LISTING PARTICULARS

€400,000,000

KRONOS INTERNATIONAL, INC.

6½% Senior Secured Notes due 2013

The notes will mature on April 15, 2013. We will pay interest on the notes on April 15 and October 15, commencing on October 15, 2006.

We may redeem the notes at any time on or after October 15, 2009. In addition, until April 15, 2009, 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 are senior obligations of ours secured by pledges in favor of the trustee for the notes or a collateral agent on behalf of the noteholders of 65% of the stock or other equity interests of Kronos Denmark ApS, Société Industrielle du Titane, S.A., Kronos Titan GmbH and Kronos Limited, certain of our first-tier subsidiaries. The notes 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 are 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. These listing particulars include additional information on the terms of the notes, including redemption and repurchase prices, covenants and transfer restrictions.

Investing in the notes involves a high degree of risk. See "Risk Factors" beginning on page 4 of these listing particulars and "Risk Factors" beginning on page 8 of our Form 10-K, a copy of which is included as part of these listing particulars as Annex A.

We have not registered the notes under the federal securities laws or the securities laws of any state of the United States. The initial purchaser named below has offered 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.

Price: 99.306% plus accrued interest from the issue date.

The notes were delivered through Euroclear and Clearstream Luxembourg on April 11, 2006.

Deutsche Bank

The date of these Listing Particulars is June 21, 2006.

IMPORTANT NOTICE TO READERS

You should not assume that the information contained in these listing particulars is accurate as of any date other than the date of these listing particulars. Our business, financial condition, results of operations and prospects may have changed since that date.

Deutsche Bank AG London (the "Initial Purchaser") is not responsible for, and is not making any representation to you concerning, our future performance or the accuracy or completeness of these listing particulars.

No person is authorized to give any information or to make any representation not contained in these listing particulars and any information or representation not contained herein must not be relied upon as having been authorized by or on behalf of us.

The notes were not and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or the securities laws of any state of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act ("Regulation S")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The notes were offered and sold outside the United States in reliance on Regulation S and within the United States to "qualified institutional buyers" ("QIBs") in reliance on Rule 144A under the Securities Act ("Rule 144A"). Sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain other restrictions on offers, sales and transfers of the notes and the distribution of these listing particulars, see "Notice to Investors."

The notes have not been approved or disapproved by the U.S. Securities and Exchange Commission (the "SEC"), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of these authorities passed upon or endorsed the merits of the offering of the notes or the accuracy or adequacy of these listing particulars. Any representation to the contrary is a criminal offense in the United States.

We have summarized certain documents and other information in a manner we believe to be accurate, but we refer you to the actual documents for a more complete understanding of the matters we discussed in this document. You should not consider any information in this document to be legal, business or tax advice. You must rely on your own examination of our business and the terms of this offering and the notes, including the merits and risks involved.

We accept responsibility for the information contained in these listing particulars. We have made all reasonable inquiries and confirm to the best of our knowledge, information and belief that the information contained in these listing particulars with regard to us, our subsidiaries and affiliates and the notes is true and accurate in all material respects, that the opinions and intentions expressed in these listing particulars are honestly held and that we are not aware of any other facts the omission of which would make these listing particulars or any statement contained herein misleading in any material respect.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION REPORTS

We have included as part of these listing particulars our Annual Report on Form 10-K for the year ended December 31, 2005, excluding the financial statement schedules, financial statements called for by Rule 3-16 of Regulation S-X and exhibits attached thereto (the "Form 10-K"). The Form 10-K is attached to these listing particulars as Annex A. The Form 10-K includes, among other things, business and financial information relating to us. The financial information in the Form 10-K does not give effect to the offering of the notes. The Form 10-K must be read in conjunction with and is qualified in its entirety by the information contained elsewhere herein.

SEC REVIEW

The SEC 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 SEC 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 these listing particulars, including the Form 10-K that forms a part of these listing particulars. In addition, comments by the SEC on our financial data in the registration statement may require modification or reformulation of such data, and any such modification or reformulation may be significant.

FORWARD-LOOKING STATEMENTS

See pages 1 and 2 of the Form 10-K, a copy of which is included as part of these listing particulars as Annex A, for a discussion of forward-looking statements.

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 these listing particulars contains a more detailed description of the terms and conditions of the notes.

In these listing particulars, the words "KII," "we," "us," and "our" refer to Kronos International, Inc., the issuer of the notes, and its subsidiaries.

Issuer	Kronos International, Inc. We currently have outstanding 2,968 shares of common stock, par value $100 per share, all of which shares are fully paid. Our sole stockholder is Kronos Worldwide, Inc. ("Kronos"). We paid $25 million and $60 million in dividends to Kronos in 2003 and 2004, respectively. We did not pay any dividends to Kronos in 2005. The declaration and payment of future dividends is discretionary, and the amount, if any, will be dependent upon our results of operations, financial condition, contractual restrictions and other factors deemed relevant by our Board of Directors. As of June 19, 2006, we had outstanding no loan capital, no borrowings or indebtedness other than the €400,000,000 principal amount of 6½% senior secured notes due 2013 (which are secured by pledges in favor of the trustee for the notes or a collateral agent on behalf of the noteholders of 65% of the stock or other equity interests of Kronos Denmark ApS, Société Industrielle du Titane, S.A., Kronos Titan GmbH and Kronos Limited, certain of our first-tier subsidiaries) and contingent liabilities of €6,000,000 related to an income tax audit in Belgium.
Securities	€400,000,000 principal amount of 6½% senior secured notes due 2013.
Issue Price	99.306% plus accrued interest from the issue date.
Maturity	April 15, 2013.
Interest Rate	6½% per year (calculated using a 360-day year).
Interest Payment Dates	April 15 and October 15, beginning on October 15, 2006. Interest will accrue from and including the issue date.
Ranking	The notes 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 are structurally subordinated to the debt and liabilities of our subsidiaries.
Security	The notes are secured by pledges in favor of the trustee for the notes or a collateral agent on behalf of the holders 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 October 15, 2009. On that date and thereafter we may redeem some or all of the notes at the redemption prices listed in "Description of the Notes—

	Optional Redemption," plus accrued interest.
Optional Redemption After Public Equity Offerings ..	At any time (which may be more than once) on or before April 15, 2009, we can choose to redeem up to 35% of the outstanding notes with money that we or Kronos raise in one or more public equity offerings, as long as: • we pay 106.500% 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 — 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 contains 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 SEC (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 SEC 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 SEC 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 these listing particulars. 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 used all of the net proceeds of the offering, together with approximately $2.1 million of cash on hand, to repay €375 million ($450 million) principal amount of our 8⅞% senior secured notes due 2009 at the stated redemption price of 104.437%, plus accrued and unpaid interest. See "Use of Proceeds."
Risk Factors	See "Risk Factors" beginning on page 4 of these listing particulars and "Risk Factors" beginning on page 8 of the Form 10-K, a copy of which is included as part of these listing particulars as Annex A, for a description of certain of the risks relating to us and the notes.
Withholding	We or our paying agent may be required to withhold or backup withhold amounts payable to holders of the notes. See Certain Tax Considerations. Our obligation to withhold with respect to a particular holder will depend on the laws of the United States and the laws of the country of such holder.

RISK FACTORS

You should carefully consider the following factors related to the notes and the factors related to us and our business beginning on page 8 of the Form 10-K, a copy of which is included as part of these listing particulars as Annex A, in addition to the other information contained in these listing particulars, including the Form 10-K that forms a part of these listing particulars.

The indenture governing the notes allows us to incur additional debt ranking equal to the notes and make certain restricted payments.

Subject to specified limitations, the indenture permits 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, as of December 31, 2005, our subsidiaries have unused borrowing availability of approximately $92 million under our subsidiaries' credit facility, subject to certain tests, all of which borrowings are senior, structurally, to the notes and are 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.

The indenture allows us to make certain restricted payments. As of December 31, 2005, approximately $92 million was available to make such payments. See "Description of Notes—Certain Covenants—Restricted Payments."

The notes are secured only by pledges 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 pledges of 65% of the stock or other equity interests of certain of our first-tier subsidiaries. Each of the stock pledges securing the notes has been made in favor of the trustee or a collateral agent appointed under the indenture governing the notes and is governed by the local law of Denmark, France, Germany and England, as applicable, the jurisdictions where our pledged subsidiaries are formed. As a result, the validity of those pledges and the ability of the trustee or a collateral agent, as applicable, or 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 a collateral agent, as applicable, or the noteholders to foreclose upon and sell the pledged shares upon the occurrence of a default is subject to limitations under applicable local insolvency laws if an insolvency proceeding were commenced by or 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 insolvency 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. The security taken over 65% of the shares in our United Kingdom subsidiary is taken by way of an equitable charge. A subsequent legal mortgage over such shares would rank in priority to this equitable charge (unless the chargee under such subsequent legal mortgage acted in bad faith).

In addition to the foregoing, the notes are effectively subordinated in right of payment to all of the indebtedness and other liabilities of our subsidiaries, which, as of December 31, 2005, were approximately $390 million. Furthermore, our debt under our subsidiaries' credit facility is 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' credit facility, the lenders under our subsidiaries' 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' credit facility and may not be available to repay the notes. In the event of an insolvency event affecting any of our subsidiaries, local insolvency law would be likely to apply. In general, such local insolvency law affords significant protection for senior secured creditors, and, in the event of an insolvency event, such creditors may 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.

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

Our subsidiaries' credit facility and the indenture governing the notes 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' credit facility and the indenture 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' credit facility requires 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' 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' 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 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 the 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, notes can be sold or resold only 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.

Application has been made to have the notes admitted to the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF, the alternative market of the Luxembourg Stock Exchange. The initial purchaser has informed us that it intends to make a market in the notes. However, the initial purchaser is 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 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" for additional information.

USE OF PROCEEDS

The net proceeds received by us from the sale of the notes, after deducting placement fees and commissions and estimated offering expenses payable by us, were approximately $467.9 million (using the March 29, 2006 exchange rate of 1.2 U.S. dollars per euro). We used all of the net proceeds, together with approximately $2.1 million of cash on hand, to repay €375 million ($450 million) principal amount of our 8⅞% senior secured notes due 2009 at the stated redemption price of 104.437%, plus accrued and unpaid interest.

DESCRIPTION OF THE NOTES

The Company issued the Notes under the indenture, dated as of April 11, 2006 (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. 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 purchaser. 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 are senior obligations of the Company, ranking equally in right of payment with all our other senior indebtedness. The Notes are secured by a senior Lien on 65% of the Capital Stock of each of the first-tier operating Subsidiaries of the Company.

The Company issued the Notes in fully registered form in denominations of €50,000 and €1,000 increments 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 or at the office of the Luxembourg transfer agent. The transfer notice is obtainable from and should be delivered to the Luxembourg transfer agent. 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. So long as the Notes are admitted to the Official List of 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 €400 million of Notes was issued in the offering. The Notes will mature on April 15, 2013. 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 accrues at the rate of 6½% per annum and will be payable semiannually in cash on each April 15 and October 15 commencing on October 15, 2006, to the persons who are registered Holders at the close of business on the April 1 and October 1 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 issue date. 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. Also at the Company's option, principal may be paid at the Trustee's corporate trust office or at the office of the agent in Luxembourg against presentation and surrender of the Note.

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

Redemption

Optional Redemption. Except as described below, the Notes are not redeemable before October 15, 2009. 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 October 15, 2012, the six-month period) commencing on October 15 of the year set forth below:

Year	Percentage
2009	103.250%
2010	102.167%
2011	101.083%
2012 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 April 15, 2009, 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 106.500% 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 or Kronos pursuant to a registration statement filed with the SEC 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, Kronos 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 October 15, 2009, 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 October 15, 2009 (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 October 15, 2009, 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 April 15, 2013 (if no maturity date is within three months before or after April 15, 2013, yields for the two published maturities most closely corresponding to April 15, 2013 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; provided that no Notes shall be redeemed in part if the resulting Note would have a minimum denomination that is less than €50,000. 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 financial results of the Company’s Subsidiaries, Kronos Titan GmbH ("Kronos Germany"), Unterstützungskasse Kronos Titan-GmbH, Kronos World Services S.A./N.V., Société Industrielle du Titane, S.A. ("Kronos France"), Kronos Limited ("Kronos UK"), Kronos Denmark ApS ("Kronos Denmark"), Kronos Europe S.A./N.V., Kronos B.V., Kronos Norge A/S, Kronos Titan A/S, Titania A/S, and The Jossingfjord Manufacturing Company A/S, are included in the Company’s consolidated financial statements beginning on page F-1 of Annex A. The Company owns 100% of the equity interests in these Subsidiaries, directly or through another Subsidiary, except Kronos France, of which approximately 1% is owned by the public. 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 will be 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 are structurally subordinated in right of payment to all of the Indebtedness and other liabilities of the Company's Subsidiaries, which, as of December 31, 2005, were approximately $390 million. Furthermore, the Indebtedness of certain of the Company's Subsidiaries under the Credit Agreement is secured by Liens on substantially all current assets of such Subsidiaries. The Notes do 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 Kronos Germany, Kronos France, Kronos Denmark and Kronos UK (collectively, the "First Tier Subsidiaries"). Each of the pledges securing the Notes was made in favor of either the Trustee or a collateral agent appointed under the Indenture and is governed by the local law of the jurisdiction where each of our First Tier 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 the Trustee or a collateral agent, as applicable, or the 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 a collateral agent, as applicable, 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 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.

Each of the First Tier Subsidiaries conducts the business and operations of the Company in the jurisdiction in which it is organized; those jurisdictions are Denmark, France, Germany and the United Kingdom. The Company’s manufacturing and production facilities are owned directly or indirectly by Kronos Germany and Kronos Denmark. Kronos France and Kronos UK have only sales and distribution operations. Other than 1% of the Capital Stock of Kronos France, none of the Capital Stock of the First Tier Subsidiaries is publicly traded or listed on any recognized stock exchange. The financial statements of Kronos Denmark and Kronos Germany as of December 31, 2004 and 2005 and for each of the three years ended December 31, 2005 are attached hereto as Annex B and Annex C, respectively. Consolidating financial statements of Kronos International, Inc., which include selected unaudited information regarding Kronos Germany, Kronos Denmark, Kronos UK and Kronos France, as of December 31, 2005, December 31, 2004 and March 31, 2006 are attached hereto as Annex D.

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 any part (equal to €50,000 or an integral multiple of €1,000 in excess thereof) of such Holder's Notes pursuant to the offer described below (the "Change of Control Offer"), at a purchase price in cash 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 contains, 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 June 28, 2002 (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 June 28, 2002 and on or prior to the date the Restricted Payment occurs (the "Reference Date") (treating such period as a single accounting period); *provided*, that for purposes of this paragraph (v), the aggregate provision or benefit for income taxes used to calculate Consolidated Net Income for any period after the Issue Date in accordance with GAAP shall be replaced with income taxes paid (or received) in cash; 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 June 28, 2002 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 June 28, 2002 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 June 28, 2002 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 June 28, 2002, 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 June 28, 2002, 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 June 28, 2002, 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 June 28, 2002, 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 June 28, 2002, 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 Company's 8⅞% Senior Secured Notes due 2009 issued in June 2002, on or promptly after June 28, 2002, in an aggregate amount up to the amount of the net proceeds from the issuance and sale thereof.

In determining the aggregate amount of Restricted Payments made subsequent to June 28, 2002 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 (provided that no Note of less than €50,000 may remain outstanding thereafter) 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 date of effectiveness thereof, 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) 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

(k) an agreement governing Indebtedness incurred to Refinance the Indebtedness issued, assumed or incurred pursuant to an agreement referred to in clause (b), (d), (e) or (f) 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) or (f).

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 provides 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.

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 Intercorporate Services Agreement, dated as of January 1, 2005, among Kronos Worldwide, Inc., Kronos (US), Inc., the Company and Kronos Canada, Inc., the Services Agreement, dated as of January 1, 2004, among the Company, Kronos Europe S.A./N.V., Kronos (US), Inc., Kronos Germany, Kronos Denmark, Kronos Canada, Inc., Kronos UK, Kronos France, Kronos B.V., Kronos Titan AS and Titania AS, the Tax Agreement, dated as of May 28, 2002, by and between Kronos, Inc. (now known as Kronos Worldwide, Inc.) and the Company, Agency Agreement, dated as of January 1, 2004, among the Company, Kronos Germany, Kronos Europe S.A./N.V., Kronos Canada, Inc., Kronos Titan AS and Kronos France, the Titanium Dioxide Products and Titanium Chemicals Distribution Agreement, dated as of January 1, 2005, among Kronos Germany, Kronos Europe, S.A./N.V., Kronos Canada, Inc., Kronos Titan, AS, Kronos (US), Inc., Kronos Denmark, Kronos Germany, Kronos UK, Kronos France and Kronos B.V., the Raw Material Purchase and Sale Agreement, dated as of January 1, 2004, among Kronos (US), Inc., Kronos Germany, Kronos Europe S.A./N.V. and Kronos Canada, Inc., 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 (USA), Inc. (now known as Kronos Worldwide, Inc.) and Kronos Germany, the Amended and Restated Technology, Patent and Trademark License Agreement, dated as of May 30, 1990, by and between Kronos (USA), Inc. (now known as Kronos Worldwide, Inc.) and Kronos Europe S.A./N.V., the Amended and Restated Technology, Patent and Trademark License Agreement, dated as of May 30, 1990, by and between Kronos (USA), Inc. (now known as Kronos Worldwide, Inc.) and Kronos

Canada, Inc., the Cross License Agreement, effective January 1, 1999, between Kronos Inc. (now known as Kronos Worldwide, Inc.) and the Company and the Trademark Use Agreement, dated as of May 30, 1990, between Kronos, Inc. (now known as Kronos (US), Inc.), Kronos (USA), Inc. (now known as Kronos Worldwide, Inc.), Kronos Germany and Kronos Titan A/S and amended effective as of October 16, 1993 and January 1, 1999, 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 or the Transfer Pricing Guidelines issued by the Organization for Economic Cooperation and Development;

(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 (12) 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 provides 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 accountants; 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 admitted to the Official List of 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 provides that the Company shall be entitled to obtain a full release of all of the Collateral following legal defeasance 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 provides 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 provides 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 provides 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 Notes are admitted to the Official List of 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 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. Notices may also be published on the website of the Luxembourg Stock Exchange.

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) disposals or replacements of obsolete, surplus or unused equipment in the ordinary course of business; (f) any Restricted Payment not prohibited by the "Limitation on Restricted Payments" covenant or that constitutes a Permitted Investment; and (g) 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) net after-tax expenses incurred by the Company to redeem its 8⅞% senior secured notes due 2009, including but not limited to the full redemption premium and write-off of any deferred financing costs or unamortized premium related thereto, in each case to the extent included in the calculation of net income;

(4) 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;

(5) 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 (5);

(6) 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;

(7) 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;

(8) 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;

(9) 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

(10) 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 June 25, 2002, as amended through June 14, 2005, among Kronos Titan GmbH, Kronos Europe S.A./N.V., Kronos Titan A/S, Kronos Norge A/S, Titania A/S and Kronos Denmark ApS, 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 April 11, 2006, the date of original issuance of the Notes.

"*Kronos*" means Kronos Worldwide, 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) any employee plan or pension fund of the Company or any of its Subsidiaries, (5) any Person holding Capital Stock for or pursuant to the terms of any such plan or fund and (6) any Person controlled by, or any group made up of, any one or more of the Persons specified in (1) through (5) 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 €400 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; and

(12) 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) escrow agreements and similar arrangements with respect to Indebtedness permitted to be incurred by the Company or its Restricted Subsidiaries pursuant to clause (13) 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.

"*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.

"*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.

"*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 Société Industrielle du Titane 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 purchaser entered into a registration rights agreement (the "Registration Rights Agreement") on the original issue date of the notes ("Issue Date"), pursuant to which we agreed 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 SEC 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 agreed 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 SEC, 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 SEC 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 SEC 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 SEC 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.

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 have been 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 were offered and sold by the initial purchaser 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 was 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 purchaser 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 purchaser. 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 were offered and sold to qualified institutional buyers in reliance on Rule 144A ("Rule 144A Notes"). The notes also were offered and sold in offshore transactions in reliance on Regulation S ("Regulation S Notes"). The notes will be issued in registered, global form in minimum denominations of €50,000 and €1,000 increments thereof. The notes were issued at the closing of the offering only against payment in immediately available funds.

The notes (whether Rule 144A Notes or Regulation S Notes) are represented by one or more global notes in fully registered form without interest coupons (the "Global Note") and were 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 are not eligible for clearance through The Depository Trust Company. The Global Note is 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 are not entitled to receive physical delivery of certificated notes. Transfers of beneficial interests in the global notes are 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 credited, 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, credited, 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 were designated by or on behalf of the initial purchaser. Ownership of beneficial interests in the Global Note is 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 is 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.

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, Euroclear and/or Clearstream, as applicable will distribute the amount received by it in respect of the Global Note so redeemed to the holders of book-entry interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). We understand that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however,* that no book-entry interest of less than €50,000 principal amount at maturity, or less, may be redeemed in part.

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 is 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 requires 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 admitted to the Official List of 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.

MANAGEMENT

The table below sets forth information about our directors as of May 19, 2006.

Name	Age	Principal Positions and Directorship
Harold C. Simmons.........................	74	Chairman of the Board and Chief Executive Officer
Dr. Ulfert Fiand	57	President, Manufacturing and Technology and Director
Dr. Henry Basson............................	64	President, Sales and Marketing and a Director
Volker Roth	61	Vice President, Controller, Secretary and Director
Andrew Kasprowiak........................	59	Vice President, Treasurer and Director

Harold C. Simmons has served as our chairman of the board since 2004 and chief executive officer since 2003. He has served as chairman of the board and chief executive officer of Kronos since 2003. Mr. Simmons has served as chief executive officer of NL since 2003 and chairman of the board of NL since prior to 2001. He also has served as chairman of the board of Titanium Metals Corporation ("TIMET") since November 2005, chief executive officer of TIMET from November 2005 to January 2006 and vice chairman of the board of TIMET from 2004 to November 2005. Mr. Simmons has been chairman of the board of Valhi, Inc., a parent company of NL, and Contran since prior to 2001 and was chief executive officer of Valhi from prior to 2001 to 2002. Mr. Simmons has been an executive officer or director of various companies related to Valhi and Contran since 1961.

Dr. Ulfert Fiand has served as our president of manufacturing and technology and one of our directors since 2001 and has served as president, manufacturing and technology of Kronos since October 2004. He previously served as senior vice president, manufacturing and technology of Kronos since 2003. Dr. Fiand joined us in 1988, and previously served as group leader and director of chloride process technology, director of process technology and vice president of production & process technology. Dr. Fiand also serves as company manager of Kronos Titan GmbH.

Dr. Henry Basson has served as our president of sales and marketing and one of our directors since 1997. From 1992 to 1997, Dr. Basson was president of Rheox Europe, a former subsidiary of NL. Prior to 1992, Dr. Basson held positions in sales, marketing and general management at Rohm and Haas Company.

Volker Roth has served as our vice president, controller and secretary and one of our directors since 1992. Mr. Roth also serves as company manager of Unterstutzungskasse Kronos Titan GmbH, 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.

The address of each director is c/o Kronos International, Inc., 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697. All of our outstanding common stock is held by Kronos Worldwide, Inc. and none of our directors directly owns any shares of our common stock.

PRIVATE PLACEMENT

Subject to the terms and conditions set forth in the Purchase Agreement (the "Purchase Agreement") between us and the initial purchaser, we sold to the initial purchaser, and the initial purchaser purchased from us, all of the notes.

The initial purchaser has 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 were initially 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 purchaser.

The Purchase Agreement provides that we will indemnify the initial purchaser against certain liabilities, including liabilities under the Securities Act, and will contribute to payments that the initial purchaser may be required to make in respect thereof.

We have applied to have the notes admitted to the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF, the alternative market of the Luxembourg Stock Exchange. The initial purchaser has advised us that it presently intends to make a market in the notes as permitted by applicable laws and regulations. The initial purchaser is 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 purchaser. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the notes.

In connection with the offering, the initial purchaser (the "Stabilizing Manager") (or any person acting for the Stabilizing Manager) may over-allot or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilizing Manager (or any agent of the Stabilizing Manager) to do this. Such stabilizing, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilizing shall be in compliance with all applicable laws, regulations and rules.

The initial purchaser or its 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 the initial purchaser, is the administrative agent, and an affiliate of the initial purchaser is a lender under our subsidiaries' 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 effect as of 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.

CIRCULAR 230 DISCLAIMER. ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES SET FORTH IN THESE LISTING PARTICULARS WAS NOT INTENDED TO BE USED, AND IT CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON. SUCH DISCUSSION WAS WRITTEN IN CONNECTION WITH THE PROMOTION AND MARKETING OF THE TRANSACTIONS DESCRIBED IN THESE LISTING PARTICULARS. EACH INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

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 (including District of Columbia);
- 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 or a partnership.

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.

Certain Contingent Payments

Under the terms of the notes, we are obligated to pay you amounts in excess of the stated interest and principal of the notes upon a change in control or upon a registration default. Although the matter is not free from doubt, we intend to take the position that the possibility of paying such additional amounts is a "remote" or "incidental" contingency and that the notes should not be considered "contingent payment debt instruments" by virtue of such contingency. Our determination of whether a contingency is remote or incidental will be binding on you unless you explicitly disclose your contrary position to the IRS in the manner required by the applicable Treasury Regulations. Our determination is not, however, binding on the IRS, and if the IRS successfully challenged this determination, you could be subject to tax consequences that differ materially and adversely from those described below. The remainder of this discussion assumes that the contingent payment debt rules will not apply to the notes.

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.

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 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 stated redemption price of the notes is not expected to exceed the issue price by more than the specified de minimis amount. Accordingly, 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 at the time of sale. 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. 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. For purposes of determining gain or loss (as discussed above), the amount realized in euros will be 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 recognized, 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 (currently at a rate equal to 28%) 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 timely 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 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.

Effectively Connected Income. 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.

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 interest 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 (including a redemption) 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 disposition 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 disposition 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 timely 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 these listing particulars 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.

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 the 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.

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 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 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 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. We have applied to have the notes admitted to the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF, the alternative market of the Luxembourg Stock Exchange.

2. We have deposited our articles of incorporation and the articles of incorporation of the First-Tier Subsidiaries with the Luxembourg Stock Exchange and with the paying agent in Luxembourg. As long as the notes are admitted to the Official List of 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. We do not produce financial statements on a non-consolidated basis.

3. Our board of directors approved the issuance of the notes on March 31, 2006.

4. Except as disclosed in these listing particulars, 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 these listing particulars, there has been no material adverse change in our consolidated financial position since December 31, 2005.

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 025048792 and an International Securities Identification Number of XS0250487922. 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 025048822 and an International Securities Identification Number of XS0250488227.

7. We are a Delaware corporation. The date of our incorporation is December 22, 1988.

8. Our principal office is located at 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240.

CERTAIN INFORMATION REGARDING THE FIRST TIER SUBSIDIARIES

The Notes are secured only by the pledge of 65% of the capital stock of our First Tier Subsidiaries (Kronos Germany, Kronos France, Kronos Denmark and Kronos UK). Certain information regarding the First Tier Subsidiaries is set forth below.

Kronos Germany. The name of this entity is Kronos Titan GmbH. The registered office and principal administrative establishment are located at Peschstrasse 5, 51373, Leverkusen, Germany. The statutory documents are available and may be inspected at this address. Kronos Germany was incorporated on September 14, 1927 under the laws of the Federal Republic of Germany and has an indefinite life. The articles of incorporation of Kronos Germany and all amendments thereto have been deposited with the Luxembourg Stock Exchange and the paying agent in Luxembourg. As long as the notes are admitted to the Official List of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, such articles of incorporation may be obtained, on any business day free of charge, at the office of the paying agent in Luxembourg. Kronos Germany's stated capital is €10,000,000 and its principal activities are the production and sale of titanium dioxide and titanium chemicals.

Kronos France. The name of this entity is Société Industrielle du Titane, S.A. The registered office and principal administrative establishment are located at Rue de Courcelles 45, Paris, France. The statutory documents are available and may be inspected at this address. Kronos France was incorporated on June 19, 1925 under the laws of France and has an indefinite life. The articles of incorporation of Kronos France and all amendments thereto have been deposited with the Luxembourg Stock Exchange and the paying agent in Luxembourg. As long as the notes are admitted to the Official List of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, such articles of incorporation may be obtained, on any business day free of charge, at the office of the paying agent in Luxembourg. Kronos France's stated capital is €80,000 and its principal activity is the sale of titanium dioxide.

Kronos Denmark. The name of this entity is Kronos Denmark ApS. The registered office is located at Hanne Nielsens Vej 10, 2840, Copenhagen, Denmark and the principal administrative establishment is located at Peschstrasse 5, 51373, Leverkusen, Germany. The statutory documents are available and may be inspected at the address of the principal administrative establishment. Kronos Denmark was incorporated on October 1, 1999 under the laws of Denmark and has an indefinite life. The articles of incorporation of Kronos Denmark and all amendments thereto have been deposited with the Luxembourg Stock Exchange and the paying agent in Luxembourg. As long as the notes are admitted to the Official List of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, such articles of incorporation may be obtained, on any business day free of charge, at the office of the paying agent in Luxembourg. Kronos Denmark's stated capital is DKK 1,001,000 and its principal activity is the sale of titanium dioxide.

