidation of a Guarantor with and into the Company (with the Company being the surviving entity) or another Guarantor need only comply with clause (4) of the first paragraph of this covenant.

Limitations on Transactions with Affiliates. The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with, or for the benefit of, any of its Affiliates (each an ''Affiliate Transaction''), other than Affiliate Transactions on terms that are no less favorable than those that might reasonably have been obtained in a comparable transaction at such time on an arm's-length basis from a Person that is not an Affiliate of the Company or such Restricted Subsidiary.

All Affiliate Transactions (and each series of related Affiliate Transactions which are similar or part of a common plan) involving aggregate payments or other property with a fair market value in excess of $2 million shall be approved by the Board of Directors of the Company or such Restricted Subsidiary, as the case may be, such approval to be evidenced by a Board Resolution stating that such Board of Directors has determined that such transaction complies with the foregoing provisions. If the Company or any Restricted Subsidiary of the Company enters into an Affiliate Transaction (or a series of related Affiliate Transactions related to a common plan) that involves an aggregate fair market value of more than $12.5 million, the Company or such Restricted Subsidiary, as the case may be, shall, prior to the consummation thereof, obtain a favorable opinion as to the fairness of such transaction or series of related transactions to the Company or the relevant Restricted Subsidiary, as the case may be, from a financial point of view, from an Independent Financial Advisor and file the same with the Trustee.

The restrictions set forth in the first paragraph of this covenant shall not apply to, and the term ''Affiliate Transactions'' shall not include, any of the following (each of the following being a ''Permitted Affiliate Transaction''):

(1) reasonable fees and compensation paid to and indemnity provided on behalf of, officers, directors, employees or consultants of the Company or any Restricted Subsidiary of the Company as determined in good faith by the Company's Board of Directors or senior management;

(2) transactions to the extent exclusively between or among the Company and any of its Restricted Subsidiaries or to the extent exclusively between or among such Restricted Subsidiaries, *provided* such transactions are not otherwise prohibited by the Indenture;

(3) arrangements under the Company's transfer pricing guidelines, the Services Agreement, dated as of January 1, 1995 (and amended as of April 1, 2002) among NL, Kronos (US), Inc. and the Company, the Tax Agreement, dated as of May 28, 2002, by and between Kronos and the Company, the United States Sales Agreement, effective as of January 1, 1995, among Kronos (US), Inc., Rheox, Inc., the Company, Kronos Limited, Société Industrielle du Titane, S.A., Kronos Titan-GmbH, Kronos Canada, Inc., Kronos B.V., Kronos Europe S.A./N.V., Kronos Titan A/S, Rheox Limited, Rheox GmbH, Abbey Chemicals Limited, Bentone-Chemie GmbH and Rheox Canada, a division of Rheox, Inc., the United States Sales Agreement, effective as of January 1, 1995, among Kronos (US), Inc., Rheox, Inc., the Company, Kronos Europe S.A./N.V., Kronos Canada, Inc., Kronos Titan GmbH, Rheox Limited, Rheox GmbH and Kronos Titan A/S, the Assignment and Assumption Agreement, dated as of January 1, 1999, by and between Kronos (US), Inc. and the Company, the Amended and Restated Technology Transfer and License Agreement, dated as of May 30, 1990, between Kronos and Kronos Titan-GmbH, the Amended and Restated Technology, Patent and Trademark License Agreement, dated as of May 30, 1990, by and between Kronos (US), Inc. and Kronos S.A./N.V. and the Amended and Restated Technology, Patent and Trademark License Agreement, dated as of May 30, 1990, by and between Kronos (USA), Inc. and Kronos Canada, Inc., in each case as in effect as of the Issue Date or any amendment thereto or any transaction contemplated thereby (including pursuant to any amendment thereto) in any replacement agreement thereto so long as any such amendment or replacement agreement is not more disadvantageous to the Holders in any material respect than the original agreement as in effect on the Issue Date or is required by law or regulatory authority;

(4) purchases and sales of product and raw materials, insurance arrangements and payments, all of the foregoing in the ordinary course of business consistent with past practice or as may be necessary to accommodate legal, regulatory or other changes in the business of the Company and its Restricted Subsidiaries; and

(5) Restricted Payments (or Permitted Investments set forth in clauses (4), (7) and (13) of the definition thereof) permitted by the Indenture.

Limitation of Guarantees by Restricted Subsidiaries. The Company will not permit any of its Restricted Subsidiaries, directly or indirectly, by way of the pledge of any intercompany note or otherwise, to assume, guarantee or in any other manner become liable with respect to any Indebtedness of the Company or any other Restricted Subsidiary of the Company (other than: (1) Indebtedness and other obligations under the Credit Agreement; (2) Permitted Indebtedness of a Restricted Subsidiary of the Company; (3) Indebtedness under Currency Agreements or Commodity Agreements in reliance on clause (5) of the definition of Permitted Indebtedness; or (4) Interest Swap Obligations incurred in reliance on clause (4) of the definition of Permitted Indebtedness), unless, in any such case:

(1) such Restricted Subsidiary executes and delivers a supplemental indenture to the Indenture, providing a guarantee of payment of the Notes by such Restricted Subsidiary; and

(2) if such assumption, guarantee or other liability of such Restricted Subsidiary is provided in respect of Indebtedness that is expressly subordinated to the Notes (or a Guarantee of the Notes), the guarantee or other instrument provided by such Restricted Subsidiary in respect of such subordinated Indebtedness shall be subordinated to the Guarantee pursuant to subordination provisions no less favorable to the Holders of the Notes than those contained in such other Indebtedness.

Notwithstanding the foregoing, any such Guarantee by a Restricted Subsidiary of the Notes shall (and shall provide by its terms that it shall) be automatically and unconditionally released and discharged, without any further action required on the part of the Trustee or any Holder, upon:

(1) the unconditional release of such Restricted Subsidiary from its assumption, guarantee or other liability in respect of the Indebtedness in connection with which such Guarantee was executed and delivered pursuant to the preceding paragraph; or

(2) any sale or other disposition (by merger or otherwise) to any Person which is not a Restricted Subsidiary of the Company of all of the Capital Stock in, or all or substantially all of the assets of, such Restricted Subsidiary; *provided* that (a) such sale or disposition of such Capital Stock or assets is otherwise in compliance with the terms of the Indenture and (b) such assumption, guarantee or other liability of such Restricted Subsidiary has been released by the holders of the other Indebtedness so guaranteed.

Provision of Security. The Company will not form, acquire or maintain any direct Restricted Subsidiary (other than Kronos Chemie-GmbH and Kronos World Services, S.A./N.V., so long as each such company shall have gross assets of less than $3 million (net of assets contributed thereto for the express purposes of expunging contingent liabilities), and any other direct Restricted Subsidiary having gross assets of less than $1 million), unless, concurrently with the formation, acquisition or maintenance of such Subsidiary, the Company shall execute and deliver, or cause to be executed and delivered, to the Trustee for the benefit of Holders, one or more pledge agreements, in form and substance reasonably satisfactory to the Trustee, pursuant to which not less than 65% of the Capital Stock of such Subsidiary is pledged to the Trustee for the benefit of the Holders and the Company shall, concurrently therewith, execute and deliver all documents, instruments and agreements in form and substance reasonably satisfactory to the Trustee reasonably necessary in the opinion of the Trustee to grant and maintain at all times a fully perfected senior Lien on the collateral pledged pursuant to such pledge agreements.

Conduct of Business. The Company and its Restricted Subsidiaries will not engage in any businesses which are not the same, similar or reasonably related to, or ancillary or complementary to, the businesses in which the Company and its Restricted Subsidiaries are engaged on the Issue Date.

Reports to Holders. The Indenture will provide that, whether or not required by the rules and regulations of the Commission, so long as any Notes are outstanding, the Company will furnish the Holders of Notes (or make publicly available through the Commission's electronic data gathering and retrieval (''EDGAR'') database):

(1) all quarterly and annual financial information that would be required to be contained in a filing with the Commission on Forms 10-Q and 10-K if the Company were required to file such Forms, including a ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' that describes the financial condition and results of operations of the Company and its consolidated Subsidiaries (showing in reasonable detail, either on the face of the financial statements or in the footnotes thereto and in Management's Discussion and Analysis of Financial Condition and Results of Operations, the financial condition and results of operations of the Company and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Company, if any) and, with respect to the annual information only, a report thereon by the Company's certified independent accounts; and

(2) all current reports that would be required to be filed with the Commission on Form 8-K if the Company were required to file such reports, in each case within the time periods specified in the Commission's rules and regulations.

In addition, following the consummation of the exchange offer contemplated by the Registration Rights Agreement, whether or not required by the rules and regulations of the Commission, the Company will file a copy of all such information and reports with the Commission for public availability within the time periods specified in the Commission's rules and regulations (unless the Commission will not accept such a filing) and make such information available to securities analysts and prospective investors upon request. So long as the Notes are listed on the Luxembourg Stock Exchange, copies of such reports shall be available at the specified office of the Paying Agent and Transfer Agent in Luxembourg. In addition, the Company has agreed that, for so long as any Notes remain outstanding, it will furnish to the Holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Release of Security Upon Satisfaction of Conditions. The Company will have the right to obtain a release of items of Collateral from the Lien of the Collateral Documents (the ''Released Collateral'') subject to a sale or disposition in accordance with the Indenture (including, without limitation, the ''— Limitation on Transactions with Affiliates'' covenant) and the Trustee will release the Released Collateral from the Lien of the relevant Collateral Documents and reconvey the Released Collateral to the Company immediately prior to such sale or disposition upon compliance with the condition that the Company deliver to the Trustee the following:

(a) an officers' certificate of the Company stating that (i) all Net Cash Proceeds, if any, from the sale of any of the Released Collateral will be applied pursuant to the provisions of the Indenture in respect of Asset Sales, (ii) there is no Default or Event of Default in effect and continuing on the date thereof, (iii) the release of the Collateral and the sale or disposition will not result in a Default or Event of Default under the Indenture and (v) all conditions precedent in the Indenture relating to the release in question have been complied with; and

(b) all documentation, if any, required by the TIA prior to the release of the Released Collateral by the Trustee.

The Indenture will provide that the Company shall be entitled to obtain a full release of all of the Collateral following legal defeasance or covenant or covenant defeasance of the Indenture as described below under ''— Legal Defeasance and Covenant Defeasance.''

Events of Default

The following events are defined in the Indenture as ''Events of Default'':

(1) the failure to pay interest on any Notes when the same becomes due and payable and the default continues for a period of 30 days;

(2) the failure to pay the principal on any Notes when such principal becomes due and payable, at maturity, upon redemption or otherwise (including the failure to make a payment to purchase Notes tendered pursuant to a Change of Control Offer or a Net Proceeds Offer);

(3) a default in the observance or performance of any other covenant or agreement contained in the Indenture which default continues for a period of 45 days after the Company receives written notice specifying the default (and demanding that such default be remedied) from the Trustee or the Holders of at least 25% of the outstanding principal amount of the Notes (except in the case of a default with respect to the ''Merger, Consolidation and Sale of Assets'' covenant, which will constitute an Event of Default with such notice requirement but without such passage of time requirement);

(4) the failure to pay at final maturity (giving effect to any applicable grace periods and any extensions thereof) the principal amount of any Indebtedness of the Company or any Restricted Subsidiary of the Company, or the acceleration of the final stated maturity of any such Indebtedness (which acceleration is not rescinded, annulled or otherwise cured within 20 days of receipt by the Company or such Restricted Subsidiary of notice of any such acceleration) if the aggregate principal amount of such Indebtedness, together with the principal amount of any other such Indebtedness in default for failure to pay principal at final maturity or which has been accelerated (in each case with respect to which the 20-day period described above has elapsed), aggregates $20 million or more at any time;

(5) the repudiation by the Company of any of its obligations under any Collateral Document, or the unenforceability of any Collateral Document against the Company if such unenforceability reasonably would be expected to result in a material adverse effect on the Liens granted by the Company pursuant to such Collateral Documents;

(6) one or more judgments in an aggregate amount in excess of $20 million shall have been rendered against the Company or any of its Restricted Subsidiaries and such judgments remain undischarged, unpaid or unstayed for a period of 60 days after such judgment or judgments become final and non-appealable; or

(7) certain events of bankruptcy affecting the Company or any of its Significant Subsidiaries.

If an Event of Default (other than an Event of Default specified in clause (6) above with respect to the Company) shall occur and be continuing, the Trustee or the Holders of at least 25% in principal amount of outstanding Notes may declare the principal of and accrued interest on all the Notes to be due and payable by notice in writing to the Company and the Trustee specifying the respective Event of Default and that it is a ''notice of acceleration'' (the ''Acceleration Notice''), and the same shall become immediately due and payable.

If an Event of Default specified in clause (6) above with respect to the Company occurs and is continuing, then all unpaid principal of, and premium, if any, and accrued and unpaid interest on all of the outstanding Notes shall *ipso facto* become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Indenture will provide that, at any time after a declaration of acceleration with respect to the Notes as described in the preceding paragraph, the Holders of a majority in principal amount of the Notes may rescind and cancel such declaration and its consequences:

(1) if the rescission would not conflict with any judgment or decree;

(2) if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of the acceleration;

(3) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid;

(4) if the Company has paid the Trustee its reasonable compensation and reimbursed the Trustee for its expenses, disbursements and advances; and

(5) in the event of the cure or waiver of an Event of Default of the type described in clause (6) of the description above of Events of Default, the Trustee shall have received an officers' certificate and an opinion of counsel that such Event of Default has been cured or waived. No such rescission shall affect any subsequent Default or impair any right consequent thereto.

The Holders of a majority in principal amount of the Notes may waive any existing Default or Event of Default under the Indenture, and its consequences, except a default in the payment of the principal of or interest on any Notes.

Holders of the Notes may not enforce the Indenture or the Notes except as provided in the Indenture and under the TIA. Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the Holders, unless such Holders have offered to the Trustee reasonable indemnity. Subject to all provisions of the Indenture and applicable law, the Holders of a majority in aggregate principal amount of the then outstanding Notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

Under the Indenture, the Company is required to provide an officers' certificate to the Trustee promptly upon any such officer obtaining knowledge of any Default or Event of Default (provided that such officers shall provide such certification at least annually whether or not they know of any Default or Event of Default) that has occurred and, if applicable, describe such Default or Event of Default and the status thereof.

Legal Defeasance and Covenant Defeasance

The Company may, at its option and at any time, elect to have its obligations and the obligations of the Guarantors discharged with respect to the outstanding Notes (''Legal Defeasance''). Such Legal Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the outstanding Notes, except for:

(1) the rights of Holders to receive payments in respect of the principal of, premium, if any, and interest on the Notes when such payments are due;

(2) the Company's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payments;

(3) the rights, powers, trust, duties and immunities of the Trustee and the Company's obligations in connection therewith; and

(4) the Legal Defeasance provisions of the Indenture.

In addition, the Company may, at its option and at any time, elect to have the obligations of the Company released with respect to certain covenants that are described in the Indenture (''Covenant Defeasance'') and thereafter any omission to comply with such obligations shall not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, reorganization and insolvency events) described under ''Events of Default'' will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders cash in Euros or Government Securities, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be and, in the event that the Trustee at any time determines the amount on deposit is insufficient to pay the principal of, premium, if any, and interest on the Notes on the stated

date for payment thereof or on the applicable redemption date, as the case may be, the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders additional cash in Euros or Government Securities, or a combination thereof, in such amounts as will be, together with prior deposit(s), sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be;

(2) in the case of Legal Defeasance, the Company shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that the Holders will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Company shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that the Holders will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default shall have occurred and be continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit and the granting of Liens to secure such borrowing and such deposit) or insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 91st day after the date of deposit;

(5) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, the Indenture or any other material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound (other than a breach, violation or default resulting from the borrowing of funds to be applied to such borrowing and such deposit and the granting of Liens to secure such deposit);

(6) the Company shall have delivered to the Trustee an officers' certificate stating that the deposit was not made by the Company with the intent of preferring the Holders over any other creditors of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others;

(7) the Company shall have delivered to the Trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent specified in the Indenture providing for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with; and

(8) the Company shall have delivered to the Trustee an opinion of counsel to the effect that:

(a) either (i) the Company has irrevocably assigned all of its ownership interest in the trust funds to the Trustee or (ii) the Trustee has a valid perfected security interest in the trust fund; and

(b) assuming no intervening bankruptcy of the Company between the date of deposit and the 91st day following the date of deposit and that no Holder is an insider of the Company, after the 91st day following the date of deposit, the trust funds will not be subject to avoidance as a preference under Section 547 of the U.S. Bankruptcy Code.

Notwithstanding the foregoing, the opinion of counsel required by clause (2) above with respect to a Legal Defeasance need not be delivered if all Notes not theretofore delivered to the Trustee for cancellation (1) have become due and payable or (2) will become due and payable on the maturity date within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when:

(1) either:

(a) all the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the Trustee for cancellation; or

(b) all Notes not theretofore delivered to the Trustee for cancellation have become due and payable and the Company has irrevocably deposited or caused to be deposited with the Trustee funds in an amount sufficient to pay and discharge the entire Indebtedness on the Notes not theretofore delivered to the Trustee for cancellation, for principal of, premium, if any, and interest on the Notes to the date of deposit together with irrevocable instructions from the Company directing the Trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be;

(2) the Company has paid all other sums payable under the Indenture by the Company; and

(3) the Company has delivered to the Trustee an officers' certificate and an opinion of counsel stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

Modification of the Indenture

From time to time, the Company and the Trustee, without the consent of the Holders, may amend the Indenture or Collateral Documents for certain specified purposes, including curing ambiguities, defects or inconsistencies, so long as such change does not, in the opinion of the Trustee, adversely affect the rights of any of the Holders in any material respect. In formulating its opinion on such matters, the Trustee will be entitled to rely on such evidence as it deems appropriate, including, without limitation, solely on an opinion of counsel. Other modifications and amendments of the Indenture or Collateral Documents may be made with the consent of the Holders of a majority in principal amount of the then outstanding Notes issued under the Indenture, except that, without the consent of each Holder affected thereby, no amendment may:

(1) reduce the amount of Notes whose Holders must consent to an amendment;

(2) reduce the rate of or change or have the effect of changing the time for payment of interest, including defaulted interest, on any Notes;

(3) reduce the principal of or change or have the effect of changing the fixed maturity of any Notes, or change the date on which any Notes may be subject to redemption or reduce the redemption price therefor;

(4) make any Notes payable in money other than that stated in the Notes;

(5) make any change in provisions of the Indenture protecting the right of each Holder to receive payment of principal of and interest on such Note on or after the due date thereof or to bring suit to enforce such payment, or permitting Holders of a majority in principal amount of Notes to waive Defaults or Events of Default;

(6) after the Company's obligation to purchase Notes arises thereunder, amend, change or modify in any material respect the obligation of the Company to make and consummate a Change of Control Offer in the event of a Change of Control or make and consummate a Net Proceeds Offer with respect to any Asset Sale that has been consummated or, after such Change of Control has occurred or such Asset Sale has been consummated, modify any of the provisions or definitions with respect thereto; or

(7) modify or change any provision of the Indenture or the related definitions affecting the ranking of the Indebtedness evidenced by the Notes.

Governing Law

The Indenture will provide that it and the Notes will be governed by, and construed in accordance with, the laws of the State of New York but without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

The Trustee

The Indenture will provide that, except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. During the existence of an Event of Default, the Trustee will exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

The Indenture and the provisions of the TIA contain certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payments of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. Subject to the TIA, the Trustee will be permitted to engage in other transactions; *provided* that if the Trustee acquires any conflicting interest as described in the TIA, it must eliminate such conflict or resign.

Notices

All notices shall be deemed to have been given by (1) the mailing by first-class mail, postage prepaid, of such notices to holders of the Notes at their registered addresses as recorded in the Register; and (2) so long as the Exchange Notes are listed on the Luxembourg Stock Exchange and it is required by the rules of the Luxembourg Stock Exchange, publication of such notice to the holders of the Exchange Notes in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in one other leading English language daily newspaper with general circulation in Europe, such newspaper being published on each business day in morning editions, whether or not it shall be published on Saturday, Sunday or holiday editions.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms, as well as any other terms used herein for which no definition is provided.

''Acquired Indebtedness'' means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary of the Company or at the time it merges or consolidates with or into the Company or any of its Restricted Subsidiaries or assumed in connection with the acquisition of assets from such Person and in each case not incurred by such Person in connection with, or in anticipation or contemplation of, such Person becoming a Restricted Subsidiary of the Company or such acquisition, merger or consolidation, except for Indebtedness of a Person or any of its Subsidiaries that is repaid at the time such Person becomes a Restricted Subsidiary of the Company or at the time it merges with or into the Company or any of its Restricted Subsidiaries other than from the assets of the Company and its other Restricted Subsidiaries.

''Affiliate'' means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. The term ''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 of the foregoing.

''Asset Acquisition'' means (1) an Investment by the Company or any Restricted Subsidiary of the Company in any other Person pursuant to which such Person shall become a Restricted Subsidiary of the Company or of any Restricted Subsidiary of the Company, or shall be merged with or into the Company or any Restricted Subsidiary of the Company, or (2) the acquisition by the Company or any Restricted Subsidiary of the Company of the assets of any Person (other than a Restricted Subsidiary of the Company) which constitute all or substantially all of the assets of such Person or comprise any division or line of business of such Person or any other properties or assets of such Person other than in the ordinary course of business.