Kronos UK. The name of this entity is Kronos Ltd. The registered office and principal administrative establishment are located Barons Court Manchester Road, Wilmslow, Cheshire SK9 1BQ. The statutory documents are available and may be inspected at this address. Kronos UK was incorporated on November 14, 1989 under the laws of the United Kingdom and has an indefinite life. The articles of incorporation of Kronos Germany and all amendments thereto have been deposited with the Luxembourg Stock Exchange and the paying agent in Luxembourg. As long as the notes are admitted to the Official List of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, such articles of incorporation may be obtained, on any business day free of charge, at the office of the paying agent in Luxembourg. Kronos UK's stated capital is GBP 50,032 and its principal activity is the sale of titanium dioxide.

LEGAL MATTERS

Certain legal matters with regard to the validity of the notes were passed upon for us by Locke Liddell & Sapp LLP, Dallas, Texas. Certain legal matters were passed upon for the initial purchaser by Cahill Gordon & Reindel LLP, New York, New York.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The consolidated financial statements of the Company as of December 31, 2004 and 2005 and for each of the three years in the period ended December 31, 2005, included in our Annual Report on Form 10-K for the year ended December 31, 2005, included in Annex A of these listing particulars, have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing herein. The consolidated financial statements of Kronos Germany and Kronos Denmark as of December 31, 2004 and 2005 and for each of the three years in the period ended December 31, 2005, included in Annex B and Annex C, respectively, have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing herein.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

Commission file number 333-100047

KRONOS INTERNATIONAL, INC.
(Exact name of Registrant as specified in its charter)

Delaware	**22-2949593**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
5430 LBJ Freeway, Suite 1700, Dallas, Texas	**75240-2697**
(Address of principal executive offices)	**(Zip Code)**

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

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

None.

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

None.

Indicate by check mark:

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

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

Whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

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

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

No common stock was held by nonaffiliates of the Registrant as of June 30, 2005 (the last business day of the Registrant's most recently-completed second fiscal quarter).

As of February 28, 2006, 2,968 shares of the Registrant's common stock were outstanding.

The Registrant is a wholly-owned subsidiary of Kronos Worldwide, Inc. (File No. 1-31763) and meets the conditions set forth in General Instructions I(1) (a) and (b) and is therefore filing this Form 10-K with the reduced disclosure format.

Documents incorporated by reference

None.

PART I

ITEM 1. BUSINESS

Kronos International, Inc., ("KII" or "the Company") is incorporated in the State of Delaware, U.S.A., and is registered in the Commercial Register of the Federal Republic of Germany. KII's principal place of business is in Leverkusen, Germany. KII is a wholly-owned subsidiary of Kronos Worldwide, Inc. ("Kronos") (NYSE: KRO). KII conducts Kronos' European value-added titanium dioxide pigments ("TiO_2") operations.

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

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

- Future supply and demand for the Company's products,
- The extent of the dependence of certain of the Company's businesses on certain market sectors,
- The cyclicality of the Company's businesses,
- Customer inventory levels (such as the extent to which the Company's customers may, from time to time, accelerate purchases of TiO_2 in advance of anticipated price increases or defer purchases of TiO_2 in advance of anticipated price decreases),

- Changes in raw material and other operating costs (such as energy costs),
- The possibility of labor disruptions,
- General global economic and political conditions (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for TiO_2),
- Competitive products and substitute products,
- Customer and competitor strategies,
- The impact of pricing and production decisions,
- Competitive technology positions,
- The introduction of trade barriers,
- Fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro and the Norwegian kroner),
- Operating interruptions (including, but not limited to, labor disputes, leaks, fires, explosions, unscheduled or unplanned downtime and transportation interruptions),
- The ability of the Company to renew or refinance credit facilities,
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters,
- The ultimate ability to utilize income tax attributes, the benefits of which have been recognized under the "more-likely-than-not" recognition criteria,
- Environmental matters (such as those requiring compliance with emission and discharge standards for existing and new facilities),
- Government laws and regulations and possible changes therein,
- The ultimate resolution of pending litigation, and
- Possible future litigation.

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

Industry. Titanium dioxide pigments are inorganic chemical products used for imparting whiteness, brightness and opacity to a diverse range of customer applications and end-use markets, including coatings, plastics, paper and other industrial and consumer "quality-of-life" products. TiO_2 is considered a "quality-of-life" product with demand affected by gross domestic product in various regions of the world. TiO_2, the largest commercially used whitening pigment by volume, derives its value from its whitening properties and opacifying ability (commonly referred to as hiding power). As a result of TiO_2's high refractive index rating, it can provide more hiding power than any other commercially produced white pigment. In addition, TiO_2 demonstrates excellent resistance to chemical attack, good thermal stability and resistance to ultraviolet degradation. TiO_2 is supplied to customers in either a powder or slurry form.

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. Significant regions for TiO_2 consumption could emerge in Eastern Europe, the Far East or China as the economies in these regions develop to the point that quality-of-life products, including TiO_2, experience greater demand. Geographic information is contained in Note 2 to the Consolidated Financial Statements.

Products and operations. TiO_2 is produced in two crystalline forms: rutile and anatase. Both the chloride and sulfate production processes (discussed below) produce rutile TiO_2. Chloride process rutile is preferred for the majority of customer applications. From a technical standpoint, chloride process rutile has a bluer undertone and higher durability than sulfate process rutile TiO_2. Although many end-use applications can use either form of TiO_2, chloride process rutile TiO_2 is the preferred form for use in coatings and plastics, the two largest end-use markets. Anatase TiO_2, which is produced only through the sulfate production process, represents a much smaller percentage of annual global TiO_2 production and is preferred for use in selected paper, ceramics, rubber tires, man-made fibers, food and cosmetics.

The Company believes that there are no effective substitutes for TiO_2. Extenders, such as kaolin clays, calcium carbonate and polymeric opacifiers, are used in a number of end-used markets as white pigments, however the opacity in these products is not able to duplicate the performance characteristics of TiO_2, and the Company believes these products are unlikely to replace TiO_2.

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

The Company and its distributors and agents sell and provide technical services for its products to over 3,000 customers in over 100 countries with the majority of sales in Europe. TiO_2 is distributed by rail and truck in either dry or slurry form and by ocean carrier in dry form. Kronos, the Company and its predecessors have produced and marketed TiO_2 in North America and Europe for over 80 years. The Company believes that it has developed considerable expertise and efficiency in the manufacture, sale, shipment and service of its products.

Sales of TiO_2 represented about 87% of the Company's total sales in 2005. Sales of other products, complementary to the Company's TiO_2 business, comprise the following:

- The Company owns an ilmenite mine in Norway and operated pursuant to a governmental concession with an unlimited term. Ilmenite is a raw material used directly as a feedstock by some sulfate-process TiO_2 plants, including all of the Company's European sulfate-process plants. The mine has estimated reserves that are expected to last at least 50 years. Ilmenite sales to third-parties represented approximately 6% of the Company's consolidated net sales in 2005.
- The Company manufactures and sells iron-based chemicals, which are by-products and processed by-products of the TiO_2 pigment production process. These co-product chemicals are marketed through the Company's *Ecochem* division, and are used primarily as treatment and conditioning agents for industrial effluents and municipal wastewater as well as in the manufacture of ore pigments, cement and agricultural products. Sales of iron-based chemical products were about 6% of sales in 2005.

- The Company manufactures and sells certain titanium chemical products (titanium oxychloride and titanyl sulfate), which are side-stream products from the production of TiO_2. Titanium oxychloride is used in specialty applications in the formulation of pearlescent pigments, production of electroceramic capacitors for cell phones and other electronic devices. Titanyl sulfate products are used primarily in pearlescent pigments. Sales of these products were about 1% of sales in 2005.

Manufacturing process and raw materials. TiO_2 is manufactured by the Company using both the chloride process and the sulfate process. Approximately 65% of the Company's current production capacity is based on the chloride process. The chloride process is a continuous process in which chlorine is used to extract rutile TiO_2. The chloride process typically has lower manufacturing costs than the sulfate process due to higher yield and production of less waste and lower energy requirements and labor costs. Because much of the chlorine is recycled and feedstock bearing a higher titanium content is used, the chloride process produces less waste than the sulfate process. The sulfate process is a batch chemical process that uses sulfuric acid to extract TiO_2. Sulfate technology can produce either anatase or rutile pigment. 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 2005, chloride-process production facilities represented approximately 64% of industry capacity.

The Company produced a Company record 335,000 metric tons of TiO_2 in 2005, compared to 328,000 metric tons produced in 2004 and 320,000 metric tons in 2003. The Company's average production capacity utilization rate was near capacity in both 2005 and 2004. The production rates in 2004 and 2005 were higher than 2003 due in part to debottlenecking activities, with only moderate capital expenditures. The Company believes its current annual attainable production capacity for 2006 is approximately 345,000 metric tons, with some slight additional capacity available in 2007 through Kronos' continuing debottlenecking efforts.

The primary raw materials used in the TiO_2 chloride production process are titanium-containing feedstock, chlorine and coke. Chlorine and coke are available from a number of suppliers. Titanium-containing feedstock suitable for use in the chloride process is available from a limited but increasing number of suppliers around the world, principally in Australia, South Africa, Canada, India and the United States. The Company purchased approximately 260,000 metric tons of chloride feedstock in 2005, of which the vast majority was slag.

Through Kronos (US), Inc. ("KUS"), a wholly-owned subsidiary of Kronos, the Company purchased chloride process grade slag in 2005 from a subsidiary of Rio Tinto plc UK – Richards Bay Iron and Titanium Limited South Africa under a long-term supply contract that expires at the end of 2007. Natural rutile ore is purchased primarily from Iluka Resources, Limited (Australia), under a long-term supply contract that expires at the end of 2009. The Company and KUS do not expect to encounter difficulties obtaining long-term extensions to existing supply contracts prior to the expiration of the contracts. Raw materials purchased under these contracts and extensions thereof are expected to meet the Company's chloride feedstock requirements over the next several years.

The primary raw materials used in the TiO_2 sulfate production process are titanium-containing feedstock derived primarily from rock and sand ilmenite and sulfuric acid. Sulfuric acid is available from a number of suppliers. Titanium-containing feedstock suitable for use in the sulfate process is available from a limited number of suppliers around the world. Currently, the principal active sources are located in Norway, Canada, Australia, India and South Africa. As one of the few vertically integrated producers of sulfate-process pigments, the Company owns and operates a rock ilmenite mine in Norway, which provided all of the Company's feedstock for its sulfate-process pigment plants in 2005. The Company produced approximately 816,000 metric tons of ilmenite in 2005 of which approximately 317,000 metric tons were used internally, with the remainder sold to third parties.

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

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

Production Process/Raw Material	**Quantities of Raw Materials Procured or Mined (In thousands of metric tons)**
Chloride process plants -	
purchased slag or natural rutile ore	259
Sulfate process plants:	
Raw ilmenite ore mined internally	317

Competition. The TiO_2 industry is highly competitive. The Company competes primarily on the basis of price, product quality and technical service, and the availability of high performance pigment grades. Although certain TiO_2 grades are considered specialty pigments, the majority of the Company's grades and substantially all of the Company's production are considered commodity pigments with price generally being the most significant competitive factor. The Company believes that it is the leading seller of TiO_2 in Germany, is among the leading marketers in the Benelux and Scandinavian markets and had an estimated 8% share of worldwide TiO_2 sales volume in 2005. Overall, the Company is Europe's second largest producer of TiO_2.

The Company's (along with KUS and Kronos Canada Inc., a wholly-owned subsidiary of Kronos), principal competitors are E.I. du Pont de Nemours & Co. ("DuPont"); Millennium Chemicals, Inc.; Tronox Incorporated; Huntsman International Holdings LLC; and Ishihara Sangyo Kaisha, Ltd. The Company's five largest competitors have estimated individual shares of TiO_2 production capacity ranging from 24% to 4%, and an estimated aggregate 70% share of worldwide TiO_2 production volume.

Worldwide capacity additions in the TiO_2 market resulting from construction of greenfield plants require significant capital expenditures and substantial lead time (typically three to five years in the Company's experience). The Company is not aware of any greenfield plant under construction in the United States, Europe or any other part of the world. However, a competitor has announced its intention to build a greenfield facility in China, but it is not clear when construction will begin and it is not likely that any product would be available until 2010, at the earliest. During 2004, certain competitors either idled or shut down facilities. However, the Company does expect that industry capacity will increase as the Company and its competitors continue to debottleneck their existing facilities. Based on the factors described above, the Company expects that the average annual increase in industry capacity from announced debottlenecking projects will be less than the average annual demand growth for TiO_2 during the next three to five years. However, no assurance can be given that future increases in the TiO_2 industry production capacity and future average annual demand growth rates for TiO_2 will conform to the Company's expectations. If actual developments differ from the Company's expectations, the Company and the TiO_2 industry's performances could be unfavorably affected.

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

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

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

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

Foreign operations. The Company's chemical businesses have operated in the European markets since the 1920s. The Company's current production capacity is located in Europe with its net property and equipment aggregating approximately $349 million at December 31, 2005. The Company's operations include production facilities in Germany, Belgium and Norway and sales and distribution facilities in England, France, Denmark and the Netherlands. Approximately $690 million of the Company's 2005 consolidated sales were to European customers and approximately $161 million were to customers in areas other than Europe, including approximately $52 million of sales to customers in the U.S. through affiliates. Foreign operations are subject to, among other things, currency exchange rate fluctuations and the Company's results of operations have, in the past, been both favorably and unfavorably affected by fluctuations in currency exchange rates. Effects of fluctuations in currency exchange rates on the Company's results of operations are discussed in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A. "Quantitative and Qualitative Disclosures about Market Risk."

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

Customer base and annual seasonality. The Company believes that neither its aggregate sales nor those of any of its principal product groups are concentrated in or materially dependent upon any single customer or small group of customers. The Company's ten largest TiO_2 pigment customers, excluding sales to Kronos and affiliates, accounted for approximately 20% of sales in 2005. Neither the Company's business as a whole nor that of any of its principal product groups is seasonal to any significant extent. Due in part to the increase in paint production in the spring to meet the spring and summer painting season demand, TiO_2 sales are generally higher in the first half of the year than in the second half of the year.

Employees. As of December 31, 2005, the Company employed approximately 1,945 persons. Hourly employees in European production facilities are represented by a variety of labor unions, with labor agreements having various expiration dates. The Company's union employees are covered by master collective bargaining agreements in the chemicals industry that are renewed annually. The Company believes its labor relations are good.

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

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

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

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

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

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

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

ITEM 1A. RISK FACTORS

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

Demand for, and prices of, certain of our products are cyclical and we may experience prolonged depressed market conditions for our products, which may result in reduced earnings or operating losses. Approximately 87% of our revenues is attributable to sales of TiO_2. Pricing within the global TiO_2 industry over the long term is cyclical, and changes in industry economic conditions, especially in Western industrialized nations, can significantly impact our earnings and operating cash flows. This may result in reduced earnings or operating losses.

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

Our overall average TiO_2 selling prices in billing currencies:

- were nominally higher in 2003 as compared to 2002;
- were 3% lower in 2004 as compared to 2003; and
- were 5% higher in 2005 as compared to 2004.

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

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

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

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

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

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

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

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

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

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

Our relationships with our union employees could deteriorate. At December 31, 2005, we employed approximately 1,945 persons worldwide in our various businesses. A significant number of our employees are subject to collective bargaining or similar arrangements. We may not be able to negotiate labor agreements with respect to these employees on satisfactory terms or at all. If our employees were to engage in a strike, work stoppage or other slowdown, we could experience a significant disruption of our operations or higher ongoing labor costs.

Our leverage may impair our financial condition or limit our ability to operate our businesses. We currently have a significant amount of debt. As of December 31, 2005, our total consolidated debt was approximately $454 million, substantially all of which relates to our Senior Secured Notes. Our level of debt could have important consequences to our stockholders and creditors, including:

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

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

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

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

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

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

In addition to our indebtedness, we are party to various lease and other agreements pursuant to which, along with our indebtedness, we are committed to pay approximately $71.3 million in 2006. Our ability to make payments on and refinance our debt, and to fund planned capital expenditures, depends on our future ability to generate cash flow. To some extent, this is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, our ability to borrow funds under our subsidiaries' credit facilities in the future will in some instances depend in part on these subsidiaries' ability to maintain specified financial ratios and satisfy certain financial covenants contained in the applicable credit agreement. Our business may not generate cash flows from operating activities sufficient to enable us to pay our debts when they become due and to fund our other liquidity needs. As a result, we may need to refinance all or a portion of our debt before maturity. We may not be able to refinance any of our debt on favorable terms, if at all. Any inability to generate sufficient cash flows or to refinance our debt on favorable terms could have a material adverse effect on our financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

During 2005, the Company operated four TiO_2 plants (one in Leverkusen, Germany; one in Nordenham, Germany; one in Langerbrugge, Belgium; and one in Fredrikstad, Norway). TiO_2 is produced using the chloride process at the Leverkusen and Langerbrugge facilities and is manufactured using the sulfate process in Nordenham, Leverkusen and Fredrikstad. The Company also owns an ilmenite ore mine in Hauge i Dalane, Norway and operates it pursuant to a governmental concession with an unlimited term. The Company's co-products are produced at its Norwegian and Belgian facilities and its titanium chemicals are produced at its Belgian facility.

The Company owns all of its principal production facilities described above, except for the land under the Leverkusen and Fredrikstad facilities. The Norwegian plant is located on public land and is leased until 2013, with an option to extend the lease for an additional 50 years. The Company's principal German operating subsidiary leases the land under its Leverkusen TiO_2 production facility pursuant to a lease with Bayer AG that expires in 2050. The Leverkusen facility, which is owned by the Company and which represents approximately 50% of the Company's current TiO_2 production capacity, is located within Bayer's extensive manufacturing complex. Rent for such land lease associated with the Leverkusen facility is periodically established by agreement with Bayer AG for periods of at least two years at a time. Under a separate supplies and services agreement expiring in 2011, Bayer provides some raw materials, including chlorine, auxiliary and operating materials and utilities and services necessary to operate the Leverkusen facility.

The Company has under lease various corporate and administrative offices located in Leverkusen, Germany and Brussels, Belgium and various sales offices located in France, the Netherlands, Denmark and the United Kingdom.

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

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various environmental, contractual, product liability and other claims and disputes incidental to its business. Certain information called for by this Item is included in Note 13 to the Consolidated Financial Statements, which information is incorporated herein by reference.

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

Omitted pursuant to the General Instruction I of Form 10-K.

PART II

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

All of KII's common stock is held by Kronos. There is no established public trading market for KII's common stock. The indenture governing KII's 8.875% Senior Notes Due 2009 limits the ability of the Company to pay dividends or make other restricted payments, as defined. The aggregate amount of dividends and other restricted payments since June 2002 may not exceed 75% of the aggregate consolidated net income, as defined in the indenture, plus $25 million. KII currently expects to pay dividends or make other restricted payments as permitted by the indenture; however declaration and payment of future dividends and the amount thereof is dependent upon the Company's results of operations, financial condition, contractual limitations, cash requirements for its businesses and other factors deemed relevant by the Company's Board of Directors. See Note 6 to the Consolidated Financial Statements. At December 31, 2005, $92 million was available for dividends or other restricted payments, as defined.

The Company paid $60 million in dividends to Kronos in 2004. The Company did not pay any dividends to Kronos in 2005. The declaration and payment of future dividends is discretionary, and the amount, if any, will be dependent upon the Company's results of operations, financial condition, contractual restrictions and other factors deemed relevant by the Company's Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Company's Consolidated Financial Statements and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations." Certain amounts have been reclassified to conform with the current year's Consolidated Financial Statements.

	Years ended December 31,				
	2001	2002	2003	2004	2005
	(In millions, except ratios)				
STATEMENTS OF OPERATIONS DATA:					
Net sales	$ 554.6	$ 579.7	$ 715.9	$ 808.0	$ 850.9
Net income	113.7	52.3	81.8	326.0	59.8
BALANCE SHEET DATA (at year end):					
Total assets	$ 532.5	$ 611.3	$ 750.5	$ 985.2	$ 955.3
Long-term debt including current maturities	482.9	325.9	356.7	533.2	453.8
Redeemable preferred stock and profit participation certificates	617.4	-	-	-	-
Stockholder's equity (deficit)	(777.5)	76.8	111.6	206.5	181.8
STATEMENTS OF CASH FLOW DATA:					
Net cash provided (used) by:					
Operating activities	$ 76.0	$ 68.2	$ 104.8	$ 142.3	$ 92.7
Investing activities	(28.5)	(29.7)	(31.7)	(34.2)	(35.8)
Financing activities	(52.8)	(57.5)	(54.9)	(129.9)	(8.5)
TiO_2 *OPERATING STATISTICS:*					
Sales volume*	265	297	310	336	326
Production volume*	269	293	320	328	335
Production rate as a percentage of capacity	87%	93%	Full	Full	Full
OTHER FINANCIAL DATA:					
Ratio of earnings to combined fixed charges and preferred dividends(unaudited)(1)	1.8	1.5	3.3	2.7	3.6
Ratio of earnings to fixed charges (unaudited) (2)	4.2	2.7	3.3	2.7	3.6

* Metric tons in thousands

(1) Fixed charges represents, as applicable, the sum of (i) total interest expense and (ii) the interest component of rent expense (calculated as one-third of rent expense). Earnings represents, as applicable, the sum of (i) fixed charges, (ii) income before income taxes and minority interest and (iii) amortization of capitalized interest.

(2) Combined fixed charges and preferred dividends represents, as applicable, the sum of (i) total interest expense, (ii) preferred stock dividends and accretion and (iii) the interest component of rent expense (calculated as one-third of rent expense). Earnings represents, as applicable, the sum of (i) combined fixed charges, (ii) income before income taxes and minority interest and (iii) amortization of capitalized interest.

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

Critical accounting policies and estimates

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

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

- The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments and other factors. The Company takes into consideration the current financial condition of its customers, the age of the outstanding balance and the current economic environment when assessing the adequacy of the allowance. If the financial condition of the Company’s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. During 2003, 2004 and 2005, the net amount written off against the allowance for doubtful accounts as a percentage of the balance of the allowance for doubtful accounts as of the beginning of the year ranged from 15% to 24%.

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

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

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

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

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

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

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

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

Executive summary

The Company reported net income of $59.8 million in 2005 compared to $326.0 million in 2004 and $81.8 million in 2003. The Company’s net income increased from 2003 to 2004 as the unfavorable effect of lower income from operations and higher interest expense in 2004 was more than offset by the favorable effect of a non-cash income tax benefit in 2004. The Company’s net income decreased from 2004 to 2005 as the favorable effect of higher income from operations and lower interest expense in 2005 was more than offset by the favorable effect of the non-cash income tax benefit recognized in 2004.

Net income in 2005 includes (i) a third quarter net non-cash income tax charge of $9.8 million for recent developments with respect to income tax audits, primarily in Germany and Belgium and (ii) a second quarter securities transaction gain of $3.5 million related to the sale of the Company’s passive interest in a Norwegian smelting operation. Net income in 2004 includes a second quarter income tax benefit related to the reversal of the Company’s deferred income tax asset valuation allowance in Germany of $277.3 million. Net income in 2003 includes an income tax benefit relating to the refund of prior year German income taxes of $24.6 million. Each of these items is more fully discussed below and/or in the notes to the Consolidated Financial Statements.

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

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

Selling prices (in billing currencies) for TiO_2, the Company's principal product, were generally: increasing during the first quarter of 2003, flat during the second quarter of 2003, decreasing during the second half of 2003 and the first half of 2004, increasing during the second half of 2004 and first half of 2005 and decreasing during the last half of 2005. Changes in the Company's selling prices are largely driven by relative industry demand and supply conditions and other economic factors.

Results of operations

	Years ended December 31,			% Change	
	2003	2004	2005	2003-04	2004-05
	(In millions, except selling price data)				
Net sales	$ 715.9	$ 808.0	**$ 850.9**	+13%	**+5%**
Cost of sales	516.9	609.6	**613.2**	+18%	**+1%**
Gross margin	199.0	198.4	**237.7**	**	**+20%**
Selling, general and administrative expense	(87.0)	(104.1)	**(110.2)**	+20%	**+6%**
Currency transaction gains (losses), net	(3.7)	(2.2)	**4.1**		
Royalty income	6.1	6.0	**6.8**		
Other operating income (expense), net	-	(.5)	**(.9)**		
Income from operations	$ 114.4	$ 97.6	**$ 137.5**	-15%	**+41%**
TiO_2 operating statistics:					
Percent change in average selling prices:					
Using actual foreign currency exchange rates				+ 4%	**+7%**
Impact of changes in foreign currency exchange rates				- 7%	**-2%**
In billing currencies				- 3%	**+5%**
Sales volumes*	310	336	**326**	+ 8%	**-3%**
Production volumes*	320	328	**335**	+ 3%	**+2%**
Production rate as percent of capacity	Full	Full	**Full**		

* Thousands of metric tons
** less than 1%

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

The Company's sales increased $42.9 million (5%) in 2005 as compared to 2004 due primarily to the net effects of higher average TiO2 selling prices, lower TiO_2 sales volumes and the favorable effect of fluctuations in foreign currency exchange rates, which increased sales by approximately $13 million as further discussed below. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, the Company's average TiO_2 selling prices in billing currencies were 5% higher in 2005 as compared to 2004. When translated from billing currencies into U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods, The Company's average TiO_2 selling prices in 2005 increased 7% as compared to 2004. See " – Effects of foreign currency exchange rates" below for a discussion of the impact of relative changes in currency exchange rates on the Company’s operations.

The Company’s TiO_2 sales volumes in 2005 decreased 3% compared to 2004 with volumes lower in all regions of the world. Approximately three-fourths of the Company’s 2005 TiO_2 sales volumes were attributable to markets in Europe, with 10% attributable to North America and the balance to export markets. Overall worldwide demand for TiO_2 in 2005 is estimated to have declined by approximately 5% from the exceptionally strong demand levels in 2004. The Company attributes the decline in overall sales and its own sales to slower overall economic growth in 2005 and inventory destocking by its customers. The Company’s operating income comparisons were favorably impacted by higher production levels, which increased 2%. The Company’s operating rates were near full capacity in both periods, and the Company’s production volumes in 2005 set a new record for the Company, which was the fourth consecutive year record production volumes were achieved.

The Company’s cost of sales increased $3.6 million (1%) in 2005 compared to 2004 as the effect of lower sales volumes was offset by higher raw material and maintenance costs. However, the Company’s cost of sales, as a percentage of net sales, decreased from 75% in 2004 to 72% in 2005 due primarily to the effects of higher average selling prices which more than offset higher costs.

The Company’s gross margins increased $39.3 million (20%) from 2004 to 2005 due to the net effects of the aforementioned changes in sales and cost of sales during such periods.

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

The Company’s income from operations increased $39.9 million (41%) in 2005 as compared to 2004, as the effect of higher average TiO_2 selling prices and higher production volumes more than offset the impact of lower sales volumes, higher raw material and maintenance costs. See also " – Effects of foreign currency exchange rates" below for a discussion of the impact of relative changes in currency exchange rates on the Company’s operations.

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

The Company’s sales increased $92.1 million (13%) in 2004 as compared to 2003 as higher sales volumes and the favorable effect of fluctuations in foreign currency exchange rates, which increased sales by approximately $56 million as further discussed below, more than offset the impact of lower average TiO_2 selling prices. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, the Company’s average TiO_2 selling prices in billing currencies were 3% lower in 2004 as compared to 2003. When translated from billing currencies into U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods, the Company’s average TiO_2 selling prices in 2004 increased 4% as compared to 2003. See " – Effects of foreign currency exchange rates" below for a discussion of the impact of relative changes in currency exchange rates on the Company’s operations.

The Company’s TiO_2 sales volumes in 2004 increased 8% compared to 2003, due to higher sales volumes in Europe and export markets. By volume, approximately 77% of the Company’s 2004 TiO_2 sales were attributable to markets in Europe, with 14% attributable to export markets and the balance to North America. Demand for TiO_2 has remained strong throughout 2004, and while the Company believes that the strong demand is largely attributable to the end-use demand of its customers, it is possible that some portion of the strong demand resulted from customers increasing their inventory levels of TiO_2 in advance of implementation of announced or anticipated price increases. The Company's operating income comparisons were also favorably impacted by higher production levels, which increased 3%. The Company's operating rates were near full capacity in both periods, and the Company's sales and production volumes in 2004 were both new records for the Company.

The Company's cost of sales increased $92.7 million (18%) in 2004 compared to 2003 due to higher raw material and maintenance costs as well as higher sales volumes and related effects of translating foreign currencies into the U.S. dollar. The Company's cost of sales, as a percentage of net sales, increased from 72% in 2003 to 75% in 2004 due primarily to the effects of lower average selling prices and higher costs.

The Company's gross margins decreased $.6 million (less than 1%) from 2003 to 2004 due to the net effects of the aforementioned changes in sales and cost of sales during such periods.

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

The Company's income from operations decreased $16.8 million (15%) in 2004 as compared to 2003, as the effect of lower average TiO_2 selling prices and higher raw material and maintenance costs more than offset the impact of higher sales and production volumes. See also " – Effects of foreign currency exchange rates" below for a discussion of the impact of relative changes in currency exchange rates on the Company's operations.