''Asset Sale'' means any direct or indirect sale, issuance, conveyance, transfer, lease (other than operating leases entered into in the ordinary course of business), assignment or other transfer for value by the Company or any of its Restricted Subsidiaries (including any Sale and Leaseback Transaction) to any Person other than the Company or a Wholly Owned Restricted Subsidiary of the Company of: (1) any Capital Stock of any Restricted Subsidiary of the Company; or (2) any other property or assets of the Company or any Restricted Subsidiary of the Company other than in the ordinary course of business; *provided, however,* that asset sales or other dispositions shall not include: (a) a transaction or series of related transactions for which the Company or its Restricted Subsidiaries receive aggregate consideration of less than \$2 million; (b) the sale, lease, conveyance, disposition or other transfer of all or substantially all of the assets of the Company as permitted under ''Merger, Consolidation and Sale of Assets''; (c) sales or grants of licenses to use the patents, trade secrets, know-how and other intellectual property of the Company or any of its Restricted Subsidiaries to the extent that any such license does not prohibit the Company or any of its Restricted Subsidiaries from using any material technologies licensed or require the Company or any of its Restricted Subsidiaries to pay fees (other than de minimis fees) for use of any material technologies; (d) the sale or discount, in each case without recourse, of accounts receivable arising in the ordinary course of business, but only in connection with the compromise or collection thereof; (e) sales of accounts receivable and related assets (including contract rights) of the type specified in the definition of ''Qualified Securitization Transaction'' to a Securitization Entity for the fair market value thereof; (f) disposals or replacements of obsolete, surplus or unused equipment in the ordinary course of business; (g) any Restricted Payment not prohibited by the ''Limitation on Restricted Payments'' covenant or that constitutes a Permitted Investment; (h) the sale, lease, conveyance, disposition or other transfer of assets or Capital Stock of Kronos Invest A/S or Capital Stock of Tinfoss Titan & Iron A/S to the extent the aggregate consideration therefrom is less than \$10 million; and (i) Permitted Affiliate Transactions.

''Board of Directors'' means, as to any Person, the board of directors of such Person or any duly authorized committee thereof.

''Board Resolution'' means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

''Capital Stock'' means:

(1) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of Common Stock and Preferred Stock of such Person, and all options, warrants or other rights to purchase or acquire any of the foregoing; and

(2) with respect to any Person that is not a corporation, any and all partnership, membership or other equity interests of such Person, and all options, warrants or other rights to purchase or acquire any of the foregoing.

''Capitalized Lease Obligation'' means, as to any Person, the obligations of such Person under a lease that are required to be classified and accounted for as capital lease obligations under GAAP and, for purposes of this definition, the amount of such obligations at any date shall be the capitalized amount of such obligations at such date, determined in accordance with GAAP.

''Cash Equivalents'' means:

(1) marketable direct obligations issued by, or unconditionally guaranteed by, the government of any member of the European Union on the Issue Date or Norway or the United States government or issued by any agency of any of the foregoing governments and backed by the full faith and credit of any such member of the European Union on the Issue Date or Norway or the United States, in each case maturing within one year from the date of acquisition thereof;

(2) marketable direct obligations issued by any member of the European Union on the Issue Date or Norway or any state of the United States of America or the District of Columbia or any political subdivision of any such state or District or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either Standard & Poor's Ratings Group (''S&P'') or Moody's Investors Service, Inc. (''Moody's'');

(3) commercial paper maturing no more than one year from the date of creation thereof and, at the time of acquisition, having a rating of at least A-1 from S&P or at least P-1 from Moody's;

(4) certificates of deposit or bankers' acceptances maturing within one year from the date of acquisition thereof and having, at the time of acquisition, a rating of at least A-1 from S&P or at least P-1 from Moody's and issued by any bank organized under the laws of any member of the European Union on the Issue Date or Norway or the United States of America or any state thereof or the District of Columbia or any U.S. branch of a foreign bank having at the date of acquisition thereof combined capital and surplus of not less than $250 million;

(5) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (1) above entered into with any bank meeting the qualifications specified in clause (4) above; and

(6) Investments in money market funds which invest substantially all their assets in securities of the types described in clauses (1) through (5) above.

''Change of Control'' means the occurrence of one or more of the following events:

(1) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company to any Person or group of related Persons (other than the Permitted Holders) for purposes of Section 13(d) of the Exchange Act (a ''Group''), together with any Affiliates thereof (whether or not otherwise in compliance with the provisions of the Indenture);

(2) the approval by the holders of Capital Stock of the Company of any plan or proposal for the liquidation or dissolution of the Company (whether or not otherwise in compliance with the provisions of the Indenture);

(3) any Person or Group (other than the Permitted Holders) shall become the owner, directly or indirectly, beneficially or of record, of shares representing more than 50% of the aggregate ordinary voting power represented by the issued and outstanding Capital Stock of the Company; or

(4) the replacement of a majority of the Board of Directors of the Company over a two-year period from the directors who constituted the Board of Directors of the Company at the beginning of such period, and such replacement shall not have been (A) approved by a vote of at least a majority of the Board of Directors of the Company then still in office who either were members of such Board of Directors at the beginning of such period or whose election as a member of such Board of Directors was previously so approved or (B) approved by the Permitted Holders so long as the Permitted Holders then beneficially own a majority of the Capital Stock of the Company.

''Collateral'' means, collectively, all of the property described under ''Security,'' together with all property that is from time to time subject to the Lien of the Collateral Documents.

''Collateral Documents'' means, collectively, the pledge agreements and all other security agreements or instruments evidencing or creating any security interests in favor of the Trustee for the benefit of the Holders in all or any portion of the Collateral, in each case, as amended, amended and restated, extended, renewed, supplemented or otherwise modified from time to time, in accordance with the terms thereof and the Indenture.

''Commodity Agreements'' means any commodity futures contract, commodity option or other similar agreement or arrangement entered into by the Company or any of its Restricted Subsidiaries and designed to protect the Company or any of its Restricted Subsidiaries against fluctuations in the price of commodities actually at that time used in the ordinary course of business of the Company or its Restricted Subsidiaries.

''Common Stock'' of any Person means any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock, whether outstanding on the Issue Date or issued after the Issue Date, and includes, without limitation, all series and classes of such common stock.

''Consolidated EBITDA'' means, with respect to any Person, for any period, the sum (without duplication) of:

(1) Consolidated Net Income; and

(2) to the extent Consolidated Net Income has been reduced thereby:

(a) all income taxes of such Person and its Restricted Subsidiaries paid or accrued in accordance with GAAP for such period;

(b) Consolidated Interest Expense; and

(c) Consolidated Non-cash Charges;

all as determined on a consolidated basis for such Person and its Restricted Subsidiaries in accordance with GAAP.

''Consolidated Fixed Charge Coverage Ratio'' means, with respect to any Person, the ratio of Consolidated EBITDA of such Person during the four full fiscal quarters (the ''Four Quarter Period'') ending prior to the date of the transaction giving rise to the need to calculate the Consolidated Fixed Charge Coverage Ratio for which financial statements are available (the ''Transaction Date'') to Consolidated Fixed Charges of such Person for the Four Quarter Period. In addition to and without limitation of the foregoing, for purposes of this definition, ''Consolidated EBITDA'' and ''Consolidated Fixed Charges'' shall be calculated after giving effect on a *pro forma* basis for the period of such calculation to:

(1) the incurrence or repayment of any Indebtedness of such Person or any of its Restricted Subsidiaries (and the application of the proceeds thereof) giving rise to the need to make such calculation and any incurrence or repayment of other Indebtedness (and the application of the proceeds thereof), other than the incurrence or repayment of Indebtedness in the ordinary course of business for working capital purposes pursuant to working capital facilities, occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to the Transaction Date, as if such incurrence or repayment, as the case may be (and the application of the proceeds thereof), occurred on the first day of the Four Quarter Period; and

(2) any asset sales (other than disposals or replacements of obsolete or unused equipment in the ordinary course of business) or other dispositions or Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of such Person or one of its Restricted Subsidiaries (including any Person who becomes a Restricted Subsidiary as a result of the Asset Acquisition) incurring, assuming or otherwise being liable for Acquired Indebtedness and also including any Consolidated EBITDA (including any pro forma expense and cost reductions calculated on a basis consistent with Regulation S-X under the Exchange Act) attributable to the assets which are the subject of the Asset Acquisition or asset sale or other disposition during the Four Quarter Period) occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter

Period and on or prior to the Transaction Date, as if such asset sale or other disposition or Asset Acquisition (including the incurrence, assumption or liability for any such Acquired Indebtedness) occurred on the first day of the Four Quarter Period. If such Person or any of its Restricted Subsidiaries directly or indirectly guarantees Indebtedness of a third Person, the preceding sentence shall give effect to the incurrence of such guaranteed Indebtedness as if such Person or any Restricted Subsidiary of such Person had directly incurred or otherwise assumed such guaranteed Indebtedness.

Furthermore, in calculating ''Consolidated Fixed Charges'' for purposes of determining the denominator (but not the numerator) of this ''Consolidated Fixed Charge Coverage Ratio'':

(1) interest on outstanding Indebtedness determined on a fluctuating basis as of the Transaction Date and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness in effect on the Transaction Date; and

(2) notwithstanding clause (1) above, interest on Indebtedness determined on a fluctuating basis, to the extent such interest is covered by agreements relating to Interest Swap Obligations, shall be deemed to accrue at the rate per annum resulting after giving effect to the operation of such agreements.

''Consolidated Fixed Charges'' means, with respect to any Person for any period, the sum, without duplication, of:

(1) Consolidated Interest Expense; plus

(2) the product of (x) the amount of all dividend payments on any series of Preferred Stock of such Person (other than dividends paid in Qualified Capital Stock) paid, accrued or scheduled to be paid or accrued during such period times (y) a fraction, the numerator of which is one and the denominator of which is one minus the then current effective consolidated federal, state and local income tax rate of such Person, expressed as a decimal.

''Consolidated Interest Expense'' means, with respect to any Person for any period, the sum of, without duplication:

(1) the aggregate of the interest expense of such Person and its Restricted Subsidiaries for such period determined on a consolidated basis in accordance with GAAP, including without limitation: (a) any amortization of debt discount and amortization or write-off of deferred financing costs; (b) the net cash costs under Interest Swap Obligations; (c) all capitalized interest; and (d) the interest portion of any deferred payment obligation; and

(2) the interest component of Capitalized Lease Obligations paid, accrued and/or scheduled to be paid or accrued by such Person and its Restricted Subsidiaries during such period as determined on a consolidated basis in accordance with GAAP.

''Consolidated Net Income'' means, with respect to any Person, for any period, the aggregate net income (or loss) of such Person and its Restricted Subsidiaries for such period on a consolidated basis, determined in accordance with GAAP; provided that there shall be excluded therefrom:

(1) after-tax gains from Asset Sales (without regard to the $2 million limitation set forth in the definition thereof) or abandonments or reserves relating thereto;

(2) after-tax items classified as extraordinary gains in accordance with GAAP;

(3) the net income of any Person acquired in a ''pooling of interests'' transaction accrued prior to the date it becomes a Restricted Subsidiary of the referent Person or is merged or consolidated with the referent Person or any Restricted Subsidiary of the referent Person;

(4) the net income (but not loss) of any Restricted Subsidiary of the referent Person to the extent that the declaration of dividends or similar distributions by that Restricted Subsidiary of that income is restricted by a contract, operation of law or otherwise; provided, however, that if the Restricted Subsidiary is able despite any such restriction to distribute income or otherwise transfer cash to the

referent Person by way of an intercompany loan or otherwise, then such income or cash, to the extent of such ability, shall not be excluded pursuant to this clause (4);

(5) the net income of any Person, other than a Restricted Subsidiary of the referent Person, except to the extent of cash dividends or distributions paid to the referent Person or to a Wholly Owned Restricted Subsidiary of the referent Person by such Person;

(6) income or loss attributable to discontinued operations (including, without limitation, operations disposed of during such period whether or not such operations were classified as discontinued); provided, however, that such income or loss shall be included in Consolidated Net Income for the purpose of calculating Consolidated Net Income of the Company in clause (iii)(v) of the ''Limitation on Restricted Payments'' covenant;

(7) in the case of a successor to the referent Person by consolidation or merger or as a transferee of the referent Person's assets, any earnings of the successor corporation prior to such consolidation, merger or transfer of assets;

(8) non-cash charges relating to compensation expense in connection with benefits provided under employee stock option plans, restricted stock option plans and other employee stock purchase or stock incentive plans; and

(9) income or loss attributable solely to fluctuations in currency values and related tax effects, in either case related to notes and accounts payable existing prior to or as of the Issue Date and payable to Affiliates of the Company.

''Consolidated Net Worth'' of any Person means the consolidated stockholders' equity of such Person, determined on a consolidated basis in accordance with GAAP, less (without duplication) amounts attributable to Disqualified Capital Stock of such Person.

''Consolidated Non-cash Charges'' means, with respect to any Person, for any period, the aggregate depreciation, amortization and other non-cash expenses of such Person and its Restricted Subsidiaries reducing Consolidated Net Income of such Person and its Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP (excluding any such charges constituting an extraordinary item or loss or any such charge which requires an accrual of or a reserve for cash charges for any future period).

''Credit Agreement'' means the Credit Agreement dated as of , 2002, between Kronos Titan GmbH & Co. OHG., Kronos Europe S.A./N.V., Kronos Titan A/S and Titania A/S, the lenders party thereto in their capacities as lenders thereunder, and Deutsche Bank AG, as agent, together with the related documents thereto (including, without limitation, any guarantee agreements and security documents), in each case as such agreements may be amended (including any amendment and restatement thereof), supplemented or otherwise modified from time to time, including any agreement extending the maturity of, refinancing, replacing or otherwise restructuring (including increasing the amount of available borrowings thereunder (*provided* that such increase in borrowings is permitted by the ''Limitation on Incurrence of Additional Indebtedness'' covenant above) or adding Restricted Subsidiaries of the Company as additional borrowers or guarantors thereunder) all or any portion of the Indebtedness under such agreement or any successor or replacement agreement and whether by the same or any other agent, lender or group of lenders.

''Currency Agreement'' means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect the Company or any Restricted Subsidiary of the Company against fluctuations in currency values.

''Default'' means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

''Disqualified Capital Stock'' means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable, in either case at the option of the holder thereof), or upon the happening of any event (other than an event which would constitute a

Change of Control), matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof (except, in each case, upon the occurrence of a Change of Control) on or prior to the final maturity date of the Notes.

''Exchange Act'' means the Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

''fair market value'' means, with respect to any asset or property, the price which could be negotiated in an arm's-length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair market value shall be determined by the Board of Directors of the Company acting reasonably and in good faith and shall be evidenced by a Board Resolution of the Board of Directors of the Company delivered to the Trustee.

''GAAP'' means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, which are in effect as of the Issue Date.

''Government Securities'' means securities issued or directly and fully guaranteed or insured by the government of any member of the European Union on the Issue Date rated AAA or above.

''Guarantor'' means each of the Company's Restricted Subsidiaries that in the future executes a supplemental indenture in which such Restricted Subsidiary agrees to be bound by the terms of the Indenture as a Guarantor; *provided* that any Person constituting a Guarantor as described above shall cease to constitute a Guarantor when its respective Guarantee is released in accordance with the terms of the Indenture.

''Indebtedness'' means with respect to any Person, without duplication:

(1) all Obligations of such Person for borrowed money;

(2) all Obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all Capitalized Lease Obligations of such Person;

(4) all Obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations and all Obligations under any title retention agreement (but excluding from all of the foregoing trade accounts payable and other accrued liabilities arising in the ordinary course of business;

(5) all Obligations for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction;

(6) guarantees and other contingent obligations in respect of Indebtedness referred to in clauses (1) through (5) above and clause (8) below;

(7) all Obligations of any other Person of the type referred to in clauses (1) through (6) which are secured by any Lien on any property or asset of such Person, the amount of such Obligation being deemed to be the lesser of the fair market value of such property or asset or the amount of the Obligation so secured;

(8) Obligations under Currency Agreements, Interest Swap Obligations of such Person and Commodity Agreements; and

(9) all Disqualified Capital Stock issued by such Person with the amount of Indebtedness represented by such Disqualified Capital Stock being equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any.

For purposes hereof, the ''maximum fixed repurchase price'' of any Disqualified Capital Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified

Capital Stock as if such Disqualified Capital Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the fair market value of such Disqualified Capital Stock, such fair market value shall be determined reasonably and in good faith by the Board of Directors of the issuer of such Disqualified Capital Stock.

''Independent Financial Advisor'' means a firm: (1) which does not, and whose directors, officers and employees or Affiliates do not, have a direct or indirect financial interest in the Company; and (2) which, in the judgment of the Board of Directors of the Company, is otherwise independent and qualified to perform the task for which it is to be engaged.

''Interest Swap Obligations'' means the obligations of any Person pursuant to any arrangement with any other Person, whereby, directly or indirectly, such Person is entitled to receive from time to time periodic payments calculated by applying either a floating or a fixed rate of interest on a stated notional amount in exchange for periodic payments made by such other Person calculated by applying a fixed or a floating rate of interest on the same notional amount and shall include, without limitation, interest rate swaps, caps, floors, collars and similar agreements.

''Investment'' means, with respect to any Person, any direct or indirect loan or other extension of credit (including, without limitation, a guarantee) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by, any Person. ''Investment'' shall exclude (i) extensions of trade credit by the Company and its Restricted Subsidiaries on commercially reasonable terms in accordance with normal trade practices of the Company or such Restricted Subsidiary, as the case may be, provided that nothing in this clause shall prevent the Company or any Restricted Subsidiary from providing such concessionary trade terms as management deems reasonable in the circumstances; and (ii) loans or extensions of credit which otherwise are Permitted Affiliate Transactions. If the Company or any Restricted Subsidiary of the Company sells or otherwise disposes of any Common Stock of any direct or indirect Restricted Subsidiary of the Company such that, after giving effect to any such sale or disposition, the Company no longer owns, directly or indirectly, at least 50% of the outstanding Common Stock of such Restricted Subsidiary, the Company shall be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Common Stock of such Restricted Subsidiary not sold or disposed of.

''Issue Date'' means the date of original issuance of the Notes.

''Kronos, Inc.'' means Kronos, Inc., a Delaware corporation.

''Lien'' means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest).

''Net Cash Proceeds'' means, with respect to any Asset Sale, the proceeds in the form of cash or Cash Equivalents including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents (other than the portion of any such deferred payment constituting interest) received by the Company or any of its Restricted Subsidiaries from such Asset Sale net of:

(1) reasonable out-of-pocket expenses and fees relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees and sales commissions);

(2) taxes paid or payable or reasonably reserved for after taking into account any reduction in consolidated tax liability due to available tax credits or deductions and any tax sharing arrangements;

(3) repayment of Indebtedness that is secured by the property or assets that are the subject of such Asset Sale; and

(4) appropriate amounts to be provided by the Company or any Restricted Subsidiary, as the case may be, as a reserve, in accordance with GAAP, against any liabilities associated with such Asset Sale and retained by the Company or any Restricted Subsidiary, as the case may be, after such Asset Sale,

including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale.

''Net Proceeds Offer'' shall have the meaning set forth under ''— Limitation on Asset Sales.''

''Net Proceeds Offer Trigger Date'' shall have the meaning set forth under ''— Limitation on Asset Sales.''

''NL Industries'' means NL Industries, Inc., a New Jersey corporation, and its successors.

''Obligations'' means all obligations for principal, premium, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

''Permitted Affiliate Transaction'' shall have the meaning set forth under ''Limitations on Transactions with Affiliates.''

''Permitted Holder(s)'' means (1) Harold C. Simmons (''Simmons''), (2) any trust established primarily for the benefit of Simmons or members of his family (including his spouse and/or his descendants (whether natural or adopted)) or both (''Simmons Trust''), (3) trustees, acting in such capacity, or beneficiaries of a Simmons Trust to the extent of the beneficial interest therein and for so long as such Simmons Trust exists (''Simmons Beneficiaries and Trustees'') , (4) NL Industries, (5) any employee plan or pension fund of NL Industries, the Company or any of their Subsidiaries, (6) any Person holding Capital Stock for or pursuant to the terms of any such plan or fund and (7) any Person controlled by, or any group made up of, any one or more of the Persons specified in (1) through (6) above.