Effects of foreign currency exchange rates

The Company's sales are denominated in various currencies, including the euro and other major European currencies. The disclosure of the percentage change in the Company's average TiO_2 selling prices in billing currencies (which excludes the effects of fluctuations in the value of the U.S. dollar relative to other currencies) is considered a "non-GAAP" financial measure under regulations of the SEC. The disclosure of the percentage change in the Company's average TiO_2 selling prices using actual foreign currency exchange rates prevailing during the respective periods is considered the most directly comparable financial measure presented in accordance with GAAP ("GAAP measure"). The Company discloses percentage changes in its average TiO_2 prices in billing currencies because the Company believes such disclosure provides useful information to investors to allow them to analyze such changes without the impact of changes in foreign currency exchange rates, thereby facilitating period-to-period comparisons of the relative changes in average selling prices in the actual various billing currencies. Generally, when the U.S. dollar either strengthens or weakens against other currencies, the percentage change in average selling prices in billing currencies will be higher or lower, respectively, than such percentage changes would be using actual exchange rates prevailing during the respective periods. The difference between the 4% and 7% increases in the

Company’s average TiO_2 selling prices during 2004 and 2005, respectively, as compared to the respective prior year using actual foreign currency exchange rates prevailing during the respective periods (the GAAP measure), and the 3% decrease and 5% increase in the Company’s average TiO_2 selling prices in billing currencies (the non-GAAP measure) during such periods is due to the effect of changes in foreign currency exchange rates. The above table presents (i) the percentage change in the Company’s average TiO_2 selling prices using actual foreign currency exchange rates prevailing during the respective periods (the GAAP measure), (ii) the percentage change in the Company’s average TiO_2 selling prices in billing currencies (the non-GAAP measure) and (iii) the percentage change due to changes in foreign currency exchange rates (or the reconciling item between the non-GAAP measure and the GAAP measure).

The Company’s operations and assets are located outside the United States (primarily in Germany, Belgium and Norway). A significant amount of the Company’s sales generated from its operations are denominated in currencies other than the U.S. dollar, principally the euro and other major European currencies. A portion of the Company’s sales generated from its operations are denominated in the U.S. dollar. Certain raw materials, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of the Company’s foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or adversely impact reported earnings and may affect the comparability of period-to-period operating results. Overall, fluctuations in the value of the U.S. dollar relative to other currencies, primarily the euro, increased TiO_2 sales by a net $13 million in 2005 as compared to 2004, and increased sales by a net $56 million in 2004 as compared to 2003. Fluctuations in the value of the U.S. dollar relative to other currencies similarly impacted the Company’s foreign currency-denominated operating expenses. The Company’s operating costs that are not denominated in the U.S. dollar, when translated into U.S. dollars, were higher in 2005 and 2004 compared to the same periods of the respective prior years. Overall, currency exchange rate fluctuations resulted in a net $10 million increase in the Company’s operating income in 2005 as compared to 2004, and resulted in a net increase in the Company’s operating income in 2004 of approximately $9 million as compared to 2003.

Outlook

The Company expects its income from operations in 2006 will be somewhat lower than 2005, as the favorable effect of anticipated modest improvements in sales volumes and average TiO_2 selling prices are expected to be more than offset by the effect of higher production costs, particularly raw material and energy costs. The Company’s expectations as to the future prospects of the Company and the TiO_2 industry are based upon a number of factors beyond the Company’s 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 the Company’s expectations, the Company’s results of operations could be unfavorably affected.

The Company’s efforts to debottleneck its production facilities to meet long-term demand continue to prove successful. Such debottlenecking efforts included, among other things, the addition of finishing capacity in the German facility and equipment upgrades and enhancements in several locations to allow for reduced downtime for maintenance activities. The Company's production capacity has increased by approximately 25% over the past ten years due to debottlenecking programs, with only moderate capital expenditures. The Company believes its annual attainable production capacity for 2006 is approximately 345,000 metric tons, with some slight additional capacity expected to be available in 2007 through its continued debottlenecking efforts.

Other income (expense)

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

	Years ended December 31,			Change	
	2003	2004	2005	2003-04	2004-05
			(In millions)		
Interest income from affiliates	$ -	$ 2.8	**$ 18.9**	$ 2.8	**16.1**
Trade interest income	.7	1.1	**1.0**	.4	**(.1)**
Securities transaction gain	-	-	**5.4**	-	**5.4**
Interest expense to affiliates	(.1)	-	**-**	.1	**-**
Interest expense	(32.5)	(36.7)	**(43.9)**	(4.2)	**(7.2)**
	$(31.9)	$(32.8)	**$(18.6)**	$ (.9)	**$ 14.2**

Interest income fluctuates in part based upon the amount of funds invested and yields thereon. Aggregate interest income increased $16.0 million in 2005 compared to 2004 due primarily to interest on KII's notes receivable from Kronos entered into during the fourth quarter of 2004. Aggregate interest income increased $3.2 million in 2004 compared to 2003 primarily due to interest on KII's notes receivable from Kronos entered into during the fourth quarter of 2004. The Company expects interest income will be slightly higher in 2006 than 2005 due to higher average yields expected on invested funds.

Securities transaction gain in 2005 relates to the sale of the Company's passive interest in a Norwegian smelting operation, which had a nominal carrying value for financial reporting purposes, for aggregate consideration of approximately $5.4 million consisting of cash of $3.5 million and inventory with a value of $1.9 million. See Note 9 to the Consolidated Financial Statements.

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

$3 million in 2004 as compared to 2003 and by approximately $1 million in 2005 as compared to 2004.

Assuming interest rates and foreign currency exchange rates do not increase significantly from current levels, interest expense in 2006 is expected to be comparable to 2005.

At December 31, 2005, approximately $453.8 million of consolidated indebtedness, principally KII's Senior Secured Notes, bears interest at fixed interest rates averaging 8.9% (2004 - $519.4 million with a weighted average interest rate of 8.9%; 2003 - $356 million with a weighted average fixed interest rate of 8.9%). The weighted average interest rate on $14 million of outstanding variable rate borrowings at December 31, 2004 was 3.9% (2003 and 2005 – none outstanding). See Note 6 to the Consolidated Financial Statements.

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

***Provision for income taxes*.** The principal reasons for the difference between the Company's effective income tax rates and the U.S. federal statutory income tax rates are explained in Note 10 to the Consolidated Financial Statements.

The Company's income tax expense in 2005 includes the net non-cash effects of (i) the aggregate favorable effects of recent developments with respect to certain non-U.S. income tax audits of Kronos, principally in Belgium, of $7.7 million and (ii) the unfavorable effect with respect to the loss of certain income tax attributes of Kronos in Germany of $17.5 million.

At December 31, 2005, the Company had the equivalent of $593 million and $104 million of income tax loss carryforwards for German corporate and trade tax purposes, respectively, all of which have no expiration date. As more fully described in Note 10 to the Consolidated Financial Statements, the Company had previously provided a deferred income tax asset valuation allowance against substantially all of these tax loss carryforwards and other deductible temporary differences in Germany because the Company did not believe they met the "more-likely-than-not" recognition criteria. During the first six months of 2004, the Company reduced its deferred income tax asset valuation allowance by approximately $8.7 million, primarily as a result of utilization of these German net operating loss carryforwards, the benefit of which had not previously been recognized. At June 30, 2004, after considering all available evidence, the Company concluded that these German tax loss carryforwards and other deductible temporary differences now met the "more-likely-than-not" recognition criteria. Under applicable GAAP related to accounting for income taxes at interim periods, a change in estimate at an interim period resulting in a decrease in the valuation allowance is segregated into two components, the portion related to the remaining interim periods of the current year and the portion related to all future years. The portion of the valuation allowance reversal related to the former is recognized over the remaining interim periods of the current year, and the portion of the valuation allowance related to the latter is recognized at the time the change in estimate is made. Accordingly, as of June 30, 2004, the Company reversed $268.6 million of the valuation allowance (the portion related to future years), and KII reversed the remaining $3.4 million during the last six months of 2004. Prior to the complete utilization of such carryforwards, it is possible that the Company might conclude in the future that the benefit of such carryforwards would no longer meet the "more-likely-than-not" recognition criteria, at which point the Company would be required to recognize a valuation allowance against the then-remaining tax benefit associated with the carryforwards.

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

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

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

***Related party transactions*.** The Company is a party to certain transactions with related parties. See Note 12 to the Consolidated Financial Statements. It is the policy of the Company to engage in transactions with related parties on terms, in the opinion of the Company, no less favorable to the Company than could be obtained from unrelated parties.

A*ccounting principles newly adopted in 2003 and 2004*. See Note 15 to the Consolidated Financial Statements.

Accounting principles not yet adopted: See Note 16 to Consolidated Financial Statements.

Defined benefit pension plans. The Company maintains various defined benefit pension plans in Europe. See Note 11 to the Consolidated Financial Statements.

The Company accounts for its defined benefit pension plans using SFAS No. 87, "*Employer’s Accounting for Pensions*." Under SFAS No. 87, defined benefit pension plan expense and prepaid and accrued pension costs are each recognized based on certain actuarial assumptions, principally the assumed discount rate, the assumed long-term rate of return on plan assets and the assumed increase in future compensation levels. The Company recognized consolidated defined benefit pension plan expense of $5.8 million in 2003, $10.4 million in 2004 and $11.5 million in 2005. The amount of funding requirements for these defined benefit pension plans is generally based upon applicable regulations (such as ERISA in the U.S.), and will generally differ from pension expense recognized under SFAS No. 87 for financial reporting purposes. Contributions made by the Company to all of its plans aggregated $10.2 million in 2003, $11.7 million in 2004 and $13.3 million in 2005.

The discount rates the Company utilizes for determining defined benefit pension expense and the related pension obligations are based on current interest rates earned on long-term bonds that receive one of the two highest ratings given by recognized rating agencies in the applicable country where the defined benefit pension benefits are being paid. In addition, the Company receives advice about appropriate discount rates from the Company's third-party actuaries, who may in some cases utilize their own market indices. The discount rates are adjusted as of each valuation date (September 30th) to reflect then-current interest rates on such long-term bonds. Such discount rates are used to determine the actuarial present value of the pension obligations as of December 31st of that year, and such discount rates are also used to determine the interest component of defined benefit pension expense for the following year.

At December 31, 2005, approximately 79% and 17% of the projected benefit obligation related to Company plans in Germany and Norway, respectively. The Company uses several different discount rate assumptions in determining its consolidated defined benefit pension plan obligations and expense because the Company maintains defined benefit pension plans in several different countries in Europe and the interest rate environment differs from country to country.

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

	Discount rates used for:		
	Obligations at December 31, 2003 and expense in 2004	**Obligations at December 31, 2004 and expense in 2005**	**Obligations at December 31, 2005 and expense in 2006**
Germany	5.3%	5.0%	4.0%
Norway	5.5%	5.0%	4.5%

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

At December 31, 2005, approximately 69% and 26% of the plan assets related to the Company's plans in Germany and Norway, respectively. The Company uses several different long-term rates of return on plan asset assumptions in determining its consolidated defined benefit pension plan expense because the Company maintains defined benefit pension plans in several different countries in Europe, the plan assets in different countries are invested in a different mix of investments and the long-term rates of return for different investments differ from country to country.

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

- In Germany, the composition of the Company’s plan assets is established to satisfy the requirements of the German insurance commissioner. The current plan asset allocation at December 31, 2005 was 23% to equity managers, 48% to fixed income managers and 29% to real estate (2004 – 23%, 48% and 29%, respectively).

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

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

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

	2003	**2004**	**2005**
Germany	6.5%	6.0%	5.5%
Norway	6.0%	6.0%	5.5%

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

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

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

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

During 2005, all of the Company’s defined benefit pension plans generated a net actuarial loss of $84.4 million. This actuarial loss resulted primarily from the general overall reduction in the assumed discount rates as well as the unfavorable effect of using updated mortality tables (which generally reflect individuals living longer than prior mortality tables used), partially offset by an actual return on plan assets in excess of the assumed return.

While actuarial gains and losses are deferred and amortized into income in future periods, as discussed above, GAAP also requires that a minimum amount of accrued pension cost be recognized in a statement of financial position for any plans for which the accumulated benefit obligation is less than the fair value of plan assets. To the extent GAAP accounting would otherwise result in an accrued pension cost balance for such plans that was less than the excess of the aggregate accumulated benefit obligation over the value of the related plan assets, GAAP then requires that such excess be recognized as a component of the consolidated accrued pension cost, with the offset to such additional accrued pension cost (commonly referred to as an "additional minimum liability") recognized (i) first as an intangible asset up to specified amounts (referred to as "unrecognized net pension obligations" in the Company’s balance sheet and then (ii) second as part of accumulated other comprehensive income (loss). At December 31, 2005, and primarily as a result of the aggregate $84.4 million actuarial loss generated during 2005 as discussed above, the amount of the additional minimum liability required to be recognized by the Company increased by approximately $81 million at December 31, 2005 as compared to December 31, 2004, resulting in the Company recognizing aggregate accrued pension cost (current and noncurrent) of $136.1 million at December 31, 2005 as compared to $57.0 million at December 31, 2004.

Based on the actuarial assumptions described above and the Company’s current expectation for what actual average foreign currency exchange rates will be during 2006, the Company expects its defined benefit pension expense will approximate $17 million in 2006. In comparison, the Company expects to be required to make approximately $12 million of contributions to such plans during 2006.

As noted above, defined benefit pension expense and the amounts recognized as prepaid and accrued pension costs are based upon the actuarial assumptions discussed above. The Company believes all of the actuarial assumptions used are reasonable and appropriate. If the Company had lowered the assumed discount rate by 25 basis points for all of its plans as of December 31, 2005, the Company's aggregate projected benefit obligations would have increased by approximately $12.7 million at that date, and the Company's defined benefit pension expense would be expected to increase by approximately $1.6 million during 2006. Similarly, if the Company lowered the assumed long-term rate of return on plan assets by 25 basis points for all of its plans, the Company's defined benefit pension expense would be expected to increase by approximately $500,000 during 2006.

Foreign operations

The Company's operations are located in Europe where the functional currency is not the U.S. dollar. As a result, the reported amount of the Company's assets and liabilities, and therefore the Company's consolidated net assets, will fluctuate based upon changes in currency exchange rates. At December 31, 2005, the Company had substantial net assets denominated in the euro, Norwegian kroner and United Kingdom pound sterling.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash flows

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

	Years ended December 31,		
	2003	**2004**	**2005**
	(In millions)		
Operating activities	$ 104.8	$ 142.2	**$ 92.7**
Investing activities	(31.7)	(34.2)	**(35.8)**
Financing activities	(54.9)	(129.9)	**(8.5)**
Net cash provided (used) by operating, investing and financing activities	$ 18.2	$ (21.9)	**$ 48.4**

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

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

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

Changes in product pricing, production volumes and customer demand, among other things, can significantly affect the liquidity of the Company. Relative changes in assets and liabilities generally result from the timing of production, sales, purchases and income tax payments. Such relative changes can significantly impact the comparability of cash flow from operations from period to period, as the income statement impact of such items may occur in a different period from when the underlying cash transaction occurs. For example, raw materials may be purchased in one period, but the payment for such raw materials may occur in a subsequent period. Similarly, inventory may be sold in one period, but the cash collection of the receivable may occur in a subsequent period. Relative changes in accounts receivable are affected by, among other things, the timing of sales and the collection of the resulting receivable. Relative changes in inventories, accounts payable and accrued liabilities are affected by, among other things, the timing of raw material purchases and the payment for such purchases and the relative difference between production volumes and sales volumes. The Company's average days sales outstanding ("DSO") decreased from 58 days at December 31, 2004 to 52 days at December 31, 2005, due to the timing of collections. At December 31, 2005, the average number of days in inventory ("DII") increased to 105 days from 99 days at December 31, 2004 due to the effects of higher production volume and lower sales volume.

Cash flows provided from operating activities decreased from $142.2 million in 2004 to $92.7 million in 2005. This $49.5 million decrease was due primarily to the net effect of (i) lower net income of $266.2 million, (ii) higher deferred income taxes of $304.8 million, (iii) a lower amount of net cash provided from changes in the Company's inventories, receivables, payables, accruals and accounts with affiliates of $60.3 million and (iv) higher cash paid for income taxes of $43.8 million, due primarily to refunds of income taxes of $23.8 million received in 2004.

Cash flows provided from operating activities increased from $104.8 million in 2003 to $142.2 million in 2004. This $37.4 million increase was due primarily to the net effect of (i) higher net income of $244.2 million, (ii) a larger deferred income tax benefit of $312.7 million, (iii) higher depreciation and amortization expense of $4.1 million, (iv) a higher amount of net cash provided from changes in the Company's inventories, receivables, payables, accruals and accounts with affiliates of $34.8 million and (v) higher cash received for income taxes of $12.3 million, which included refunds of income taxes of $11.5 million received in 2003 and $23.8 million of refunds of income taxes received in 2004.

Investing cash flows. The Company's capital expenditures were $31.5 million, $33.7 million and $39.5 million in 2003, 2004 and 2005, respectively. In addition, the Company purchased additional shares of its majority-owned French subsidiary for $575,000 in 2004 and the Company received $3.5 million in 2005 from the sale of its passive interest in a Norwegian smelting operation.

The Company's capital expenditures during the past three years include an aggregate of approximately $14 million ($4 million in 2005) for the Company's ongoing environmental protection and compliance programs. The Company's estimated 2006 capital expenditures are $37 million and include approximately $6 million in the area of environmental protection and compliance.

Financing cash flows. During 2005, KII (i) repaid euro 10 million ($12.9 million when repaid) under its three-year euro 80 million secured revolving credit facility ("European Credit Facility") and (ii) entered into additional capital lease agreements for certain mining equipment for the equivalent of approximately $4.4 million.

During 2004, (i) KII issued an additional euro 90 million principal amount of its Senior Secured Notes at 107% of par (equivalent to $130 million when issued) and (ii) KII's operating subsidiaries in Germany, Belgium and Norway borrowed an aggregate of euro 90 million ($112 million when borrowed) of borrowings under its European Credit Facility, of which euro 80 million ($100 million) were subsequently repaid. See Note 6 to the Consolidated Financial Statements.

In the fourth quarter of 2004, KII transferred an aggregate euro 163.1 million ($209.5 million) to Kronos in return for two promissory notes. Interest on both notes is payable to KII on a quarterly basis at an annual rate of 9.25%. Due to the long-term investment nature of these notes, settlement of the intercompany notes receivable is not contemplated within the foreseeable future and as such have been presented as a separate component of the Company's stockholder's equity.

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

Deferred financing costs of $2.0 million paid in 2004 for the Notes and the European Credit Facility are being amortized over the lives of the respective agreements and are included in other noncurrent assets as of December 31, 2005.

Cash dividends paid during 2003 and 2004 totaled $25.0 million and $60.0 million, respectively. (No dividends were paid in 2005). The declaration and payment of future dividends is discretionary, and the amount, if any, will be dependent upon the Company's results of operations, financial condition, contractual restrictions and other factors deemed relevant by the Company's Board of Directors.

Provisions contained in certain of our credit agreements could result in the acceleration of the applicable indebtedness prior to its stated maturity. For example, certain credit agreements allow the lender to accelerate the maturity of the indebtedness upon a change of control (as defined) of the borrower. In addition, certain credit agreements could result in the acceleration of all or a portion of the indebtedness following a sale of assets outside the ordinary course of business. Other than operating lease commitments disclosed in Note 13 to the Consolidated Financial Statements, the Company is not party to any material off-balance sheet financing arrangements.

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

Off-balance sheet financing. Other than operating lease commitments disclosed in Note 13 to the Consolidated Financial Statements, the Company is not party to any material off-balance sheet financing arrangements.

Cash, cash equivalents, restricted cash and restricted marketable debt securities and borrowing availability. At December 31, 2005, the Company had current cash and cash equivalents aggregating $63.3 million, had current restricted cash equivalents of $1.4 million and noncurrent restricted marketable debt securities of $2.6 million. At December 31, 2005, certain of the Company's subsidiaries had approximately $92 million available for borrowing under the European Credit Facility (based on borrowing availability). The European Credit Facility matures in June 2008. At December 31, 2005, the Company had approximately $92 million available for payment of dividends and other restricted payments as defined in the Notes indenture.

Based upon the Company's expectations for the TiO_2 industry and anticipated demands on the Company's cash resources as discussed herein, (including debt refinancing expectations) the Company expects to have sufficient liquidity to meet its short-term obligations (defined as the twelve-month period ending December 31, 2006) and its long-term obligations (defined as the five-year period ending December 31, 2010, the time period for which the Company generally does long-term budgeting), including operations, capital expenditures, debt service and current dividend policy. To the extent that actual developments differ from the Company's expectations, the Company's liquidity could be adversely affected.

Legal proceedings and environmental matters. See Note 13 to the Consolidated Financial Statements for certain legal proceedings and environmental matters with respect to the Company.

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

Other. The Company periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, its dividend policy, its debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, the Company in the past has sought, and in the future may seek, to reduce, refinance, repurchase or restructure indebtedness; raise additional capital; issue additional securities; restructure ownership interests; modify its dividend policy; sell interests in subsidiaries or other assets; or take a combination of such steps or other steps to manage its liquidity and capital resources. In the normal course of its business, the Company may review opportunities for the acquisition, divestiture, joint venture or other business combinations in the chemicals or other industries, as well as the acquisition of interests in related companies. In the event of any such acquisition or joint venture transaction, the Company may consider using available cash, issuing equity securities or increasing its indebtedness to the extent permitted by the agreements governing the Company's existing debt. See Note 6 to the Consolidated Financial Statements.

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

Summary of debt and other contractual commitments

As more fully described in the notes to the Consolidated Financial Statements, the Company is a party to various debt, lease and other agreements which contractually and unconditionally commit the Company to pay certain amounts in the future. See Notes 6 and 13 to the Consolidated Financial Statements. The following table summarizes such contractual commitments of the Company and its consolidated subsidiaries as of December 31, 2005 by the type and date of payment.

Contractual commitment	2006	2007/2008	Payment due date 2009/2010 (In millions)	2011 and after	Total
Third-party indebtedness	$ 1.0	$ 1.7	$ 451.1	$ -	$ 453.8
Interest payments on third-party indebtedness	39.1	77.8	38.8	-	155.7
Operating leases	3.3	4.6	2.7	21.0	31.6
Fixed asset acquisitions	6.1	-	-	-	6.1
Estimated tax obligations	21.8	-	-	-	21.8
	$ 71.3	$ 84.1	$ 492.6	$ 21.0	$ 669.0

The timing and amount shown for the Company's commitments related to indebtedness (principal and interest), operating leases and fixed asset acquisitions are based upon the contractual payment amount and the contractual payment date for such commitments. With respect to revolving credit facilities, the amount shown for indebtedness is based upon the actual amount outstanding at December 31, 2005, and the amount shown for interest for any outstanding variable-rate indebtedness is based upon the December 31, 2005 interest rate and assumes that such variable-rate indebtedness remains outstanding until the maturity of the facility. The amount shown for income taxes is the consolidated amount of income taxes payable at December 31, 2005, which is assumed to be paid during 2006. A significant portion of the amount shown for indebtedness relates to KII's Senior Secured Notes ($449.3 million at December 31, 2005). Such indebtedness is denominated in euro. See Item 7A – "Quantative and Qualitative Disclosures About Market Risk" and Note 6 to the Consolidated Financial Statements.

The above table does not reflect any amounts that the Company might pay to fund its defined benefit pension plans, as the timing and amount of any such future fundings are unknown and dependent on, among other things, the future performance of defined benefit pension plan assets, interest rate assumptions and actual future retiree medical costs. Such defined benefit pension plans are discussed above in greater detail. The above table also does not reflect any amounts that the Company might pay related to its asset retirement obligations, as the terms and amounts of such future fundings are unknown. See Notes 11 and 15 to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

December 31, 2004 and 2005. See Notes 1 and 14 to the Consolidated Financial Statements.

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

Indebtedness	Amount (In millions) Carrying value	Fair value	Interest rate	Maturity date
Fixed-rate indebtedness - euro-denominated Senior Secured Notes	$ 449.3	$ 463.6	8.9%	2009

At December 31, 2004, euro-denominated fixed rate indebtedness aggregated $519.2 million (fair value - $549.1 million) with a weighted-average interest rate of 8.9%. Variable rate indebtedness at December 31, 2004 was $13.6 million with a weighted average interest rate of 3.9%.

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

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

Internal Control Over Financial Reporting. The Company also maintains a system of internal controls over financial reporting. The term "internal control over financial reporting," as defined by regulations of the SEC, means a process designed by, or under the supervision of, the Company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the Company’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company,
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the Company’s Consolidated Financial Statements.

The Company currently expects that Section 404 of the Sarbanes-Oxley Act of 2002 will require the Company to annually include a management report on internal control over financial reporting starting with the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The Company's independent registered public accounting firm will also be required to annually audit the Company's internal control over financial reporting. In order to achieve compliance with Section 404, the Company has been documenting, testing and evaluating its internal control over financial reporting since 2004, using a combination of internal and external resources. The process of documenting, testing and evaluating the Company's internal control over financial reporting under the applicable guidelines is complex and time consuming, and available internal and external resources necessary to assist the Company in the documentation and testing required to comply with Section 404 are limited. While the Company currently believes it has dedicated the appropriate resources, that it will be able to fully comply with Section 404 in its Annual Report on Form 10-K for the year ended December 31, 2007 and be in a position to conclude that the Company's internal control over financial reporting is effective as of December 31, 2007, because the applicable requirements are complex and time consuming, and because currently unforeseen events or circumstances beyond the Company's control could arise, there can be no assurance that the Company will ultimately be able to fully comply with Section 404 in its Annual Report on Form 10-K for the year ended December 31, 2007 or whether it will be able to conclude that the Company's internal control over financial reporting is effective as of December 31, 2007.

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

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Omitted pursuant to the General Instruction I of Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Omitted pursuant to the General Instruction I of Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Omitted pursuant to the General Instruction I of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Omitted pursuant to the General Instruction I of Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table shows the aggregate fees PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm ("PwC"), has billed or is expected to bill to the Company and its subsidiaries for services rendered for 2004 and 2005. No fees were billed or expected to be billed by PwC to the Company for services performed in 2004 and 2005 for financial information systems design and implementation.

	December 31,	
	2004	2005
	(In thousands)	
Audit(1)	$ 1,149	$ 1,523
Audit related(2)	8	19
Tax(3)	12	21
Total	$ 1,169	$ 1,563

1) Fees for the following services:

   a) audits of the Company's consolidated year-end financials statements for each year;
   b) reviews of the unaudited quarterly financial statements appearing in the Company's Forms 10-Q for each of the first three quarters of each year;
   c) consents and assistance with registration statements filed with the Commission;
   d) normally provided statutory or regulatory filings or engagements for each year; and
   e) the estimated out-of-pocket costs PwC incurred in providing all of such services for which the Company reimburses PwC.

2) Fees for assurance and related services reasonably related to the audit or review of the Company's financial statements for each year. These services include employee benefit plan audits, accounting consultations and attest services concerning financial accounting and reporting standards and advice concerning internal controls.

3) Fees for tax compliance, tax advice and tax planning services.

See Appendix A to Kronos' proxy statement dated April 18, 2005 for the Kronos' audit committee's Preapproval Policy.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) and (c) Financial Statements and Schedules

The Registrant

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

Financial Statements of Guarantors

The consolidated financial statements of Kronos Titan GmbH and Kronos Denmark ApS listed on the accompanying Index of Financial Statements and Schedules (see page F-1) are filed as part of this Annual Report pursuant to Rule 3-16 of Regulation S-X. The Registrant is not required to provide any other financial statements pursuant to Rule 3-16 of Regulation S-X.

(b) Exhibits

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

Item No.	Exhibit Index
3.1	Certificate of Incorporation of the Registrant – incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-4 (File No. 333-100047).
3.2	Certificate of Amendment to Certificate of Incorporation of the Registrant, dated March 15, 1989 – incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-4 (File No. 333-100047).
3.3	Certificate of Amendment to Certificate of Incorporation of the Registrant, dated January 1, 1999 – incorporated by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form S-4 (File No. 333-100047).
3.4	Certificate of Amendment to Certificate of Incorporation of the Registrant, dated February 8, 1999 – incorporated by reference to Exhibit 3.4 to the Registrant's Registration Statement on Form S-4 (File No. 333-100047).

3.5 Certificate of Amendment to Certificate of Incorporation of the Registrant, dated December 15, 1999 – incorporated by reference to Exhibit 3.5 to the Registrant’s Registration Statement on Form S-4 (File No. 333-100047).

3.6 Amended and Restated Bylaws of the Registrant – incorporated by reference to Exhibit 3.6 to the Registrant’s Registration Statement on Form S-4 (File No. 333-100047).

4.1 Indenture governing the 8.875% Senior Secured Notes due 2009, dated as of June 28, 2002, between the Registrant and The Bank of New York, as trustee – incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.

4.2 Form of certificate of 8.875% Senior Secured Note due 2009 (included as Exhibit A to Exhibit 4.1) – incorporated by reference to Exhibit 4.2 to the Registrant’s Registration Statement on Form S-4 (File No. 333-100047).

4.3 Form of certificate of 8.875% Senior Secured Note due 2009 (included as Exhibit B to Exhibit 4.1) – incorporated by reference to Exhibit 4.3 to the Registrant’s Registration Statement on Form S-4 (File No. 333-100047).

4.4 Purchase Agreement, dated as of June 19, 2002, among the Registrant, Deutsche Bank AG London, Dresdner Bank AG, London Branch, and Commerzbank Aktiengesellschaft, London Branch – incorporated by reference to Exhibit 4.4 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.

4.5 Purchase Agreement dated November 18, 2004 between Kronos International, Inc. and Deutsche Bank AG London - incorporated by reference to Exhibit 4.4 to the Current Report on Form 8-K of the Registrant dated November 24, 2004.

4.6 Form of Registration Rights Agreement as of November 26, 2004 between Kronos International, Inc. and Deutsche Bank AG London - incorporated by reference to Exhibit 4.5 to the Current Report on Form 8-K of the Registrant dated November 24, 2004.

4.7 Collateral Agency Agreement, dated as of June 28, 2002, among The Bank of New York, U.S. Bank, N.A. and the Registrant (filed herewith only with respect to Sections 2, 5, 6 and 8 thereof) – incorporated by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.

4.8 Security Over Shares Agreement (shares of Kronos Limited), dated June 28, 2002, between the Registrant and The Bank of New York, U.S., as trustee – incorporated by reference to Exhibit 4.7 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.

4.9	Pledge of Shares (shares of Kronos Denmark ApS), dated June 28, 2002, between the Registrant and U.S. Bank, N.A., as collateral agent – incorporated by reference to Exhibit 4.8 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.
4.0	Pledge Agreement (pledge of shares of Société Industrielle du Titane, S.A.), dated June 28, 2002, between the Registrant and U.S. Bank, N.A., as collateral agent – incorporated by reference to Exhibit 4.9 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.
4.11	Partnership Interest Pledge Agreement (pledge of fixed capital contribution in Kronos Titan GmbH & Co. OHG), dated June 28, 2002, between the Registrant and U.S. Bank, N.A., as collateral agent – incorporated by reference to Exhibit 4.10 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.
4.12	Recapitalization Agreement, dated as of June 5, 2002, between the Registrant and Kronos, Inc. – incorporated by reference to Exhibit 4.12 to the Registrant's Registration Statement on Form S-4 (File No. 333-100047).
4.13	Redemption Agreement, dated as of June 6, 2002, between the Registrant and NL Industries, Inc. – incorporated by reference to Exhibit 4.13 to the Registrant's Registration Statement on Form S-4 (File No. 333-100047).
4.14	Form of Profit Participation Certificate (English translation from German language document) – incorporated by reference to Exhibit 4.14 to the Registrant's Registration Statement on Form S-4 (File No. 333-100047).
10.1	Euro 80,000,000 Facility Agreement, dated June 25, 2002, among Kronos Titan GmbH & Co. OHG, Kronos Europe S.A./N.V., Kronos Titan A/S and Titania A/S, as borrowers, Kronos Titan GmbH & Co. OHG, Kronos Europe S.A./N.V. and Kronos Norge AS, as guarantors, Kronos Denmark ApS, as security provider, Deutsche Bank AG, as mandated lead arranger, Deutsche Bank Luxembourg S.A., as agent and security agent, and KBC Bank NV, as fronting bank, and the financial institutions listed in Schedule 1 thereto, as lenders – incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended June 30, 2002.
10.2	First Amendment Agreement, dated September 3, 2004, Relating to a Facility Agreement dated June 25, 2002 among Kronos Titan GmbH, Kronos Europe S.A./N.V., Kronos Titan AS and Titania A/S, as borrowers, Kronos Titan GmbH, Kronos Europe S.A./N.V. and Kronos Norge AS, as guarantors, Kronos Denmark ApS, as security provider, with Deutsche Bank Luxembourg S.A., acting as agent – incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 of Kronos Worldwide, Inc. (File No. 333-119639).

10.3 Second Amendment Agreement Relating to a Facility Agreement dated June 25, 2002 executed as of June 14, 2005 by and among Deutsche Bank AG, as mandated lead arranger, Deutsche Bank Luxembourg S.A. as agent, the participating lenders, Kronos Titan GmbH, Kronos Europe S.A./N.V, Kronos Titan AS, Kronos Norge AS, Titania AS and Kronos Denmark ApS – incorporated by reference to Exhibit 10.1 of the Registrant’s Form 8-K dated June 14, 2005. Certain schedules, exhibits, annexes and similar attachments to this Exhibit 10.3 have not been filed; upon request, the Reporting Persons will furnish supplementally to the Commission a copy of any omitted exhibit, annex or attachment.

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

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

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

10.7 Master Technology Exchange Agreement, dated as of October 18, 1993, among Kronos, Inc., Kronos Louisiana, Inc., the Registrant, Tioxide Group Limited and Tioxide Group Services Limited – incorporated by reference to Exhibit 10.8 to the Quarterly Report on Form 10-Q of NL Industries, Inc. for the quarter ended September 30, 1993.

10.8 Intercorporate Services Agreement, dated as of January 1, 2005, among Kronos Worldwide, Inc., Kronos (US), Inc., Kronos International, Inc. and Kronos Canada, Inc.

10.9 Tax Agreement, dated as of May 28, 2002, between Kronos, Inc. and the Registrant – incorporated by reference to Exhibit 10.7 to the Registrant’s Registration Statement on Form S-4 (File No. 333-100047).

10.10 Services Agreement, dated as of January 1, 2004, among Kronos International, Inc., Kronos Europe S.A./N.V., Kronos (US), Inc., Kronos Titan GmbH, Kronos Denmark ApS, Kronos Canada, Inc., Kronos Limited, Societe Industrielle Du Titane, S.A., Kronos B.V., Kronos Titan AS and Titania AS.

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

10.12 Form of Cross License Agreement, effective as of January 1, 1999, between Kronos Inc. (formerly known as Kronos (USA), Inc.) and the Registrant – incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-4 (File No. 333-100047).

10.13** NL Industries, Inc. 1998 Long-Term Incentive Plan – incorporated by reference to Appendix A to the Proxy Statement on Schedule 14A of NL Industries, Inc. for the annual meeting of shareholders held on May 6, 1998.

10.14** Form of Kronos Worldwide, Inc. Long-Term Incentive Plan – incorporated by reference to Exhibit 10.4 of Kronos Worldwide, Inc.'s Registration Statement on Form 10 (File No. 001-31763).

10.15** Form of Indemnity Agreement between the Registrant and the officers and directors of the Registrant – incorporated by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-4 (File No. 333-100047).

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

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

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

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

10.20* Amendment to Richards Bay Slag Sales Agreement dated October 31, 2003 between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc – incorporated by reference to Exhibit 10.17 to Kronos Worldwide, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003.

10.21	Agreement between Sachtleben Chemie GmbH and Kronos Titan-GmbH effective December 30, 1986 – incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.
10.22	Supplementary Agreement to the Agreement of December 30, 1986 between Sachtleben Chemie GmbH and Kronos Titan-GmbH dated May 3, 1996 – incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.
10.23	Second Supplementary Agreement to the Contract dated December 30, 1986 between Sachtleben Chemie GmbH and Kronos Titan-GmbH dated January 8, 2002 – incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.
10.24**	Summary of Consulting Arrangement, beginning on August 1, 2003, between Lawrence A. Wigdor and Kronos Worldwide, Inc. – incorporated by reference to Exhibit 10.50 to NL Industries, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2004.
10.25	Agency Agreement, dated as of January 1, 2004, among Kronos International, Inc., Kronos Titan GmbH, Kronos Europe S.A./N.V., Kronos Canada, Inc., Kronos Titan AS and Societe Indutrielle Du Titane, S.A.
10.26	Titanium Dioxide Products and Titanium Chemicals Distribution Agreement, dated as of January 1, 2005, among Kronos Titan GmbH, Kronos Europe S.A./N.V., Kronos Canada, Inc., Kronos Titan AS, Kronos (US), Inc., Kronos Denmark ApS, Kronos Titan GmbH, Kronos Limited, Societe Industrielle Du Titane, S.A. and Kronos B.V.
10.27	Raw Material Purchase and Sale Agreement, dated as of January 1, 2004, among Kronos (US), Inc., Kronos Titan GmbH, Kronos Europe S.A./N.V. and Kronos Canada, Inc.
10.28	Promissory note in the amount of euro 65,000,000, dated as of October 12, 2004 between the Registrant and Kronos Worldwide, Inc.
10.29	Promissory note in the amount of euro 98,094,875, dated as of November 26, 2004 between the Registrant and Kronos Worldwide, Inc.
12.1	Statements of Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends
12.2	Statements of Computation of Ratio of Earnings to Fixed Charges
31.1	Certification.
31.2	Certification.

32.1 Certification.

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

** Management contract, compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kronos International, Inc.
(Registrant)

By: /s/ Harold C. Simmons
Harold C. Simmons
March 28, 2006
(Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

/s/ Dr. Henry Basson
Dr. Henry Basson, March 28, 2006
(Director)

/s/ Gregory M. Swalwell
Gregory M. Swalwell, March 28, 2006
(Vice President, Finance;
Principal Financial Officer)

/s/ Andrew Kasprowiak
Andrew Kasprowiak, March 28, 2006
(Director)

/s/ Volker Roth
Volker Roth, March 28, 2006
(Director)

/s/ Dr. Ulfert Fiand
Dr. Ulfert Fiand, March 28, 2006
(Director)

/s/ James W. Brown
James W. Brown, March 28, 2006
(Vice President, Controller,
Principal Accounting Officer)

KRONOS INTERNATIONAL, INC.

Annual Report on Form 10-K

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

Index of Financial Statements and Schedules

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholder and Board of Directors of Kronos International, Inc.:

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

PricewaterhouseCoopers LLP

Dallas, Texas
March 28, 2006

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2005

(In thousands, except share data)

ASSETS	2004	2005
Current assets:		
Cash and cash equivalents	$ 17,505	**$ 63,284**
Restricted cash	1,529	**1,355**
Accounts and other receivables	130,729	**120,182**
Receivables from affiliates	2,517	**1,952**
Refundable income taxes	2,586	**1,053**
Inventories	170,261	**185,348**
Prepaid expenses	3,141	**2,680**
Total current assets	328,268	**375,854**
Other assets:		
Deferred financing costs, net	10,404	**7,722**
Restricted marketable debt securities	2,877	**2,572**
Unrecognized net pension obligation	7,524	**6,108**
Deferred income taxes	238,284	**213,275**
Other	1,591	**960**
Total other assets	260,680	**230,637**
Property and equipment:		
Land	34,164	**30,288**
Buildings	153,442	**138,925**
Equipment	724,904	**644,271**
Mining properties	71,980	**68,163**
Construction in progress	13,560	**12,112**
	998,050	**893,759**
Less accumulated depreciation and amortization	601,815	**544,984**
Net property and equipment	396,235	**348,775**
	$985,183	**$955,266**

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

December 31, 2004 and 2005

(In thousands, except share data)

LIABILITIES AND STOCKHOLDER'S EQUITY	2004	2005
Current liabilities:		
Current maturities of long-term debt	$ 13,792	**$ 958**
Accounts payable and accrued liabilities	126,949	**118,285**
Payable to affiliates	11,042	**14,882**
Income taxes	17,080	**21,799**
Deferred income taxes	2,722	**4,136**
Total current liabilities	171,585	**160,060**
Noncurrent liabilities:		
Long-term debt	519,403	**452,865**
Deferred income taxes	22,358	**19,265**
Accrued pension cost	48,441	**125,766**
Other	16,840	**15,434**
Total noncurrent liabilities	607,042	**613,330**
Minority interest	76	**75**
Stockholder's equity:		
Common stock, $100 par value; 100,000 shares authorized; 2,968 shares issued	297	**297**
Additional paid-in capital	1,944,185	**1,944,185**
Retained deficit	(1,399,118)	**(1,339,332)**
Notes receivable from affiliate	(209,526)	**(209,526)**
Accumulated other comprehensive loss:		
Currency translation	(99,764)	**(130,178)**
Pension liabilities	(29,594)	**(83,645)**
Total stockholder's equity	206,480	**181,801**
	$ 985,183	**$ 955,266**

Commitments and contingencies (Notes 10 and 13)

See accompanying notes to consolidated financial statements.

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Net sales	$715,906	$807,970	**$850,873**
Cost of sales	516,864	609,559	**613,178**
Gross margin	199,042	198,411	**237,695**
Selling, general and administrative expense	86,965	104,110	**110,185**
Other operating income (expense):			
Currency transaction gains (losses), net	(3,721)	(2,243)	**4,090**
Disposition of property and equipment	(394)	(895)	**(1,395)**
Royalty income	6,122	6,034	**6,827**
Other income	489	426	**576**
Other expense	(130)	(72)	**(86)**
Income from operations	114,443	97,551	**137,522**
Other income (expense):			
Interest income from affiliates	30	2,767	**18,943**
Trade interest income	700	1,147	**951**
Securities transaction gain	-	-	**5,439**
Interest expense to affiliates	(81)	(4)	**-**
Other interest expense	(32,529)	(36,688)	**(43,950)**
Income before income taxes and minority interest	82,563	64,773	**118,905**
Provision (benefit) for income taxes	730	(261,260)	**59,107**
Minority interest	72	53	**12**
Net income	$ 81,761	$325,980	**$ 59,786**

See accompanying notes to consolidated financial statements.

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Net income	$ 81,761	$ 325,980	**$ 59,786**
Other comprehensive (loss) income, net of tax:			
Minimum pension liabilities adjustment	(27,647)	4,803	**(54,051)**
Currency translation adjustment	5,600	33,661	**(30,414)**
Total other comprehensive income (loss)	(22,047)	38,464	**(84,465)**
Comprehensive income (loss)	$ 59,714	$ 364,444	**$ (24,679)**

See accompanying notes to consolidated financial statements.

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	Common stock	Additional paid-in capital	Retained earnings (deficit)	Notes receivable from affiliates	Accumulated other comprehensive income (loss) Currency translation	Accumulated other comprehensive income (loss) Pension liabilities	Total common stockholder's equity
Balance at December 31, 2002	$ 297	$1,944,185	$(1,721,859)	$ -	$(139,025)	$ (6,750)	$ 76,848
Net income	-	-	81,761	-	-	-	81,761
Other comprehensive income (loss), net of tax	-	-	-		5,600	(27,647)	(22,047)
Cash dividends	-	-	(25,000)	-	-	-	(25,000)
Balance at December 31, 2003	297	1,944,185	(1,665,098)	-	(133,425)	(34,397)	111,562
Net income	-	-	325,980	-	-	-	325,980
Other comprehensive income (loss), net of tax	-	-	-	-	33,661	4,803	38,464
Change in notes receivable from affiliates	-	-	-	(209,526)	-	-	(209,526)
Cash dividends	-	-	(60,000)	-	-	-	(60,000)
Balance at December 31, 2004	297	1,944,185	(1,399,118)	(209,526)	(99,764)	(29,594)	206,480
Net income	-	-	59,786	-	-	-	59,786
Other comprehensive loss, net of tax	-	-	-	-	(30,414)	(54,051)	(84,465)
Balance at December 31, 2005	$ 297	$1,944,185	$(1,339,332)	$(209,526)	$(130,178)	$(83,645)	$ 181,801

See accompanying notes to consolidated financial statements.

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Cash flows from operating activities:			
Net income	$ 81,761	$ 325,980	**$ 59,786**
Depreciation and amortization	33,634	37,726	**36,504**
Noncash interest expense	1,944	2,044	**2,566**
Deferred income taxes	38,690	(273,985)	**30,815**
Minority interest	72	53	**12**
Net loss from disposition of property and equipment	394	895	**1,395**
Securities transaction gain	-	-	**(5,439)**
Defined benefit pension plan expense greater (less) than cash funding	(3,805)	(800)	**(2,335)**
Other, net	250	987	**(1,839)**
Change in assets and liabilities:			
Accounts and other receivables	1,104	(6,227)	**(9,641)**
Inventories	232	11,582	**(38,938)**
Prepaid expenses	1,345	(233)	**(228)**
Accounts payable and accrued liabilities	5,495	27,922	**10,781**
Income taxes	(37,231)	25,557	**7,917**
Accounts with affiliates	(14,424)	(6,103)	**4,674**
Other noncurrent assets	(3,779)	1,981	**(690)**
Other noncurrent liabilities	(894)	(5,124)	**(2,636)**
Net cash provided by operating activities	104,788	142,255	**92,704**
Cash flows from investing activities:			
Capital expenditures	(31,518)	(33,679)	**(39,522)**
Purchase of interest in subsidiary	-	(575)	**-**
Proceeds from disposal of interest in Norwegian smelting operation	-	-	**3,542**
Change in restricted cash equivalents and restricted marketable debt securities, net	(554)	(70)	**129**
Proceeds from disposition of property and equipment	383	99	**37**
Net cash used by investing activities	(31,689)	(34,225)	**(35,814)**

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Cash flows from financing activities:			
Indebtedness:			
Borrowings	$ 16,106	$ 241,648	**$ 4,620**
Principal payments	(46,006)	(100,073)	**(13,159)**
Deferred financing fees	-	(1,989)	**-**
Loans to affiliates	-	(209,524)	**-**
Dividends paid	(25,000)	(60,000)	**-**
Distributions to minority interests	(14)	-	**-**
Net cash used by financing activities	(54,914)	(129,938)	**(8,539)**
Cash and cash equivalents - net change from:			
Operating, investing and financing activities	18,185	(21,908)	**48,351**
Currency translation	3,913	2,292	**(2,572)**
	22,098	(19,616)	**45,779**
Balance at beginning of year	15,023	37,121	**17,505**
Balance at end of year	$ 37,121	$ 17,505	**$ 63,284**
Supplemental disclosures - cash paid (received) for:			
Interest	$ 28,147	$ 33,425	**$ 40,912**
Income taxes	(11,480)	(23,776)	**20,033**
Inventories received as partial consideration for disposal of interest in Norwegian smelting operations	$ -	$ -	**$ 1,897**

See accompanying notes to consolidated financial statements.

Note 1 - Summary of significant accounting policies:

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

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

***Principles of consolidation*.** The consolidated financial statements include the accounts of KII and its wholly-owned and majority-owned subsidiaries. All material intercompany accounts and balances have been eliminated. Minority interest relates to the Company's majority-owned subsidiary in France, which conducts the Company's marketing and sales activities in that country. During 2004, the Company increased its ownership interest by approximately 5% to 99% in such subsidiary by acquiring shares previously held by certain of its other stockholders for an aggregate of $575,000.

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

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

Cash and cash equivalents. Cash equivalents include bank deposits with original maturities of three months or less.

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

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

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

Expenditures for maintenance, repairs and minor renewals are expensed; expenditures for major improvements are capitalized. The Company performs planned major maintenance activities during the year. Repair and maintenance costs estimated to be incurred in connection with planned major maintenance activities are accrued in advance and are included in cost of sales. Accrued repair and maintenance costs, included in other current liabilities and consisting primarily of materials and supplies, was $3.9 million and $3.4 million at December 31, 2004 and 2005, respectively.

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

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

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

Employee benefit plans. Accounting and funding policies for retirement plans are described in Note 11.

Income taxes. Prior to December 2003, KII, Kronos and its qualifying subsidiaries were members of NL's consolidated U.S. federal income tax group (the "NL Tax Group"). As a member of the NL Tax Group, the Company was a party to a tax sharing agreement (the "NL Tax Agreement"). The NL Tax Group, including KII, is included in the consolidated U.S. federal tax return of Contran (the "Contran Tax Group"). As a member of the Contran Tax Group, NL is a party to a separate tax sharing agreement (the "Contran Tax Agreement"). The Contran Tax Agreement provides that NL and its qualifying subsidiaries, including KII, compute provisions for U.S. income taxes on a separate-company basis using the tax elections made by Contran. Pursuant to the Kronos Tax Sharing Agreement and using the tax elections made by Contran, KII made payments to or received payments from Kronos in amounts it would have paid to or received from the U.S. Internal Revenue Service had it not been a member of NL's consolidated tax group but instead was a separate taxpayer. Refunds are limited to amounts previously paid under the NL Tax Sharing Agreement.

Effective December 2003, following NL's distribution of 48.8% of the outstanding shares of Kronos common stock to NL stockholders, Kronos and its qualifying subsidiaries, including KII, ceased being members of the NL Tax Group, but remained as members of the Contran Tax Group. Kronos entered into a new tax sharing agreement with Valhi and Contran, which contains similar terms to the NL Tax Agreement. As a member of the Contran Tax Group, KII is jointly and severally liable for the federal income tax liability of Contran and the other companies included in the Contran Tax Group for all periods in which the Company is included in the Contran Tax Group. See Note 10. Kronos and its consolidating subsidiaries, including KII, are also included in Contran’s consolidated unitary state income tax returns in certain qualifying U.S. jurisdictions. The terms of the Contran Tax Agreement also apply to state provisions in these jurisdictions. The Company made no payments to Kronos for income taxes in 2003, 2004 or 2005.

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

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

Inventories and cost of sales. Inventories are stated at the lower of cost (principally average cost) or market, net of allowance for slow-moving inventories ($7.3 million and $6.5 million at December 31, 2004 and 2005, respectively). Amounts are removed from inventories at average cost. Cost of sales includes costs for materials, packing and finishing, utilities, salary and benefits, maintenance and depreciation.

Selling, general and administrative expenses; shipping and handling costs. Selling, general and administrative expenses include costs related to marketing, sales, distribution, shipping and handling, research and development, legal and administrative functions such as accounting, treasury and finance, and includes costs for salaries and benefits, travel and entertainment, promotional materials and professional fees. Shipping and handling costs are included in selling, general and administrative expense and were $43 million in 2003, $49 million in 2004 and $52 million in 2005. Advertising costs are expensed as incurred and were $1 million in each of 2003, 2004 and 2005. Research, development and certain sales technical support costs are expensed as incurred and approximated $7 million in 2003, $8 million in 2004 and $9 million in 2005.

Stock options. The Company has not issued any stock options. However, certain employees of the Company have been granted options by NL to purchase NL common stock. The Company has elected the disclosure alternative prescribed by SFAS No. 123, "*Accounting for Stock-Based Compensation*," as amended, and to account for its stock-based employee compensation related to stock options in accordance with Accounting Principles Board Opinion ("APBO") No. 25, "*Accounting for Stock Issued to Employees*," and its various interpretations. Under APBO No. 25, no compensation cost is generally recognized for fixed stock options in which the exercise price is not less than the market price on the grant date. Prior to 2003, and following NL’s cash settlement of options to purchase NL common stock held by certain individuals, NL and the Company commenced accounting for its stock options using the variable accounting method because NL could not overcome the presumption that it would not similarly cash settle its remaining stock options. Under the variable accounting method, the intrinsic value of all unexercised stock options (including those with an exercise price at least equal to the market price on the date of grant) are accrued as an expense over their vesting period, with subsequent increases (decreases) in NL's market price resulting in additional compensation expense (income). Upon exercise of such options to purchase NL common stock held by employees of the Company, the Company pays NL an amount equal to the difference between the market price of NL’s common stock on the date of exercise and the exercise price of such stock option. Aggregate compensation expense related to NL stock options held by employees of the Company was $300,000 in 2003 and $1.0 million in 2004, and compensation income was $600,000 in 2005. The total income tax benefit related to such compensation cost recognized by the Company was approximately $100,000 in 2003 and $400,000 in 2004, and the total income tax provision related to the compensation income was $200,000 in 2005. No compensation cost was capitalized as part of assets (inventory or fixed assets) during 2003, 2004 and 2005.

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

	Years ended December 31,		
	2003	2004 (In millions)	2005
Net income (loss) as reported	$ 81.8	$ 326.0	**$ 59.8**
Adjustments, net of applicable income tax effects and minority interest:			
Stock-based employee compensation expense (income) determined under APBO No. 25	.1	.6	**(.3)**
Stock-based employee compensation expense determined under SFAS No. 123	(.1)	-	**-**
Pro forma net income (loss)	$ 81.8	$ 326.6	**$ 59.5**

Note 2 - Geographic information:

The Company's operations are associated with the production and sale of TiO_2. Titanium dioxide pigments are used to impart whiteness, brightness and opacity to a wide variety of products, including paints, plastics, paper, fibers and ceramics. All of the Company's net assets are located in Europe.

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

	Years ended December 31,		
	2003	2004 (In thousands)	2005
Geographic areas			
Net sales – point of origin:			
Germany	$ 510,105	$ 576,138	**$ 613,081**
Belgium	150,728	186,445	**186,951**
Norway	131,457	144,492	**160,529**
Eliminations	(76,384)	(99,105)	**(109,688)**
	$ 715,906	$ 807,970	**$ 850,873**

	Years ended December 31,		
	2003	2004 (In thousands)	2005
Net sales – point of destination:			
Europe	$ 567,630	$ 666,271	**$ 689,516**
North America	58,293	42,015	**51,922**
Other	89,983	99,684	**109,435**
	$ 715,906	$ 807,970	**$ 850,873**

	December 31, 2004	December 31, 2005
	(In thousands)	
Identifiable assets - net property and equipment:		
Germany	$269,922	**$235,932**
Belgium	68,314	**57,943**
Norway	57,808	**54,759**
Other	191	**141**
	$396,235	**$348,775**

Note 3 - Accounts and other receivables:

	December 31, 2004	December 31, 2005
	(In thousands)	
Trade receivables	$120,969	**$110,268**
Insurance claims	32	**26**
Recoverable VAT and other receivables	11,388	**11,317**
Allowance for doubtful accounts	(1,660)	**(1,429)**
	$130,729	**$120,182**

Note 4 - Inventories

	December 31, 2004	December 31, 2005
	(In thousands)	
Raw materials	$ 34,303	**$ 42,807**
Work in process	13,044	**13,654**
Finished products	90,083	**98,004**
Supplies	32,831	**30,883**
	$170,261	**$185,348**

Note 5 - Accounts payable and accrued liabilities:

	December 31, 2004	December 31, 2005
	(In thousands)	
Accounts payable	$ 67,463	**$ 63,382**
Employee benefits	27,863	**27,147**
Other	31,623	**27,756**
	$126,949	**$118,285**

Note 6 - Long-term debt:

	December 31, 2004	December 31, 2005
	(In thousands)	
Long-term debt:		
8.875% Senior Secured Notes	$519,225	**$449,298**
Bank credit facility	13,622	**-**
Other	348	**4,525**
	533,195	**453,823**
Less current maturities	13,792	**958**
	$519,403	**$452,865**

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

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

Under the cross-default provisions of the Notes, the Notes may be accelerated prior to their stated maturity if KII or any of KII's subsidiaries default under any other indebtedness in excess of $20 million due to a failure to pay such other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under such other indebtedness). Under the cross-default provisions of the European Credit Facility, any outstanding borrowings under the European Credit Facility may be accelerated prior to their stated maturity if the Borrowers or KII default under any other indebtedness in excess of euro 5 million due to a failure to pay such other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under such other indebtedness). The European Credit Facility contains provisions that allow the lender to accelerate the maturity of the applicable facility in the event of a change of control, as defined, of the applicable borrower. In the event the cross-default provisions of either the Notes or the European Credit Facility become applicable, and such indebtedness is accelerated, the Company would be required to repay such indebtedness prior to their stated maturity.

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

Years ending December 31,	Amount (In thousands)
2006	**$ 958**
2007	**861**
2008	**872**
2009	**450,200**
2010	**932**
2011 and thereafter	**-**
	$453,823

Restrictions. Certain of the credit facilities described above require the respective borrower to maintain minimum levels of equity, require the maintenance of certain financial ratios, limit dividends and additional indebtedness and contain other provisions and restrictive covenants customary in lending transactions of this type. At December 31, 2005, the restricted net assets of consolidated subsidiaries approximated $90 million.

Note 7 – Other noncurrent liabilities:

	December 31, 2004	December 31, 2005
	(In thousands)	
Insurance claims and expenses	$ 1,505	**$ 1,255**
Employee benefits	5,107	**4,735**
Asset retirement obligations	958	**934**
Other	9,270	**8,510**
	$16,840	**$15,434**

The asset retirement obligations are discussed in Note 15.

Note 8 – Common stock and notes receivable from affiliates:

NL common stock options held by employees of the Company. At December 31, 2005, employees of the company held options to purchase approximately 68,000 shares of NL common stock, which are exercisable at various dates through 2010 (approximately 33,000) at exercise prices ranging from $2.66 to $9.34 per share, and exercisable at various dates through 2011 (approximately 35,000) at an exercise price of $11.49 per share. Such options generally vest over five years, and vesting ceases at the date the employee separates from service from the Company (including retirement).

The pro forma information required by SFAS No. 123 is based on an estimation of the fair value of options issued subsequent to January 1, 1995. See Note 1. No options were granted in 2003, 2004 or 2005. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods.

Common stock dividends. KII paid $25.0 million in cash dividends to Kronos during 2003, $60.0 million during 2004 and nil in 2005.