''Permitted Indebtedness'' means, without duplication, each of the following:

(1) Indebtedness under the Notes issued in the Offering in an aggregate principal amount not to exceed €270 million and Guarantees in respect thereof;

(2) Indebtedness incurred pursuant to the Credit Agreement in an aggregate principal amount at any time outstanding not to exceed €80 million less the amount of any principal payments made by the Company under the Credit Agreement with the Net Cash Proceeds of any Asset Sale (which are accompanied by a corresponding permanent commitment reduction) pursuant to clause 3(a) of the first sentence of ''— Limitation on Asset Sales'' or under clause (3) of the definition of Net Cash Proceeds);

(3) other Indebtedness of the Company and its Restricted Subsidiaries outstanding on the Issue Date;

(4) Interest Swap Obligations of the Company or any Restricted Subsidiary of the Company covering Indebtedness of the Company or any of its Restricted Subsidiaries; *provided, however,* that such Interest Swap Obligations are entered into to protect the Company and its Restricted Subsidiaries from fluctuations in interest rates on its outstanding Indebtedness to the extent the notional principal amount of such Interest Swap Obligation does not, at the time of the incurrence thereof, exceed the principal amount of the Indebtedness to which such Interest Swap Obligation relates;

(5) Indebtedness under Commodity Agreements and Currency Agreements; *provided* that in the case of Currency Agreements which relate to Indebtedness, such Currency Agreements do not increase the Indebtedness or trade payables (as applicable) of the Company and its Restricted Subsidiaries outstanding other than as a result of fluctuations in foreign currency exchange rates or by reason of fees, indemnities and compensation payable thereunder;

(6) Indebtedness of a Restricted Subsidiary of the Company to the Company or to a Restricted Subsidiary of the Company for so long as such Indebtedness is held by the Company or a Restricted Subsidiary of the Company, in each case subject to no Lien held by a Person other than the Company or a Restricted Subsidiary of the Company or lenders in respect of the Credit Agreement or other Permitted Indebtedness; *provided* that if as of any date any Person other than the Company or a Restricted Subsidiary of the Company owns or holds any such Indebtedness or any Person other than the Company

or a Restricted Subsidiary of the Company or lenders in respect of the Credit Agreement or other Permitted Indebtedness holds a Lien in respect of such Indebtedness, such date shall be deemed the incurrence of Indebtedness not constituting Permitted Indebtedness by the issuer of such Indebtedness pursuant to this clause (6);

(7) Indebtedness of the Company to a Restricted Subsidiary of the Company for so long as such Indebtedness is held by a Restricted Subsidiary of the Company, in each case subject to no Lien other than a Lien of the lenders in respect of the Credit Agreement or other Permitted Indebtedness of such Restricted Subsidiary; provided that if as of any date any Person other than a Restricted Subsidiary of the Company owns or holds any such Indebtedness or any Person other than the lenders in respect of the Credit Agreement or other Permitted Indebtedness of such Restricted Subsidiary holds a Lien in respect of such Indebtedness, such date shall be deemed the incurrence of Indebtedness not constituting Permitted Indebtedness by the Company pursuant to this clause (7);

(8) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business; *provided, however*, that such Indebtedness is extinguished within two business days of incurrence;

(9) Indebtedness of the Company or any of its Restricted Subsidiaries in respect of bid, payment or performance bonds, bankers' acceptances, workers' compensation claims, surety or appeal bonds, payment obligations in connection with self-insurance or similar obligations, and bank overdrafts (and letters of credit in respect thereof) and commercial letters of credit, in all such cases in the ordinary course of business;

(10) Refinancing Indebtedness;

(11) additional Indebtedness of the Company in an aggregate principal amount not to exceed $20 million at any one time outstanding;

(12) additional Indebtedness of one or more Restricted Subsidiaries of the Company in an aggregate principal amount not to exceed $20 million at any one time outstanding (which amount may, but need not, be incurred in whole or in part under the Credit Agreement);

(13) Indebtedness of the Company or any Restricted Subsidiary consisting of guarantees, indemnities or obligations in respect of customary purchase price adjustments in connection with the acquisition or disposition of assets; and

(14) Indebtedness represented by Capitalized Lease Obligations and Purchase Money Indebtedness of the Company and its Restricted Subsidiaries incurred in the ordinary course of business not to exceed $15 million at any one time outstanding.

For purposes of determining compliance with the ''Limitation on Incurrence of Additional Indebtedness'' covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (1) through (14) above or is entitled to be incurred pursuant to the Consolidated Fixed Charge Coverage Ratio provisions of such covenant, the Company shall, in its sole discretion, classify (or later reclassify) such item of Indebtedness in any manner that complies with such covenant. Accrual of interest, accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, the payment of dividends on Disqualified Capital Stock in the form of additional shares of the same class of Disqualified Capital Stock, and changes in the amount outstanding due solely to fluctuations in currency exchange rates, will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Capital Stock for purposes of the ''Limitations on Incurrence of Additional Indebtedness'' covenant.

''Permitted Investments'' means, without duplication:

(1) Investments by the Company or any Restricted Subsidiary of the Company in any Person that is or will become immediately after such Investment a Restricted Subsidiary of the Company or that will merge or consolidate into the Company or a Restricted Subsidiary of the Company;

(2) Investments in the Company by any Restricted Subsidiary of the Company;

(3) Investments in cash and Cash Equivalents;

(4) loans and advances to employees and officers of the Company and its Restricted Subsidiaries in the ordinary course of business for bona fide business purposes;

(5) Commodity Agreements, Currency Agreements and Interest Swap Obligations entered into in the ordinary course of the Company's or its Restricted Subsidiaries' businesses and otherwise in compliance with the Indenture;

(6) additional Investments not to exceed $20 million at any one time outstanding;

(7) Investments existing on the Issue Date;

(8) Investments resulting from settlements or compromises of accounts receivable or trade payables in the ordinary course of business, Investments in securities of trade creditors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditors or customers or in good faith settlements of delinquent obligations of such trade creditors or customers;

(9) Investments made by the Company or its Restricted Subsidiaries as a result of consideration received or investments deemed made in connection with an Asset Sale made in compliance with the ''Limitation on Asset Sales'' covenant;

(10) Investments represented by guarantees that are otherwise permitted under the Indenture;

(11) Investments the payment for which is Qualified Capital Stock of the Company;

(12) any Investment by the Company or a Wholly Owned Subsidiary of the Company in a Securitization Entity or any Investment by a Securitization Entity in any other Person in connection with a Qualified Securitization Transaction; provided that any Investment in a Securitization Entity is in the form of Purchase Money Indebtedness or any equity interest; and

(13) Investments by the Company consisting of loans to one or more officers, directors or other employees of the Company or any of its Subsidiaries in connection with such officers', directors' or employees' acquisition of shares of Capital Stock of the Company or its Affiliates, pursuant to the exercise of stock options or in connection with other equity-based compensation.

''Permitted Liens'' means the following types of Liens:

(1) Liens for taxes, assessments or governmental charges or claims either (a) not delinquent or (b) contested in good faith by appropriate proceedings and as to which the Company or its Restricted Subsidiaries shall have set aside on its books such reserves as may be required pursuant to GAAP;

(2) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith, if such reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made in respect thereof;

(3) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, including any Lien securing letters of credit issued in the ordinary course of business consistent with past practice in connection therewith, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, performance bonds, leases, government contracts, performance and return-of-money bonds and other

similar obligations (exclusive of obligations for the payment of borrowed money), or to secure letters of credit, bankers' acceptances, payment obligations in connection with self-insurance or similar obligations and bank overdrafts (and letters of credit in respect thereof), in each case in the ordinary course of business;

(4) judgment Liens not giving rise to an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings which may have been duly initiated for the review of such judgment shall not have been finally terminated or the period within which such proceedings may be initiated shall not have expired;

(5) easements, rights-of-way, zoning restrictions and other similar charges or encumbrances in respect of real property not interfering in any material respect with the ordinary conduct of the business of the Company or any of its Restricted Subsidiaries;

(6) any interest or title of a lessor under any Capitalized Lease Obligation; *provided* that such Liens do not extend to any property or assets which is not leased property subject to such Capitalized Lease Obligation;

(7) purchase money Liens to finance the construction, acquisition, repair of or improvements or additions to property or assets of the Company or any Restricted Subsidiary of the Company, in each case in the ordinary course of business; provided, however, that (a) the related purchase money Indebtedness shall not exceed the cost of such property or assets and shall not be secured by any property or assets of the Company or any Restricted Subsidiary of the Company other than the property and assets so acquired and (b) the Lien securing such Indebtedness shall be created within 90 days of such construction, acquisition, repair, improvement or addition;

(8) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(9) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property relating to such letters of credit in the ordinary course of business and products and proceeds thereof;

(10) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Company or any of its Restricted Subsidiaries, including rights of offset and set-off;

(11) Liens securing Interest Swap Obligations that relate to Indebtedness that is otherwise permitted under the Indenture;

(12) Liens securing Indebtedness under Commodity Agreements or Currency Agreements;

(13) Liens securing Acquired Indebtedness incurred in accordance with the ''Limitation on Incurrence of Additional Indebtedness'' covenant; *provided* that:

(a) such Liens secured such Acquired Indebtedness at the time of and prior to the incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary of the Company and were not granted in connection with, or in anticipation of, the incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary of the Company; and

(b) such Liens do not extend to or cover any property or assets of the Company or of any of its Restricted Subsidiaries other than the property or assets that secured the Acquired Indebtedness prior to the time such Indebtedness became Acquired Indebtedness of the Company or a Restricted Subsidiary of the Company;

(14) leases, subleases, licenses and sublicenses granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries;

(15) banker's Liens, rights of setoff and similar Liens with respect to cash and Cash Equivalents on deposit in one or more bank accounts in the ordinary course of business;

(16) Liens arising from filing Uniform Commercial Code financing statements (or similar or equivalent notice-type filings in jurisdictions in which the Uniform Commercial Code has not been adopted or adopted in substantial part) regarding leases;

(17) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(18) Liens in favor of the Company securing Indebtedness owed to the Company by one or more of its Subsidiaries;

(19) rights of customers with respect to inventory which arise from deposits and progress payments made in the ordinary course of business; and

(20) Liens securing Indebtedness permitted to be incurred by the Company or its Restricted Subsidiaries pursuant to clauses (11) and (12) of the definition of Permitted Indebtedness.

''Person'' means an individual, partnership, corporation, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

''Preferred Stock'' of any Person means any Capital Stock of such Person that has preferential rights to any other Capital Stock of such Person with respect to dividends or redemptions or upon liquidation.

''Purchase Money Indebtedness'' means Indebtedness of the Company and its Restricted Subsidiaries incurred in the normal course of business for the purpose of financing all or any part of the purchase price, or the cost of installation, construction or improvement, of property or equipment.

''Qualified Capital Stock'' means any Capital Stock that is not Disqualified Capital Stock.

''Qualified Securitization Transaction'' means any transaction or series of transactions that may be entered into by the Company or any of its Subsidiaries pursuant to which the Company or any of its Subsidiaries may sell, convey or otherwise transfer pursuant to customary terms to

(1) a Securitization Entity or to the Company or any of its Subsidiaries which subsequently transfers to a Securitization Entity (in the case of a transfer by the Company or any of its Subsidiaries); and

(2) any other person (in the case of transfer by a Securitization Entity), or may grant a security interest in any accounts receivable (whether now existing or arising or acquired in the future) of the Company or any of its Subsidiaries, and any assets related thereto including, without limitation, all collateral securing such accounts receivable, all contracts and contract rights and all guarantees or other obligations in respect of such accounts receivable, proceeds of such accounts receivable and other assets (including contract rights) which are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitization transactions involving accounts receivable.

''Redemption Date'' shall have the meaning set forth under ''Redemption — Optional Redemption upon Change of Control.''

''Refinance'' means, in respect of any security or Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue a security or Indebtedness in exchange or replacement for, such security or Indebtedness in whole or in part. ''Refinanced'' and ''Refinancing'' shall have correlative meanings.

''Refinancing Indebtedness'' means any Refinancing by the Company or any Restricted Subsidiary of the Company of Indebtedness existing on the Issue Date or incurred in accordance with the ''Limitation on

Incurrence of Additional Indebtedness'' covenant (other than pursuant to clause (2), (4), (5), (6), (7), (8), (9), (11), (12), (13) or (14) of the definition of Permitted Indebtedness), in each case that does not:

(1) result in an increase in the aggregate principal amount of Indebtedness of such Person as of the date of such proposed Refinancing (plus the amount of any premium required to be paid under the terms of the instrument governing such Indebtedness and plus the amount of reasonable expenses incurred by the Company in connection with such Refinancing); or

(2) create Indebtedness with: (a) a Weighted Average Life to Maturity that is less than the Weighted Average Life to Maturity of the Indebtedness being Refinanced; or (b) a final maturity earlier than the final maturity of the Indebtedness being Refinanced; *provided* that (x) if such Indebtedness being Refinanced is Indebtedness of the Company, then such Refinancing Indebtedness shall be Indebtedness solely of the Company and (y) if such Indebtedness being Refinanced is subordinate or junior to the Notes, then such Refinancing Indebtedness shall be subordinate to the Notes at least to the same extent and in the same manner as the Indebtedness being Refinanced.

''Replacement Assets'' has the meaning set forth under ''— Limitation on Asset Sales.''

''Restricted Subsidiary'' of any Person means any Subsidiary of such Person which at the time of determination is not an Unrestricted Subsidiary.

''Sale and Leaseback Transaction'' means any direct or indirect arrangement with any Person or to which any such Person is a party, providing for the leasing to the Company or a Restricted Subsidiary of any property, whether owned by the Company or any Restricted Subsidiary at the Issue Date or later acquired, which has been or is to be sold or transferred by the Company or such Restricted Subsidiary to such Person or to any other Person from whom funds have been or are to be advanced by such Person on the security of such Property.

''Securitization Entity'' means a wholly owned Subsidiary of the Company (or another person in which the Company or any Subsidiary of the Company makes an Investment and to which the Company or any Subsidiary of the Company transfers accounts receivable or equipment and related assets) which engages in no activities other than in connection with the financing of accounts receivable or equipment and which is designated by the board of directors of the Company (as provided below) as a Securitization Entity.

(1) no portion of the Indebtedness or any other Obligations (contingent or otherwise) of which

(a) is guaranteed by the Company or any Restricted Subsidiary of the Company (other than the Securitization Entity) (excluding guarantees of Obligations (other than the principal of, and interest on, Indebtedness)) pursuant to Standard Securitization Undertakings,

(b) is recourse to or obligates the Company or any Restricted Subsidiary of the Company (other than the Securitization Entity) in any way other than pursuant to Standard Securitization Undertakings or

(c) subjects any property or asset of the Company or any Restricted Subsidiary of the Company (other than the Securitization Entity), directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings and other than any interest in the accounts receivable or equipment and related assets being financed (whether in the form of an equity interest in such assets or subordinated indebtedness payable primarily from such financial assets) retained or acquired by the Company or any Restricted Subsidiary of the Company,

(2) with which none of the Company or any Restricted Subsidiary of the Company has any material contract, agreement, arrangement or understanding other than on terms no less favorable to the Company or such Restricted Subsidiary than those that might be obtained at the time from persons that are not Affiliates of the Company, other than fees payable in the ordinary course of business in connection with servicing receivables of such entity, and

(3) to which neither the Company nor any Restricted Subsidiary of the Company has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results. Any such designation by the board of directors of the Company shall be evidenced to the Trustee by filing with the Trustee a certified copy of the resolution of the board of directors of the Company giving effect to such designation and an officers' certificate certifying that such designation complied with the foregoing conditions.

''Significant Subsidiary'', with respect to any Person, means any Restricted Subsidiary of such Person that satisfies the criteria for a ''significant subsidiary'' set forth in Rule 1.02(w) of Regulation S-X under the Exchange Act.

''Standard Securitization Undertakings'' means representations, warranties, covenants and indemnities entered into by the Company or its Subsidiaries which are reasonably customary in an accounts receivable or equipment securitization transactions, as applicable.

''Subsidiary'', with respect to any Person, means:

(1) any corporation of which the outstanding Capital Stock having at least a majority of the votes entitled to be cast in the election of directors under ordinary circumstances shall at the time be owned, directly or indirectly, by such Person; or

(2) any other Person of which at least a majority of the voting interest under ordinary circumstances is at the time, directly or indirectly, owned by such Person.

''Unrestricted Subsidiary'' of any Person means:

(1) any Subsidiary of such Person that at the time of determination shall be or continue to be designated an Unrestricted Subsidiary by the Board of Directors of such Person in the manner provided below; and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors may designate any Subsidiary (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary unless such Subsidiary owns any Capital Stock of, or owns or holds any Lien on any property of, the Company or any Restricted Subsidiary; *provided* that:

(1) the Company certifies to the Trustee that such designation complies with the ''Limitation on Restricted Payments'' covenant; and

(2) each Subsidiary to be so designated and each of its Subsidiaries has not at the time of designation, and does not thereafter, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable with respect to any Indebtedness pursuant to which the lender has recourse to any of the assets of the Company or any of its Restricted Subsidiaries.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary only if:

(1) immediately after giving effect to such designation, the Company is able to incur at least $1.00 of additional Indebtedness (other than Permitted Indebtedness) in compliance with the ''Limitation on Incurrence of Additional Indebtedness'' covenant; and

(2) immediately before and immediately after giving effect to such designation, no Default or Event of Default shall have occurred and be continuing. Any such designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the Board Resolution giving effect to such designation and an officers' certificate certifying that such designation complied with the foregoing provisions.

''Weighted Average Life to Maturity'' means, when applied to any Indebtedness at any date, the number of years obtained by dividing (a) the then outstanding aggregate principal amount of such Indebtedness into (b) the sum of the total of the products obtained by multiplying (i) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including payment at final

maturity, in respect thereof, by (ii) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

''Wholly Owned Restricted Subsidiary'' of any Person means any Wholly Owned Subsidiary of such Person which at the time of determination is a Restricted Subsidiary of such Person.

''Wholly Owned Subsidiary'' of any Person means any Subsidiary of such Person of which all the outstanding voting securities (other than in the case of a foreign Subsidiary, directors' qualifying shares or an immaterial amount of shares required to be owned by other Persons pursuant to applicable law) are owned by such Person or any Wholly Owned Subsidiary of such Person; provided, however, that each of Société Industrielle du Titane and Kronos Titan-GmbH & Co. OHG shall be deemed to be a Wholly Owned Subsidiary for all purposes of the Indenture so long as the ownership of outstanding voting securities of such Subsidiary by the Permitted Holders does not decrease after the Issue Date (other than in respect of directors' qualifying shares or in respect of an immaterial amount of shares required to be owned by other Persons pursuant to applicable law).

EXCHANGE OFFER; REGISTRATION RIGHTS

We and the initial purchasers will enter into a registration rights agreement (the ''Registration Rights Agreement'') on or prior to the original issue date of the notes (''Issue Date'') pursuant to which we will agree that we will, at our expense, for the benefit of the holders of the notes (the ''Holders''), (i) within 120 days after the Issue Date (the ''Filing Date''), file a registration statement on an appropriate registration form (the ''Exchange Offer Registration Statement'') with respect to a registered offer (the ''Exchange Offer'') to exchange the notes for notes (the ''Exchange Notes'') of KII, which Exchange Notes will have terms substantially identical in all material respects to the notes (except that the Exchange Notes will not contain terms with respect to transfer restrictions) and (ii) cause the Exchange Offer Registration Statement to be declared effective under the Securities Act within 270 days after the Issue Date. Upon the Exchange Offer Registration Statement being declared effective, we will offer the Exchange Notes in exchange for surrender of the notes. We will keep the Exchange Offer open for not less than 30 days (or longer if required by applicable law) after the date notice of the Exchange Offer is mailed to the Holders. For each of the notes surrendered to us pursuant to the Exchange Offer, the Holder who surrendered such note will receive an Exchange Note having a principal amount equal to that of the surrendered note. Interest on each Exchange Note will accrue (A) from the later of (i) the last interest payment date on which interest was paid on the note surrendered in exchange therefor, or (ii) if the note is surrendered for exchange on a date in a period which includes the record date for an interest payment date to occur on or after the date of such exchange and as to which interest will be paid, the date of such interest payment date, or (B) if no interest has been paid on such note, from the Issue Date.

Under existing interpretations of the Commission contained in several no-action letters to third parties, the Exchange Notes will be freely transferable by holders thereof (other than our affiliates) after the Exchange Offer without further registration under the Securities Act; *provided, however,* that each Holder that wishes to exchange its notes for Exchange Notes will be required to represent (i) that any Exchange Notes to be received by it will be acquired in the ordinary course of its business, (ii) that at the time of the commencement of the Exchange Offer it has no arrangement or understanding with any person to participate in the distribution (within the meaning of Securities Act) of the Exchange Notes in violation of the Securities Act, (iii) that it is not our ''affiliate'' (as defined in Rule 405 promulgated under Securities Act), (iv) if such Holder is not a broker-dealer, that it is not engaged in, and does not intend to engage in, the distribution of Exchange Notes and (v) if such Holder is a broker-dealer (a ''Participating Broker-Dealer'') that will receive Exchange Notes for its own account in exchange for notes which were acquired as a result of market-making or other trading activities, that it will deliver a prospectus in connection with any resale of such Exchange Notes. We will agree to make available, during the period required by the Securities Act, a prospectus meeting the requirements of the Securities Act for use by Participating Broker-Dealers and other persons, if any, with similar prospectus delivery requirements for use in connection with any resale of Exchange Notes.

If (i) because of any change in law or in currently prevailing interpretations of the Staff of the Commission, we are not permitted to effect an Exchange Offer, (ii) the Exchange Offer is not consummated within 300 days of the Issue Date or (iii) in certain circumstances, certain holders of unregistered Exchange Notes so request, or (iv) in the case of any Holder that participates in the Exchange Offer, such Holder does not receive Exchange Notes on the date of the exchange that may be sold without restriction under state and federal securities laws (other than due solely to the status of such Holder as our affiliate within the meaning of the Securities Act), then in each case, we will (x) promptly deliver to the Holders and the Trustee written notice thereof and (y) at our sole expense, (a) as promptly as practicable, file a shelf registration statement covering resales of the notes (the ''Shelf Registration Statement''), and (b) use our best efforts to keep effective the Shelf Registration Statement until the earliest of two years after the Issue Date, such time as all of the applicable notes have been sold thereunder. We will, in the event that a Shelf Registration Statement is filed, provide to each Holder copies of the prospectus that is a part of the Shelf Registration Statement, notify each such Holder when the Shelf Registration Statement for the notes has become effective and take certain other actions as are required to permit unrestricted resales of the notes. A Holder that sells notes pursuant to the Shelf Registration Statement will be required to be named as a selling security holder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the Registration Rights Agreement that are applicable to such a Holder (including certain indemnification rights and obligations).