Notes receivable from affiliates – contra equity. In the fourth quarter of 2004, KII loaned an aggregate euro 163.1 million ($209.5 million) to Kronos in return for two promissory notes. Interest on both notes is payable to KII on a quarterly basis at an annual rate of 9.25%, such interest was and is expected to be paid quarterly to the Company by Kronos. The notes mature on December 31, 2010, with all principal due at that date. The notes are unsecured, contain no financial covenants and provide for default only upon Kronos' failure to pay any amount when due (subject to a short grace period). Due to the long-term investment nature of these notes, settlement of the principal balance of the notes is not contemplated within the foreseeable future. The Company currently expects that settlement of the principal amount of the notes will occur through a capital transaction (i.e. a non-cash dividend to Kronos in the form of distributing such notes receivable to Kronos). Accordingly, these notes receivable have been classified as a separate component of the Company's stockholder's equity in accordance with GAAP. Interest income on such notes, which is expected to be paid quarterly, is recognized in income when earned. Rather than make a distribution to Kronos in the form of a cash dividend, the Company loaned the euro 163.1 million to Kronos pursuant to the two promissory notes. Until such time as the notes are settled (which, as noted above, is expected to be through a capital transaction in the form of a non-cash dividend), the Company benefits from the interest income earned on the promissory notes.

Cash flows related to principal amounts on such loans made to affiliates included in contra equity are reflected in financing activities in the accompanying Consolidated Statements of Cash Flows.

Note 9 – Securities transaction gain:

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

Note 10 - Income taxes:

	Years ended December 31,		
	2003	2004	2005
		(In millions)	
Pre-tax income (loss):			
Germany	$ 45.8	$ 30.2	**$ 64.3**
Other non-U.S.	36.8	34.6	**54.6**
	$ 82.6	$ 64.8	**$ 118.9**
Expected tax expense (benefit), at U.S. federal statutory income tax rate of 35%	$ 28.9	$ 22.7	**$ 41.6**
Non-U.S. tax rates	(.9)	.3	**.5**
Loss of German tax attribute	-	-	**17.5**
Nondeductible expenses	2.7	4.2	**4.6**
Change in deferred income tax valuation allowance, net	(6.7)	(280.7)	**-**
Tax contingency reserve adjustment, net	13.4	(4.6)	**(7.7)**
Assessment (refund) of prior year income taxes	(38.0)	(2.6)	**2.1**
Other, net	1.3	(.6)	**.5**
	$ .7	$(261.3)	**$ 59.1**
Components of income tax expense (benefit):			
Currently payable (refundable):			
Germany	$(56.9)	$ (.2)	**$ 10.8**
Other non – U.S.	18.9	12.9	**17.5**
	(38.0)	12.7	**28.3**
Deferred income taxes (benefit):			
Germany	44.4	(270.5)	**31.2**
Other non - U.S.	(5.7)	(3.5)	**(.4)**
	38.7	(274.0)	**30.8**
	$ .7	$(261.3)	**$ 59.1**
Comprehensive provision for income taxes (benefit) allocable to:			
Net income	$ .7	$(261.3)	**$ 59.1**
Other comprehensive income - pension liabilities	(9.5)	(8.1)	**(32.4)**
	$ (8.8)	$(269.4)	**$ 26.7**

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

	December 31,			
	2004		2005	
	Assets	Liabilities	Assets	Liabilities
	(In millions)			
Tax effect of temporary differences related to:				
Inventories	$ 1.5	$ (4.4)	**$ 1.6**	**$ (4.5)**
Property and equipment	37.8	(22.9)	**25.5**	**(20.5)**
Accrued (prepaid) pension cost	19.4	(40.4)	**51.9**	**(35.6)**
Other accrued liabilities and deductible differences	46.1	-	**25.6**	**-**
Other taxable differences	-	(43.5)	**-**	**(28.6)**
Investment in subsidiaries/affiliates not in tax group	1.9	-	**-**	**-**
Tax loss and tax credit carryforwards	217.8	-	**174.5**	**-**
Adjusted gross deferred tax assets (liabilities)	324.5	(111.2)	**279.1**	**(89.2)**
Netting of items by tax jurisdiction	(86.2)	86.2	**(65.8)**	**65.8**
	238.3	(25.0)	**213.3**	**(23.4)**
Less net current deferred tax asset (liability)	-	(2.7)	**-**	**(4.1)**
Net noncurrent deferred tax asset (liability)	$238.3	$ (22.3)	**$213.3**	**$(19.3)**

	Years ended December 31,		
	2003	2004	2005
	(In millions)		
Increase (decrease) in valuation allowance:			
Recognition of certain deductible tax attributes for which the benefit had not previously been recognized under the "more-likely-than-not" recognition criteria	$ (6.7)	$(280.7)	**$ -**
Foreign currency translation	28.2	(3.0)	**-**
Offset to the change in gross deferred income tax assets due principally to redeterminations of certain tax attributes and implementation of certain tax planning strategies	(12.5)	121.0	**-**
	$ 9.0	$(162.7)	**$ -**

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

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

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

During the third quarter of 2005, the Company reached an agreement in principle with the German tax authorities regarding such tax authorities' objection to the value assigned to certain intellectual property rights held by the Company's operating subsidiary in Germany. Under the agreement in principle, the value assigned to such intellectual property for German income tax purposes will be reduced retroactively, resulting in a reduction in the amount of the Company's net operating loss carryforward in Germany as well as a future reduction in the amount of amortization expense attributable to such intellectual property. As a result, the Company recognized a $17.5 million non-cash deferred income tax expense in the third quarter of 2005 related to such agreement. The $7.7 million tax contingency adjustment income tax benefit in the year ended December 31, 2005 relates primarily to the withdrawal of the Belgium tax authorities' assessment related to 1999, as discussed above.

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

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

In the first quarter of 2003, KII was notified by the German Federal Fiscal Court that the Court had ruled in KII’s favor concerning a claim for refund suit in which KII sought refunds of prior taxes paid during the periods 1990 through 1997. KII and KII's German operating subsidiary were required to file amended tax returns with the German tax authorities to receive refunds for such years, and all of such amended returns were filed during 2003. Such amended returns reflected an aggregate net refund of taxes and related interest to KII and its German operating subsidiary of euro 26.9 million ($32.1 million), and the Company recognized the benefit of these net refunds in its 2003 results of operations. For the year ended December 31, 2004, the Company recognized a net refund of euro 2.5 million ($3.1 million) related to additional net interest which has accrued on the outstanding refund amount. In 2004, KII and its German operating subsidiary had received net refunds of euro 35.6 million ($44.7 million when received). All refunds relating to the periods 1990 to 1997 were received by December 31, 2004. In addition to the refunds for the 1990 to 1997 periods, the court ruling also resulted in a refund of 1999 income taxes and interest, and the Company recognized euro 21.5 million ($24.6 million) in 2003.

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

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

Note 11 - Employee benefit plans:

The Company maintains various defined benefit pension plans. Employees are covered by plans in their respective countries. Variances from actuarially assumed rates will result in increases or decreases in accumulated pension obligations, pension expense and funding requirements in future periods. In 2002 the Company amended its defined benefit pension plans for KEU, TAS and TIA to exclude the admission of new employees to the plans. New employees at these locations are eligible to participate in Company-sponsored defined contribution plans. The Company’s expense related to the Company-sponsored defined contribution plans was not material in 2004 or 2005. At December 31, 2005, the Company currently expects to contribute the equivalent of approximately $12 million to all of its defined benefit pension plans during 2006.

The funded status of the Company's defined benefit pension plans, the components of net periodic defined benefit pension cost related to the Company’s consolidated business segments and charged to continuing operations and the rates used in determining the actuarial present value of benefit obligations are presented in the tables below. The Company uses a September 30th measurement date for their defined benefit pension plans.

	Years ended December 31, 2004	2005
	(In thousands)	
Change in projected benefit obligations ("PBO"):		
Benefit obligations at beginning of the year	$ 272,204	**$ 307,582**
Service cost	5,398	**5,885**
Interest cost	14,132	**14,038**
Participant contributions	1,362	**1,469**
Actuarial losses	3,134	**84,365**
Change in foreign currency exchange rates	26,588	**(43,954)**
Benefits paid	(15,236)	**(16,808)**
Benefit obligations at end of the year	$ 307,582	**$ 352,577**
Change in plan assets:		
Fair value of plan assets at beginning of the year	$ 167,302	**$ 196,573**
Actual return on plan assets	14,175	**7,132**
Employer contributions	11,726	**13,323**
Participant contributions	1,362	**1,469**
Change in foreign currency exchange rates	17,244	**(24,793)**
Benefits paid	(15,236)	**(16,808)**
Fair value of plan assets at end of year	$ 196,573	**$ 176,896**
Funded status at end of the year:		
Plan assets less than PBO	$ (111,009)	**$ (175,681)**
Unrecognized actuarial losses	107,581	**175,482**
Unrecognized prior service cost	6,829	**5,550**
Unrecognized net transition obligations	952	**749**
	$ 4,353	**$ 6,100**
Amounts recognized in the balance sheet:		
Unrecognized net pension obligations	$ 7,524	**$ 6,108**
Accrued pension costs:		
Current	(8,587)	**(10,314)**
Noncurrent	(48,441)	**(125,766)**
Accumulated other comprehensive loss	53,857	**136,072**
	$ 4,353	**$ 6,100**

	Years ended December 31, 2003	2004	2005
		(In thousands)	
Net periodic pension cost:			
Service cost benefits	$ 4,060	$ 5,398	**$ 5,885**
Interest cost on PBO	12,378	14,132	**14,038**
Expected return on plan assets	(12,264)	(12,318)	**(12,051)**
Amortization of prior service cost	255	463	**482**
Amortization of net transition obligations	527	368	**107**
Recognized actuarial losses	827	2,335	**3,035**
	$ 5,783	$ 10,378	**$ 11,496**

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

- In Germany, the composition of the Company's plan assets is established to satisfy the requirements of the German insurance commissioner. The plan asset allocation at December 31, 2005 was 23% to equity managers, 48% to fixed income managers and 29% to real estate (2004 – 23%, 48% and 29%, respectively).
- In Norway, the Company currently has a plan asset target allocation of 14% to equity managers, 64% to fixed income managers and the remainder primarily to liquid investments and cash. The expected long-term rate of return for such investments is approximately 8% and 4.5% to 6% and 2.5%, respectively. The plan asset allocation at December 31, 2005 was 16% to equity managers, 62% to fixed income managers and the remainder invested primarily to cash and liquid investments (2004 – 16%, 64% and 20%, respectively).

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

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

	December 31,	
Rate	**2004**	**2005**
Discount rate	5.0%	**4.1%**
Increase in future compensation levels	2.8%	**2.8%**

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

	December 31,		
Rate	**2003**	**2004**	**2005**
Discount rate	5.8%	5.3%	**5.0%**
Increase in future compensation levels	2.6%	2.8%	**2.8%**
Long-term return on plan assets	6.9%	6.4%	**6.0%**

At December 31, 2005, the accumulated benefit obligation related to the Company's defined benefit pension plans aggregated $316 million (2004 - $257 million). At December 31, 2004 and 2005, all of the Company's defined benefit pension plans have accumulated benefit obligations in excess of fair value of plan assets.

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

Years ending December 31,	Amount (In thousands)
2006	$ 17,287
2007	16,277
2008	18,033
2009	16,764
2010	16,937
2011 to 2012	90,812

Note 12 - Related party transactions:

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

Under the terms of various intercorporate services agreements ("ISAs") entered into between the Company and various related parties, including Contran, employees of one company will provide certain management, tax planning, financial and administrative services to the other company on a fee basis. Such charges are based upon estimates of the time devoted by the employees of the provider of the services to the affairs of the recipient, and the compensation and associated expenses of such persons. Because of the large number of companies affiliated with Contran, Kronos and NL, the Company believes it benefits from cost savings and economies of scale gained by not having certain management, financial and administrative staffs duplicated at each entity, thus allowing certain individuals to provide services to multiple companies but only be compensated by one entity. These ISA agreements are reviewed and approved by the applicable independent directors of the companies that are parties to the agreements. The net ISA fee charged to the Company and included in selling, general and administrative expense was $1.5 million in 2003, $2.8 million in 2004 and $2.9 million in 2005.

Sales of TiO_2 to Kronos (US), Inc. ("KUS") and Kronos Canada, Inc. ("KC"), affiliates of the Company, aggregated $68.7 million in 2003, $50.8 million in 2004 and $63.6 million in 2005.

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 $93.3 million in 2003, $106.2 million in 2004 and $120.1 million in 2005.

Purchases of TiO_2 from KUS were $100,000 in 2003, $3.5 million in 2004 and nil in 2005. Purchases of TiO_2 from KC were $500,000 in 2003, $700,000 in 2004 and $600,000 in 2005.

Royalty income received from KC for use of certain of the Company's intellectual property was $6.1 million in 2003, $6.0 million in 2004 and $6.8 million in 2005.

Tall Pines Insurance Company, and EWI RE, Inc. provide for or broker certain insurance policies for Contran and certain of its subsidiaries and affiliates, including the Company. Tall Pines is wholly-owned by a subsidiary of Valhi, and EWI is a wholly-owned subsidiary of NL. Consistent with insurance industry practices, Tall Pines and EWI receive commissions from insurance and reinsurance underwriters and/or assess fees for the policies that they provide or broker. The aggregate premiums paid to Tall Pines (including amounts paid to Valmont Insurance Company, another subsidiary of Valhi that was merged into Tall Pines in 2004) and EWI by the Company and its joint venture were $5.2 million in 2003, $5.3 million in 2004 and $5.5 million in 2005. These amounts principally included payments for insurance and reinsurance premiums paid to third parties, but also included commissions paid to Tall Pines and EWI. Tall Pines purchases reinsurance for substantially all of the risks it underwrites. The Company expects that these relationships with Tall Pines and EWI will continue in 2006.

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

Net amounts between the Company and KUS were generally related to product sales and raw material purchases. Net amounts between the Company and KC were generally related to product sales and royalties. See Note 8 for discussion of notes receivable from affiliates.

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

	December 31,	
	2004	2005
	(In thousands)	
Current receivables from affiliates:		
KC	$ 2,516	**$ 1,948**
Other	1	**4**
	$ 2,517	**$ 1,952**
Current payables to affiliates:		
KUS	$11,033	**$14,882**
NL	9	**-**
	$11,042	**$14,882**

Interest income on all loans to related parties was less than $50,000 in 2003, $2.8 million in 2004 and $18.9 million in 2005. Interest expense on all loans from related parties was less than $100,000 in 2003 and nil in each of 2004 and 2005.

Note 13 - Commitments and contingencies:

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

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

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

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

Concentrations of credit risk. Sales of TiO_2 accounted for about 90% of net sales during each of the past three years. The remaining sales result from the mining and sale of ilmenite ore (a raw material used in the sulfate pigment production process), and the manufacture and sale of iron-based water treatment chemicals (derived from co-products of the TiO_2 production processes). TiO_2 is generally sold to the paint, plastics and paper industries. 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 3,000 customers, with the top ten customers approximating 20%, 21%, and 20% respectively of net sales in 2003, 2004 and 2005. Approximately 73% of the Company's TiO_2 sales by volume were to Europe in 2003, approximately 77% were to Europe in 2004 and approximately 76% were to Europe in 2005. Approximately 13% of sales by volume were attributable to North America in 2003, 9% attributable to North America in 2004 and 10% attributable to North America in 2005.

Long-term contracts. KUS has long-term supply contracts that provide for certain of its affiliates', including the Company's, TiO_2 feedstock requirements through 2010. The agreements require KUS to purchase certain minimum quantities of feedstock with minimum annual purchase commitments aggregating approximately $681 million at December 31, 2005. The agreements require that the Company and certain of its affiliates purchase chloride feedstock underlying these long-term supply contracts from KUS.

Operating leases. The Company's principal German operating subsidiary leases the land under its Leverkusen TiO_2 production facility pursuant to a lease with Bayer AG that expires in 2050. The Leverkusen facility itself, which is owned by the Company and which represents approximately one-half of the Company's current TiO_2 production capacity, is located within Bayer's extensive manufacturing complex. Rent for the land lease associated with the Leverkusen facility is periodically established by agreement with Bayer for periods of at least two years at a time. The lease agreement provides for no formula, index or other mechanism to determine changes in the rent for such land lease; rather, any change in the rent is subject solely to periodic negotiation between Bayer and the Company. Any change in the rent based on such negotiations is recognized as part of lease expense starting from the time such change is agreed upon by both parties, as any such change in the rent is deemed "contingent rentals" under GAAP. Under a separate supplies and services agreement expiring in 2011, the lessor provides some raw materials, including chlorine, auxiliary and operating materials, utilities and services necessary to operate the Leverkusen facility.

The Company also leases various other manufacturing facilities and equipment. Some of the leases contain purchase and/or various term renewal options at fair market and fair rental values, respectively. In most cases the Company expects that, in the normal course of business, such leases will be renewed or replaced by other leases. Net rent expense approximated $9 million in 2003 and $8 million in each of 2004 and 2005. At December 31, 2005, future minimum payments under noncancellable operating leases having an initial or remaining term of more than one year were as follows:

Years ending December 31,	Amount (In thousands)
2006	**$ 3,328**
2007	**2,411**
2008	**2,150**
2009	**1,562**
2010	**1,126**
2011 and thereafter	**21,029**
	$31,606

Approximately $20.1 million of the $31.6 million aggregate future minimum rental commitments at December 31, 2005 relates to the Company’s Leverkusen facility lease discussed above. The minimum commitment amounts for such lease included in the table above for each year through the 2050 expiration of the lease are based upon the current annual rental rate as of December 31, 2005. As discussed above, any change in the rent is based solely on negotiations between Bayer and the Company, and any such change in the rent is deemed "contingent rentals" under GAAP which is excluded from the future minimum lease payments disclosed above.

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

Note 14 - Financial instruments:

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

	December 31, 2004		December 31, 2005	
	Carrying amount	Fair value	Carrying amount	Fair value
		(In millions)		
Cash, cash equivalents, restricted cash and current and noncurrent restricted marketable debt securities	$ 21.9	$ 21.9	**$ 67.2**	**$ 67.2**
Long-term debt:				
Fixed rate with market quotes - 8.875% Senior Secured Notes	$519.2	$ 549.1	**$449.3**	**$ 463.6**
Variable rate debt	13.6	13.6	**-**	**-**

Fair value of the Company’s noncurrent restricted marketable debt securities and 8.875% Senior Secured Notes are based upon quoted market prices at each balance sheet date.

Note 15 – Accounting principles newly adopted in 2003 and 2004:

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

Under the transition provisions of SFAS No. 143, at the date of adoption on January 1, 2003 the Company recognized (i) an asset retirement cost capitalized as an increase to the carrying value of its property, plant and equipment, (ii) accumulated depreciation on such capitalized cost and (iii) a liability for the asset retirement obligation. Amounts resulting from the initial application of SFAS No. 143 are measured using information, assumptions and interest rates all as of January 1, 2003. The amount recognized as the asset retirement cost is measured as of the date the asset retirement obligation was incurred. Cumulative accretion on the asset retirement obligation, and accumulated depreciation on the asset retirement cost, is recognized for the time period from the date the asset retirement cost and liability would have been recognized had the provisions of SFAS No. 143 been in effect at the date the liability was incurred, through January 1, 2003. The difference, if any, between the amounts to be recognized as described above and any associated amounts recognized in the Company's balance sheet as of December 31, 2002 is recognized as a cumulative effect of a change in accounting principles as of the date of adoption. The effect of adopting SFAS No. 143 as of January 1, 2003 was not material, as summarized in the table below, and is not separately recognized in the accompanying Statement of Income.

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

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

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

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

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

Note 16 - Accounting principles not yet adopted:

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

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

SFAS No. 123R also requires certain expanded disclosures regarding the Company’s stock options, and such expanded disclosures have been provided in Note 8.

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

Note 17 - Quarterly results of operations (unaudited):

	Quarter ended			
	March 31	**June 30**	**Sept. 30**	**Dec. 31**
	(In millions)			
Year ended December 31, 2004				
Net sales	$ 192.2	$ 208.1	$ 203.4	$ 204.3
Gross margin	$ 49.6	$ 51.8	$ 47.3	$ 49.7
Net income	$ 13.2	$ 290.5	$ 9.1	$ 13.2
Year ended December 31, 2005				
Net sales	$ 209.5	$ 227.6	$ 206.0	$ 207.8
Gross margin	$ 62.4	$ 70.5	$ 55.2	$ 49.6
Net income	$ 18.2	$ 28.5	$ 6.4	$ 6.7

KRONOS TITAN GMBH AND SUBSIDIARY

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Owner of Kronos Titan GmbH:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income (loss), partners' capital/owners' equity and cash flows present fairly, in all material respects, the financial position of Kronos Titan GmbH and Subsidiary at December 31, 2004 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Dallas, Texas
March 28, 2006

KRONOS TITAN GMBH AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2005

(In thousands)

ASSETS	2004	2005
Current assets:		
Cash and cash equivalents	$ 6,444	**$ 50,765**
Accounts and notes receivable	76,732	**73,059**
Receivable from affiliates	32,355	**43,021**
Refundable income taxes	59	**14,695**
Inventories	101,850	**113,677**
Prepaid expenses	2,078	**1,629**
Total current assets	219,518	**296,846**
Other assets:		
Note receivable from Kronos Titan A/S	5,449	**-**
Unrecognized net pension obligations	3,672	**3,000**
Deferred income taxes	18,077	**47,044**
Other	1,201	**808**
Total other assets	28,399	**50,852**
Property and equipment:		
Land	14,929	**13,460**
Buildings	111,349	**101,151**
Machinery and equipment	496,428	**434,895**
Construction in progress	10,022	**9,853**
	632,728	**559,359**
Less accumulated depreciation and depletion	373,938	**332,840**
Net property and equipment	258,790	**226,519**
	$506,707	**$574,217**

KRONOS TITAN GMBH AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (CONTINUED)

December 31, 2004 and 2005

(In thousands)

LIABILITIES AND OWNERS' EQUITY	**2004**	**2005**
Current liabilities:		
Accounts payable and accrued liabilities	$ 76,952	**$ 71,987**
Payables to affiliates	35,260	**75,447**
Deferred income taxes	1,912	**3,508**
Total current liabilities	114,124	**150,942**
Noncurrent liabilities:		
Note payable to affiliate	12,941	**11,239**
Accrued pension cost	45,015	**120,872**
Other	12,193	**13,047**
Total noncurrent liabilities	70,149	**145,158**
Owners' equity:		
Subscribed capital	12,496	**12,496**
Paid in capital	227,037	**227,037**
Retained earnings (deficit)	(9,685)	**42,548**
Accumulated other comprehensive income (loss):		
Currency translation	111,996	**68,897**
Pension liabilities	(19,410)	**(72,861)**
Total owners' equity	322,434	**278,117**
	$ 506,707	**$ 574,217**

Commitments and contingencies (Notes 6, 9 and 12)

See accompanying notes to consolidated financial statements.

KRONOS TITAN GMBH AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Net sales	$487,337	$552,216	**$584,219**
Cost of sales	379,187	451,888	**462,558**
Gross margin	108,150	100,328	**121,661**
Selling, general and administrative expense	42,925	47,824	**50,140**
Other operating income (expense):			
Currency transaction gains (losses), net	(3,519)	(2,533)	**3,906**
Disposition of property and equipment	(390)	(293)	**(1,080)**
Income from operations	61,316	49,678	**74,347**
Other income (expense):			
Trade interest income	447	949	**733**
Interest and other income from affiliates	3,918	8,813	**13,224**
Interest and other expense to affiliates	(442)	(304)	**(791)**
Interest expense	(368)	(651)	**(595)**
Income before income taxes	64,871	58,485	**86,918**
Income tax provision (benefit)	(205,670)	17,507	**34,685**
Net income	$270,541	$ 40,978	**$ 52,233**

See accompanying notes to consolidated financial statements.

KRONOS TITAN GMBH AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Net income	$270,541	$ 40,978	**$ 52,233**
Other comprehensive income (loss), net of tax:			
Minimum pension liabilities adjustment	(17,946)	4,400	**(53,451)**
Currency translation adjustment	37,674	36,472	**(43,099)**
Total other comprehensive income	19,728	40,872	**(96,550)**
Comprehensive income (loss)	$290,269	$ 81,850	**$(44,317)**

See accompanying notes to consolidated financial statements.

KRONOS TITAN GMBH AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL / OWNERS' EQUITY

Years ended December 31, 2003, 2004 and 2005

(In thousands)

		Owners' Equity			Accumulated other comprehensive income (loss)		
	Partners' capital (deficit)	Subscribed capital	Paid-in capital	Retained earnings (deficit)	Currency translation	Pension liabilities	Total
Balance at December 31, 2002	$118,589	$ -	$ -	$ -	$ 37,850	$ (5,864)	$150,575
Net income	270,541	-	-	-	-	-	270,541
Other comprehensive income (loss), net of tax	-	-	-	-	37,674	(17,946)	19,728
Partnership conversion	(389,130)	12,496	376,634	-	-	-	-
Balance at December 31, 2003	-	12,496	376,634	-	75,524	(23,810)	440,844
Net income	-	-	-	40,978	-	-	40,978
Dividends declared	-	-	-	(50,663)	-	-	(50,663)
Other comprehensive income, net of tax	-	-	-	-	36,472	4,400	40,872
Noncash capital transaction	-	-	(149,597)	-	-	-	(149,597)
Balance at December 31, 2004	-	12,496	227,037	(9,685)	111,996	(19,410)	322,434
Net income	-	-	-	52,233	-	-	52,233
Other comprehensive income, net of tax	-	-	-	-	(43,099)	(53,451)	(96,550)
Balance at December 31, 2005	$ -	$ 12,496	$227,037	$ 42,548	$ 68,897	$(72,861)	$278,117

See accompanying notes to consolidated financial statements.

KRONOS TITAN GMBH AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	**2005**
Cash flows from operating activities:			
Net income	$ 270,541	$ 40,978	**$ 52,233**
Depreciation, depletion and amortization	20,452	23,583	**20,980**
Noncash interest expense	140	200	**141**
Deferred income taxes	(39,770)	6,178	**9,427**
Net loss from disposition of property and equipment	390	293	**1,080**
Pension, net	(5,021)	(4,540)	**(3,328)**
Other, net	12	167	**155**
Change in assets and liabilities:			
Accounts and notes receivable	1,827	(3,205)	**(9,294)**
Inventories	1,830	5,837	**(26,334)**
Prepaid expenses	1,107	559	**(144)**
Accounts payable and accrued liabilities	2,637	13,683	**5,412**
Income taxes	(130,136)	126,599	**(13,859)**
Accounts with affiliates	(85,431)	(82,855)	**29,420**
Other noncurrent assets	481	(146)	**109**
Other noncurrent liabilities	(555)	(5,334)	**(713)**
Net cash provided by operating activities	38,504	121,997	**65,285**
Cash flows from investing activities:			
Capital expenditures	(18,715)	(20,396)	**(22,896)**
Proceeds from disposition of property and equipment	4	-	**-**
Net cash provided (used) by investing activities	(18,711)	(20,396)	**(22,896)**

KRONOS TITAN GMBH AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Cash flows from financing activities:			
Indebtedness:			
Borrowings	$ -	$ 49,984	**$ -**
Principal payments	-	(49,984)	**-**
Loans from affiliates:			
Loans	-	11,597	**4,860**
Repayments	-	(88,656)	**-**
Cash distributions	-	(50,663)	**-**
Net cash used by financing activities	-	(127,722)	**4,860**
Cash and cash equivalents - net change from:			
Operating, investing and financing activities	19,793	(26,121)	**47,249**
Currency translation	3,241	1,706	**(2,928)**
Balance at beginning of year	7,825	30,859	**6,444**
Balance at end of year	$ 30,859	$ 6,444	**$ 50,765**
Supplemental disclosures:			
Cash paid (received) for:			
Interest	$ 674	$ 626	**$ 516**
Income taxes	(166)	(132,629)	**6,517**

See accompanying notes to consolidated financial statements.

KRONOS TITAN GMBH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and basis of presentation:

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

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), with the U.S. dollar as the reporting currency. TG also prepares financial statements on other bases, as required in Germany.

Effective December 31, 2003, Kronos Titan GmbH & Co. OHG was converted from a partnership into a limited liability company under German law, and was renamed TG. The conversion resulted in a reclassification of partner's capital aggregating $389 million at the date of conversion into other capital accounts (subscribed capital and paid-in capital) and had no material effect on TG's consolidated financial statements, other than with respect to deferred income taxes. In 2004, the Company forgave a $150 million receivable from KII which is reflected as a noncash capital transaction in the accompanying Consolidated Statement of Partners' Capital/Owners' Equity.

TG is not a registrant with the U.S. Securities and Exchange Commission ("SEC") and therefore is not subject to the SEC's periodic reporting requirements, except as may be required by Rule 3-16 of Regulation S-X.

Note 2 - Summary of significant accounting policies:

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

Principles of consolidation. The consolidated financial statements include the accounts of TG and its wholly-owned subsidiary (collectively, the "Company"). All material intercompany accounts and balances have been eliminated. The Company has no involvement with any variable interest entity covered by the scope of FASB Interpretation ("FIN") No. 46R, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51," as amended as of March 31, 2004.

Translation of foreign currencies. The functional currency of the Company is the euro. 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, if applicable. Currency transaction gains and losses are recognized in income currently.

Derivatives and hedging activities. Derivative instruments are recognized as either assets or liabilities and measured at fair value in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The accounting for changes in fair value of derivatives is dependent upon the intended use of the derivative, and such changes are recognized either in net income or other comprehensive income. As permitted by the transition requirements of SFAS No. 133, 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.

Cash equivalents. Cash equivalents include bank deposits with original maturities of three months or less.

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

Property and equipment and depreciation. Property and equipment are stated at cost. Depreciation of property and equipment for financial reporting purposes is computed principally by the straight-line method over the estimated useful lives of ten to 40 years for buildings and three to 20 years for equipment. Accelerated depreciation methods are used for income tax purposes, as permitted. Upon sale or retirement of an asset, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized in income currently.

Expenditures for maintenance, repairs and minor renewals are expensed; expenditures for major improvements are capitalized. The Company performs planned major maintenance activities during the year. Repair and maintenance costs estimated to be incurred in connection with planned major maintenance activities are accrued in advance and are included in cost of sales. Accrued repair and maintenance costs, included in other current liabilities and consisting primarily of materials and supplies, was $3.2 million and $2.2 million at December 31, 2004 and 2005, respectively.

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

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

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

Employee benefit plans. Accounting and funding policies for retirement plans are described in Note 8.

Income taxes. As a partnership under German law during 2003, TG was not subject to corporate income taxes, but was subject to trade income taxes. Deferred trade income tax assets and liabilities were recognized for the expected future tax consequences of temporary differences between the trade income tax and financial reporting carrying amounts of assets and liabilities. Effective December 31, 2003, the Company was converted from a partnership to a limited liability company. Subsequent to that date, the Company is subject to the German corporation tax, with a statutory rate of 25%, in addition to solidarity-surcharge of 5.5% of corporate income tax and trade income taxes. The Company periodically evaluates its deferred tax assets in the various taxing jurisdictions in which it operates and adjusts any related valuation allowance based on the estimate of the amount of such deferred tax assets that the Company believes does not meet the "more-likely-than-not" recognition criteria. See Note 9.

Net sales. Sales are recorded when products are shipped and title and other risks and rewards of ownership have passed to the customer, or when services are performed. Shipping terms of products shipped are generally FOB shipping point. Amounts charged to customers for shipping and handling are included in net sales. Sales are stated net of price, early payment and distributor discounts and volume rebates.

Inventories and cost of sales. Inventories are stated at the lower of cost (principally average cost) or market, net of allowance for obsolete or slow-moving inventories. Amounts are removed from inventories at average cost. Cost of sales includes costs for materials, packaging and finishing, utilities, salary and benefits, maintenance and depreciation.

Selling, general and administrative expenses; shipping and handling costs. Selling, general and administrative expenses include costs related to marketing, sales, distribution, shipping and handling, research and development, legal and administrative functions, such as accounting, treasury and finance, and includes costs for salary and benefits, travel and entertainment, promotional materials and professional fees. Shipping and handling costs are included in selling, general and administrative expense and were $19.8 million in 2003, $22.3 million in 2004 and $23.1 million in 2005. Advertising costs are expensed as incurred and were approximately $300,000 in each of 2003, 2004 and 2005.

Stock options. The Company has not issued any stock options. However, certain employees of the Company have been granted options by NL to purchase NL common stock. The Company has elected the disclosure alternative prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," as amended, and to account for its stock-based employee compensation related to stock options in accordance with Accounting Principles Board Opinion ("APBO") No. 25, "Accounting for Stock Issued to Employees," and its various interpretations. Under APBO No. 25, no compensation cost is generally recognized for fixed stock options in which the exercise price is not less than the market price on the grant date. Prior to 2003, and following NL's cash settlement of options to purchase NL common stock held by certain individuals, NL and the Company, commenced accounting for its stock options using the variable accounting method because NL could not overcome the presumption that it would not similarly cash settle its remaining stock options. Under the variable accounting method, the intrinsic value of all unexercised stock options (including those with an exercise price at least equal to the market price on the date of grant) are accrued as an expense over their vesting period, with subsequent increases (decreases) in NL's market price resulting in additional compensation expense (income). Upon exercise of such options to purchase NL common stock held by employees of the Company, the Company pays NL an amount equal to the difference between the market price of NL’s common stock on the date of exercise and the exercise price of such stock option. Aggregate compensation expense related to NL stock options held by employees of the Company was $12,000 in 2003 and $167,000 in 2004 and compensation income was $74,000 in 2005. The total income tax benefit related to such compensation cost recognized by the Company was approximately $4,000 in 2003 and $66,000 in 2004 and the total income tax provision related to the compensation income was $29,000 in 2005. No compensation cost was capitalized as part of assets (inventory or fixed assets) during 2003, 2004 and 2005.

The following table illustrates the effect on net income if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	Years ended December 31,		
	2003	2004	2005
		(In thousands)	
Net income – as reported	$270,541	$ 40,978	**$ 52,233**
Adjustments, net of applicable income tax effects:			
Stock-based employee compensation (income) expense determined under APBO No. 25	10	102	**(45)**
Stock-based employee compensation expense determined under SFAS No. 123	(9)	(4)	**(1)**
Pro forma net income	$270,542	$ 41,076	**$ 52,187**

Note 3 – Accounts and notes receivable:

	December 31,	
	2004	2005
	(In thousands)	
Trade receivables	$ 71,914	**$ 69,019**
Recoverable VAT and other receivables	6,058	**5,189**
Allowance for doubtful accounts	(1,240)	**(1,149)**
	$ 76,732	**$ 73,059**

Note 4 – Inventories:

	December 31,	
	2004	2005
	(In thousands)	
Raw materials	$ 20,379	**$ 21,386**
Work in process	10,173	**11,884**
Finished products	55,349	**65,242**
Supplies	15,949	**15,165**
	$101,850	**$113,677**

Note 5 – Accounts payable and accrued liabilities:

	December 31, 2004	December 31, 2005
	(In thousands)	
Accounts payable	$39,732	**$ 39,206**
Accrued liabilities:		
Employee benefits	15,957	**16,632**
Waste acid recovery	9,598	**9,149**
Other	11,665	**7,000**
	$76,952	**$71,987**

Note 6 - Long-term debt:

The Company and certain of KII's subsidiaries in Belgium and Norway (Kronos Europe S.A./N.V.-"KEU", Kronos Titan A/S - "TAS" and Titania A/S - "TIA," Kronos Norge A/S, the parent company of TAS and TIA, and Kronos Denmark ApS, the parent company of Kronos Norge and KEU), referred to as the "Borrowers", have a euro 80 million secured revolving credit facility that matures in June 2008. Borrowings may be denominated in euros, Norwegian kroner or U.S. dollars, and bear interest at the applicable interbank market rate plus 1.125%. The facility also provides for the issuance of letters of credit up to euro 5 million. The credit facility is collateralized by the accounts receivable and inventories of the borrowers, plus a limited pledge of all of the other assets of the Belgian borrower. The credit facility contains certain restrictive covenants which, among other things, restrict the ability of the borrowers to incur debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer all or substantially all of their assets to, another entity. In addition, the credit facility contains customary cross-default provisions with respect to other debt and obligations of Borrowers, KII and its other subsidiaries. At December 31, 2005, no amounts were outstanding under the European Credit Facility and the equivalent of $92.3 million was available for additional borrowing by the Borrowers. The Company, KEU and Kronos Denmark are unconditionally jointly and severally liable for any and all outstanding borrowings under the credit facility. TAS, TIA and Kronos Norge A/S are jointly and severally liable for any and all outstanding borrowings under the credit facility to the extent permitted by Norwegian law.

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

Under the cross-default provisions of the Notes, the Notes may be accelerated prior to their stated maturity if KII or any of KII's subsidiaries default under any other indebtedness in excess of $20 million due to a failure to pay such other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under such other indebtedness). Under the cross-default provisions of the Credit Facility, any outstanding borrowings under the Credit Facility may be accelerated prior to their stated maturity if the Borrowers or KII default under any other indebtedness in excess of euro 5 million due to a failure to pay such other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under such other indebtedness). The Credit Facility contains provisions that allow the lender to accelerate the maturity of the Credit Facility in the event of a change of control, as defined, of the applicable borrower. In the event any of these cross-default or change-of-control provisions become applicable, and such indebtedness is accelerated, KII would be required to repay such indebtedness prior to their stated maturity.

Note 7 - Other noncurrent liabilities:

	December 31,	
	2004	2005
	(In thousands)	
Employee benefits	$ 4,111	**$ 3,842**
Insurance claims expense	1,362	**1,124**
Other	6,720	**8,081**
	$12,193	**$13,047**

Note 8 - Employee benefit plans:

The Company maintains a defined benefit pension plan and certain other benefits covering substantially all employees. Variances from actuarially assumed rates will result in increases or decreases in accumulated pension obligations, pension expense and funding requirements in future periods. At December 31, 2005, the Company expects to contribute the equivalent of approximately $11 million to its defined benefit pension plans during 2006.

Certain actuarial assumptions used in measuring the defined benefit pension assets, liabilities and expenses are presented below. The Company uses a September 30th measurement date for their defined benefit pension plans.

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

	December 31,	
Rate	**2004**	**2005**
Discount rate	5.0%	4.0%
Increase in future compensation levels	2.8%	2.8%

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

	Years ended December 31,		
Rate	**2003**	**2004**	**2005**
Discount rate	5.3%	5.3%	5.0%
Increase in future compensation levels	2.8%	2.8%	2.8%
Long-term return on plan assets	6.5%	6.5%	6.0%

Plan assets are comprised primarily of investments in corporate equity and debt securities, short-term investments, mutual funds and group annuity contracts.

The components of the net periodic defined benefit pension cost are set forth below.

	Years ended December 31,		
	2003	2004	2005
	(In thousands)		
Net periodic pension cost:			
Service cost benefits	$ 2,621	$ 3,289	**$3,742**
Interest cost on projected benefit obligation ("PBO")	9,354	10,558	**10,540**
Expected return on plan assets	(8,831)	(9,448)	**(8,841)**
Amortization of prior service cost	-	196	**200**
Amortization of net transition obligation	251	69	**-**
Recognized actuarial losses	20	782	**1,644**
	$ 3,415	$ 5,446	**$ 7,285**

The funded status of the Company’s defined benefit pension plan is set forth below.

	December 31,	
	2004	2005
	(In thousands)	
Change in projected benefit obligations ("PBO"):		
Benefit obligations at beginning of year	$ 205,440	**$ 232,308**
Service cost	3,289	**3,742**
Interest cost	10,558	**10,540**
Participant contributions	1,206	**1,316**
Actuarial losses	4,968	**81,199**
Benefits paid	(12,442)	**(35,385)**
Change in currency exchange rates	19,289	**(13,780)**
Benefit obligations at end of year	$ 232,308	**$ 279,940**
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	$ 116,275	**$ 136,919**
Actual return on plan assets	10,026	**4,596**
Employer contributions	10,432	**11,182**
Participant contributions	1,206	**1,316**
Change in currency exchange rates	11,422	**(18,204)**
Benefits paid	(12,442)	**(13,780)**
Fair value of plan assets at end of year	$ 136,919	**$ 122,029**
Funded status at year end:		
Plan assets less than PBO	$ (95,389)	**$(157,911)**
Unrecognized actuarial loss	79,381	**147,873**
Unrecognized prior service cost	3,672	**3,000**
	$ (12,336)	**$ (7,038)**
Amounts recognized in the balance sheet:		
Unrecognized net pension obligations	$ 3,672	**$ 3,000**
Accrued pension cost:		
Current	(8,587)	**(120,872)**
Noncurrent	(45,015)	**(9,858)**
Accumulated other comprehensive loss	37,594	**120,692**
	$ (12,336)	**$ (7,038)**

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. The accumulated benefit obligation of the Company's defined benefit pension plan was $255.4 million at December 31, 2005 (2004 - $193.6 million). Variances from actuarially assumed rates will change the actuarial valuation of accrued pension liabilities, pension expense and funding requirements in future periods.

In determining the expected long-term rate of return on plan asset assumptions, the Company considers the long-term asset mix (e.g. equity vs. fixed income) for the assets for each of its plans and the expected long-term rates of return for such asset components. In addition, the Company receives advice about appropriate long-term rates of return from the Company's third-party actuaries. The composition of the Company's plan assets is established to satisfy the requirements of the German insurance commissioner. The plan asset allocation at December 31, 2005 was 23% to equity managers, 48% to fixed income managers and 29% to real estate (2004 – 23%, 48% and 29%, respectively). The Company regularly reviews its actual asset allocation for each of its plans, and will periodically rebalance the investments in each plan to more accurately reflect the targeted allocation when considered appropriate.

The Company expects total defined benefit pension plan expense to be approximately $12 million in 2006. The Company expects future benefits paid from all defined benefit pension plans to be as follows:

Years ending December 31,	**Amount (In thousands)**
2006	$13,274
2007	13,392
2008	13,510
2009	13,628
2010	13,746
2011 to 2015	69,319

Note 9 - Income taxes:

The components of (i) the difference between the provision for income taxes attributable to pretax income and the amounts that would be expected using the German statutory corporation tax rate of 25% in 2003 and 26.4% in 2004 and 2005, (ii) the provision for income taxes and (iii) the comprehensive tax provision are presented below.

	Years ended December 31,		
	2003	2004	2005
		(In thousands)	
Pretax income	$ 64,871	$ 58,485	**$ 86,918**
Expected tax expense	$ 16,218	$ 15,440	**$ 22,946**
Trade income tax	11,365	7,773	**11,212**
German tax refund	(123,033)	(2,508)	**-**
Change in deferred income tax valuation allowance, net	-	(3,146)	**-**
Tax contingency reserve adjustment	-	-	**1,387**
Organschaft adjustment	(94,079)	-	**-**
No corporation tax provision due to partnership structure	(16,218)	-	**-**
Other, net	77	(52)	**(860)**
Income tax expense (benefit)	$(205,670)	$ 17,507	**$ 34,685**
Provision for income taxes:			
Current income tax expense (benefit)	$(165,900)	$ 11,329	**$ 25,258**
Deferred income tax expense (benefit)	(39,770)	6,178	**9,427**
	$(205,670)	$ 17,507	**$ 34,685**
Comprehensive provision (benefit) for income taxes allocable to:			
Pretax income	$(205,670)	$ 17,507	**$ 34,685**
Other comprehensive loss - pension liabilities	(5,331)	(8,081)	**(32,649)**
	$(211,001)	$ 9,426	**$ 2,036**

The components of the net deferred tax liability are summarized below.

	December 31,			
	2004		2005	
	Assets	Liabilities	Assets	Liabilities
Tax effect of temporary differences relating to:				
Inventories	$ -	$ (1,816)	**$ -**	**$ (2,375)**
Property and equipment	38,327	-	**26,362**	**-**
Accrued (prepaid) pension cost	14,770	(27,598)	**47,420**	**(24,398)**
Other taxable differences	-	(7,518)	**-**	**(3,473)**
Tax loss and tax credit carryforwards	-	-	**-**	**-**
Gross deferred tax assets (liabilities)	53,097	(36,932)	**73,782**	**(30,246)**
Reclassification, principally netting by tax jurisdiction	(35,020)	35,020	**(26,738)**	**26,738**
Net total deferred tax liabilities	18,077	(1,912)	**47,044**	**(3,508)**
Net current deferred tax liabilities	-	(1,912)	**-**	**(3,508)**
Net noncurrent deferred tax liabilities	$18,077	$ -	**$47,044**	**$ -**

The Company's has no deferred income tax valuation allowance as of December 31, 2004 and 2005.

During 2003, the Company's legal form was as a partnership. As a partnership, the Company was not subject to corporation tax, although the Company was subject to trade income tax. Effective December 31, 2003, the Company was converted to a limited liability company and was also subject to the German corporation tax in years following 2003. As a result of the conversion of the Company from a partnership, the Company recognized net deferred income tax assets of approximately $52 million related to the expected future tax consequences of temporary differences between the corporate income tax and financial reporting carrying amounts of its assets and liabilities.

In the first quarter of 2003, the Company was notified by the German Federal Fiscal Court (the "Court") that the Court had ruled in the Company’s favor concerning a claim for refund suit in which the Company sought refunds of prior taxes paid during the periods 1990 through 1997. The Company was required to file amended tax returns with the German tax authorities in order to receive its refunds for such years, and all of such amended returns were filed during 2003. Such amended returns reflected an aggregate refund of taxes and related interest to the Company of euro 103.2 million ($123.0 million) and the Company recognized the benefit for these net funds in its 2003 results of operations. For the year ended December 31, 2004, the Company recognized a refund of euro 4.0 million ($5.3 million) related to additional net interest which has accrued on the outstanding refund amount. In 2004, TG had received net refunds of euro 107.2 million ($135.4 million when received). All refunds relating from the periods 1990 to 1997 were received by December 31, 2004. In addition to the refunds for the 1990 to 1997 periods, the court ruling also resulted in a refund of 1999 income taxes and interest, and the Company received euro 21.5 million ($24.6 million) in 2003.

Pursuant to the Company's conversion to a limited liability company effective December 31, 2003, the Company is included in KII’s Organschaft effective January 1, 2004.

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

Note 10 - Related party transactions:

The Company may be deemed to be controlled by Harold C. Simmons. See Note 1. Corporations that may be deemed to be controlled by or affiliated with Mr. Simmons sometimes engage in (a) intercorporate transactions such as guarantees, management and expense sharing arrangements, shared fee arrangements, 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, KII and related entities consider, review and evaluate, such transactions. Depending upon the business, tax and other objectives then relevant, and restrictions under the KII indenture, the Credit Facility and other agreements, it is possible that the Company might be a party to one or more such transactions in the future.

The Company is a party to services and cost sharing agreements among several affiliates of the Company whereby Kronos, KII, KEU and other affiliates provide certain management, financial, insurance and administrative services to the Company on a fee basis. The Company's expense was approximately $7.1 million in 2003, $7.8 million in 2004 and $7.9 million in 2005 related to these services and costs.

The Company charges affiliates for certain management, financial and administrative services costs, which totaled approximately $4.3 million, $4.4 million and $4.8 million in 2003, 2004 and 2005, respectively. These charges to affiliates were reflected primarily as a reduction of selling, general and administrative expense.

Tall Pines Insurance Company and EWI RE, Inc. ("EWI") provide for or broker certain insurance policies for Contran and certain of its subsidiaries and affiliates, including KII, Kronos and the Company. Tall Pines is wholly owned by a subsidiary of Valhi, and EWI is a wholly-owned subsidiary of NL. Consistent with insurance industry practices, Tall Pines and EWI receive commissions from insurance and reinsurance underwriters and/or assess fees for the policies that they provide or broker. The aggregated premiums paid to Tall Pines (including amounts paid to Valmont Insurance Company, another subsidiary of Valhi that was merged into Tall Pines in 2004) and EWI by the Company were $4.1 million, $4.0 million and $3.5 million in 2003, 2004 and 2005, respectively. These amounts principally included payments for insurance, but also included commissions paid to Tall Pines and EWI. Tall Pines purchases reinsurance for substantially all of the risks it underwrites. The Company expects that these relationships with Tall Pines and EWI will continue in 2006.

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

The Company purchases from and sells to its affiliates a significant amount of titanium dioxide pigments ("TiO_2"). Intercompany sales to (purchases from) affiliates of TiO_2 are summarized in the following table.

Years ended December 31,

	2003	2004	2005
		(In thousands)	
Sales to:			
Kronos (US), Inc. ("KUS")	$ 37,550	$ 21,448	**$ 25,977**
Societe Industrielle du Titane, S.A. ("SIT")	32,969	39,091	**40,116**
KEU	22,417	23,872	**26,943**
Kronos Limited ("KUK")	22,151	18,677	**21,162**
Kronos Canada, Inc. ("KC")	5,026	5,414	**8,623**
Other affiliates	16,368	24,936	**31,178**
	$136,481	$133,438	**$153,999**
Purchases from:			
KEU	$ 33,061	$ 42,836	**$ 43,914**
TAS	5,722	10,796	**11,296**
KC	-	271	**41**
	$ 38,783	$ 53,903	**$ 55,251**

KUS purchases the rutile and slag feedstock used as a raw material in the Company's chloride process TiO_2 facility. The Company purchases such feedstock from KUS for use in its facility 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 $56.2 million in 2003, $66.7 million in 2004 and $72.3 million in 2005.

The Company sells water treatment chemicals (derived from co-products of the TiO_2 production processes) to KII. Such water treatment chemical sales were $12.8 million in 2003, $16.1 million in 2004 and $18.8 million in 2005.

The Company purchases ilmenite (sulfate feedstock) from TIA on a year-to-year basis. Such feedstock purchases were $15.5 million in 2003, $17.4 million in 2004 and $21.4 million in 2005.

At January 1, 2002, the Company is party to an accounts receivable factoring agreement with certain European affiliates of the Company pursuant to which these affiliates factored their export accounts receivable without recourse to the Company for a fee of 0.85%. Upon non-recourse transfer from these affiliates, the Company assumes all risk pertaining to the factored receivables, including, but not limited to, exchange control risks, risks pertaining to the bankruptcy of a customer and risks related to late payments. Export receivables purchased by the Company during 2003, 2004 and 2005 aggregated $101 million, $120 million and $124 million, respectively.

Net amounts currently receivable from (payable to) affiliates are summarized in the following table.

	December 31,	
	2004	2005
	(In thousands)	
Receivable from:		
KUK	$ 862	**$ -**
SIT	1,632	**-**
KEU	-	**9,068**
Kronos B.V.	2,055	**-**
KII	25,032	**32,833**
KC	1,496	**227**
Other affiliates	1,278	**893**
	$ 32,355	**$ 43,021**

Current payable to:

KII – income taxes	$ 14,386	**$ 30,173**
KUS	5,390	**9,553**
TIA	8,817	**25,090**
Kronos B.V.	-	**8,596**
KEU	4,456	**-**
TAS	2,139	**521**
Other affiliates	72	**1,514**
	$ 35,260	**$ 75,447**
Noncurrent receivable from TAS	$ 5,449	**$ -**
Noncurrent payables to KDK	$ 12,941	**$ 11,239**

Such amounts receivable from affiliates were generally related to product sales (including water treatment chemical sales to KII) and services rendered. Amounts payable to affiliates, net were related primarily to raw material purchases, accounts receivable factoring and services received.

The Company borrowed euro 9.5 million from KDK in October 2004 ($11.2 million at December 31, 2005). This note bears an interest rate of 2.675% and is due on March 31, 2006, with an option to renew.

The Company loaned TAS euro 4 million ($5.4 million) during 2004. This note receivable bore interest at 3.1% and was repaid in 2005.

Included in other affiliate income and other affiliate expense was other affiliate interest income/expense, factoring fees and service fees.

Note 11 – NL common stock options held by employees of the Company:

At December 31, 2005, employees of the Company held options to purchase approximately 9,000 shares of NL common stock, which are exercisable at various dates through 2010 (approximately 4,000) at an exercise of $5.63 per share, and exercisable at various dates through 2011 (approximately 5,000) at an exercise price of $11.49 per share.

The pro forma information required by SFAS No. 123 is based on an estimation of the fair value of options issued subsequent to January 1, 1995. See Notes 2 and 15. No options were granted during 2003, 2004 or 2005. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

Note 12 - Commitments and contingencies:

***Operating leases*.** The Company leases, pursuant to operating leases, various manufacturing facilities and 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 leases the land under its Leverkusen TiO_2 production facility pursuant to a lease with Bayer AG that expires in 2050. The Leverkusen facility itself, which is owned by the Company and which represents approximately two-thirds of the Company's current TiO_2 production capacity, is located within the lessor's extensive manufacturing complex. Rent for the land lease associated with the Leverkusen facility is periodically established by agreement with Bayer for periods of at least two years at a time. The lease agreement provides for no formula, index or other mechanism to determine changes in the rent for such land lease; rather, any change in the rent is subject solely to periodic negotiation between Bayer and the Company. Any change in the rent based on such negotiations is recognized as part of lease expense starting from the time such change is agreed upon by both parties, as any such change in the rent is deemed "contingent rentals" under GAAP. Under a separate supplies and services agreement expiring in 2011, the lessor provides some raw materials, including chlorine, auxiliary and operating materials, utilities and services necessary to operate the Leverkusen facility.

Net rent expense aggregated $5 million in 2003 and $4 million in each of 2004 and 2005. At December 31, 2005, minimum rental commitments under the terms of noncancellable operating leases were as follows:

	Amount (in thousands)
Years ending December 31,	
2006	$ 2,248
2007	1,522
2008	1,370
2009	1,294
2010	1,034
2011 and thereafter	20,931
	$28,399

Approximately $20.1 million of the $28.4 million aggregate future minimum rental commitments at December 31, 2005 relates to the Company’s Leverkusen facility lease discussed above. The minimum commitment amounts for such lease included in the table above for each year through the 2050 expiration of the lease are based upon the current annual rental rate as of December 31, 2005. As discussed above, any change in the rent is based solely on negotiations between Bayer and the Company, and any such change in the rent is deemed "contingent rentals" under GAAP which is excluded from the future minimum lease payments disclosed above.

Purchase commitments. KUS has long-term supply contracts that provide for certain affiliates’ chloride feedstock requirements through 2010. The Company purchases chloride feedstock underlying these long-term supply contracts from KUS. The agreements require KUS to purchase certain minimum quantities of feedstock with minimum purchase commitments aggregating approximately $618 million at December 31, 2005.

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

Concentrations of credit risk. Sales of TiO_2 accounted for more than 97% of net sales during each of 2003, 2004 and 2005. The remaining sales result from 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 1,000 customers, with the top ten external customers approximating 20% of net sales in 2003, 22% of net sales in 2004 and 21% of net sales in 2005. Approximately 74% of the Company's TiO_2 sales by volume were to Europe in 2003 and 78% in each of 2004 and 2005. Approximately 11% in 2003 and 7% in each of 2004 and 2005 of sales by volume were to North America.

Note 13 - Financial instruments:

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

	December 31,			
	2004		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In millions)			
Cash and cash equivalents	$ 6.4	$ 6.4	$ 50.8	$ 50.8
Note payable to affiliate	12.9	12.9	11.2	11.2

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 2003, 2004 and 2005.

Other than as described above, the Company was not a party to any material derivative financial instruments during 2003, 2004 or 2005. There was no impact on the Company’s financial statements from adopting SFAS No. 133.

Note 14- Accounting principles newly adopted in 2003 and 2004:

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

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

Note 15- Accounting principles not yet adopted:

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

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

SFAS No. 123R also requires certain expanded disclosures regarding the Company's stock options, and such expanded disclosures have been provided in Note 2.

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

KRONOS DENMARK APS AND SUBSIDIARIES

Index of Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of Kronos Denmark ApS:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholder's equity and cash flows present fairly, in all material respects, the financial position of Kronos Denmark ApS and Subsidiaries at December 31, 2004 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Dallas, Texas
March 28, 2006

KRONOS DENMARK APS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2005

(In thousands, except share data)

ASSETS	**2004**	**2005**
Current assets:		
Cash and cash equivalents	$ 3,566	**$ 1,042**
Restricted cash	1,529	**1,355**
Accounts and notes receivable	18,422	**17,319**
Receivable from affiliates	16,029	**27,493**
Refundable income taxes	1,542	**205**
Inventories	65,282	**69,506**
Prepaid expenses	908	**900**
Total current assets	107,278	**117,820**
Other assets:		
Note receivable from affiliate	12,941	**11,239**
Other	7,013	**6,153**
Total other assets	19,954	**17,392**
Property and equipment:		
Land	19,236	**16,829**
Buildings	41,196	**36,995**
Machinery and equipment	190,748	**176,849**
Mining properties	72,384	**68,163**
Construction in progress	3,443	**1,964**
	327,007	**300,800**
Less accumulated depreciation and amortization	200,873	**188,090**
Net property and equipment	126,134	**112,710**
	$253,366	**$247,922**

KRONOS DENMARK APS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

December 31, 2004 and 2005

(In thousands, except share data)

LIABILITIES AND STOCKHOLDER'S EQUITY	**2004**	**2005**
Current liabilities:		
Current maturities of long-term debt	$ 13,792	**$ 958**
Accounts payable and accrued liabilities	38,776	**38,406**
Payable to affiliates	10,142	**9,058**
Income taxes	6,427	**6,564**
Deferred income taxes	2,363	**2,194**
Total current liabilities	71,500	**57,180**
Noncurrent liabilities:		
Long-term debt	178	**3,567**
Note payable to affiliate	5,449	**-**
Deferred income taxes	22,358	**19,266**
Accrued pension costs	2,493	**4,129**
Other	3,484	**1,362**
Total noncurrent liabilities	33,962	**28,324**
Stockholder's equity:		
Common stock – 100 Danish kroner par value; 10,000 shares authorized; 10,000 shares issued and outstanding	136	**136**
Additional paid-in capital	216,996	**216,996**
Accumulated deficit	(69,643)	**(34,216)**
Accumulated other comprehensive loss:		
Currency translation adjustment	9,686	**(10,584)**
Minimum pension liability	(9,271)	**(9,914)**
Total stockholder's equity	147,904	**162,418**
	$ 253,366	**$ 247,922**

Commitments and contingencies (Notes 7, 10 and 13)

See accompanying notes to consolidated financial statements.