If we fail to meet the targets listed above, then additional interest (the ''Additional Interest'') shall become payable in respect of the notes as follows:

(i) if (A) neither the Exchange Offer Registration Statement nor the Shelf Registration Statement is filed with the Commission on or prior to 120 days after the Issue Date or (B) notwithstanding that we have consummated or will consummate an Exchange Offer, we are required to file a Shelf Registration Statement and such Shelf Registration Statement is not filed on or prior to the date required by the Registration Rights Agreement, then commencing on the day after either such required filing date, Additional Interest shall accrue on the principal amount of the notes at a rate of 0.25% per annum for the first 90 days immediately following each such filing date, such Additional Interest rate increasing by an additional 0.25% per annum at the beginning of each subsequent 90-day period; or

(ii) if (A) neither the Exchange Offer Registration Statement nor a Shelf Registration Statement is declared effective by the Commission on or prior to 270 days after the Issue Date or (B) notwithstanding that we have consummated or will consummate an Exchange Offer, we are required to file a Shelf Registration Statement and such Shelf Registration Statement is not declared effective by the Commission on or prior to the date required by the Registration Rights Agreement, then, commencing on the day after either such required effective date, Additional Interest shall accrue on the principal amount of the notes at a rate of 0.25% per annum for the first 90 days immediately following such date, such Additional Interest rate increasing by an additional 0.25% per annum at the beginning of each subsequent 90-day period; or

(iii) if (A) we have not exchanged Exchange Notes for all notes validly tendered in accordance with the terms of the Exchange Offer on or prior to the 300th day after the Issue Date or (B) if applicable, the Shelf Registration Statement has been declared effective and such Shelf Registration Statement ceases to be effective at any time prior to the second anniversary of the Issue Date (other than after such time as all notes have been disposed of thereunder), then Additional Interest shall accrue on the principal amount of the notes at a rate of 0.25% per annum for the first 90 days commencing on (x) the 300th day after the Issue Date, in the case of (A) above, or (y) the day such Shelf Registration Statement ceases to be effective, in the case of (B) above, such Additional Interest rate increasing by an additional 0.25% per annum at the beginning of each subsequent 90-day period;

provided, however, that the Additional Interest rate on the notes may not accrue under more than one of the foregoing clauses (i) — (iii) at any one time and at no time shall the aggregate amount of Additional Interest accruing exceed in the aggregate 0.75% per annum; *provided, further, however,* that (1) upon the filing of the Exchange Offer Registration Statement or a Shelf Registration Statement (in the case of clause (i) above), (2) upon the effectiveness of the Exchange Offer Registration Statement or a Shelf Registration Statement (in the case of clause (ii) above), or (3) upon the exchange of Exchange Notes for all notes tendered (in the case of clause (iii) (A) above), or upon the effectiveness of the Shelf Registration Statement which had ceased to remain effective (in the case of clause (iii) (B) above), Additional Interest on the notes as a result of such clause (or the relevant subclause thereof), as the case may be, shall cease to accrue.

Any amounts of Additional Interest due pursuant to clause (i), (ii) or (iii) above will be payable in cash on the same original interest payment dates as the notes.

Certain accounting regulations of the Commission require separate audited financial statements of Kronos Germany and Kronos Denmark, whose stock is pledged to secure the notes. Because 65% of the stock of each of our first-tier subsidiaries with significant assets will be pledged to secure the notes and virtually all of our net sales are generated by subsidiaries that are directly or indirectly subject to the stock pledges, we believe that separate audited financial statements for Kronos Germany and Kronos Denmark would not be material to an investment decision, and such separate financial information for these subsidiaries is not included in this offering memorandum. Further, we are requesting the Commission to relieve us from complying with this requirement, which would be burdensome and costly to us while providing no meaningful benefit to investors in our view. Should the Commission not grant our request, such separate audited financial statements will be included in our filings with the Commission. In addition, certain other technical disclosure requirements of the Commission with respect to interest and foreign exchange rate sensitivity and a summary of our debt and operating lease commitments are not included in this offering memorandum as we do not consider such disclosure material to an investment decision since substantially all of such information is contained in this offering memorandum. We do, however, intend to furnish such other technical disclosures in our filings with the Commission.

NOTICE TO INVESTORS

Because the following restrictions will apply unless we complete the Exchange Offer for the notes or otherwise cause registration statements with respect to the resale of the notes to be declared effective under the Securities Act, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of any of the notes. See ''Description of the Notes.''

None of the notes has been registered under the Securities Act and they may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the notes are being offered and sold by the initial purchasers only (A) to ''qualified institutional buyers'' (as defined in Rule 144A promulgated under the Securities Act (''Rule 144A'')) (''QIBs'') in compliance with Rule 144A, and (B) outside the United States to persons other than U.S. persons (''non-U.S. purchasers,'' which term shall include dealers or other professional fiduciaries in the United States acting on a discretionary basis for non-U.S. beneficial owners (other than an estate or trust)) in reliance upon Regulation S under the Securities Act (''Regulation S''). As used in this section, the terms ''United States'' and ''U.S. person'' have the meanings given to them in Regulation S.

Each purchaser of notes will be deemed to have represented and agreed as follows:

1. It is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is either (A) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A and (B) a non-U.S. purchaser that is outside the United States (or a non-U.S. purchaser that is a dealer or other fiduciary as referred to above).

2. It acknowledges that the notes have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below.

3. It shall not resell or otherwise transfer any of such notes within two years after the original issuance of the notes except (A) to us or any of our subsidiaries, (B) inside the United States to a QIB in a transaction complying with Rule 144A, (C) inside the United States to institutional ''accredited investors'' (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) (an ''Accredited Investor''), that, prior to such transfer, furnishes (or has furnished on its behalf by a U.S. broker-dealer) to the Trustee a signed letter containing certain representations and agreements relating to the restrictions on transfer of the notes (the form of which letter can be obtained from such Trustee), (D) outside the United States in compliance with Rule 904 under the Securities Act, (E) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available), (F) in accordance with another exemption from the registration requirements of the Securities Act (and based upon an opinion of counsel if we so request), or (G) pursuant to an effective registration statement under the Securities Act.

4. It agrees that it will give to each person to whom it transfers the notes prior notice of any restrictions on transfer of such notes.

5. It acknowledges that prior to any proposed transfer of notes in certificated form or of beneficial interests in a note in global form (a ''Global Note'') (in each case other than pursuant to an effective registration statement) the holder of notes or the holder of beneficial interests in a Global Note, as the

case may be, may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation as provided in the Indenture.

6. It understands that all of the notes will bear a legend substantially to the following effect unless otherwise agreed by us and the holder thereof:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE ''SECURITIES ACT''), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH BELOW. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A ''QUALIFIED INSTITUTIONAL BUYER'' (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT OR (C) IT IS AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a)(1), (2), (3), OR (7) UNDER THE SECURITIES ACT (AN ''ACCREDITED INVESTOR''), (2) AGREES THAT IT WILL NOT WITHIN TWO YEARS AFTER THE ORIGINAL ISSUANCE OF THIS SECURITY RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT (A) TO KRONOS INTERNATIONAL, INC. OR ANY SUBSIDIARY THEREOF, (B) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) INSIDE THE UNITED STATES TO AN ACCREDITED INVESTOR THAT, PRIOR TO SUCH TRANSFER, FURNISHES (OR HAS FURNISHED ON ITS BEHALF BY A U.S. BROKER-DEALER) TO THE TRUSTEE A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS RELATING TO THE RESTRICTIONS ON TRANSFER OF THIS SECURITY (THE FORM OF WHICH LETTER CAN BE OBTAINED FROM THE TRUSTEE FOR THIS SECURITY), (D) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT (IF AVAILABLE), (E) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (F) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL IF KRONOS INTERNATIONAL, INC. SO REQUESTS), OR (G) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND IN ADVANCE OF SUCH TRANSFER. IN CONNECTION WITH ANY TRANSFER OF THIS SECURITY WITHIN TWO YEARS AFTER THE ORIGINAL ISSUANCE OF THIS SECURITY, IF THE PROPOSED TRANSFEREE IS AN ACCREDITED INVESTOR, THE HOLDER MUST, PRIOR TO SUCH TRANSFER, FURNISH TO THE TRUSTEE AND KRONOS INTERNATIONAL, INC. SUCH CERTIFICATIONS, LEGAL OPINIONS OR OTHER INFORMATION AS EITHER OF THEM MAY REASONABLY REQUIRE TO CONFIRM THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. AS USED HEREIN, THE TERMS ''OFFSHORE TRANSACTION,'' ''UNITED STATES'' AND ''U.S. PERSON'' HAVE THE MEANING GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

7. It shall not sell or otherwise transfer such notes to, and each purchaser represents and covenants that it is not acquiring the notes for or on behalf of, and will not transfer the notes to, any pension or welfare plan (as defined in Section 3 of the Employee Retirement Income Security Act of 1974 (''ERISA'')), except that such a purchase for or on behalf of a pension or welfare plan shall be permitted:

(a) to the extent such purchase is made by or on behalf of a bank collective investment fund maintained by the purchaser in which, at any time while the notes are held by the purchaser, no plan (together with any other plans maintained by the same employer or employee organization) has an interest in excess of 10% of the total assets in such collective investment fund and the conditions of Section III of Prohibited Transaction Class Exemption 91-38 issued by the Department of Labor are satisfied;

(b) to the extent such purchase is made by or on behalf of an insurance company pooled separate account maintained by the purchaser in which, at any time while the notes are held by the purchaser, no plan (together with any other plans maintained by the same employer or employee organization) has an interest in excess of 10% of the total of all assets in such pooled separate account and the conditions of Section III of Prohibited Transaction Class Exemption 90-1 issued by the Department of Labor are satisfied;

(c) to the extent such purchase is made by or on behalf of an insurance company general account maintained by the purchaser in which, at any time while the notes are held by the purchaser, the conditions of Prohibited Transaction Class Exemption 95-60 issued by the Department of Labor are satisfied;

(d) to the extent such purchase is made on behalf of a plan by (i) an investment adviser registered under the Investment Advisers Act of 1940 that had as of the last day of its most recent fiscal year total assets under its management and control in excess of $50,000,000 and had stockholders' or partners' equity in excess of $750,000, as shown in its most recent balance sheet prepared in accordance with generally accepted accounting principles, (ii) a bank as defined in Section 202(a)(2) of the Investment Advisers Act of 1940 with equity capital in excess of $1,000,000 as of the last day of its most recent fiscal year, (iii) an insurance company which is qualified under the laws of more than one state to manage, acquire or dispose of any assets of a plan, which insurance company has, as of the last day of its most recent fiscal year, net worth in excess of $1,000,000 and which is subject to supervision and examination by a state authority having supervision over insurance companies, or (iv) a savings and loan association, the accounts of which are insured by the Federal Deposit Insurance Corporation, that has made application for and been granted trust powers to manage, acquire or dispose of assets of a plan by a State or Federal authority having supervision over savings and loan associations, which savings and loan association has, as of the last day of its most recent fiscal year, equity capital or net worth in excess of $1,000,000 and, in any case, such investment adviser, bank, insurance company or savings and loan is otherwise a qualified professional asset manager, as such term is used in Prohibited Transaction Exception 84-14 issued by the Department of Labor, and the assets of such plan when combined with the assets of other plans established or maintained by the same employer (or affiliate thereof) or employee organization and managed by such investment adviser, bank, insurance company or savings and loan do not represent more than 20% of the total client assets managed by such investment adviser, bank, insurance company or savings and loan and the conditions of Section I of such exemption are otherwise satisfied;

(e) to the extent such plan is a governmental plan (as defined in Section 3 of ERISA) which is not subject to the provisions of Title I of ERISA or Section 4975 of the Internal Revenue Code; or

(f) to the extent the purchase is made by or on behalf of an investment fund managed by an ''in-house asset manager'' (the ''INHAM'') (as defined in Part IV of Prohibited Transaction Class Exemption 96-23 issued by the Department of Labor), plans maintained by affiliates of the INHAM and/or the INHAM have aggregate assets in excess of $250 million, and the conditions of Part I of Prohibited Transaction Class Exemption 96-23 are otherwise satisfied.

8. It acknowledges that the Trustee will not be required to accept for registration of transfer any notes acquired by it, except upon presentation of evidence satisfactory to us and the Trustee of compliance with the restrictions set forth herein.

9. It acknowledges that we, the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of the acknowledgments, representations or agreements deemed to have been made by its purchase of the notes

are no longer accurate, it shall promptly notify us and the initial purchasers. If it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations, and agreements on behalf of each account.

BOOK-ENTRY; DELIVERY AND FORM

The notes are being offered and sold to qualified institutional buyers in reliance on Rule 144A (''Rule 144A Notes''). The notes also may be offered and sold in offshore transactions in reliance on Regulation S (''Regulation S Notes''). Except as set forth below, notes will be issued in registered, global form in minimum denominations of €1,000 and integral multiples thereof. The notes will be issued at the closing of the offering only against payment in immediately available funds.

The notes (whether Rule 144A Notes or Regulation S Notes) will be represented by one global note in fully registered form without interest coupons (the ''Global Note'') and will be deposited with The Bank of New York, London Branch, as common depositary for Euroclear and Clearstream (the ''Common Depositary''), and registered in the name of a nominee of the Common Depositary. The notes will not be eligible for clearance through The Depository Trust Company. The Global Note will be subject to certain restrictions on transfer set forth therein and in the indenture and will bear the legend regarding such restrictions set forth under ''Notice to Investors.''

Except in the limited circumstances described below, owners of beneficial interests in global notes will not be entitled to receive physical delivery of certificated notes. Transfers of beneficial interests in the global notes will be subject to the applicable rules and procedures of Euroclear and Clearstream and their respective direct or indirect participants, which rules and procedures may change from time to time.

Global Notes

The following description of the operations and procedures of Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them from time to time. We take no responsibility for these operations and procedures and urge investors to contact the system or their participants directly to discuss these matters.

Upon the issuance of the Global Note, the Common Depositary will credit, on its internal system, the respective principal amount of the beneficial interests represented by such global note to the accounts of Euroclear or Clearstream, as the case may be. Euroclear or Clearstream, as the case may be, will credit, on its internal systems, the respective principal amounts of the individual beneficial interests in such global notes to the accounts of persons who have accounts with Euroclear or Clearstream, as the case may be. Such accounts initially will be designated by or on behalf of the initial purchasers. Ownership of beneficial interests in the Global Note will be limited to participants or persons who hold interests through participants in Euroclear or Clearstream, as the case may be. Ownership of beneficial interests in the Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear or Clearstream, as the case may be, or their nominees (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

As long as the Common Depositary, or its nominee, is the registered holder of a global note, the Common Depositary or such nominee, as the case may be, will be considered the sole owner and holder of the notes represented by such global notes for all purposes under the indenture and the notes. Unless (1) Euroclear or Clearstream notifies us that it is unwilling or unable to continue as a clearing agency, (2) the Common Depositary notifies us that it is unwilling or unable to continue as Common Depositary and a successor Common Depositary is not appointed within 120 days of such notice or (3) in the case of any note, an event of default has occurred and is continuing with respect to such note, owners of beneficial interests in a global note will not be entitled to have any portions of such global note registered in their names, will not receive or be entitled to receive physical delivery of notes in certificated form and will not be considered the owners or holders of the global note (or any notes represented thereby) under the indenture or the notes. In addition, no beneficial owner of an interest in a global note will be able to transfer that interest except in accordance with Euroclear's and Clearstream's applicable procedures (in addition to those under the indenture referred to herein).

Investors may hold their interests in the Global Note through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Clearstream and Euroclear will hold interests in the Global Note on behalf of their participants through customers' securities accounts in their respective names on the books of the Common Depositary. All interests in the Global Note may be subject to the procedures and requirements of Euroclear and Clearstream.

Payments of the principal of and interest on the Global Note will be made to the order of the Common Depositary or its nominee as the registered owner thereof. Neither KII, the Trustee, the Common Depositary nor any of their respective agents will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

We expect that the Common Depositary, in its capacity as paying agent, upon receipt of any payment or principal or interest in respect of a global note representing any notes held by it or its nominee, will immediately credit the accounts of Euroclear or Clearstream, as the case may be, which in turn will immediately credit accounts of participants in Euroclear or Clearstream, as the case may be, with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note for such notes as shown on the records of Euroclear or Clearstream, as the case may be. We also expect that payments by participants to owners of beneficial interests in such global note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in ''street name.'' Such payments will be the responsibility of such participants.

Because Euroclear and Clearstream can act only on behalf of their respective participants, who in turn act on behalf of indirect participants and certain banks, the ability of a holder of a beneficial interest in global notes to pledge such interest to persons or entities that do not participate in the Euroclear or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for such interest. The laws of some countries and some U.S. states require that certain persons take physical delivery of securities in certificated form. Consequently, the ability to transfer beneficial interests in a global note to such persons may be limited.

Transfers of interests in the Global Notes between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Euroclear and Clearstream have advised us that they will take any action permitted to be taken by a holder of notes (including the presentation of notes for exchange as described below) only at the direction of one or more participants to whose account with Euroclear or Clearstream, as the case may be, interests in the global notes are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such participant or participants has or have given such direction. However, if there is an event of default under the notes, Euroclear and Clearstream reserve the right to exchange the global notes for legended notes in certificated form, and to distribute such notes to their respective participants.

Euroclear and Clearstream have advised us as follows: Euroclear and Clearstream each hold securities for their account holders and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders, thereby eliminating the need for physical movements of certificates and any risk from lack of simultaneous transfers of securities.

Euroclear and Clearstream each provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream each also deal with domestic securities markets in several countries through established depository and custodial relationships. The respective systems of Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective account holders may settle trades with each other.

Account holders in both Euroclear and Clearstream are world-wide financial institutions including underwriters, securities brokers and dealers, trust companies and clearing corporations. Indirect access of both Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

An account holder's overall contractual relations with either Euroclear or Clearstream are governed by the respective rules and operation procedures of Euroclear or Clearstream and any applicable laws. Both Euroclear and Clearstream act under such rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective account holders.

Although Euroclear and Clearstream currently follow the foregoing procedures to facilitate transfers of interests in global notes among participants of Euroclear and Clearstream, they are under no obligation to do so, and such procedures may be discontinued or modified at any time. Neither we nor the Trustee will have any responsibility for the performance by Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Notes

If any depositary is at any time unwilling or unable to continue as a depositary for the notes for the reasons set forth above, we will issue certificates for such notes in definitive, fully registered, non-global form without interest coupons in exchange for the Global Notes. Certificates for notes delivered in exchange for any global note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by Euroclear, Clearstream or the Common Depositary (in accordance with their customary procedures).

Certificates for non-global notes issued in exchange for a Global Note (or any portion thereof) will bear the legend referred to under ''Notice to Investors.'' The holder of a non-global note may transfer such note, subject to compliance with the provisions of the applicable legend, by surrendering it at the office or agency maintained by us for such purpose in London, which initially will be the office of the Trustee or of the Transfer Agent in Luxembourg. Upon the transfer, change or replacement of any note bearing a legend, or upon specific request for removal of a legend on a note, we will deliver only notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to us such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by us that neither such legend nor any restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. Before any note in non-global form may be transferred to a person who takes delivery in the form of an interest in any global note, the transferor will be required to provide the Trustee with a restricted global note certificate. Upon transfer or partial redemption of any note, new certificates may be obtained from the Transfer Agent in Luxembourg.

Notwithstanding any statement herein, we and the Trustee reserve the right to impose such transfer, certification, exchange or other requirements, and to require such restrictive legends on certificates evidencing notes, as they may determine are necessary to ensure compliance with the securities laws of the United States and the states therein and any other applicable laws or as Euroclear or Clearstream may require.

Same-Day Settlement and Payment

The indenture will require that payments in respect of the notes represented by the global notes, including principal, premium, if any, interest and liquidated damages, if any, be made by wire transfer of immediately available funds to the accounts specified by the global note holder. With respect to notes in certificated form, we will make all payments of principal, premium, if any, interest and liquidated damages, if any, by wire transfer of immediately available funds to the accounts specified by the holders thereof or, if no such account is specified, by mailing a check to each such holder's registered address. Certificated notes may be surrendered for payment at the offices of the Trustee or, so long as the notes are listed on the Luxembourg Stock Exchange, the Paying Agent in Luxembourg on the maturity date of the notes. We expect that secondary trading in any certificated notes will also be settled in immediately available funds.

PRIVATE PLACEMENT

Subject to the terms and conditions set forth in the Purchase Agreement (the ''Purchase Agreement'') between us and the initial purchasers, we have agreed to sell to the initial purchasers, and the initial purchasers have agreed, severally, to purchase from us, all of the notes.

The Purchase Agreement provides that the obligations of the initial purchasers to pay for and accept delivery of the notes are subject to, among other conditions, the delivery of certain legal opinions by its counsel.

The initial purchasers have agreed to resell the notes (a) to QIBs in reliance on Rule 144A and (b) outside the United States in compliance with Regulation S under the Securities Act. See ''Notice to Investors.'' The notes will initially be offered at the price indicated on the cover page hereof. After the initial offering of the notes, the offering price and other selling terms of the notes may from time to time be varied by the initial purchasers.

The Purchase Agreement provides that we will indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, and will contribute to payments that the initial purchasers may be required to make in respect thereof.

Prior to this offering, there has been no active market for the notes. We have applied for the notes to be listed on the Luxembourg Stock Exchange. The initial purchasers have advised us that they presently intend to make a market in the notes as permitted by applicable laws and regulations. The initial purchasers are not obligated, however, to make a market in the notes and any such market making may be discontinued at any time at the sole discretion of the initial purchasers. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the notes.

In connection with this offering, certain persons participating in this offering may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, the initial purchasers may bid for and purchase notes in the open markets to stabilize the price of the notes. The initial purchasers may also overallot this offering, creating a syndicate short position, and may bid for and purchase notes in the open market to cover the syndicate short position. In addition, the initial purchasers may bid for and purchase notes in market making transactions and impose penalty bids. These activities may stabilize or maintain the respective market price of the notes above market levels that may otherwise prevail. The initial purchasers are not required to engage in these activities, and may end these activities at any time.

The initial purchasers or their affiliates from time to time have provided in the past and may provide in the future investment banking, commercial lending and financial advisory services to us and our affiliates in the ordinary course of business. Deutsche Bank AG, an affiliate of one of the initial purchasers, is the administrative agent, and affiliates of the initial purchasers are lenders under our subsidiaries' new credit facility.

CERTAIN TAX CONSIDERATIONS

United States Tax Considerations

The following discussion is a summary of some material United States federal income tax considerations relevant to the acquisition, ownership, and disposition of the notes offered by this memorandum, but does not purport to be a complete analysis of all potential tax considerations relating to the notes. This summary is based upon the Internal Revenue Code of 1986, as amended (the ''Code''), Treasury regulations, rulings of the Internal Revenue Service (the ''IRS'') and judicial decisions in existence on the date hereof, all of which are subject to change. Any such change could apply retroactively and could affect adversely the tax consequences described below. No advance tax ruling has been sought or obtained from the IRS regarding the tax consequences of the transactions described herein.

For purposes of this discussion, a U.S. Person is:

- an individual who is a citizen of the United States or who is resident in the United States for United States federal income tax purposes;
- a corporation (including any entity treated as a corporation for United States federal income tax purposes), that is organized under the laws of the United States or any state thereof;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust that is subject to the supervision of a court within the United States and is subject to the control of one or more United States persons as described in Section 7701(a)(30) of the Code, or that has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

For purposes of this discussion, a U.S. Holder is a beneficial owner of the notes who or which is a U.S. Person and a Non-U.S. Holder is a beneficial owner of the notes other than a U.S. Holder.

This summary does not discuss all United States federal tax considerations, such as estate and gift tax consequences to U.S. Holders, that may be relevant to a Holder in light of its particular circumstances. This summary does not address the federal income tax consequences that may be relevant to certain Holders that may be subject to special treatment (including, without limitation, Holders subject to the alternative minimum tax, banks, insurance companies, tax-exempt organizations, financial institutions, small business investment companies, partnerships or other pass-through entities, dealers in securities or currencies, broker-dealers, persons who hold shares as part of a straddle, hedging, constructive sale, or conversion transaction, and U.S. Holders whose functional currency is not the U.S. dollar). Furthermore, this summary does not address any aspects of state, local or other taxation. This summary is limited to those Holders who purchase notes in the initial offering at the initial offering price and who hold notes as ''capital assets'' within the meaning of Section 1221 of the Code. In the case of any Non-U.S. Holder who is an individual, the following discussion assumes that this individual was not a former United States citizen, and was not formerly a resident of the United States for United States federal income tax purposes.

If a partnership (including for this purposes any entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of the notes, the treatment of a partner in the partnership will generally depend upon the status of the partner and upon the activities of the partnership. A Holder of notes that is a partnership and partners in such partnership should consult their tax advisors about the United States federal income tax consequences of holding and disposing of the notes.

This summary is of a general nature only and is not intended to be, and should not be construed to be, legal, business or tax advice to any particular Holder. Prospective investors are urged to consult their tax advisors regarding the United States federal income tax consequences of acquiring, holding and disposing of the notes as well as any tax consequences that may arise under the laws of any foreign, state, local or other taxing jurisdiction.

Consequences to U.S. Holders

Stated Interest. Stated interest on the notes will be taxable to a U.S. Holder as ordinary income at the time the interest accrues or is received in accordance with the U.S. Holder's method of accounting for United States federal income tax purposes.

We intend to take the position for United States federal income tax purposes that any additional interest on the notes as a result of a registration default and any redemption premium paid upon a change in control should be taxable to a U.S. Holder as ordinary income when received or accrued in accordance with the U.S. Holder's method of accounting for federal income tax purposes. This position is based in part on our determination that, as of the date of issuance of the notes, the possibility that such additional payments will actually be made is a ''remote'' or ''incidental'' contingency within the meaning of applicable Treasury regulations. Our determination that the possibility is a remote or incidental contingency is binding on each U.S. Holder, unless the U.S. Holder explicitly discloses to the IRS, on its federal income tax return for the year during which the note is acquired, that the U.S. Holder is taking a different position. Regardless of our position, however, the IRS may assert that the possibility that such additional payments will actually be made is not a remote or incidental contingency. If such an assertion by the IRS is successful, the timing and character of the U.S. Holder's income from the notes may be affected.

The interest on the notes will be paid in euros rather than in United States dollars. In general, a U.S. Holder that uses the cash method of accounting will be required to include in income the United States dollar value of the amount of interest income received, whether or not the payment is received in United States dollars or converted into United States dollars. The United States dollar value of the amount of interest received is the amount of foreign currency interest paid, translated at the spot rate on the date of receipt. The U.S. Holder will not have exchange gain or loss on the interest payment, but may have exchange gain or loss when the U.S. Holder disposes of any foreign currency received.

A U.S. Holder that uses the accrual method of accounting is generally required to include in income the United States dollar value of interest accrued during the accrual period. Accrual basis U.S. Holders may determine the amount of income recognized with respect to such interest in accordance with either of two methods. Under the first method, the U.S. dollar value of accrued interest is translated at the average rate for the interest accrual period (or, with respect to an accrual period that spans two taxable years, the average rate for the partial period within the taxable year). For this purpose, the average rate is the simple average of spot rates of exchange for each business day of such period or other average exchange rate for the period reasonably derived and consistently applied by the U.S. Holder. Under the second method, a U.S. Holder can elect to accrue interest at the spot rate on the last day of an interest accrual period (in the case of a partial accrual period, the last day of the taxable year) or, if the last day of an interest accrual period is within five business days of the receipt or payment, the spot rate on the date of receipt or payment. Any such election will apply to all debt instruments held by the U.S. Holder both at the beginning of the first taxable year to which the election applies and thereafter acquired, and may not be revoked without the consent of the IRS. An accrual basis U.S. Holder will recognize exchange gain or loss on the receipt of a foreign currency interest payment if the exchange rate on the date payment is received differs from the rate applicable to the previous accrual of that interest income. The foreign currency gain or loss of a U.S. Holder will generally be treated as United States sourced ordinary income or loss.

Original Issue Discount. If the stated redemption price at maturity of a note exceeds its ''issue price,'' the excess is treated as original issue discount (''OID'') that is taxable to the holder as ordinary income on a current basis. However, if the amount of this excess is less than a specified de minimis amount (generally 0.25% of the product of the stated redemption price at maturity and the number of complete years to maturity from the date of issue) the OID will be treated as zero. The issue price of the notes is the price paid by the first buyer of such notes.

The issue price of the notes is expected to be the amount set forth on the cover page of this offering memorandum, but is subject to change based on the actual sale of the notes. Because the stated redemption price of the notes is not expected to exceed the issue price by more than the specified de minimis amount, any de minimis OID on the notes will not be taxable to a U.S. Holder as ordinary income on a current basis (unless the U.S. Holder makes an affirmative election to accrue such de minimis OID and all stated interest into income on a constant yield basis). The remainder of this discussion assumes that there will not be OID on the notes.

Disposition of Notes. In the case of a sale or other disposition (including a retirement) of a note, a U.S. Holder will recognize gain or loss equal to the difference, if any, between the amount received (other than any amount representing accrued but unpaid stated interest, which is taxable as ordinary income) and the U.S. Holder's adjusted tax basis in the note. A U.S. Holder's adjusted tax basis in a note generally will equal the U.S. Holder's cost of the note in United States dollars, reduced by the amount in United States dollars of any payments (other than stated interest) made on such note . Except as described below with respect to currency exchange gain or loss, gain or loss recognized by a U.S. Holder on a sale or other disposition of a note generally will constitute capital gain or loss. Capital gains of non-corporate taxpayers from the sale or other disposition of a note held for more than one year are eligible for reduced rates of United States federal income taxation. The deductibility of a capital loss realized on the sale or other disposition of a note may be subject to limitations.

With respect to the sale or other disposition (including a retirement) of a note denominated in euros, the amount realized in euros will be considered to be (1) first, the payment of accrued but unpaid interest (on which exchange gain or loss will be recognized as described in the section entitled ''Stated Interest'' above), and (2) second, a payment of principal. With respect to such payment of principal, gain or loss will be computed in euros and translated on the date of sale or other disposition. Additionally, exchange gain or loss will be separately computed in euros on the amount of principal to the extent that the rate of exchange on the date of sale or other disposition differs from the rate of exchange on the date the note was acquired. Exchange gain or loss computed on accrued interest and principal will be realized, however, only to the extent of total gain or loss realized on the transaction.

In the case of a note denominated in euros, the cost of the note to the U.S. Holder will be the United States dollar value of the purchase price in euros translated at the spot rate for the date of purchase. The conversion of United States dollars into euros and the immediate use of that currency to purchase a note generally will not result in a taxable gain or loss for a U.S. Holder.

Disposition of Euros. A U.S. Holder will have a tax basis in any euros received as interest on a note, or received on the sale or other disposition of a note, equal to the United States dollar value of such euros on the date of receipt. Any gain or loss realized by a U.S. Holder on a sale or other disposition of such euros will be ordinary income or loss.

Exchange of Notes. The exchange of notes for Exchange Notes in the Exchange Offer will not constitute a taxable event for U.S. Holders. As a result, (1) a U.S. Holder should not recognize taxable gain or loss as a result of exchanging notes for Exchange Notes pursuant to the exchange offer, (2) the holding period of the Exchange Notes should include the holding period of the notes exchanged, and (3) the adjusted tax basis of the Exchange Notes should be the same as the adjusted tax basis of the notes exchanged immediately before such exchange.

Backup Withholding and Information Reporting. We, our paying agent or a broker may be required to provide the IRS with certain information, including the name, address and taxpayer identification number of U.S. Holders, the aggregate amount of principal and interest (and premium, if any) and sales proceeds paid to that Holder during the calendar year, and the amount of tax withheld, if any. This obligation, however, does not apply with respect to certain U.S. Holders including corporations, tax-exempt organizations, qualified pension and profit sharing trusts and individual retirement accounts. In the event that a U.S. Holder subject to the reporting requirements described above fails to supply its correct taxpayer identification number in the manner required by applicable law or is notified by the IRS that it has failed to properly report payments of interest and dividends, we, our paying agent or a broker may be required to ''backup'' withhold tax (at a rate equal to 30% for tax years beginning before January 1, 2004, 29% for tax years beginning between January 1, 2004 through December 31, 2006, and 28% for tax years beginning on January 1, 2006 and thereafter) on each payment of interest and principal (and premium, if any) and sales proceeds on or with respect to the notes.

Backup withholding is not an additional tax; any amounts so withheld may be credited against the United States federal income tax liability of the Holder or refunded if the amounts withheld exceed such liability, provided that the required information is furnished to the IRS.

Consequences to Non-U.S. Holders

Interest Income. Interest earned on a note by a Non-U.S. Holder will be considered ''portfolio interest,'' and will not be subject to United States federal income tax or withholding, if:

- the certification requirements described generally below are satisfied and the Non-U.S. Holder is not (i) a ''controlled foreign corporation'' that is related to us as described in Section 881(c)(3)(C) of the Code, (ii) a bank receiving the interest on a loan made in the ordinary course of its business, or (iii) a person who owns, directly or under the attribution rules of Section 871(h)(3)(C) of the Code, 10% or more of the total combined voting power of all our stock;
- the interest is not effectively connected with the conduct of a trade or business within the United States by the Non-U.S. Holder; and
- we do not have actual knowledge or reason to know that the beneficial Holder is a U.S. Person and we can reliably associate the interest payment with the certification documents provided to us.

The certification requirements will be satisfied if either (i) the beneficial owner of the note timely certifies to us or our paying agent, under penalties of perjury, that such owner is a Non-U.S. Holder and provides its name and address, or (ii) a custodian, broker, nominee, or other intermediary acting as an agent for the beneficial owner (such as a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business) that holds the notes in such capacity timely certifies to us or our paying agent, under penalties of perjury, that such statement has been received from the beneficial owner of the notes by such intermediary, or by any other financial institution between such intermediary and the beneficial owner, and furnishes to us or our paying agent a copy thereof. The foregoing certification may be provided on a properly completed IRS Form W-8BEN or W-8IMY, as applicable, or any successor forms, duly executed under penalties of perjury. With respect to the certification requirement for notes that are held by an entity that is classified for United States federal income tax purposes as a foreign partnership, the applicable Treasury Regulations provide that, unless the foreign partnership has entered into a withholding agreement with the IRS, the foreign partnership will be required, in addition to providing an intermediary Form W-8IMY, to attach an appropriate certification by each partner.

Any interest earned on a note, and any gain realized on a sale or other disposition (including a retirement) of a note, that is effectively connected with the conduct of a trade or business within the United States by a Non-U.S. Holder will be subject to United States federal income tax at regular graduated rates as if the Non-U.S Holder were a U.S. Holder. In addition, if the Non-U.S. Holder is a corporation, the Non-U.S. Holder may also be subject to a 30% branch profits tax (unless reduced or eliminated by an applicable treaty) imposed on any such effectively connected earnings and profits. However, such income will not be subject to United States federal income tax withholding, if the Non-U.S. Holder furnishes a properly completed IRS Form W-8ECI to us or our paying agent.

Any payments to a Non-U.S. Holder of interest that do not qualify for the ''portfolio interest'' exemption, and that are not effectively connected with the conduct of a trade or business within the United States by the Non-U.S. Holder, will be subject to United States federal income tax and withholding at a rate of 30% (or at a lower rate under an applicable tax treaty).

Disposition of Notes. Any gain recognized by a Non-U.S. Holder on a sale or other disposition (including a retirement) of a note will not be subject to United States federal income tax or withholding if (i) the gain is not effectively connected with the conduct of a trade or business within the United States by the Non-U.S. Holder, and (ii) in the case of a Non-U.S. Holder who is an individual, such individual is not present in the United States for 183 days or more in the taxable year of the sale or other disposition, or the individual does not have a ''tax home'' in the United States and the gain is not attributable to an office or other fixed place of business maintained in the United States by the individual.

Estate Tax Consequences. Any note that is owned by an individual who is not a citizen or resident (as specially defined for United States federal estate tax purposes) of the United States at the date of death will not be included in such individual's estate for United States federal estate tax purposes, unless the individual owns, directly or indirectly, 10% or more of the voting power of all our stock, or, at the time of such individual's death, payments in respect of the notes would have been effectively connected with the conduct by such individual of a trade or business in the United States.

Backup Withholding and Information Reporting. We must report annually to the IRS and to each Non-U.S. Holder any interest on the notes that is subject to withholding or that is exempt from U.S. withholding tax pursuant to a tax treaty or the ''portfolio interest'' exemption. Copies of these information returns may also be made available under the provisions of a specific treaty or agreement to the tax authorities of the country in which the Non-U.S. Holder resides.

In the case of payments of principal on the notes, backup withholding and information reporting will not apply if the holder has made the requisite certification, described in the section entitled ''Interest Income'' above or otherwise establishes an exemption, provided that neither we nor our paying agent has actual knowledge that (i) the holder is a U.S. Holder, or (ii) the conditions of any other exemption are not, in fact, satisfied.

The payment of the proceeds on the disposition of a note to or through the U.S. office of a broker generally will be subject to information reporting and potential backup withholding unless a holder either certifies its status as a Non-U.S. Holder under penalties of perjury on IRS Form W-8BEN (or a suitable substitute form) and meets certain other conditions or otherwise establishes an exemption. If the foreign office of a foreign broker (as defined in applicable Treasury regulations) pays the proceeds of the sale of a note to the seller thereof, backup withholding and information reporting generally will not apply. Information reporting requirements (but not backup withholding) will apply, however, to a payment of the proceeds of the sale of a note by (1) a foreign office of a custodian, nominee, other agent or broker that is a U.S. Person, (2) a foreign custodian, nominee, other agent or broker that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, (3) a foreign custodian, nominee, other agent or broker that is a controlled foreign corporation for United States federal income tax purposes or (4) a foreign partnership if at any time during its tax year one or more of its partners are U.S. Persons who, in the aggregate, hold more than 50% of the income or capital interest of the partnership or if, at any time during its taxable year, the partnership is engaged in the conduct of a trade or business within the United States, unless the custodian, nominee, other agent, broker or foreign partnership has documentary evidence in its records that the holder is not a U.S. Person and certain other conditions are met or the holder otherwise establishes an exemption.

Backup withholding is not an additional tax; any amounts so withheld may be credited against the United States federal income tax liability of the holder or refunded if the amounts withheld exceed such liability, provided that the required information is furnished to the IRS.

Luxembourg Tax Considerations

The following discussion is a summary of some of the material Luxembourg income tax consequences relevant to the acquisition, ownership and disposition of the notes offered by this offering memorandum for a non-resident Holder of a note. This summary is based on Luxembourg laws, regulations, rulings and decisions now in effect, all of which are subject to change.

This summary is of a general nature only and is not intended to be, and should not be construed to be, legal, business or tax advice to any particular Holder. Prospective investors are urged to consult their tax advisors regarding the Luxembourg income tax consequences of acquiring, holding and disposing of the notes as well as any tax consequences that may arise under the laws of any foreign, state, local or other taxing jurisdiction.

Withholding Tax

Under Luxembourg tax laws currently in effect, there is no withholding tax on payments of principal, interest, accrued but unpaid interest or accretions of yield to maturity in respect of the notes, nor is any Luxembourg withholding tax payable by such Holders on redemption or repurchase of the notes. There is no income tax due upon redemption or repurchase of, or on capital gains on the sale of, any notes held by a non-resident, as long as the notes are not held through a permanent establishment in Luxembourg.

No stamp, value added, registration or similar taxes or duties will, under present Luxembourg law, be payable in Luxembourg by the Holders of notes in connection with the issuance of the notes.

German Tax Considerations

The following discussion is a summary of some of the material German income tax consequences relevant to the acquisition, ownership and disposition of notes for a resident and non-resident Holder of a note. This summary is based on German laws, regulations, rulings and decisions now in effect, all of which are subject to change.

This summary is of a general nature only and is not intended to be, and should not be construed to be, legal, business or tax advice to any particular holder. Prospective investors are urged to consult their tax advisors regarding the German income, trade and solidarity tax consequences of acquiring, holding and disposing of the notes as well as any tax consequences that may arise under the laws of any foreign, state, local or other taxing jurisdiction.

Tax Residents

Payments of interest on the notes, including interest having accrued up to the sale of a note and credited separately (''Accrued Interest'') to persons who are tax residents of Germany (*i.e.*, persons whose residence, habitual abode, statutory seat or place of effective management and control is located in Germany) are subject to German corporate income tax (plus a solidarity surcharge of 5.5% thereon (*Solidaritaetszurschlag*)). Such interest is also subject to trade tax if the notes form part of the property of a German trade or business.

Any OID in excess of certain threshold amounts is taxed as interest income in the year the note is sold or redeemed, provided the note can be classified as a financial innovation (*Finanzinnovation*), including, among other things, zero coupon notes or discounted notes. However, if the note is part of property of a trade or business in Germany, the OID amount must be taken into account pro rata as interest income over the term of the note and may also be subject to trade tax. Because the stated redemption price of the notes is not expected to exceed the issue price by more than a de minimis amount, no portion of the OID, if any, on the notes will be taxable to a German Holder as interest income on a current or amortized basis. The remainder of this discussion assumes that there will not be OID on the notes.

Capital gains from the disposal of notes by German-resident corporate Holders of notes will be subject to corporate income tax (plus a solidarity surcharge at a rate of 5.5% thereon) and trade tax.

If the notes are held in a custodial account that the holder maintains with a German branch of a German or non-German financial or financial services institution (the ''Disbursing Agent''), a 30% withholding tax on interest payments (*Zinsabschlagstieuer*), plus a 5.5% solidarity surcharge on such tax, will be levied, resulting in a total tax charge of 31.65% of the gross interest payment. Withholding tax is also imposed on Accrued Interest.

In computing the tax to be withheld, the Disbursing Agent may deduct from the basis of the withholding tax any Accrued Interest paid by the holder of a note to the Disbursing Agent during the same calendar year. No withholding tax will be deducted if the holder of the note has submitted to the Disbursing Agent a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the relevant local tax office.

Withholding tax and the solidarity surcharge thereon are credited as prepayments against the German corporate income tax and the solidarity surcharge liability of the German resident. Amounts overwithheld will entitle the holder to a refund, based on an assessment to tax.

Nonresidents

Interest, including Accrued Interest, and capital gains with respect to a note held by a German nonresident are not subject to German taxation, unless:

(1) the note forms part of the business property of a permanent establishment, including a permanent representative, or a fixed base maintained in Germany by the Holder; or

(2) the interest income otherwise constitutes German-source income (such as income from the letting and leasing of certain property located in Germany).

In situations (1) and (2), a tax regime similar to that explained above under ''Tax Residents'' applies. Capital gains from the disposition of the Notes are, however, only taxable in situation (1).