KRONOS DENMARK APS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Net sales	$ 292,611	$ 345,962	**$ 364,865**
Cost of sales	234,881	284,902	**291,075**
Gross margin	57,730	61,060	**73,790**
Selling, general and administrative expense	19,596	23,874	**24,868**
Other operating income (expense):			
Currency transaction gains (losses), net	355	980	**173**
Disposition of property and equipment	37	(596)	**(220)**
Other, net	350	286	**489**
Income from operations	38,876	37,856	**49,364**
Other income (expense):			
Trade interest income	163	73	**88**
Securities transaction gain	-	-	**5,439**
Other income from affiliates	198	202	**387**
Interest and other expense to affiliates	(2,608)	(2,943)	**(2,572)**
Interest expense	(2,309)	(1,529)	**(1,142)**
Income before income taxes	34,320	33,659	**51,564**
Provision for income taxes	7,428	9,843	**16,137**
Net income	$ 26,892	$ 23,816	**$ 35,427**

See accompanying notes to consolidated financial statements.

KRONOS DENMARK APS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Net income	$26,892	$23,816	$35,427
Other comprehensive income (loss), net of tax:			
Currency translation adjustment	10,998	13,890	(20,270)
Minimum pension liability	(10,459)	1,188	(643)
Total other comprehensive income	539	15,078	(20,913)
Comprehensive income	$27,431	$38,894	$14,514

See accompanying notes to consolidated financial statements.

KRONOS DENMARK APS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss) Currency translation adjustment	Accumulated other comprehensive income (loss) Minimum pension liability	Total
Balance at December 31, 2002	$ 136	$ 216,996	$(120,351)	$ (15,202)	$ -	$ 81,579
Net income	-	-	26,892	-	-	26,892
Other comprehensive income (loss), net of tax	-	-	-	10,998	(10,459)	539
Balance at December 31, 2003	136	216,996	(93,459)	(4,204)	(10,459)	109,010
Net income	-	-	23,816	-	-	23,816
Other comprehensive income, net of tax	-	-	-	13,890	1,188	15,078
Balance at December 31, 2004	136	216,996	(69,643)	9,686	(9,271)	147,904
Net income	-	-	35,427	-	-	35,427
Other comprehensive income, net of tax	-	-	-	(20,270)	(643)	(20,913)
Balance at December 31, 2005	$ 136	$ 216,996	$ (34,216)	$ (10,584)	$ (9,914)	$ 162,418

See accompanying notes to consolidated financial statements.

KRONOS DENMARK APS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Cash flows from operating activities:			
Net income	$ 26,892	$ 23,816	**$ 35,427**
Depreciation and amortization	11,446	12,041	**13,379**
Noncash interest expense	332	358	**302**
Deferred income taxes	(5,405)	(2,983)	**(265)**
Securities transaction gain	-	-	**(5,439)**
Net loss (gain) from disposition of property and equipment	(37)	596	**220**
Pension, net	2,278	4,372	**1,469**
Change in assets and liabilities:			
Accounts and notes receivable	437	(967)	**(1,727)**
Inventories	(2,250)	6,500	**(12,685)**
Prepaid expenses	143	17	**(104)**
Accounts payable and accrued liabilities	4,107	3,130	**5,324**
Income taxes	(2,902)	(453)	**2,379**
Accounts with affiliates	10,403	(37,220)	**(13,683)**
Other noncurrent assets	(4,181)	2,257	**(552)**
Other noncurrent liabilities	547	(1,420)	**(1,936)**
Net cash provided by operating activities	41,810	10,044	**22,109**
Cash flows from investing activities:			
Capital expenditures	(10,274)	(11,725)	**(15,044)**
Loans to affiliates	-	(11,597)	**-**
Proceeds from disposal of interest in Norwegian smelting operation	-	-	**3,542**
Change in restricted cash equivalents and restricted marketable debt securities, net	(554)	(70)	**129**
Proceeds from disposition of property and equipment	350	100	**29**
Net cash used by investing activities	(10,478)	(23,292)	**(11,344)**

KRONOS DENMARK APS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 2003, 2004 and 2005

(In thousands)

	2003	2004	2005
Cash flows from financing activities:			
Indebtedness:			
Borrowings	$ 16,106	$ 62,140	**$ 4,620**
Principal payments	(46,006)	(50,089)	**(13,159)**
Loans from affiliates - repayments	-	-	**(4,648)**
Net cash provided (used) by financing activities	(29,900)	12,051	**(13,187)**
Cash and cash equivalents:			
Net change during the year from:			
Operating, investing and financing activities	1,432	(1,197)	**(2,422)**
Currency translation	336	82	**(102)**
Balance at beginning of period	2,913	4,681	**3,566**
Balance at end of period	$ 4,681	$ 3,566	**$ 1,042**
Supplemental disclosures:			
Cash paid for:			
Interest	$ 4,638	$ 4,198	**$ 446**
Income taxes	11,525	13,331	**13,885**
Inventories received as partial consideration for disposal of interest in Norwegian smelting operation	$ -	$ -	**$ 1,897**

See accompanying notes to consolidated financial statements.

Note 1 - Organization and basis of presentation:

Kronos Denmark ApS ("KDK") was incorporated in Denmark in October 1999 and is a wholly-owned subsidiary of Kronos International, Inc. ("KII"). KII is a wholly-owned subsidiary of Kronos Worldwide, Inc. (NYSE:KRO). At December 31, 2005, (i) Valhi, Inc (NYSE: VHI) owned approximately 57% of Kronos' common stock and NL Industries, Inc. (NYSE: NL) held an additional 36% of the outstanding common stock of Kronos, (ii) Valhi owned 83% of NL's outstanding common stock and (iii) Contran Corporation and its subsidiaries held approximately 92% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons of which Mr. Simmons is sole trustee, or is held by Mr. Simmons or persons or other entities related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control each of such companies.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") with the U.S. dollar as the reporting currency. KDK and its subsidiaries also prepare financial statements on other bases, as required in countries in which such entities are resident.

KDK's current operations are conducted primarily through its Belgian and Norwegian subsidiaries with a titanium dioxide pigments ("TiO_2") plant in Belgium and a TiO_2 plant and ilmenite ore mining operation in Norway. KDK also operates TiO_2 sales and distribution facilities in Denmark and the Netherlands.

KDK is not a registrant with the U.S. Securities and Exchange Commission ("SEC") and is not subject to the SEC's periodic reporting requirements, except as may be required by Rule 3-16 of Regulation S-X.

Note 2 - Summary of significant accounting policies:

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

Principles of consolidation. The consolidated financial statements include the accounts of KDK and its wholly-owned subsidiaries (collectively, the "Company"). All material intercompany accounts and balances have been eliminated.

Translation of foreign currencies. The functional currencies of the Company include the Danish kroner, the euro and the Norwegian kroner. Assets and liabilities of subsidiaries whose functional currency is other than the U.S. dollar are translated at year-end rates of exchange and revenues and expenses are translated at average exchange rates prevailing during the year.

Resulting translation adjustments are accumulated in stockholder’s equity as part of accumulated other comprehensive income, net of related deferred income taxes. Currency transaction gains and losses are recognized in income currently.

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

Cash and cash equivalents**.** Cash equivalents include bank deposits with original maturities of three months or less.

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

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

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

Expenditures for maintenance, repairs and minor renewals are expensed; expenditures for major improvements are capitalized. The Company performs planned major maintenance activities during the year. Repair and maintenance costs estimated to be incurred in connection with planned major maintenance activities are accrued in advance and are included in cost of sales. Accrued repair and maintenance costs, included in other current liabilities and consisting primarily of materials and supplies, was $600,000 and $1.2 million at December 31, 2004 and 2005, respectively.

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

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

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

Employee benefit plans. Accounting and funding policies for retirement plans are described in Note 9.

***Income taxes*.** Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the income tax and financial reporting carrying amounts of assets and liabilities, including investments in the Company's subsidiaries and affiliates who are not members of the Contran Tax Group and undistributed earnings of foreign subsidiaries which are not deemed to be permanently reinvested. The Company periodically evaluates its deferred tax assets in the various taxing jurisdictions in which it operates and adjusts any related valuation allowance based on the estimate of the amount of such deferred tax assets that the Company believes does not meet the "more-likely-than-not" recognition criteria.

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

***Inventories and cost of sales*.** Inventories are stated at the lower of cost (principally average cost) or market, net of allowance for slow-moving inventories. Amounts are removed from inventories at average cost. Cost of sales includes costs for materials, packaging and finishing, utilities, salary and benefits, maintenance and depreciation.

Selling, general and administrative expenses; shipping and handling costs. Selling, general and administrative expenses include costs related to marketing, sales, distribution, shipping and handling, research and development, legal and administrative functions, such as accounting, treasury and finance, and includes costs for salaries and benefits, travel and entertainment, promotional materials and professional fees. Shipping and handling costs are included in selling, general and administrative expense and were $11.2 million in 2003, $13.1 million in 2004 and $13.2 million in 2005. Advertising costs are expensed as incurred and were approximately $100,000 in each of 2003, 2004 and 2005. Research, development and certain sales technical support costs are expensed as incurred and approximated $300,000 in 2003, $200,000 in 2004 and $300,000 in 2005.

Stock options. The Company has not issued any stock options. However, certain employees of the Company have been granted options by NL to purchase NL common stock. The Company has elected the disclosure alternative prescribed by SFAS No. 123, *"Accounting for Stock-Based Compensation,"* as amended, and to account for its stock-based employee compensation related to stock options in accordance with Accounting Principles Board Opinion ("APBO") No. 25, *"Accounting for Stock Issued to Employees,"* and its various interpretations. Under APBO No. 25, no compensation cost is generally recognized for fixed stock options in which the exercise price is not less than the market price on the grant date. Prior to 2003, and following NL's cash settlement of options to purchase NL common stock held by certain individuals, NL and the Company, commenced accounting for its stock options using the variable accounting method because NL could not overcome the presumption that it would not similarly cash settle its remaining stock options. Under the variable accounting method, the intrinsic value of all unexercised stock options (including those with an exercise price at least equal to the market price on the date of grant) are accrued as an expense over their vesting period, with subsequent increases (decreases) in NL's market price resulting in additional compensation expense (income). Upon exercise of such options to purchase NL common stock held by employees of the Company, the Company pays NL an amount equal to the difference between the market price of NL's common stock on the date of exercise and the exercise price of such stock option. Compensation cost recognized by the Company in accordance with APBO No. 25 and the amount charged to the Company by NL for stock option exercises was $117,000 in 2003 and $319,000 in 2004, and compensation income was $185,000 in 2005. The total income tax benefit related to such compensation cost recognized by the Company was approximately $41,000 in 2003 and $96,000 in 2004, and the total income tax provision related to the compensation income was $52,000 in 2005. No compensation cost was capitalized as part of assets (inventory or fixed assets) during 2003, 2004 and 2005.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	Years ended December 31,		
	2003	**2004**	**2005**
	(In thousands except per share amounts)		
Net income – as reported	$26,892	$23,816	$35,427
Adjustments, net of applicable income tax effects:			
Stock-based employee compensation (income) expense determined under APBO No. 25	77	223	(133)
Stock-based employee compensation	(38)	(8)	(3)

expense determined under SFAS No. 123

Pro forma net income	$26,931	$24,031	$35,291

Note 3 – Accounts and notes receivable:

	December 31,	
	2004	**2005**
	(In thousands)	
Trade receivables	$15,487	**$13,992**
Recoverable VAT and other receivables	2,960	**3,349**
Allowance for doubtful accounts	(25)	**(22)**
	$18,422	**$17,319**

See accompanying notes to consolidated financial statements.

Note 4 – Inventories:

	December 31, 2004	December 31, 2005
	(In thousands)	
Raw materials	$ 13,804	**$ 21,359**
Work in process	2,871	**1,771**
Finished products	31,725	**30,659**
Supplies	16,882	**15,717**
	$ 65,282	**$ 69,506**

Note 5 – Other noncurrent assets:

	December 31, 2004	December 31, 2005
	(In thousands)	
Unrecognized net pension obligations	$ 3,852	**$ 3,108**
Restricted marketable debt securities	2,877	**2,572**
Deferred financing costs, net	198	**400**
Other	86	**73**
	$ 7,013	**$ 6,153**

Note 6 – Accounts payable and accrued liabilities:

	December 31, 2004	December 31, 2005
	(In thousands)	
Accounts payable	$ 21,695	**$ 20,048**
Accrued liabilities:		
Employee benefits	10,462	**9,664**
Other	6,619	**8,694**
	17,081	**18,358**
	$ 38,776	**$ 38,406**

Note 7 – Notes payable and long-term debt:

	December 31, 2004	December 31, 2005
	(In thousands)	
Long-term debt:		
Bank credit facility	$ 13,622	**$ -**
Other	348	**4,525**
	13,970	**4,525**
Less current maturities	13,792	**958**
	$ 178	**$ 3,567**

See accompanying notes to consolidated financial statements.

The Company and certain of KII's subsidiaries in Belgium and Norway (Kronos Europe S.A./N.V.-"KEU", Kronos Titan A/S - "TAS" and Titania A/S - "TIA," Kronos Norge A/S, the parent company of TAS and TIA, and Kronos Titan GmbH "TG"), referred to as the "Borrowers", have a euro 80 million secured revolving credit facility that matures in June 2008. Borrowings may be denominated in euros, Norwegian kroner or U.S. dollars, and bear interest at the applicable interbank market rate plus 1.125%. The facility also provides for the issuance of letters of credit up to euro 5 million. The Credit Facility is collateralized by the accounts receivable and inventories of the borrowers, plus a limited pledge of all of the other assets of the Belgian borrower. The credit facility contains certain restrictive covenants which, among other things, restrict the ability of the borrowers to incur debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer all or substantially all of their assets to, another entity. In addition, the Credit Facility contains customary cross-default provisions with respect to other debt and obligations of Borrowers, KII and its other subsidiaries. At December 31, 2005, no amounts were outstanding under the European Credit Facility and the equivalent of $92.3 million was available for additional borrowing by the Borrowers. The Company, KEU and TG are unconditionally jointly and severally liable for any and all outstanding borrowings under the credit facility. TAS, TIA and Kronos Norge A/S are jointly and severally liable for any and all outstanding borrowings under the credit facility to the extent permitted by Norwegian law.

Deferred financing costs of $1.4 million for the Credit Facility ($1.0 million paid by the Company, with the remaining $.4 million paid by the German operating subsidiary) are being amortized over the life of the Credit Facility and are included in other noncurrent assets as of December 31, 2005.

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

Under the cross-default provisions of the Notes, the Notes may be accelerated prior to their stated maturity if KII or any of KII's subsidiaries default under any other indebtedness in excess of $20 million due to a failure to pay such other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under such other indebtedness). Under the cross-default provisions of the Credit Facility, any outstanding borrowings under the Credit Facility may be accelerated prior to their stated maturity if the Borrowers or KII default under any other indebtedness in excess of euro 5 million due to a failure to pay such other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under such other indebtedness). The Credit Facility contains provisions that allow the lender to accelerate the maturity of the Credit Facility in the event of a change of control, as defined, of the applicable borrower. In the event any of these cross-default or change-of-control provisions become applicable, and such indebtedness is accelerated, KII would be required to repay such indebtedness prior to their stated maturity.

Other long-term debt relates primarily to certain capital lease agreements which expire at various dates through 2011.

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

Years ending December 31,	Amount (In thousands)
2006	$ 958
2007	861
2008	872
2009	902
2010	932
	$4,525

Note 8 – Securities transaction gain:

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

Note 9 - Employee benefit plans:

The Company maintains various defined benefit pension plans. Personnel are covered by plans in their respective countries. Variances from actuarially assumed rates will result in increases or decreases in accumulated pension obligations, pension expense and funding requirements in future periods. In 2002 the Company amended its defined benefit pension plans for KEU, TAS and TIA to exclude the admission of new employees to the plans. New employees at these locations are eligible to participate in Company-sponsored defined contribution plans. The Company’s expense related to the Company-sponsored defined contribution plans was not material in 2004 or 2005. At December 31, 2005, the Company expects to contribute the equivalent of approximately $1.6 million to its defined benefit pension plans during 2006.

Certain actuarial assumptions used in measuring the defined benefit pension assets, liabilities and expenses are presented below. The Company uses a September 30th measurement date for their defined benefit pension plans.

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

Rate	**December 31, 2004**	**December 31, 2005**
Discount rate	5.0%	4.4%
Increase in future compensation levels	3.0%	3.0%

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

Rate	**Years ended December 31, 2003**	**2004**	**2005**
Discount rate	5.9%	5.5%	5.0%
Increase in future compensation levels	3.0%	3.0%	3.0%
Long-term return on plan assets	7.0%	6.0%	6.0%

Plan assets are comprised primarily of investments in corporate equity and debt securities, short-term investments, mutual funds and group annuity contracts.

The components of the net periodic defined benefit pension cost are set forth below.

	Years ended December 31, 2003	**2004**	**2005**
		(In thousands)	
Net periodic pension cost:			
Service cost benefits	$ 1,430	$ 2,096	**$ 2,133**
Interest cost on projected benefit obligation ("PBO")	2,907	3,436	**3,345**
Expected return on plan assets	(3,335)	(2,815)	**(3,142)**
Amortization of prior service cost	255	267	**282**
Amortization of net transition obligation	296	321	**129**
Recognized actuarial losses	732	1,428	**1,276**
	$ 2,285	$ 4,733	**$ 4,023**

The funded status of the Company’s defined benefit pension plans is set forth below.

	December 31, 2004	December 31, 2005
	(In thousands)	
Change in projected benefit obligations ("PBO"):		
Benefit obligations at beginning of year	$ 64,161	**$ 72,361**
Service cost	2,096	**2,133**
Interest cost	3,436	**3,345**
Participant contributions	152	**149**
Actuarial gains (losses)	(1,891)	**2,933**
Change in currency exchange rates	7,081	**(8,259)**
Benefits paid	(2,674)	**(2,886)**
Benefit obligations at end of year	$ 72,361	**$ 69,776**
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	$ 49,540	**$ 57,754**
Actual return on plan assets	3,881	**2,203**
Employer contributions	1,170	**1,977**
Participant contributions	152	**149**
Change in currency exchange rates	5,685	**(6,375)**
Benefits paid	(2,674)	**(2,886)**
Fair value of plan assets at end of year	$ 57,754	**$ 52,822**
Funded status at year end:		
Plan assets less than PBO	$(14,607)	**$(16,954)**
Unrecognized actuarial loss	26,344	**26,024**
Unrecognized prior service cost	3,157	**2,550**
Unrecognized net transition obligation	999	**770**
	$ 15,893	**$ 12,390**
Amounts recognized in the balance sheet:		
Accrued pension cost:		
Current	$ -	**$ (456)**
Non current	(2,469)	**(4,129)**
Unrecognized net pension obligations	3,852	**3,108**
Accumulated other comprehensive loss	14,510	**13,867**
	$ 15,893	**$ 12,390**

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 accumulated benefit obligation of the Company's defined benefit pension plans was $58.0 million at December 31, 2005 (2004 - $60.8 million).

In determining the expected long-term rate of return on plan asset assumptions, the Company considers the long-term asset mix (e.g. equity vs. fixed income) for the assets for each of its plans and the expected long-term rates of return for such asset components. In addition, the Company receives advice about appropriate long-term rates of return from the Company’s third-party actuaries. The Company currently has a plan asset target allocation of 14% to equity managers, 64% to fixed income managers and the remainder primarily to cash and liquid investments. The expected long-term rate of return for such investments is approximately 8%, 4.5% to 6% and 2.5%, respectively. The plan asset allocation at December 31, 2005 was 16% to equity managers, 62% to fixed income managers and the remainder invested primarily cash and liquid investments (2004 – 16%, 64% and 20%, respectively). The Company regularly reviews its actual asset allocation for each of its plans, and will periodically rebalance the investments in each plan to more accurately reflect the targeted allocation when considered appropriate.

The Company expects future benefits paid from its defined benefit plans to be as follows:

Years ending December 31,	**Amount (In thousands)**
2006	$3,921
2007	2,790
2008	4,425
2009	3,036
2010	3,087
2011 to 2015	20,926

Note 10 - Income taxes:

The components of (i) income from continuing operations before income taxes ("pretax income"), (ii) the difference between the provision for income taxes attributable to pretax income and the amounts that would be expected using the Danish statutory income tax rate of 30% in 2003 and 2004 and 28% in 2005, (iii) the provision for income taxes and (iv) the comprehensive tax provision are presented below.

	Years ended December 31,		
	2003	**2004**	**2005**
		(In thousands)	
Pretax income (loss):			
Denmark	$ 170	$ (101)	**$ 526**
Non-Denmark	34,150	33,760	**51,038**
	$34,320	$33,659	**$51,564**
Expected tax expense	$10,296	$10,099	**$14,438**
Non-Denmark tax rates	428	527	**1,360**
Non deductible expenses	-	-	**281**
Tax contingency reserve adjustment	(5,100)	(125)	**(653)**
Refund of prior year taxes	-	(595)	**(45)**
Tax on partnership income	1,245	(358)	**-**
Other, net	559	295	**756**
Income tax expense	$ 7,428	$ 9,843	**$16,137**
Provision for income taxes:			
Current income tax expense:			
Denmark	$ 63	$ 2	**$ 224**
Non-Denmark	12,770	12,824	**16,178**
	12,833	12,826	**16,402**
Deferred income tax expense (benefit):			
Denmark	(5,104)	(139)	**(644)**
Non-Denmark	(301)	(2,844)	**379**
	(5,405)	(2,983)	**(265)**
	$ 7,428	$ 9,843	**$16,137**
Comprehensive provision for income taxes allocable to:			
Pretax income	$ 7,428	$ 9,843	**$16,137**
Other comprehensive loss – pension liabilities	(4,068)	5	**180**
	$ 3,360	$ 9,848	**$16,317**

The components of the net deferred tax liability are summarized below.

	December 31,			
	2004		2005	
	Assets	Liabilities	Assets	Liabilities
	(In thousands)			
Tax effect of temporary differences relating to:				
Inventories	$ 61	$ (2,546)	**$ 72**	**$ (2,067)**
Property and equipment	181	(20,214)	**-**	**(18,199)**
Accrued (prepaid) pension cost	4,063	(4,624)	**3,883**	**(3,659)**
Accrued liabilities and other deductible differences	199	-	**1,420**	**-**
Other taxable differences	-	(3,746)	**-**	**(2,910)**
Incremental tax and rate differences on equity in earnings of non-tax group companies	1,905	-	**-**	**-**
Gross deferred tax assets (liabilities)	6,409	(31,130)	**5,375**	**(26,835)**
Reclassification, principally netting by tax jurisdiction	(6,409)	6,409	**(5,375)**	**5,375**
Net total deferred tax assets (liabilities)	-	(24,721)	**-**	**(21,460)**
Net current deferred tax assets (liabilities)	-	(2,363)	**-**	**(2,194)**
Net noncurrent deferred tax liabilities	$ -	$(22,358)	**$ -**	**$(19,266)**

Changes in the Company's deferred income tax valuation allowance are summarized below:

	December 31,		
	2003	2004	2005
	(In thousands)		
Balance at beginning of year	$ 658	$ 683	**$ -**
Increase in certain deductible temporary differences which the Company believes do not meet the "more-likely-than-not" recognition criteria	-	-	**-**
Foreign currency translation	25	-	**-**
Offset to the change in gross deferred income tax assets due principally to redeterminations of certain tax attributes and implementation of certain planning strategies	-	(683)	**-**
Balance at end of year	$ 683	$ -	**$ -**

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

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

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

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

Note 11 - Related party transactions:

The Company may be deemed to be controlled by Harold C. Simmons. See Note 1. Corporations that may be deemed to be controlled by or affiliated with Mr. Simmons sometimes engage in (a) intercorporate transactions such as guarantees, management and expense sharing arrangements, shared fee arrangements, 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, KII and related entities consider, review and evaluate such transactions. Depending upon the business, tax and other objectives then relevant, it is possible that the Company might be a party to one or more such transactions in the future.

The Company is a party to services and cost sharing agreements among several affiliates of the Company whereby Kronos, KII and other affiliates provide certain management, financial, insurance and administrative services to the Company on a fee basis. The Company's expense was approximately $1.9 million in 2003, $2.1 million in 2004 and $2.5 million in 2005 related to these services and costs.

Tall Pines Insurance Company and EWI RE, Inc. provide for or broker certain insurance policies for Contran and certain of its subsidiaries and affiliates, including the Company. Tall Pines is wholly-owned by a subsidiary of Valhi, and EWI is a wholly-owned subsidiary of NL. Consistent with insurance industry practices, Tall Pines and EWI receive commissions from insurance and reinsurance underwriters and/or assess fees for the policies that they provide or broker. The aggregate premiums paid to Tall Pines (including amounts paid to Valmont Insurance Company, another subsidiary of Valhi that was merged into Tall Pines in 2004) and EWI by the Company were $900,000 in 2003, $1.1 million in 2004 and $2.0 million in 2005. These amounts principally included payments for insurance and reinsurance premiums paid to third parties, but also included commissions paid to Tall Pines and EWI. Tall Pines purchases reinsurance for substantially all of the risks it underwrites. The Company expects that these relationships with Tall Pines and EWI will continue in 2006.

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

Intercompany sales to (purchases from) affiliates of TiO_2 are summarized in the following table.

	Years ended December 31,		
	2003	**2004**	**2005**
		(In thousands)	
Sales to:			
TG	$ 38,783	$ 53,631	**$ 55,210**
Kronos Limited ("KUK")	18,856	25,285	**20,408**
Kronos (US), Inc. ("KUS")	18,792	19,180	**25,445**
Societe Industrielle du Titane, S.A. ("SIT")	8,138	8,868	**9,054**
Kronos Canada, Inc. ("KC")	4,308	2,596	**3,009**
	$ 88,877	$109,560	**$113,126**
Purchases from:			
TG	$ 38,785	$ 48,808	**$ 58,121**
KUS	101	3,489	**-**
KC	223	22	**103**
	$ 39,109	$ 52,319	**$ 58,224**

Sales of ilmenite to TG were $15.5 million in 2003, $17.4 million in 2004 and $21.4 million in 2005.

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 $39.5 million in 2003, $40.5 million in 2004 and $47.8 million in 2005.

Royalties paid to KII for use of certain of KII's intellectual property totaled $10.4 million in 2003, $12.5 million in 2004 and $12.4 million in 2005, and was included as a component of cost of sales.

During 2003, 2004 and 2005, the Company was party to an accounts receivable factoring agreement (the "Factoring Agreement") with one or more of its affiliates whereby the Company factored its export accounts receivable without recourse for a fee of 0.85% for the Company's export receivables related to Kronos Europe S.A./N.V. ("KEU") and 1.2% for export receivables related to its Norwegian operating subsidiaries, Kronos Titan A/S ("TAS") and Titania A/S ("TIA"). Upon non-recourse transfer from the Company, the affiliate assumed all risk pertaining to the factored receivables, including, but not limited to, exchange control risks, risks pertaining to the bankruptcy of a customer and risks related to late payments. Export receivables sold by the Company pursuant to the Factoring Agreement during 2003, 2004 and 2005 aggregated $101.4 million, and $119.9 million and $124.5 million, respectively.

Net amounts currently receivable from (payable to) affiliates are summarized in the following table.

	December 31, 2004	December 31, 2005
	(In thousands)	
Receivable from:		
SIT	$ 814	**$ 864**
KUK	1,766	**1,638**
TG	13,342	**24,967**
Other	107	**24**
	$ 16,029	**$ 27,493**
Noncurrent receivable from TG	$ 12,941	**$ 11,239**
Payable to:		
KII	$ 4,266	**$ 3,740**
KUS	5,486	**5,317**
KC	390	**-**
	$ 10,142	**$ 9,057**
Noncurrent payable to TG	$ 5,449	**$ -**

Net amounts between the Company, KUS, TG, SIT, KUK and KC were generally related to product purchases and sales. Net amounts with TG also include accounts receivable factoring fees.

Note 12 – NL common stock options held by employees of the Company:

At December 31, 2005, employees of the Company held options to purchase approximately 23,000 shares of NL common stock, of which 13,000 are exercisable at various dates through 2010 at an exercise price ranging from

$2.66 to $5.63 per share and 10,000 are exercisable at various dates through 2011 at an exercise price of $11.49 per share.

The pro forma information required by SFAS No. 123 is based on an estimation of the fair value of options issued subsequent to January 1, 1995. See Note 2. No options were granted during 2003, 2004, or 2005. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

Note 13 - Commitments and contingencies:

Operating 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.

Net rent expense aggregated $3 million in each of 2003, 2004 and 2005. At December 31, 2005, minimum rental commitments under the terms of noncancellable operating leases were as follows:

Years ending December 31,	Equipment (in thousands)
2006	$ 603
2007	520
2008	516
2009	253
2010	92
2011 and thereafter	99
	$2,083

Long-term contracts. KUS has long-term supply contracts that provide for certain of its affiliates', including KDK's, chloride feedstock requirements through 2010. The Company and certain of its affiliates purchase chloride feedstock underlying these long-term supply contracts from KUS. The agreements require KUS to purchase certain minimum quantities of feedstock with minimum purchase commitments aggregating approximately $681 million at December 31, 2005.