Nonresidents of Germany are, in general, exempt from German withholding tax on interest and the solidarity surcharge thereon. However, where the interest is subject to German taxation as set forth in the preceding paragraph and the Notes are held in a custodial account with a disbursing agent, withholding tax is levied as explained above under ''Tax Residents.''

Other Taxes

No stamp, issue, registration or similar taxes or duties will be payable in Germany in connection with the issuance, delivery or execution of the notes. Currently, a net assets tax is not levied in Germany.

GENERAL LISTING INFORMATION

1. Application will be made to list the notes on the Luxembourg Stock Exchange. Prior to the listing, a legal notice relating to the issuance of the notes and our articles of incorporation will be deposited with the Chief Registrar of the District Court of Luxembourg *(Greffier en Chef du Tribunal dArrondissement de et a Luxembourg)*, where such documents are available for inspection and where copies of such documents may be obtained free of charge on request.

2. As long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, copies of our articles of incorporation and the indenture, registration rights agreement and purchase agreement relating to the notes may be inspected, and our most recent annual consolidated financial statements and unaudited quarterly consolidated financial statements may be obtained, on any business day free of charge, at the office of the paying agent in Luxembourg.

3. Our board of directors approved the issuance of the notes on , 2002.

4. Except as disclosed in this offering memorandum, we are not involved in, or have any knowledge of a threat of, any litigation, administrative proceeding or arbitration that, in our judgment, is or may be material in the context of the issuance of the notes.

5. Except as disclosed in this offering memorandum, there has been no material adverse change in our consolidated financial position since .

6. The notes offered and sold outside the United States in compliance with Regulation S under the Securities Act have been accepted for clearance through Euroclear and Clearstream with a Common Code of and an International Securities Identification Number of . The notes offered and sold in the United States to QIBs in reliance on Rule 144A under the Securities Act have been accepted for clearance through Euroclear and Clearstream with a Common Code of and an International Securities Identification Number of .

LEGAL MATTERS

Certain legal matters with regard to the validity of the notes will be passed upon for us by Locke Liddell & Sapp LLP, Dallas, Texas. Certain legal matters will be passed upon for the initial purchasers by Cahill Gordon & Reindel, New York, New York.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements as of December 31, 2000 and 2001 and for each of the three years in the period ended December 31, 2001, included in this offering memorandum, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

KRONOS INTERNATIONAL, INC.

INDEX OF FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Common Stockholder of Kronos International, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, redeemable preferred stock, profit participation certificates and common stockholder's equity (deficit) and cash flows present fairly, in all material respects, the financial position of Kronos International, Inc. and Subsidiaries at December 31, 2000 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 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.

As discussed in Note 1, the accompanying financial statements exclude the accounts of Kronos Canada, Inc., formerly a wholly owned subsidiary that was sold to Kronos, Inc. on April 30, 2002.

PricewaterhouseCoopers LLP

Houston, Texas
May 9, 2002

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2000	December 31, 2001	March 31, 2002 (Unaudited)	April 30, 2002 (Unaudited)
ASSETS				
Current assets:				
Cash and cash equivalents	$ 36,731	$ 30,343	$ 42,460	$ 28,466
Accounts and notes receivable	90,118	87,422	88,593	96,494
Receivable from affiliates	1,833	1,134	12,368	20,279
Refundable income taxes	1,677	1,347	975	730
Inventories	118,657	121,316	107,898	103,483
Prepaid expenses	1,385	1,548	2,247	2,946
Deferred income taxes	858	497	679	660
Total current assets	251,259	243,607	255,220	253,058
Other assets:				
Prepaid pension cost	16,509	14,696	14,555	15,046
Other	2,943	5,615	4,139	3,804
Total other assets	19,452	20,311	18,694	18,850
Property and equipment:				
Land	21,345	20,996	20,782	21,359
Buildings	93,704	96,874	96,167	98,940
Machinery and equipment	431,534	441,216	439,326	451,548
Mining properties	47,652	48,167	49,211	51,295
Construction in progress	3,541	2,995	5,887	7,317
	597,776	610,248	611,373	630,459
Less accumulated depreciation and depletion	338,358	341,649	346,320	358,525
Net property and equipment	259,418	268,599	265,053	271,934
	$ 530,129	$ 532,517	$ 538,967	$ 543,842

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)
(In thousands, except share data)

	December 31, 2000	December 31, 2001	March 31, 2002 (Unaudited)	April 30, 2002 (Unaudited)
LIABILITIES AND COMMON STOCKHOLDER'S EQUITY (DEFICIT)				
Current liabilities:				
Notes payable	$ 69,970	$ 46,201	$ 46,382	$ 47,978
Current maturities of long-term debt	730	1,033	1,038	1,082
Accounts payable and accrued liabilities	76,990	78,846	73,210	77,623
Payable to affiliates	22,602	7,929	15,611	381
Income taxes	6,157	6,597	5,773	4,792
Deferred income taxes	1,822	1,530	1,501	1,556
Total current liabilities	178,271	142,136	143,515	133,412
Noncurrent liabilities:				
Long-term debt	1,363	1,465	1,246	1,211
Notes payable to Kronos, Inc.	194,000	480,363	451,800	270,000
Deferred income taxes	46,643	37,783	38,922	40,420
Accrued pension cost	18,904	18,696	17,803	17,852
Other	13,375	11,846	11,743	12,051
Total noncurrent liabilities	274,285	550,153	521,514	341,534
Minority interest	299	284	290	302
Redeemable preferred stock and profit participation certificates	474,374	571,119	640,631	640,631
Accrued dividends	30,569	46,290	50,220	51,530
Total redeemable preferred stock and profit participation certificates	504,943	617,409	690,851	692,161
Common stockholder's equity (deficit):				
Common stock — $100 par value; 100,000 shares authorized; 3,196 shares issued	320	320	320	320
Additional paid-in capital	1,966,464	1,870,935	1,797,493	2,013,183
Retained earnings (deficit)	(1,884,071)	(1,774,150)	(1,766,168)	(1,757,399)
Notes receivable from affiliates	(343,777)	(700,843)	(674,723)	(709,922)
Accumulated other comprehensive loss:				
Currency translation adjustment	(166,605)	(169,758)	(170,156)	(165,780)
Pension liabilities	—	(3,969)	(3,969)	(3,969)
Total common stockholder's equity (deficit)	(427,669)	(777,465)	(817,203)	(623,567)
	$ 530,129	$ 532,517	$ 538,967	$ 543,842

Commitments and contingencies (Notes 13 and 18)

See accompanying notes to consolidated financial statements.

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In thousands)

	Years Ended December 31,			Three Months Ended March 31,		Four Months Ended April 30,	
	1999	2000	2001	2001	2002	2001	2002
				(Unaudited)		(Unaudited)	
Revenues and other income:							
Net sales	$620,324	$620,525	$ 554,637	$159,030	$139,569	$203,046	$184,489
Interest income from affiliates	1,585	23,069	36,220	6,721	8,895	8,985	11,872
Insurance recoveries, net	—	—	17,468	—	—	(61)	—
Other income (loss), net	(17,626)	(3,835)	6,201	(7,045)	(205)	(2,786)	4,168
	604,283	639,759	614,526	158,706	148,259	209,184	200,529
Costs and expenses:							
Cost of sales	469,224	413,475	379,558	105,283	110,723	137,735	144,311
Selling, general and administrative	79,923	72,534	68,277	17,452	16,668	22,938	21,387
Interest	7,562	1,942	4,305	1,161	700	1,558	950
Interest expense to affiliates	29,876	28,724	34,145	5,850	9,774	7,764	12,813
	586,585	516,675	486,285	129,746	137,865	169,995	179,461
Income before income taxes and minority interest	17,698	123,084	128,241	28,960	10,394	39,189	21,068
Income tax expense (benefit)	(24,255)	42,888	14,497	9,228	2,402	10,750	4,303
Income before minority interest	41,953	80,196	113,744	19,732	7,992	28,439	16,765
Minority interest	48	47	16	5	10	10	14
Net income	41,905	80,149	113,728	19,727	7,982	28,429	16,751
Dividends and accretion applicable to redeemable preferred stock and profit participation certificates	(18,603)	(15,867)	(112,466)	(4,528)	(73,442)	(6,373)	(74,752)
Net income (loss) available to common stock	$ 23,302	$ 64,282	$ 1,262	$ 15,199	$ (65,460)	$ 22,056	$ (58,001)

See accompanying notes to consolidated financial statements.

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Years Ended December 31,			Three Months Ended March 31,		Four Months Ended April 30,	
	1999	2000	2001	2001	2002	2001	2002
				(Unaudited)		(Unaudited)	
Net income	$41,905	$ 80,149	$113,728	$19,727	$7,982	$28,429	$16,751
Other comprehensive income (loss), net of tax:							
Minimum pension liabilities adjustment	—	—	(3,969)	—	—	—	—
Currency translation adjustment	13,684	(12,239)	(3,153)	(3,011)	(398)	(1,952)	3,978
Total other comprehensive income (loss)	13,684	(12,239)	(7,122)	(3,011)	(398)	(1,952)	3,978
	$55,589	$ 67,910	$106,606	$16,716	$7,584	$26,477	$20,729

See accompanying notes to consolidated financial statements.

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED STOCK, PROFIT PARTICIPATION CERTIFICATES AND COMMON STOCKHOLDER'S EQUITY (DEFICIT)
Years Ended December 31, 1999, 2000 and 2001
Three Months Ended March 31, 2002 (Unaudited)
Month Ended April 30, 2002 (Unaudited)
(In thousands)

	Redeemable Preferred Stock and Profit Participation Certificates	Common Stockholder's Equity (Deficit)				Accumulated Other Comprehensive Loss		
		Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Notes Receivable from Affiliates	Currency Translation Adjustments	Pension Liabilities	Total Common Stockholder's Equity (Deficit)
Balance at December 31, 1998	$ —	$320	$1,693,981	$(1,697,215)	$ (36,182)	$(168,050)	$ —	$(207,146)
Net income	—	—	—	41,905	—	—	—	41,905
Other comprehensive income	—	—	—	—	—	13,684	—	13,684
Change in notes receivable from affiliates	—	—	—	—	36,182	—	—	36,182
Issuance of redeemable preferred stock and profit participation shares	470,473	—	—	(284,295)	—	—	—	(284,295)
Preferred dividends and accretion	18,603	—	(18,603)	—	—	—	—	(18,603)
Common dividends declared	—	—	—	(24,615)	—	—	—	(24,615)
Balance at December 31, 1999	489,076	320	1,675,378	(1,964,220)	—	(154,366)	—	(442,888)
Net income	—	—	—	80,149	—	—	—	80,149
Other comprehensive loss	—	—	—	—	—	(12,239)	—	(12,239)
Change in notes receivable from affiliates	—	—	—	—	(64,840)	—	—	(64,840)
Preferred dividends and accretion	15,867	—	(15,867)	—	—	—	—	(15,867)
Capital contribution:								
NL Capital Corporation merger	—	—	291,910	—	(278,937)	—	—	12,973
Other	—	—	15,043	—	—	—	—	15,043
Balance at December 31, 2000	504,943	320	1,966,464	(1,884,071)	(343,777)	(166,605)	—	(427,669)
Net income	—	—	—	113,728	—	—	—	113,728
Other comprehensive loss, net of tax	—	—	—	—	—	(3,153)	(3,969)	(7,122)
Change in notes receivable from affiliates	—	—	—	—	(357,066)	—	—	(357,066)
Preferred dividends and accretion	112,466	—	(112,466)	—	—	—	—	(112,466)
Capital contribution	—	—	16,937	—	—	—	—	16,937
Common dividends declared	—	—	—	(3,807)	—	—	—	(3,807)
Balance at December 31, 2001	617,409	320	1,870,935	(1,774,150)	(700,843)	(169,758)	(3,969)	(777,465)
Net income	—	—	—	7,982	—	—	—	7,982
Other comprehensive loss, net of tax	—	—	—	—	—	(398)	—	(398)
Change in notes receivable from affiliates	—	—	—	—	26,120	—	—	26,120
Preferred dividends and accretion	73,442	—	(73,442)	—	—	—	—	(73,442)
Balance at March 31, 2002 (unaudited)	690,851	320	1,797,493	(1,766,168)	(674,723)	(170,156)	(3,969)	(817,203)
Net income	—	—	—	8,769	—	—	—	8,769
Other comprehensive loss, net of tax	—	—	—	—	—	4,376	—	4,376
Change in notes receivable from affiliates	—	—	—	—	181,801	—	—	181,801
Preferred dividends and accretion	1,310	—	(1,310)	—	—	—	—	(1,310)
Capital contribution	—	—	217,000	—	(217,000)	—	—	—
Balance at April 30, 2002 (unaudited)	$692,161	$320	$2,013,183	$(1,757,399)	$(709,922)	$(165,780)	$(3,969)	$(623,567)

See accompanying notes to consolidated financial statements.

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,			Three Months Ended March 31,		Four Months Ended April 30,	
	1999	2000	2001	2001	2002	2001	2002
				(Unaudited)		(Unaudited)	
Cash flows from operating activities:							
Net income	$ 41,905	$ 80,149	$113,728	$ 19,727	$ 7,982	$ 28,429	$ 16,751
Depreciation, depletion and amortization	28,377	24,108	24,119	6,131	6,313	8,118	8,424
Noncash currency transaction (gain) loss	36,881	15,591	9,355	9,151	2,288	5,474	(2,614)
Noncash interest income from affiliates	—	(23,069)	(25,044)	(6,721)	(8,895)	(8,985)	(11,872)
Noncash interest expense to affiliates	—	—	—	—	4,107	—	5,521
Noncash interest expense	2,168	—	—	—	—	—	—
Deferred income taxes	(42,088)	5,226	(6,565)	1,708	1,087	2,073	1,282
Minority interest	48	47	16	5	10	10	14
Net loss from disposition of property and equipment	225	1,404	548	182	47	185	184
Pension, net	(2,602)	(3,162)	(2,342)	(947)	(293)	(1,239)	(454)
Insurance recoveries, net	—	—	(17,468)	—	—	61	—
	64,914	100,294	96,347	29,236	12,646	34,126	17,236
Change in assets and liabilities:							
Accounts and notes receivable	(19,619)	(7,312)	(1,797)	(18,855)	(2,048)	(17,854)	(7,284)
Inventories	20,523	(7,859)	(7,617)	3,465	12,594	12,144	20,036
Prepaid expenses	(16)	(293)	128	(602)	(660)	(1,912)	(1,261)
Accounts payable and accrued liabilities	6,840	1,885	4,088	(2,014)	(5,147)	(3,333)	(9,030)
Income taxes	4,960	6,069	386	4,152	(538)	3,442	(1,424)
Accounts with affiliates	143	8,046	(13,332)	(10,140)	(921)	(25,143)	(15,738)
Other noncurrent assets	1,082	(464)	(1,885)	73	1,467	79	1,900
Other noncurrent liabilities	(1,225)	(2,595)	(932)	277	5	207	16
Net cash provided by operating activities	77,602	97,771	75,386	5,592	17,398	1,756	4,451
Cash flows from investing activities:							
Capital expenditures	(29,205)	(26,663)	(48,417)	(4,855)	(4,782)	(7,690)	(6,497)
Property damaged by fire:							
Insurance proceeds	—	—	23,361	—	—	—	—
Other, net	—	—	(3,205)	—	—	—	—
Proceeds from disposition of property and equipment	2,330	110	364	19	27	21	36
Other, net	—	(33)	—	—	—	—	—
Net cash used by investing activities	(26,875)	(26,586)	(27,897)	(4,836)	(4,755)	(7,669)	(6,461)

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)
(In thousands)

	Years Ended December 31,			Three Months Ended March 31,		Four Months Ended April 30,	
	1999	2000	2001	2001	2002	2001	2002
				(Unaudited)		(Unaudited)	
Cash flows from financing activities:							
Indebtedness:							
Borrowings	$ 82,038	$ 44,923	$ 1,437	$ —	$ —	$ 1,437	$ —
Principal payments	(155,787)	(29,162)	(22,428)	(177)	(263)	(269)	(347)
Loans from affiliates:							
Loans	52,000	—	—	—	—	—	—
Repayments	—	(93,000)	—	—	(25,000)	—	(25,000)
Capital contribution	—	—	3,815	—	—	—	—
Dividends paid	(30)	—	—	—	—	—	—
Other capital transactions with affiliates, net	11,567	(18,831)	(35,631)	—	25,000	—	25,000
Distributions to minority interest	(6)	(6)	(5)	—	—	—	—
Net cash provided (used) by financing activities	(10,218)	(96,076)	(52,812)	(177)	(263)	1,168	(347)
Cash and cash equivalents:							
Net change during the year from:							
Operating, investing and financing activities	40,509	(24,891)	(5,323)	579	12,380	(4,745)	(2,357)
Currency translation	(2,988)	(1,159)	(1,065)	(1,729)	(263)	(1,155)	480
Balance at beginning of period	25,260	62,781	36,731	36,731	30,343	36,731	30,343
Balance at end of period	$ 62,781	$ 36,731	$ 30,343	$ 35,581	$ 42,460	$ 30,831	$ 28,466
Supplemental disclosures:							
Cash paid for:							
Interest	$ 35,606	$ 32,290	$ 38,607	$ 1,263	$ 1,975	$ 12,773	$ 11,955
Income taxes	12,491	25,544	20,690	3,692	1,853	5,560	4,447

See accompanying notes to consolidated financial statements.

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Organization and Basis of Presentation:

Kronos International, Inc. (''KII'') is incorporated in the state of Delaware, U.S.A., with its seat of management in Leverkusen, Germany. KII is a wholly owned subsidiary of Kronos, Inc. (''Kronos''), a wholly owned subsidiary of NL Industries, Inc. (''NL''). NL conducts its titanium dioxide pigments (''TiO_2'') operations through Kronos. At April 30, 2002 and March 31, 2002, Valhi, Inc. (''Valhi'') and Tremont Corporation (''Tremont''), each affiliates of Contran Corporation (''Contran''), held approximately 62% and 21%, respectively, of NL's outstanding common stock. Valhi and Tremont held approximately 61% and 21%, respectively, of NL's outstanding common stock at December 31, 2001. At April 30, 2002, March 31, 2002 and December 31, 2001, Contran and its subsidiaries held approximately 94% of Valhi's outstanding common stock, and a company 80%-owned by Valhi and 20%-owned by NL held approximately 80% of Tremont'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, the Chairman of the Board of NL and the Chairman of the Board and Chief Executive Officer of Contran and Valhi and a director of Tremont, may be deemed to control each of such companies and KII.

KII's current operations are conducted primarily through its German, Belgian and Norwegian subsidiaries with three TiO_2 plants in Germany, one TiO_2 plant in Belgium and one TiO_2 plant and an ilmenite ore mining operation in Norway. KII also operates TiO_2 sales and distribution facilities in England, France, Denmark and the Netherlands. Prior to April 30, 2002, KII also conducted operations in Canada through Kronos Canada, Inc. (''KC''), its wholly owned subsidiary. Effective April 30, 2002, in anticipation of a proposed debt securities offering, KII sold 100% of KC's capital stock to Kronos in exchange for a promissory note receivable in the amount of $217 million bearing interest of 7.87% per annum with a maturity date of April 30, 2012. KII has accounted for the disposition of KC as a change in accounting entity. Accordingly, KII's consolidated financial statements have been retroactively restated to exclude the assets, liabilities, results of operations and cash flows of KC for all periods presented. KII's cash dividends received from KC and cash capital contributions to KC prior to April 30, 2002 are reflected as part of ''other capital transactions with affiliates, net'' in the accompanying consolidated statement of cash flows. The effect of the change in accounting entity as a result of the sale of KC to Kronos was to reduce KII's net income by the following amounts:

	Years Ended December 31,		
	1999	2000	2001
		(In thousands)	
Net income	$11,365	$14,155	$10,133

Information included in the consolidated financial statements and related notes to the consolidated financial statements as of April 30, 2002 and March 31, 2002 and for the four months ended April 30, 2002 and 2001, and the three months ended March 31, 2002 and 2001 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 generally accepted accounting principles in the U.S. (''GAAP'') have been condensed or omitted for the interim periods.

Note 2 — Summary of Significant Accounting Policies:

Principles of Consolidation and Management's Estimates

The accompanying consolidated financial statements include the accounts of KII 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, the 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.

Translation of Foreign Currencies

The functional currencies of the Company include the euro, the Norwegian kroner and the United Kingdom pound sterling. Assets and liabilities of the Company are translated to U.S. dollars 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 include amounts related to KII's U.S. dollar-denominated note payable to Kronos that has been remeasured into the non-U.S. dollar functional currency of KII. See Note 8.

Cash Equivalents

Cash equivalents include bank deposits with original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost (principally average cost) or market. Amounts are removed from inventories at average cost.

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.

Depreciation 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. Depletion of mining properties is computed by the unit-of-production and straight-line methods.

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 assesses the 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 ''Other'' below.

Long-Term Debt and Notes Payable to Affiliates

Where applicable, long-term debt and notes payable to affiliates are stated net of unamortized original issue discount (''OID''). OID is amortized over the period during which cash interest payments are not required and deferred financing costs are amortized over the term of the applicable issue, both by the interest method.

Employee Benefit Plans

Accounting and funding policies for retirement plans are described in Note 10.

The Company accounts for stock-based employee compensation 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. Compensation cost recognized by the Company in accordance with APBO No. 25 was nil in each of 1999, 2000 and 2001. The Company is charged by NL for stock options exercised by employees of the Company and the amount of expense recognized by the Company was nil, $.2 million and nil in 1999, 2000 and 2001, respectively. See Note 17.

Environmental Remediation Costs

Environmental remediation costs are accrued when estimated future expenditures are probable and reasonably estimable. The estimated future expenditures generally are 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, 2000 and 2001, no receivables for recoveries have been recognized.

Net Sales

The Company adopted the Securities and Exchange Commission's (''SEC'') 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. Fees charged to customers for shipping and handling are included in net sales.

Repair and Maintenance Costs

The Company performs planned major maintenance activities throughout 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.

Shipping and Handling Costs

Shipping and handling costs are included in selling, general and administrative expense and were $37 million in 1999, $33 million in each of 2000 and 2001, $8.5 million and $8.4 million for the three months ended March 31, 2001 and 2002, and $11.2 million and $10.3 million for the four months ended April 30, 2001 and 2002, respectively.

Income Taxes

KII is a member of NL's consolidated U.S. federal income tax group (the ''NL Tax Group''). KII is a party to a U.S. federal income tax sharing agreement (the ''Kronos Tax Agreement''). Effective January 1, 2001, the NL Tax Group , including KII, are included in the consolidated U.S. federal income tax group 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 calculate its liability for U.S. income taxes on a separate-company basis using the tax elections made by Contran. During 2002 the Kronos Tax Agreement was amended (the ''Amended Kronos Tax Agreement''). The Amended Kronos Tax Agreement provides that Kronos calculate KII's liability for U.S. income taxes on a separate-company basis using tax elections consistent with Kronos' tax elections. Pursuant to the Amended Kronos Tax Agreement, KII is to make distributions to or receive contributions from Kronos in the 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 rather a separate taxpayer. Contributions under the Amended Kronos Tax Agreement are limited to amounts previously distributed under the agreement. No distributions have yet been made or received under the Amended Kronos Tax Agreement. KII would not have reported a different provision for income taxes in 1999, 2000 and 2001 if the provision for income taxes in such periods had been computed in accordance with the tax allocation policy contained in the Amended Kronos 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 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. The Company is not a party to any significant derivative or hedging instrument covered by SFAS No. 133 at December 31, 2001, and 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 1999, 2000 and 2001.

Other

Effective July 1, 2001, the Company adopted SFAS No. 141, ''Business Combinations,'' for all business combinations initiated on or after July 1, 2001, and all purchase business combinations (including step acquisitions). Under SFAS No. 141, all business combinations will be accounted for by the purchase method, and the pooling-of-interests method will be prohibited.

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.

New Accounting Principles Not Yet Adopted

The Company will adopt SFAS No. 143, ''Accounting for Asset Retirement Obligations,'' no later than 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 would be recognized in the period in which the liability is incurred, with an offsetting increase in the carrying amount of the related long-lived asset. Over time, the liability would be accreted to its present value, and the capitalized cost would be depreciated over the useful life of the related asset. Upon settlement of the liability, an entity would either settle the obligation for its recorded amount or incur a gain or loss upon settlement. The Company is still studying this standard to determine, among other things, whether it has any asset retirement obligations which are covered under the scope of SFAS No. 143, and the effect, if any, to the Company of adopting SFAS No. 143 has not yet been determined.

Note 3 — Business and Geographic Segments:

The Company's operations are conducted in one operating business segment — the production and sale of TiO_2. Titanium dioxide pigments are 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. All of the Company's net assets are located in Europe and are attributable to the TiO_2 reportable operating segment.

The Company evaluates its TiO_2 segment performance based on operating income. Operating income is defined as income before income taxes, minority interest, interest expense, interest expense to affiliates, certain nonrecurring items and certain general corporate items. Corporate items excluded from operating income include corporate expense, interest income from affiliates, gains and losses from the disposal of long-lived assets outside the ordinary course of business, and currency transaction gains and losses related to KII's U.S. dollar-denominated note payable to Kronos discussed in Note 8. The accounting policies of the TiO_2 segment are the same as those described in Note 2. Interest income included in the calculation of TiO_2 operating income is disclosed in Note 11 as ''Trade interest income.''

	Years Ended December 31,			Three Months Ended March 31,		Four Months Ended April 30,	
	1999	2000	2001	2001	2002	2001	2002
				(Unaudited)		(Unaudited)	
			(In thousands)				
Business segment — TiO_2							
Net sales	$ 620,324	$ 620,525	$ 554,637	$159,030	$139,569	$203,046	$184,489
Other income, excluding corporate	19,255	11,756	15,556	2,106	2,083	2,688	1,554
	639,579	632,281	570,193	161,136	141,652	205,734	186,043
Cost of sales	469,224	413,475	379,558	105,283	110,723	137,735	144,311
Selling, general and administrative, excluding corporate	79,923	72,534	66,789	17,452	16,668	22,938	21,387
Operating income	90,432	146,272	123,846	38,401	14,261	45,061	20,345
Insurance recoveries, net	—	—	17,468	—	—	(61)	—
Income before corporate items, income taxes and minority interest	90,432	146,272	141,314	38,401	14,261	45,000	20,345
General corporate income (expense):							
Currency transaction gain (loss), net	(36,881)	(15,591)	(9,355)	(9,151)	(2,288)	(5,474)	2,614
Income (expense), net	—	—	(1,488)	—	—	—	—
Interest expense	(7,562)	(1,942)	(4,305)	(1,161)	(700)	(1,558)	(950)
Interest expense to affiliates	(29,876)	(28,724)	(34,145)	(5,850)	(9,774)	(7,764)	(12,813)
Interest income from affiliates	1,585	23,069	36,220	6,721	8,895	8,985	11,872
Income before income taxes and minority interest	$ 17,698	$ 123,084	$ 128,241	$ 28,960	$ 10,394	$ 39,189	$ 21,068
Geographic areas							
Net sales — point of origin:							
Germany	$ 459,467	$ 444,050	$ 398,470	$112,289	$101,760	$144,447	$132,379
Belgium	138,671	137,829	126,782	36,393	31,523	46,765	41,706
Norway	88,277	98,300	102,843	28,517	23,342	37,292	33,286
Other	90,442	92,691	82,320	23,590	20,867	31,106	27,563
Eliminations	(156,533)	(152,345)	(155,778)	(41,759)	(37,923)	(56,564)	(50,445)
	$ 620,324	$ 620,525	$ 554,637	$159,030	$139,569	$203,046	$184,489

	Years Ended December 31,			Three Months Ended March 31,		Four Months Ended April 30,	
	1999	2000	2001	2001	2002	2001	2002
				(Unaudited)		(Unaudited)	
	(In thousands)						
Net sales — point of destination:							
Europe	$ 478,320	$ 479,637	$ 424,888	$120,990	$103,709	$158,128	$137,843
United States	46,379	41,375	32,052	9,999	14,762	12,081	17,461
Latin America	20,539	14,064	16,039	3,794	3,128	5,120	4,152
Asia	40,995	41,470	42,686	12,817	10,016	14,185	14,435
Other	34,091	43,979	38,972	11,430	7,954	13,532	10,598
	$ 620,324	$ 620,525	$ 554,637	$159,030	$139,569	$203,046	$184,489

Note 4 — Accounts and Notes Receivable:

	December 31, 2000	December 31, 2001	March 31, 2002	April 30, 2002
			(Unaudited)	
	(In thousands)			
Trade receivables	$75,899	$65,417	$81,321	$88,749
Insurance claims receivable	2,236	11,505	596	408
Recoverable VAT and other receivables	13,645	12,126	8,317	9,034
Allowance for doubtful accounts	(1,662)	(1,626)	(1,641)	(1,697)
	$90,118	$87,422	$88,593	$96,494

Note 5 — Inventories:

	December 31, 2000	December 31, 2001	March 31, 2002	April 30, 2002
			(Unaudited)	
	(In thousands)			
Raw materials	$ 38,014	$ 33,911	$ 30,120	$ 21,433
Work in process	5,261	6,421	6,668	6,367
Finished products	55,368	61,191	50,789	54,707
Supplies	20,014	19,793	20,321	20,976
	$118,657	$121,316	$107,898	$103,483

Note 6 — Accounts Payable and Accrued Liabilities:

	December 31, 2000	December 31, 2001	March 31, 2002	April 30, 2002
			(Unaudited)	
	(In thousands)			
Accounts payable	$34,505	$36,974	$31,307	$35,803
Accrued liabilities:				
Employee benefits	17,664	16,227	17,231	16,201
Other	24,821	25,645	24,672	25,619
	42,485	41,872	41,903	41,820
	$76,990	$78,846	$73,210	$77,623

Note 7 — Notes Payable and Long-Term Debt:

	December 31, 2000	December 31, 2001	March 31, 2002	April 30, 2002
			(Unaudited)	
		(In thousands)		
Notes payable	$69,970	$46,201	$46,382	$47,978
Long-term debt	$ 2,093	$ 2,498	$ 2,284	$ 2,293
Less current maturities	730	1,033	1,038	1,082
	$ 1,363	$ 1,465	$ 1,246	$ 1,211

Notes payable consist of short-term borrowings denominated in non-U.S. currencies due within one year from non-U.S. banks. Borrowings total $70 million (€51 million and NOK 200 million) at December 31, 2000, $46 million (€27 million and NOK 200 million) at December 31, 2001 and March 31, 2002, and $48.0 million (€27 million and NOK 200 million) at April 30, 2002, respectively. Weighted average interest rates on the euro-denominated note payable and the Norwegian kroner-denominated note payable were 5.33% and 7.92% at December 31, 2000, 3.84% and 7.27% at December 31, 2001, 3.84% and 7.17% at March 31, 2002, and 4.00% and 7.29% at April 30, 2002, respectively.

Unused lines of credit available for borrowing under the Company's non-U.S. credit facilities approximated $8 million at December 31, 2001, March 31, 2002 and April 30, 2002.

The aggregate maturities of long-term debt are shown in the table below.

Years Ending December 31,	December 31, 2001
	(In thousands)
2002	$1,033
2003	1,008
2004	216
2005	115
2006	112
2007	14
	$2,498

Note 8 — Notes Payable to Kronos, Inc.:

	December 31, 2000	December 31, 2001	March 31, 2002	April 30, 2002
			(Unaudited)	
		(In thousands)		
11.75% Second Tier Senior Mirror Note	$194,000	$194,000	$169,000	$169,000
Euro-denominated note	—	286,363	282,800	101,000
	$194,000	$480,363	$451,800	$270,000

NL had $194 million of 11.75% Senior Secured Notes due 2003 (the ''Notes'') at December 31, 2000 and 2001 ($169 million at March 31, 2002 and April 30, 2002). KII has a Second-Tier Senior Mirror Note (the ''KII Mirror Note'') payable to Kronos, which has a First-Tier Senior Mirror Note (the ''Kronos Mirror Note'') payable to NL. The terms of the KII Mirror Note and the Kronos Mirror Note are identical to the terms of the Notes with respect to the maturity dates and interest rates with interest paid semi-annually. The Notes are collateralized by a first priority lien on the common stock, and redeemable preferred stock and profit participation certificates of KII, the KII Mirror Note, the Kronos Mirror Note and other collateral pledged by NL and Kronos. An acceleration with respect to the principal amount of the Notes will result in an automatic acceleration of the KII Mirror Note and the Kronos Mirror Note. In 2000 NL redeemed

$50 million (par value) of the Notes using cash provided by KII, prepaying $50 million (par value) of the KII Mirror Note. On March 22, 2002, NL redeemed $25 million principal amount of the Notes at the current call price of 100%, and as a result $25 million principal amount of the KII Mirror Note was repaid.

The indenture pursuant to which NL issued the Notes contains a number of covenants and restrictions which, among other things, restricts the ability of the Company to incur debt, incur liens, merge or consolidate with, or sell or transfer all or substantially all of its assets to another entity.

The quoted market price of the Notes per $100 principal amount was $101, $101.73 and $100.58 December 31, 2000, March 31, 2001 and April 30, 2001, respectively. At December 31, 2001, March 31, 2002 and April 30, 2002 the quoted market price of the Notes per $100 principal amount was $100.47, $100.35 and $100.34, respectively, which the Company believes is a reasonable approximation of the fair value of the KII Mirror Note for the periods presented.

The euro-denominated note payable to Kronos (€323.9 million, €328.6 million and €112.7 million at December 31, 2001, March 31, 2002 and April 30, 2002, respectively) is due in 2010 and bears interest at 6% payable monthly. The euro note payable to Kronos was established in 2001 as a result of a series of noncash transactions between KII, NL and Kronos. A portion of the note payable (€217.6 million, including interest of €6.3 million) was prepaid in April 2002, using as consideration an equivalent amount of KII's euro-denominated note receivable from NL. See Note 17.

Note 9 — Other Noncurrent Liabilities:

	December 31, 2000	December 31, 2001	March 31, 2002	April 30, 2002
			(Unaudited)	
	(In thousands)			
Environmental costs	$ 7,630	$ 5,662	$ 5,496	$ 5,584
Employee benefits	3,841	3,476	3,397	3,485
Insurance claims expense	1,002	821	995	1,085
Other	902	1,887	1,855	1,897
	$13,375	$11,846	$11,743	$12,051

Note 10 — Employee Benefit Plans:

Company-Sponsored Pension Plans

The Company maintains various defined benefit pension plans covering substantially all employees. Personnel are covered by plans in their respective countries.

Certain actuarial assumptions used in measuring the defined benefit pension assets, liabilities and expenses are presented below.

	Years Ended December 31, 1999	2000	2001
		(Percentages)	
Discount rate	5.8 to 6.3	6.0 to 6.5	5.8 to 7.3
Rate of increase in future compensation levels	3.0 to 3.3	3.0 to 4.0	2.8 to 3.0
Long-term rate of return on plan assets	6.0 to 9.0	7.0 to 8.0	6.8 to 7.8

Plan assets are comprised primarily of investments in 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,		
	1999	2000	2001
	(In thousands)		
Net periodic pension cost:			
Service cost benefits	$ 3,118	$ 3,114	$ 3,087
Interest cost on projected benefit obligation (''PBO'')	11,051	9,793	10,268
Expected return on plan assets	(10,056)	(9,746)	(9,676)
Amortization of prior service cost	267	238	201
Amortization of net transition obligation	385	331	320
Recognized actuarial losses	1,068	196	415
	$ 5,833	$ 3,926	$ 4,615

The funded status of the Company's defined benefit pension plans is set forth below.

	December 31,	
	2000	2001
	(In thousands)	
Change in PBO:		
Beginning of year	$183,509	$172,762
Service cost	3,114	3,087
Interest	9,793	10,268
Participant contributions	977	958
Amendments	—	106
Actuarial loss (gain)	(112)	6,241
Benefits paid	(9,668)	(11,274)
Change in currency exchange rates	(14,851)	(1,562)
End of year	172,762	180,586
Change in fair value of plan assets:		
Beginning of year	150,745	138,564
Actual return on plan assets	2,423	6,603
Employer contributions	7,088	6,957
Participant contributions	977	958
Benefits paid	(9,668)	(11,274)
Change in currency exchange rates	(13,001)	(4,650)
End of year	138,564	137,158
Funded status at year end:		
Plan assets less than PBO	(34,198)	(43,428)
Unrecognized actuarial loss	23,140	35,882
Unrecognized prior service cost	1,693	2,713
Unrecognized net transition obligation	1,115	739
	$ (8,250)	$ (4,094)

	December 31, 2000	December 31, 2001
	(In thousands)	
Amounts recognized in the balance sheet:		
Prepaid pension cost	$ 16,509	$ 14,696
Accrued pension cost:		
Current	(5,855)	(5,573)
Noncurrent	(18,904)	(18,696)
Unrecognized net pension obligations	—	446
Accumulated other comprehensive loss	—	5,033
	$ (8,250)	$ (4,094)

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, 2000 and 2001, 100% of the projected benefit obligations of such plans related to non-U.S. plans.

	December 31, 2000	December 31, 2001
	(In thousands)	
Projected benefit obligation	$137,684	$141,269
Accumulated benefit obligation	121,311	129,884
Fair value of plan assets	99,114	99,339

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 certain employees, individual performance.

Note 11 — Other Income (Expense), Net:

	Years Ended December 31,			Three Months Ended March 31,		Four Months Ended April 30,	
	1999	2000	2001	2001	2002	2001	2002
				(Unaudited)		(Unaudited)	
	(In thousands)						
Currency transaction losses, net	$(25,618)	$(10,598)	$(9,098)	$(8,741)	$(1,668)	$(5,176)	$2,291
Royalty income	5,922	5,801	5,421	1,425	1,287	1,971	1,761
Trade interest income	2,077	1,544	2,148	524	213	666	317
Disposition of property and equipment	(225)	(1,404)	(548)	(182)	(47)	(185)	(184)
Insurance recoveries, net (see Note 14)	—	—	7,222	—	—	—	—
Other, net	218	822	1,056	(71)	10	(62)	(17)
	$(17,626)	$ (3,835)	$ 6,201	$(7,045)	$ (205)	$(2,786)	$4,168

Included in currency transaction losses, net are noncash losses associated with the Company's notes payable to affiliates. See Note 8. Noncash currency transaction losses totaled $36.9 million, $15.6 million and $9.4 million in 1999, 2000 and 2001.

Note 12 — Other Items:

Advertising costs are expensed as incurred and were $1 million in each of 1999, 2000 and 2001, $.1 million for each of the three months ended March 31, 2001 and 2002, and $.2 million and $.1 million for the four months ended April 30, 2001 and 2002, respectively.

Research, development and certain sales technical support costs are expensed as incurred and approximated $6 million in each of 1999 and 2000, $5 million in 2001, $1.4 million for each of the three months ended March 31, 2001 and 2002, and $1.8 million for each of the four months ended April 30, 2001 and 2002, respectively.

Interest capitalized in connection with long-term capital projects was nil in 1999, 2000, 2001, and each of the three and four months ended March 31, 2001 and 2002, and April 30, 2001 and 2002, respectively.

Note 13 — 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,			Three Months Ended March 31,		Four Months Ended April 30,	
	1999	2000	2001	2001	2002	2001	2002
				(Unaudited)		(Unaudited)	
	(In thousands)						
Pretax income:							
Germany	$(26,656)	$ 63,051	$ 88,359	$13,977	$ 7,079	$20,385	$13,427
Other non-U.S.	44,354	60,033	39,882	14,983	3,315	18,804	7,641
	$ 17,698	$123,084	$128,241	$28,960	$10,394	$39,189	$21,068
Expected tax expense	$ 6,194	$ 43,079	$ 44,884	$10,136	$ 3,638	$13,716	$ 7,374
Non-U.S. tax rates	7,550	(6,253)	(8,365)	(1,305)	(323)	(1,825)	(330)
Resolution of German income tax audits	(13,844)	(5,500)	—	—	—	—	—
Change in valuation allowance:							
Corporate restructuring in Germany and other	(49,841)	—	(23,247)	—	—	—	—
Change in German income tax law	24,070	—	—	—	—	—	—
Increase (decrease) in certain deductible temporary differences that the Company believes do not meet the ''more-likely-than-not'' recognition criteria	(12,223)	(375)	—	(653)	(125)	(904)	(237)
Currency transaction gains and losses for which no income taxes are provided	12,908	5,457	3,274	3,203	801	1,916	(915)
Incremental tax on income of companies not included in the NL Tax Group	791	—	—	—	—	—	—
German rate change adjustment of deferred taxes	—	5,695	—	—	—	—	—
Other, net	140	785	(2,049)	(2,153)	(1,589)	(2,153)	(1,589)
Income tax expense (benefit)	$(24,255)	$ 42,888	$ 14,497	$ 9,228	$ 2,402	$10,750	$ 4,303

	Years Ended December 31,			Three Months Ended March 31,		Four Months Ended April 30,	
	1999	2000	2001	2001	2002	2001	2002
				(Unaudited)		(Unaudited)	
	(In thousands)						
Provision for income taxes:							
Current income tax expense:							
Germany	$ 6,900	$ 20,814	$ 10,245	$ 4,285	$ —	$ 4,553	$ —
Other non-U.S.	10,933	16,848	10,817	3,235	1,315	4,124	3,021
	17,833	37,662	21,062	7,520	1,315	8,677	3,021
Deferred income tax expense (benefit):							
Germany	$(40,398)	$ 6,099	$ (6,183)	$ 1,669	$ 1,332	$ 2,134	$ 1,891
Other non-U.S.	(1,690)	(873)	(382)	39	(245)	(61)	(609)
	(42,088)	5,226	(6,565)	1,708	1,087	2,073	1,282
	$(24,255)	$ 42,888	$ 14,497	$ 9,228	$ 2,402	$10,750	$ 4,303
Comprehensive provision (benefit) for income taxes allocable to:							
Pretax income	$(24,255)	$ 42,888	$ 14,497	$ 9,228	$ 2,402	$10,750	$ 4,303
Other comprehensive loss — pension liabilities	—	—	(1,064)	—	—	—	—
	$(24,255)	$ 42,888	$ 13,433	$ 9,228	$ 2,402	$10,750	$ 4,303

The components of the net deferred tax liability are summarized below.

	December 31,			
	2000		2001	
	Deferred Tax		Deferred Tax	
	Assets	Liabilities	Assets	Liabilities
	(In thousands)			
Tax effect of temporary differences relating to:				
Inventories	$ 838	$ (2,966)	$ 477	$ (2,849)
Property and equipment	61,738	(16,721)	42,721	(15,980)
Accrued (prepaid) pension cost	—	(21,838)	258	(21,665)
Accrued liabilities and other deductible differences	2,971	—	3,553	—
Other taxable differences	—	(31,436)	—	(23,673)
Tax loss and tax credit carryforwards	115,612	—	100,709	—
Valuation allowance	(155,572)	—	(121,681)	—
Gross deferred tax assets (liabilities)	25,587	(72,961)	26,037	(64,167)
Reclassification, principally netting by tax jurisdiction	(24,496)	24,496	(24,854)	24,854
Net total deferred tax assets (liabilities)	1,091	(48,465)	1,183	(39,313)
Net current deferred tax assets (liabilities)	858	(1,822)	497	(1,530)
Net noncurrent deferred tax assets (liabilities)	$ 233	$(46,643)	$ 686	$(37,783)

	March 31, 2002		April 30, 2002	
	Deferred Tax		Deferred Tax	
	Assets	Liabilities	Assets	Liabilities
	(Unaudited)		(Unaudited)	
	(In thousands)			
Tax effect of temporary differences relating to:				
Inventories	$ 659	$ (1,582)	$ 659	$ (1,639)
Property and equipment	40,375	(16,051)	40,952	(16,477)
Accrued (prepaid) pension cost	262	(21,462)	274	(22,110)
Accrued liabilities and other deductible differences	2,683	—	2,710	—
Other taxable differences	—	(23,278)	—	(25,104)
Tax loss and tax credit carryforwards	96,955	—	99,537	—
Valuation allowance	(117,568)	—	(119,362)	—
Gross deferred tax assets (liabilities)	23,366	(62,373)	24,770	(65,330)
Reclassification, principally netting by tax jurisdiction	(21,950)	21,950	(23,354)	23,354
Net total deferred tax assets (liabilities)	1,416	(40,423)	1,416	(41,976)
Net current deferred tax assets (liabilities)	679	(1,501)	660	(1,556)
Net noncurrent deferred tax assets (liabilities)	$ 737	$(38,922)	$ 756	$(40,420)

Changes in the Company's deferred income tax valuation allowance during the past three years and the three and four months ended March 31, 2001 and 2002, and April 30, 2001 and 2002, respectively, are summarized below.

	Years Ended December 31,			Three Months Ended March 31,		Four Months Ended April 30,	
	1999	2000	2001	2001	2002	2001	2002
				(Unaudited)		(Unaudited)	
	(In thousands)						
Balance at beginning of year	$ 71,280	$196,627	$155,572	$155,572	$121,681	$155,572	$121,681
Recognition of certain deductible tax attributes which previously did not meet the ''more-likely-than-not'' recognition criteria	(37,994)	(375)	(23,247)	(653)	(125)	(904)	(237)
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	178,056	(24,955)	(3,157)	(4,375)	(2,473)	(3,535)	(2,487)
Foreign currency translation	(14,715)	(15,725)	(7,487)	(6,977)	(1,515)	(4,331)	405
Balance at end of year	$196,627	$155,572	$121,681	$143,567	$117,568	$146,802	$119,362

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.

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. The Company does not expect its future current income tax expense to be affected by the rate change in Germany.

The Company received tax assessments from the Norwegian tax authorities proposing tax deficiencies, including related interest, of NOK 39.3 million pertaining to 1994 and 1996. The Company was unsuccessful in appealing the tax assessments and in June 2001 paid NOK 39.3 million ($4.3 million when paid) to the Norwegian tax authorities. The Company was adequately reserved for this contingency. The lien on the Company's Fredrikstad, Norway TiO_2 plant in favor of the Norwegian tax authorities has been released.

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 €10.4 million ($9.2 million at December 31, 2001, and $9.1 million at both March 31, 2002 and April 30, 2002). 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.

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 recognized a $23.2 million 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.

The Company recognized a $40 million noncash income tax benefit in 1999 comprised of a favorable resolution of the Company's tax contingency in Germany ($14 million) and a net reduction in the Company's deferred income tax valuation allowance due to a change in estimate of the Company's ability to utilize certain income tax attributes under the ''more-likely-than-not'' recognition criteria ($26 million).

The $26 million net reduction in the Company's deferred income tax valuation allowance in 1999 is comprised of (i) a $50 million decrease in the valuation allowance to recognize the benefit of certain deductible income tax attributes which the Company now believes meet the recognition criteria as a result of, among other things, a corporate restructuring of the Company's German subsidiaries offset by (ii) a $24 million increase in the valuation allowance to reduce the previously recognized benefit of certain other deductible income tax attributes which the Company now believes do not meet the recognition criteria due to a change in German tax law.

At December 31, 2001, March 31, 2002 and April 30, 2002 the Company had approximately $317 million, $312 million and $324 million, respectively, of income tax loss carryforwards in Germany with no expiration date.

Note 14 — 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 TiO_2 plant (''Sulfate Plant'') and, as a result, production of TiO_2 at the Leverkusen facility was halted. The fire did not enter the Company's adjacent 125,000 metric ton chloride-process TiO_2 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 settled its insurance claim involving the Leverkusen fire for approximately $56 million during the fourth quarter of 2001 ($46 million received as of December 31, 2001, with the remaining $9.5 million received in January 2002), of which approximately $27 million related to business interruption and approximately $29 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 million of business interruption proceeds recognized in 2001 were allocated between other income, excluding corporate, which reflects recovery of lost margin ($7 million) and as a reduction of cost of sales to offset unallocated period costs ($20 million). No additional insurance recoveries related to the Leverkusen fire are expected to be received and there was no impact on the results of operations of the Company during the first four months of 2002.

Note 15 — 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 from time to time considers, reviews and evaluates such transactions and understands that Contran, Valhi, NL, Kronos and related entities consider, review and evaluate, such transactions. Depending upon the business, tax and other objectives then relevant, and restrictions under the NL indenture and other agreements, it is possible that the Company might be a party to one or more such transactions in the future.

It is the policy of the Company to engage in transactions with related parties on terms, in the opinion of the Company, no less favorable to the Company than could be obtained from unrelated parties.

The Company is a party to a cost sharing agreement with Kronos whereby Kronos provides certain management, financial, insurance and administrative services to the Company on a fee basis. The Company's expense was $.7 million in 1999, $.2 million in 2000 and 2001, $.1 million and $.3 million for the three months ended March 31, 2001 and 2002, and $.1 million and $.4 million for the four months ended April 30, 2001 and 2002, respectively.

Sales of TiO_2 to Kronos (US), Inc. (''KUS''), an affiliate, were $46.3 million in 1999, $41.1 million in 2000, $32.0 million in 2001, $10.1 million and $14.6 million for the three months ended March 31, 2001 and 2002, and $12.1 million and $17.4 million for the four months ended April 30, 2001 and 2002, respectively. Sales of TiO_2 to KC were $10.4 million in 1999, $12.4 million in 2000, $7.2 million in 2001, $3.1 million and $3.3 million for the three months ended March 31, 2001 and 2002, and $3.4 million for each of the four months ended April 30, 2001 and 2002, respectively.

KUS purchases the rutile and slag feedstock used as a raw material in all of the Company's chloride process TiO_2 facilities. The Company purchases such feedstock from KUS for use in its facilities for an amount equal to the amount paid by KUS to the third-party supplier plus a 2.5% administrative fee. Such feedstock purchases were $88.2 million in 1999, $89.4 million in 2000, $91.5 million in 2001, $18.1 million and $23.0 million for the three months ended March 31, 2001 and 2002, and $18.1 million and $23.1 million in the four months ended April 30, 2001 and 2002, respectively.

Purchases of TiO_2 from KUS were $3.7 million in 1999, $3.9 million in 2000, $1.2 million in 2001, $1.1 million and nil for the three months ended March 31, 2001 and 2002, and $1.2 million and nil for the four months ended April 30, 2001 and 2002, respectively. Purchases of TiO_2 from KC were $1.1 million in 1999, $3.4 million in 2000, $.1 million in 2001, and nil for the three and four months ended March 31, 2001 and 2002, and April 30, 2001 and 2002, respectively.

Royalty income received from KC for use of certain of the Company's intellectual property was $5.9 million in 1999, $5.8 million in 2000, $5.4 million in 2001, $1.4 million and $1.3 million for the three months ended March 31, 2001 and 2002, and $2.0 million and $1.8 million for the four months ended April 30, 2001 and 2002, respectively.

Interest income from affiliates related to notes receivable from affiliates was $1.6 million in 1999, $23.1 million in 2000, $36.2 million in 2001, $6.7 million and $8.9 million for the three months ended March 31, 2001 and 2002, and $9.0 million and $11.9 million for the four months ended April 30, 2001 and 2002, respectively.

The Company is party to master global NL insurance coverage policies with regard to property, business interruption, excess liability, and other coverages. The costs associated with these policies aggregated $2.9 million, $3.1 million and $7.1 million in 1999, 2000 and 2001.

Net amounts currently receivable from (payable to) affiliates are summarized in the following table.

	December 31,		March 31,	April 30,
	2000	2001	2002	2002
			(Unaudited)	
	(In thousands)			
Receivable from:				
NL	$ 221	$ —	$ 8,606	$16,247
KC	1,612	1,084	3,716	1,830
KUS	—	—	—	2,151
Other affiliates	—	50	46	51
	$ 1,833	$ 1,134	$ 12,368	$20,279
Payable to:				
Kronos	$ (4,818)	$(6,487)	$(12,877)	$ (381)
KUS	(17,784)	(1,400)	(2,734)	—
NL	—	(42)	—	—
	$(22,602)	$(7,929)	$(15,611)	$ (381)

Net amounts between the Company, KUS and KC were generally related to product purchases and sales, whereas affiliate balances with NL and Kronos were related primarily to accrued interest on affiliate loans. See Note 17 for discussion of notes receivable from affiliates.

Note 16 — Redeemable Preferred Stock and Profit Participation Certificates:

The Company's redeemable preferred stock and profit participation certificates structure at December 31, 2001 and 2000, March 31, 2002, and April 30, 2002, respectively, is summarized below:

Preferred Stock — $100 par value; 2,000 Shares Authorized:

Series A (February 1999) — 1,000 shares authorized, 738 shares issued and outstanding, designated nonvoting cumulative preferred stock, Series A, with an annual dividend rate of $11,354 per share (cumulative and unpaid dividends of $15.9 million, $24.3 million, $26.4 million and $27.1 million at December 31, 2000 and 2001, March 31, 2002, and April 30, 2002, respectively), and with liquidation and redemption preferences of $257,361 per share plus accrued and unpaid dividends. The Series A shares ($189.9 million) were issued to Kronos in February 1999 as a result of a capital contribution to the Company via the reduction of affiliate notes payable to NL and Kronos. The Series A shares may be redeemed by the Company or Kronos on or after February 1, 2002.

Series B (February 1999) — 1,000 shares authorized, 647 shares issued and outstanding, designated nonvoting cumulative preferred stock, Series B, with an annual dividend rate of $11,347 per share (cumulative and unpaid dividends of $14.7 million, $22.0 million, $23.9 million and $24.5 million at December 31, 2000 and 2001, March 31, 2002, and April 30, 2002, respectively) and with liquidation and redemption preferences of $257,193 per share plus accrued and unpaid dividends. The Series B shares were issued to Kronos in February 1999 in exchange for Kronos' contribution to the Company of its intellectual property and the shares were recorded at carryover basis in accordance with GAAP due to the common control of the Company and Kronos. The intellectual property was transferred to the

Company and recorded at Kronos' carryover basis of zero. Thus, the original basis of the Series B shares was zero and the shares have been accreted to the redemption value of $166.4 million at March 31, 2002 and April 30, 2002 using the interest method. The Series B shares may be redeemed by the Company or Kronos on or after February 1, 2002.

Kronos waived its right to redeem the Series A and Series B redeemable preferred stock prior to November 1, 2003.

Profit Participation Certificates (''PPCs'') (December 1999) — DM100 par value: 5,500,000 shares authorized, issued and outstanding, designated nonvoting cumulative preferred PPCs, with an annual dividend of 4% per share based on earnings of the Company and before any common stock dividends to Kronos. Kronos has waived its right to dividend distributions for all periods presented and through December 2002. The PPCs were issued to Kronos ($284.3 million) in December 1999 as part of a recapitalization of the Company. The PPC shares may be redeemed at the Company's or Kronos' option after due notice of one year is given at par value plus any accrued and unpaid dividends.

Note 17 — Capital Stock and Notes Receivable from Affiliates:

Common Stock

Common stock — $100 par value: (voting) — 100,000 shares authorized (3,196 shares issued and outstanding at April 30, 2002, March 31, 2002, and December 31, 2001 and 2000, respectively).

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, 2001, 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, 2001, 3,663,000 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 to purchase NL common stock granted to 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 Low	High	Amount payable upon exercise
	(In thousands, except per share amounts)			
Outstanding at December 31, 1998	31	$ 8.69	$17.97	$ 456
Granted	22	11.28	11.28	243
Outstanding at December 31, 1999	53	8.69	17.97	699
Granted	46	14.25	14.25	656
Exercised	(13)	8.69	17.97	(173)
Outstanding at December 31, 2000	86	11.28	17.97	1,182
Granted	60	20.11	20.11	1,207
Exercised	(4)	11.28	14.25	(49)
Outstanding at December 31, 2001	142	$11.28	$20.11	$2,340

At December 31, 1999, 2000 and 2001 options to purchase 12,600, 7,200 and 17,500 shares, respectively, were exercisable and options to purchase 26,400 shares become exercisable in 2002. Of the exercisable options, options to purchase 12,400 shares at December 31, 2001 had exercise prices less than NL's December 31, 2001 quoted market price of $15.27 per share. Outstanding options at December 31, 2001 expire at various dates through 2011, with a weighted-average remaining life of eight years.

The pro forma information required by SFAS No. 123, ''Accounting for Stock-Based Compensation,'' is based on an estimation of the fair value of options issued subsequent to January 1, 1995. The weighted-average fair values of options granted during 1999, 2000 and 2001 were $6.94, $4.83 and $7.52 per share, respectively. 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 1999, 2000 and 2001: stock price volatility of 50%, 48% and 46% in 1999, 2000 and 2001, respectively; risk-free rate of return of 6% in 1999 and 5% in 2000 and 2001; dividend yield of 1.2% in 1999, 4.9% in 2000 and 4.0% in 2001; and an expected term of 9 years in 1999, 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.

The Company's pro forma net income available to common stock was as follows.

	Years ended December 31, 1999	2000	2001
	(In thousands)		
Net income available to common stock — as reported	$23,302	$64,282	$1,262
Net income available to common stock — pro forma	$23,150	$64,026	$ 959

Notes Receivable from Affiliates

Long-term notes receivable from affiliates were included as a component of equity in accordance with GAAP as settlement of these affiliate notes receivable balances is not currently contemplated within the foreseeable future. The notes are summarized in the following table.

	December 31, 2000	December 31, 2001	March 31, 2002	April 30, 2002
			(Unaudited)	
	(In thousands)			
Notes receivable from:				
NL:				
6.0% Fixed rate euro-denominated	$ —	$286,363	$282,801	$101,000
8.7% Fixed rate	97,977	106,783	109,074	109,074
Variable rate	203,718	262,772	237,923	237,923
Kronos:				
7.87% Fixed rate	—	—	—	217,000
Variable rate	42,082	44,925	44,925	44,925
	$343,777	$700,843	$674,723	$709,922

The 6.0% fixed-rate euro-denominated note receivable from NL (€323.9 million, €328.6 million and €112.7 million at December 31, 2001, March 31, 2002 and April 30, 2002) matures in 2010 with interest payable monthly. The note receivable from NL was established in 2001 as a result of a series of noncash transactions between KII, NL and Kronos. The note receivable from NL was reduced in April 2002 to $101 million and correspondingly, KII's note payable to Kronos was also reduced to $101 million. See Note 8. The 8.7% fixed-rate note receivable from NL matures in 2008 with interest payable quarterly. Variable-rate notes receivable consists of eight individual notes from NL of which five mature in 2003 and three mature in 2010, with interest rates ranging from U.S. LIBOR plus .625% to U.S. LIBOR plus 1.625% (6.789% to 7.789% at December 31, 2000, 2.5875% to 3.5875% at December 31, 2001, and 2.5875% to 3.5875% at March 31, 2002 and April 30, 2002, respectively) payable semi-annually.

The Company has two notes receivable from Kronos. The fixed-rate note receivable of $217 million matures in 2012, bears interest at 7.87% and arose from the sale of KC to Kronos in April 2002. See Note 1. The variable rate note receivable ($44.9 million) matures in 2003 and bears interest at U.S. LIBOR plus 1.625% (7.789% at December 31, 2000, and 3.5875% at December 31, 2001, March 31, 2002 and April 30, 2002, respectively) payable semi-annually.

The Company periodically converts interest receivable from affiliates to notes receivable from affiliates. For the years ended 1999, 2000, 2001, and the three and four months ended March 31, 2002 and April 30, 2002, respectively, the interest transferred to notes receivable from affiliates totaled nil, $24.8 million, $25.0 million and $2.4 million, respectively.

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.

The Company's principal German operating subsidiary leases the land under its Leverkusen TiO_2 production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with approximately two-thirds of the Company's current TiO_2 production capacity, is located within the lessor's extensive manufacturing complex. Under a separate supplies and services agreement expiring 2011, the lessor provides some raw materials, auxiliary and operating materials and utilities services necessary to operate the

Leverkusen facility. Currently, 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 $7 million in 1999, and $6 million in 2000 and 2001, respectively. At December 31, 2001, minimum rental commitments under the terms of noncancellable operating leases were as follows:

	December 31, 2001	
Years Ending December 31,	Real Estate	Equipment
	(In thousands)	
2002	$ 1,030	$ 913
2003	899	475
2004	792	346
2005	795	141
2006	798	31
2007 and thereafter	18,975	19
	$23,289	$1,925

Capital Expenditures

At December 31, 2001 the estimated cost to complete capital projects in process approximated $4 million to complete the reconstruction of the Leverkusen Sulfate Plant.

Purchase Commitments

KUS has long-term supply contracts that provide for certain affiliates' chloride feedstock requirements through 2003. The Company and certain of its affiliates purchase chloride feedstock underlying these long-term supply contracts from KUS. See Note 15. The agreements require KUS to purchase certain minimum quantities of feedstock with average minimum annual purchase commitments aggregating approximately $159 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 developments, such as stricter requirements of environmental laws and enforcement policies thereunder, could adversely affect the Company's production, handling, use, storage, transportation, sale or disposal of such substances as well as the Company's consolidated financial position, results of operations or liquidity.

The Company's 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. The Company believes all of its plants are in substantial compliance with applicable environmental laws.

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 TiO_2 accounted for approximately 90% of net sales during 1999, 2000 and 2001. 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 TiO_2 production processes). TiO_2 is generally sold to the paint, plastics and paper, as well as fibers, rubber, ceramics, inks and cosmetics markets. Such markets are generally considered ''quality-of-life'' markets whose demand for TiO_2 is influenced by the relative economic well-being of the various geographic regions. TiO_2 is sold to over 4,000 customers, with the top ten customers approximating 24% of net sales in 1999 and 2000, and 23% of net sales in 2001. Approximately 75% of the Company's TiO_2 sales by volume were to Europe in 1999, 2000 and 2001. Approximately 10% of sales by volume were to North America in 1999, 2000 and 2001.

Note 19 — Financial Instruments:

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

	December 31,			
	2000		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Cash and cash equivalents	$ 36.7	$ 36.7	$ 30.3	$ 30.3
Notes payable and long-term debt:				
Notes payable to Kronos — KII Mirror Note	$194.0	$195.9	$194.0	$194.9
Subordinated debt payable to Kronos	—	—	286.4	286.4
Variable rate debt	72.1	72.1	48.7	48.7

	March 31, 2002		April 30, 2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Unaudited)		(Unaudited)	
	(In millions)			
Cash and cash equivalents	$ 42.5	$ 42.5	$ 28.5	$ 28.5
Notes payable and long-term debt:				
Notes payable to Kronos — KII Mirror Note	$169.0	$169.6	$169.0	$169.6
Subordinated debt payable to Kronos	282.8	282.8	101.0	101.0
Variable rate debt	48.7	48.7	50.3	50.3

Fair value of the KII Mirror Note was based upon quoted market prices of NL's notes. The Company held no derivative financial instruments at December 31, 2000 and 2001, March 31, 2002, and April 30, 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 Kronos, 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 Kronos. 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, $278.9 million represented noncurrent notes receivable from NL and Kronos, which were classified as a reduction of stockholder's equity at the time of the merger.

Note 21 — Quarterly Financial Data (Unaudited):

	Quarters Ended			
	March 31	June 30	September 30	December 31
	(In thousands)			
Year ended December 31, 2000:				
Net sales	$154,323	$174,696	$155,915	$135,591
Cost of sales	108,502	117,253	97,616	90,104
Operating income	30,611	43,511	41,129	31,021
Income before income taxes and minority interest	16,354	38,804	28,909	39,017
Net income	6,940	27,168	18,076	27,965
Year ended December 31, 2001:				
Net sales	$159,030	$140,380	$134,675	$120,552
Cost of sales	105,283	93,917	95,737	84,621
Operating income	38,401	33,280	22,747	29,418
Income before income taxes and minority interest	28,960	29,442	37,579	32,260
Net income	19,727	21,411	31,409	41,181

Nordenham Plant, Germany

Leverkusen Plants, Germany

Fredrikstad Plant, Norway

Langerbrugge Plant, Belgium

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OFFERING MEMORANDUM

€270,000,000

KRONOS INTERNATIONAL, INC.

% Senior Secured Notes due 2009

Deutsche Bank
Sole Book-Running Lead Manager

Dresdner Kleinwort Wasserstein

, 2002