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

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

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

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

Concentrations of credit risk. Sales of TiO_2 accounted for approximately 78%, 79% and 78% of net sales during 2003, 2004 and 2005, respectively. 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 certain titanium chemical products (derived from co-products of the TiO_2 production process). TiO_2 is generally sold to the paint, plastics and paper industries. 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 1,000 customers, with the top ten external customers approximating 26% of net sales in 2003, 24% of net sales in 2004 and 17% of net sales in 2005. Approximately 80% of the Company's TiO_2 sales by volume were to Europe in each of 2003, 2004 and 2005. Approximately 10% of sales by volume were to North America in each of 2003, 2004 and 2005.

Note 14 - Financial instruments:

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

	December 31,			
	2004		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Cash, cash equivalents, restricted cash equivalents and noncurrent restricted marketable debt securities	$ 8.0	$ 8.0	**$ 5.0**	**$ 5.0**
Notes payable and long-term debt - variable rate debt	$ 13.6	$ 13.6	**$ -**	**$ -**

The Company held no derivative financial instruments during 2003, 2004 or 2005.

Note 15 – Accounting principles recently adopted in 2003 and 2004:

Asset retirement obligations. The Company adopted SFAS No. 143, *"Accounting for Asset Retirement Obligations,"* effective January 1, 2003. Under SFAS No. 143, the fair value of a liability for an asset retirement obligation covered under the scope of SFAS No. 143 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.

Under the transition provisions of SFAS No. 143, at the date of adoption on January 1, 2003, the Company will recognize (i) an asset retirement cost capitalized as an increase to the carrying value of its property, plant and equipment, (ii) accumulated depreciation on such capitalized cost and (iii) a liability for the asset retirement obligation. Amounts resulting from the initial application of SFAS No. 143 are measured using information, assumptions and interest rates all as of January 1, 2003. The amount recognized as the asset retirement cost is measured as of the date the asset retirement obligation was incurred. Cumulative accretion on the asset retirement obligation, and accumulated depreciation on the asset retirement cost, is recognized for the time period from the date the asset retirement cost and liability would have been recognized had the provisions of SFAS No. 143 been in effect at the date the liability was incurred, through January 1, 2003. The difference, if any, between the amounts to be recognized as described above and any associated amounts recognized in the Company’s balance sheet as of December 31, 2002 is recognized as a cumulative effect of a change in accounting principle as of the date of adoption. The effect of adopting SFAS No. 143 as of January 1, 2003 was not material, as summarized in the table below and is not separately recognized in the accompanying Statement of Income.

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

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

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

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

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

Note 16 - Accounting principles not yet adopted:

Stock options. The Company will adopt SFAS No. 123R, "*Share-Based Payment,"* as of January 1, 2006. SFAS No. 123R, among other things, eliminated the alternative in previously existing GAAP to use the intrinsic value method of accounting for stock-based employee compensation under APBO No. 25. Upon adoption of SFAS No. 123R, the Company will generally be required to recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, with the cost recognized over the period during which an employee is required to provide services in exchange for the award (generally, the vesting period of the award). No compensation cost will be recognized in the aggregate for equity instruments for which the employee does not render the requisite service (generally, the instrument is forfeited before it has vested). The grant-date fair value will be estimated using option-pricing models (e.g. Black-Scholes or a lattice model). Under the transition alternatives permitted under SFAS No. 123R, the Company will apply the new standard to all new awards granted on or after January 1, 2006, and to all awards existing as of June 30, 2005 which are subsequently modified, repurchased or cancelled. Additionally, as of January 1, 2006, the Company will be required to recognize compensation cost previously measured under SFAS No. 123 for the portion of any non-vested award existing as of December 31, 2005 over the remaining vesting period. Because the Company has not granted any options to purchase its common stock and did not grant any options prior to January 1, 2006 and because the number of non-vested awards as of December 31, 2005 with respect to options granted by NL to employees of the Company was not material, the effect of adopting SFAS No. 123R was not significant in so far as it relates to the recognition of compensation cost in the Company's consolidated statements of income for existing stock options. Should the Company, however, grant a significant number of options in the future, the Company could recognize material amounts of compensation cost related to such options in its consolidated financial statements.

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

SFAS No. 123R also requires certain expanded disclosures regarding the Company's stock options, and such expanded disclosures have been provided in Note 12.

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

ISSUER

Kronos International, Inc.
5430 LBJ Freeway
Suite 1700
Dallas, Texas 75240
United States of America

AGENTS

Trustee

The Bank of New York
15 Broad Street, 26th Floor
New York, NY 10005
United States of America

Principal Paying Agent and Transfer Agent

The Bank of New York
15 Broad Street, 26th Floor
New York, NY 10005
United States of America

Luxembourg Paying Agent and Transfer Agent

The Bank of New York (Luxembourg) S.A.
Aerogolf Center
1A, Hoehenhof
L-1735 Senningerberg
Luxembourg

LISTING AGENT

The Bank of New York
1 Canada Square
London
E14 5AL
United Kingdom

LEGAL ADVISORS

To the Issuer as to U.S. Law

Locke Liddell & Sapp LLP
2200 Ross Avenue, Suite 2200
Dallas, Texas 75201
United States of America

To the Initial Purchaser as to U.S. Law

Cahill Gordon & Reindel
80 Pine Street
New York, New York 10005
United States of America

AUDITORS

Pricewaterhouse Coopers LLP
2001 Ross Avenue, Suite 1800
Dallas, Texas 75201
United States of America

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LISTING PARTICULARS

€400,000,000

KRONOS INTERNATIONAL, INC.

6½% Senior Secured Notes due 2013

Deutsche Bank

June 21, 2006

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING FINANCIAL STATEMENTS

December 31, 2004

(Not reported on by independent public accountants)

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

December 31, 2004
(Not reported on by independent public accountants)

(In thousands)

ASSETS	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Current assets:							
Cash and cash equivalents	$ 6,305	6,444	3,566	675	515	-	$ 17,505
Restricted cash equivalents	-	-	1,529	-	-	-	1,529
Accounts and notes receivable	8,883	76,732	18,422	13,386	14,362	(1,056) (B)	130,729
Receivable from affiliates:							
Income taxes	14,463	-	-	-	-	(14,463) (B)	-
Other	5,777	32,355	16,029	36	49	(51,729) (B)	2,517
Refundable income taxes	978	-	1,542	-	66	-	2,586
Inventories	534	101,850	65,282	5,304	825	(3,533) (A)	170,261
Prepaid expenses	43	2,078	908	52	60	-	3,141
Deferred income taxes	206	64	-	-	23	(294) (A)	-
Total current assets	37,189	219,523	107,278	19,453	15,900	(71,075)	328,268
Other assets:							
Investment in subsidiaries	517,466	-	-	-	-	(517,466) (C)	-
Notes receivable from affiliates	-	5,449	12,941	-	-	(18,390) (B)	-
Restricted marketable debt securities	-	-	2,877	-	-	-	2,877
Deferred income taxes	222,643	19,834	-	526	-	(4,719) (A)	238,284
Other	10,508	4,873	4,136	-	1	-	19,519
Total other assets	750,617	30,156	19,954	526	1	(540,575)	260,680
Property and equipment	37,574	632,728	327,007	408	333	-	998,050
Less accumulated depreciation and depletion	26,442	373,938	200,873	343	219	-	601,815
Net property and equipment	11,132	258,790	126,134	65	114	-	396,235
	$ 798,938	508,469	253,366	20,044	16,015	(611,650)	$ 985,183

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

December 31, 2004
(Not reported on by independent public accountants)

(In thousands)

LIABILITIES AND SHAREHOLDER'S EQUITY	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Current liabilities:							
Notes payable	$ -	-	13,622	-	-	-	$ 13,622
Current maturities of long-term debt	-	-	170	-	-	-	170
Accounts payable and accrued liabilities	6,133	76,952	38,776	2,968	3,177	(1,056) (B)	126,949
Payable to affiliates:							
Income taxes	76	14,387	-	-	-	(14,463) (B)	-
Other	26,599	20,873	10,142	2,705	2,452	(51,729) (B)	11,042
Income taxes	10,634	(59)	6,427	77	-	-	17,080
Deferred income taxes	32	1,976	2,363	-	33	(1,682)	2,722
Total current liabilities	43,474	114,129	71,500	5,750	5,662	(68,930)	171,585
Noncurrent liabilities:							
Long-term debt	519,225	-	178	-	-	-	519,403
Notes payable to affiliate	-	12,941	5,449	-	-	(18,390) (B)	-
Deferred income taxes	2,747	1,757	22,358	214	-	(4,719) (B)	22,358
Accrued pension cost	-	45,015	2,493	957	-	-	48,465
Other	1,138	12,193	3,484	-	-	-	16,816
Total noncurrent liabilities	523,110	71,906	33,962	1,171	-	(23,109)	607,042
Minority interest	-	-	-	-	76	-	76
Shareholder's equity:							
Capital and retained earnings	540,491	229,848	147,488	12,349	7,905	(392,717) (A)	545,364
Other comprehensive income (loss):							
Currency translation	(98,611)	111,996	9,687	1,687	2,372	(126,894) (C)	(99,764)
Pension liabilities	-	(19,410)	(9,271)	(913)	-	-	(29,594)
Notes receivable from affiliates	(209,526)	-	-	-	-	-	(209,526)
Total shareholder's equity	232,354	322,434	147,904	13,123	10,277	(519,611)	206,480
	$ 798,938	508,469	253,366	20,044	16,015	(611,650)	$ 985,183

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

Year ended December 31, 2004
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Net sales	$ 40,038	552,216	345,962	46,466	51,145	(227,857) (A)	$ 807,970
Cost of sales	21,208	451,888	284,902	42,901	48,078	(239,418) (A)	609,559
Gross margin	18,830	100,328	61,060	3,565	3,067	11,561	198,411
Selling general & administrative expense	28,415	47,824	23,874	2,588	1,410	-	104,110
Other operating income (expense):							
Currency transaction gain (loss)	(574)	(2,533)	980	(115)	-	-	(2,243)
Disposition of property and equipment	(6)	(293)	(596)	-	-	-	(895)
Royalty income	18,508	-	-	-	-	(12,473) (A)	6,034
Other income	69	-	357	-	-	-	426
Other expense	-	-	(72)	-	-	-	(72)
Income from operations	8,412	49,678	37,855	862	1,657	(912)	97,551
Equity in income of subsidiaries	66,464	-	-	-	-	(66,464) (C)	-
Other income (expense):							
Interest exp to affiliates	-	(71)	(223)	-	-	290 (A)	(4)
Interest inc from affiliates	2,767	219	71	-	-	(290) (A)	2,767
Trade interest income	81	949	73	44	-	-	1,147
Intercompany and other	(5,771)	8,361	(2,588)	(2)	8	(1)	6
Interest expense	(34,514)	(651)	(1,529)	-	-	-	(36,694)
Income before taxes and minority interest	37,439	58,485	33,659	904	1,665	(67,377)	64,773
Provision (benefit) for income taxes	(289,007)	17,507	9,843	284	585	(471) (A)	(261,260)
Minority interest	-	-	-	-	53	-	53
Net income (loss)	$ 326,446	40,978	23,816	620	1,027	(66,906)	$ 325,980

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2004
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Net income (loss)	$ 326,446	40,978	23,816	620	1,027	(66,906) (A)	$ 325,980
Other comprehensive income (loss), net of tax:							
Minimum pension liabilities adjustment	-	4,400	1,188	(785)	-	-	4,803
Currency translation adjustment	106,575	36,472	13,890	1,904	934	(126,114) (C)	33,661
Other comprehensive income (loss)	106,575	40,872	15,078	1,119	934	(126,114)	38,464
Comprehensive income (loss)	$ 433,021	81,850	38,894	1,739	1,961	(193,020)	$ 364,444

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF SHAREHOLDER'S EQUITY

Year ended December 31, 2004
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Balance at December 31, 2003	$ 68,860	440,843	109,010	11,384	8,157	(526,692) (A)	$ 111,562
Net income (loss)	326,446	40,978	23,816	620	1,027	(66,906) (A)	325,980
Intercompany transfers:							
Corporate structure change	-	(149,596)	-	-	-	149,596 (A)	-
Dividends, net	(60,000)	(50,663)	-	-	(243)	50,906 (A)	(60,000)
Increase in ownership	-	-	-	-	402	(402) (A)	-
Other comprehensive income (loss):							
Currency translation	106,574	36,472	13,890	1,904	934	(126,113) (A)	33,661
Pension liabilities	-	4,400	1,188	(785)	-	-	4,803
Change in notes receivable from affiliate	(209,526)	-	-	-	-		(209,526)
Balance at December 31, 2004	$ 232,354	322,434	147,904	13,123	10,277	(519,611)	$ 206,480

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS

Year ended December 31, 2004
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Cash flows from operating activities:							
Net income (loss)	$ 326,446	40,978	23,816	620	1,027	(66,906) (D)	$ 325,980
Distributions from subsidaries	50,902	-	-	-	-	(50,902)	-
Depreciation, depletion and amortization	2,018	23,583	12,041	45	38	-	37,726
Noncash interest expense	1,487	200	358	-	-	-	2,044
Deferred income taxes	(276,717)	6,178	(2,983)	-	8	(471) (D)	(273,985)
Minority interest	-	-	-	-	53	-	53
Equity in income of subsidiaries	(66,464)	-	-	-	-	66,464 (D)	-
Net (gain) loss from:							
Disposition of property and equipment	6	293	596	-	-	-	895
Pension cost, net	(643)	(4,540)	4,372	10	-	-	(800)
Stock option expense	-	168	319	-	-	500 (D)	987
Accounts and notes receivable	(622)	(3,205)	(967)	1,099	(2,187)	(344) (D)	(6,227)
Inventories	(244)	5,837	6,500	(1,542)	119	913 (D)	11,582
Prepaid expenses	(33)	559	17	(775)	(1)	-	(233)
Accounts payable and accrued liabilities	13,092	13,683	2,811	(926)	(581)	(156) (D)	27,922
Income taxes	(100,273)	126,599	(453)	(79)	(237)	-	25,557
Accounts with affiliates	111,177	(82,855)	(37,220)	437	2,359	(1) (D)	(6,103)
Other noncurrent assets	(193)	(146)	2,257	62	-	-	1,981
Other noncurrent liabilities	907	(5,334)	(1,420)	722	-	-	(5,124)
Net cash provided (used) by operating activities	60,846	121,997	10,044	(326)	598	(50,903)	142,255

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS (CONTINUED)

Year ended December 31, 2004
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Cash flows from investing activities:							
Capital expenditures	(1,544)	(20,396)	(11,725)	(8)	(6)	-	(33,679)
Purchases of securities	(572)	-	-	-	-	(3) (D)	(575)
Change in restricted cash, net	-	-	(70)	-	-	-	(70)
Loans to affiliates:							
Loans	2	-	(11,597)	-	-	11,597 (D)	-
Collections	88,656	-	-	-	-	(88,656) (D)	-
Proceeds from disposition of property and equipment	-	-	100	(1)	-	-	99
Net cash provided (used) by investing activities	86,542	(20,396)	(23,292)	(9)	(6)	(77,062)	(34,225)
Cash flows from financing activities:							
Indebtedness:							
Borrowings	129,524	49,984	62,140	-	-	-	241,648
Principal payments	-	(49,984)	(50,089)	-	-	-	(100,073)
Deferred financing fees	(1,989)	-	-	-	-	-	(1,989)
Loans from affiliates:							
Loans	(209,526)	11,597	-	-	-	(11,597) (D)	(209,526)
Repayments	-	(88,656)	-	-	-	88,656 (D)	-
Dividends, net	(60,000)	(50,663)	-	-	(243)	50,906 (D)	(60,000)
Net cash provided (used) by financing activities	(141,991)	(127,722)	12,051	-	(243)	127,965	(129,938)
Cash and cash equivalents:							
Net change from:							
Operating, investing and financing activities	5,396	(26,121)	(1,196)	(335)	349	-	(21,908)
Currency translation	347	1,706	82	131	25	-	2,292
Balance at beginning of period	562	30,859	4,681	879	140	-	37,121
Balance at end of period	$ 6,305	6,444	3,567	675	515	-	$ 17,505

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS (CONTINUED)

Year ended December 31, 2004
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)		Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations		Kronos International Consolidated
Supplemental disclosures									
Cash paid (received) for:									
Interest	$ 31,914	626		4,198	22	2	(3,336)	(D)	$ 33,425
Income taxes	$ 94,352	(132,629)	0	13,331	366	804	-		$ (23,776)

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

(Not reported on by independent public accountants)

Note 1 - Organization and basis of presentation:

Kronos International, Inc.("KII"), a Delaware corporation, is a wholly-owned subsidiary of Kronos Worldwide, Inc.("KWI"), a majority-owned subsidiary of Valhi, Inc. At December 31, 2004, Contran Corporation and its subsidiaries held approximately 91% of Valhi's outstanding common stock.

The accompanying consolidating financial statements should be read in conjunction with KII's Annual Report on Form 10-K for the year ended, December 31, 2004.

Note 2 - Eliminations are explained below:

A. Elimination of intercompany profit in assets, income, costs and expenses, and dividends.

B. Elimination of intercompany receivable and payable balances.

C. Elimination of investment in affiliates.

D. Elimination of intercompany cash flows.

E. Entry to net tax accounts.

Note 3 - Currency translation of financial statements:

The currency exchange rates used to translate the balance sheets for KII and its subsidiaries at December 31, 2004 and statements of operations and cash flows for the December 31, 2004 then ended from functional currency amounts to U.S. dollars are as follows:

	Balance sheet (period-end exchange rate)		Statements of operations and cash flows (average exchange rates for the period)	
	Functional currency per US $	US $ per functional currency	Functional currency per US $	US $ per functional currency
Euro	0.7341	1.3622	0.8032	1.2450
Canada	1.2108	0.8259	1.2952	0.7721
Norway	6.0533	0.1652	6.7159	0.1489
United Kingdom	0.5207	1.9205	0.5451	1.8345
Denmark	5.4585	0.1832	5.9737	0.1674

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING FINANCIAL STATEMENTS

December 31, 2005

(Not reported on by independent public accountants)

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

December 31, 2005
(Not reported on by independent public accountants)

(In thousands)

ASSETS	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Current assets:							
Cash and cash equivalents	$ 9,664	50,765	1,042	1,613	200	-	$ 63,284
Restricted cash equivalents	-	-	1,355	-	-	-	1,355
Accounts and notes receivable	9,010	73,059	17,319	9,103	12,891	(1,200) (B)	120,182
Receivable from affiliates:							
Income taxes	30,172	-	-	-	-	(30,172) (B)	-
Other	5,478	43,021	27,493	1,390	157	(75,587) (B)	1,952
Refundable income taxes	848	14,695	205	-	-	(14,695) (B)	1,053
Inventories	397	113,677	69,506	4,913	782	(3,927) (A)	185,348
Prepaid expenses	48	1,629	900	51	52	-	2,680
Deferred income taxes	68	-	-	-	-	(68) (A)	-
Total current assets	55,685	296,846	117,820	17,070	14,082	(125,649)	375,854
Other assets:							
Investment in subsidiaries	485,165	-	-	-	-	(485,165) (C)	-
Notes receivable from affiliates	-	-	11,239	-	-	(11,239) (B)	-
Restricted marketable debt securities	-	-	2,572	-	-	-	2,572
Deferred income taxes	165,961	47,044	-	248	-	22 (A)	213,275
Other	7,401	3,808	3,581	-	-	-	14,790
Total other assets	658,527	50,852	17,392	248	-	(496,382)	230,637
Property and equipment	32,992	559,359	300,800	321	287	-	893,759
Less accumulated depreciation and depletion	23,578	332,840	188,090	252	224	-	544,984
Net property and equipment	9,414	226,519	112,710	69	63	-	348,775
	$ 723,626	574,217	247,922	17,387	14,145	(622,031)	$ 955,266

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

December 31, 2005
(Not reported on by independent public accountants)

(In thousands)

LIABILITIES AND SHAREHOLDER'S EQUITY	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Current liabilities:							
Current maturities of long-term debt	-	-	958	-	-	-	958
Accounts payable and accrued liabilities	3,927	71,987	38,406	2,371	2,794	(1,200) (B)	118,285
Payable to affiliates:							
Income taxes	-	30,172	-	-	-	(30,172) (B)	-
Other	33,624	45,275	9,058	1,644	868	(75,587) (B)	14,882
Income taxes	29,609	-	6,564	103	218	(14,695) (B)	21,799
Deferred income taxes	-	3,508	2,194	-	22	(1,588)	4,136
Total current liabilities	67,160	150,942	57,180	4,118	3,902	(123,242)	160,060
Noncurrent liabilities:							
Long-term debt	449,298	-	3,567	-	-	-	452,865
Notes payable to affiliate	-	11,239	-	-	-	(11,239) (B)	-
Deferred income taxes	-	-	19,266	-	-	(1) (B)	19,265
Accrued pension cost	-	120,872	4,129	765	-	-	125,766
Other	1,025	13,047	1,362	-	-	-	15,434
Total noncurrent liabilities	450,323	145,158	28,324	765	-	(11,240)	613,330
Minority interest	-	-	-	-	75	-	75
Shareholder's equity:							
Capital and retained earnings	615,929	282,081	182,916	13,057	9,245	(498,078) (A)	605,150
Other comprehensive income (loss):							
Currency translation	(116,615)	68,897	(10,584)	317	923	(73,116) (C)	(130,178)
Pension liabilities	(83,645)	(72,861)	(9,914)	(870)	-	83,645 (C)	(83,645)
Notes receivable from affiliates	(209,526)	-	-	-	-	-	(209,526)
Total shareholder's equity	206,143	278,117	162,418	12,504	10,168	(487,549)	181,801
	$ 723,626	574,217	247,922	17,387	14,145	(622,031)	$ 955,266

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

Year ended December 31, 2005
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Net sales	$ 47,682	584,219	364,865	45,656	52,729	(244,278) (A)	$ 850,873
Cost of sales	24,980	462,558	291,075	41,830	48,978	(256,243) (A)	613,178
Gross margin	22,702	121,661	73,790	3,826	3,751	11,965	237,695
Selling general & administrative expense	31,185	50,140	24,868	2,693	1,299	-	110,185
Other operating income (expense):							
Currency transaction gain (loss)	247	3,906	173	(236)	-	-	4,090
Disposition of property and equipment	(100)	(1,080)	(220)	5	-	-	(1,395)
Royalty income	19,187	-	-	-	-	(12,360) (A)	6,827
Other income	-	-	576	-	-	-	576
Other expense	-	-	(87)	-	1	-	(86)
Income from operations	10,851	74,347	49,364	902	2,453	(395)	137,522
Equity in income of subsidiaries	90,703	-	-	-	-	(90,703) (C)	-
Other income (expense):							
Interest exp to affiliates	1	(320)	(140)	-	-	459 (A)	-
Interest inc from affiliates	8,649	12,753	(2,045)	32	13	(459) (A)	18,943
Trade interest income	96	733	88	34	-	-	951
Securities transactions, net	-	-	5,439	-	-	-	5,439
Interest expense	(42,213)	(595)	(1,142)	-	-	-	(43,950)
Income before taxes and minority interest	68,087	86,918	51,564	968	2,466	(91,098)	118,905
Provision (benefit) for income taxes	7,328	34,685	16,137	260	852	(155) (A)	59,107
Minority interest	-	-	-	-	12	-	12
Net income (loss)	$ 60,759	52,233	35,427	708	1,602	(90,943)	$ 59,786

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2005
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations		Kronos International Consolidated
Net income (loss)	$ 60,759	52,233	35,427	708	1,602	(90,943)	(A)	$ 59,786
Other comprehensive income (loss), net of tax:								
Minimum pension liabilities adjustment	(83,645)	(53,451)	(643)	43	-	83,645	(C)	(54,051)
Currency translation adjustment	(18,003)	(43,099)	(20,270)	(1,369)	(1,450)	53,777	(C)	(30,414)
Other comprehensive income (loss)	(101,648)	(96,550)	(20,913)	(1,326)	(1,450)	137,422		(84,465)
Comprehensive income (loss)	$ (40,889)	(44,317)	14,514	(618)	152	46,479		$ (24,679)

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF SHAREHOLDER'S EQUITY

Year ended December 31, 2005
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Balance at December 31, 2004	$ 232,354	322,434	147,904	13,123	10,277	(519,612) (A)	$ 206,480
Net income (loss)	60,759	52,233	35,427	708	1,602	(90,943) (A)	59,786
Intercompany transfers:							
Correct equity in subsidiaries (catch-up)	14,681	-	-	-	-	(14,681) (A)	-
Dividends, net	-	-	-	-	(261)	261 (A)	-
Other comprehensive income (loss):							
Currency translation	(18,006)	(43,099)	(20,270)	(1,370)	(1,450)	53,781 (A)	(30,414)
Pension liabilities	(83,645)	(53,451)	(643)	43	-	83,645 (A)	(54,051)
Balance at December 31, 2005	$ 206,143	278,117	162,418	12,504	10,168	(487,549)	$ 181,801

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS

Year ended December 31, 2005
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Cash flows from operating activities:							
Net income (loss)	$ 60,759	52,233	35,427	708	1,602	(90,943) (D)	$ 59,786
Depreciation, depletion and amortization	2,067	20,980	13,379	38	40	-	36,504
Noncash interest income	(1,707)	(33)	-	-	-	-	(1,740)
Noncash interest expense	2,123	141	302	-	-	-	2,566
Deferred income taxes	21,776	9,427	(265)	15	17	(155) (D)	30,815
Minority interest	-	-	-	-	12	-	12
Equity in income of subsidiaries	(90,703)	-	-	-	-	90,703 (D)	-
Net (gain) loss from:			-				
Securities transactions	-	-	(5,439)	-	-	-	(5,439)
Disposition of property and equipment	100	1,080	220	(5)	-	-	1,395
Pension cost, net	(437)	(3,328)	1,469	(39)	-	-	(2,335)
Stock option expense	(539)	(124)	-	-	-	-	(663)
Other, net	155	312	-	97	-	-	564
Accounts and notes receivable	(1,025)	(9,294)	(1,727)	2,880	(475)	-	(9,641)
Inventories	69	(26,335)	(12,685)	(189)	(193)	395 (D)	(38,938)
Prepaid expenses	31	(144)	(104)	(4)	(7)	-	(228)
Accounts payable and accrued liabilities	347	5,412	5,324	(298)	(4)	-	10,781
Income taxes	19,052	(13,859)	2,379	36	308	-	7,917
Accounts with affiliates	(7,565)	29,420	(13,683)	(2,149)	(1,299)	(50) (D)	4,674
Other noncurrent assets	(247)	109	(552)	-	-	-	(690)
Other noncurrent liabilities	13	(713)	(1,936)	-	-	-	(2,636)
Net cash provided (used) by operating activities	4,269	65,284	22,109	1,090	1	(49)	92,704

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS (CONTINUED)

Year ended December 31, 2005
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Cash flows from investing activities:							
Capital expenditures	(1,527)	(22,896)	(15,044)	(52)	(3)	-	(39,522)
Sale other	-	-	3,542	-	-	-	3,542
Change in restricted cash, net	-	-	129	-	-	-	129
Proceeds from disposition of			-				
property and equipment	2	-	29	6	-	-	37
Net cash provided (used) by investing activities	(1,525)	(22,896)	(11,344)	(46)	(3)	-	(35,814)
Cash flows from financing activities:							
Indebtedness:							
Borrowings	-	-	4,620	-	-	-	4,620
Principal payments	-	-	(13,159)	-	-	-	(13,159)
Loans from affiliates:			-				
Repayments	-	4,860	(4,648)	-	-	(212) (D)	-
Dividends, net	-	-	-	-	(261)	261 (D)	-
Net cash provided (used) by financing activities	-	4,860	(13,187)	-	(261)	49	(8,539)
Cash and cash equivalents:							
Net change from:							
Operating, investing and financing activities	2,744	47,248	(2,422)	1,044	(263)	-	48,351
Currency translation	615	(2,927)	(102)	(106)	(52)	-	(2,572)
Balance at beginning of period	6,305	6,444	3,566	675	515	-	17,505
Balance at end of period	$ 9,664	50,765	1,042	1,613	200	-	$ 63,284

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS (CONTINUED)

Year ended December 31, 2005
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Supplemental disclosures							
Cash paid (received) for:							
Interest	$ 39,950	516	446	-	-	-	$ 40,912
Income taxes	$ (1,101)	6,517	13,885	207	525	-	$ 20,033

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

(Not reported on by independent public accountants)

Note 1 - Organization and basis of presentation:

Kronos International, Inc.("KII"), a Delaware corporation, is a wholly-owned subsidiary of Kronos Worldwide, Inc.("KWI"), a majority-owned subsidiary of Valhi, Inc. At December 31, 2005, Contran Corporation and its subsidiaries held approximately 92% of Valhi's outstanding common stock.

The accompanying consolidating financial statements should be read in conjunction with KII's Annual Report on Form 10-K for the year ended, December 31, 2005.

Note 2 - Eliminations are explained below:

A. Elimination of intercompany profit in assets, income, costs and expenses, and dividends.

B. Elimination of intercompany receivable and payable balances.

C. Elimination of investment in affiliates.

D. Elimination of intercompany cash flows.

E. Entry to net tax accounts.

Note 3 - Currency translation of financial statements:

The currency exchange rates used to translate the balance sheets for KII and its subsidiaries at December 31, 2005 and statements of operations and cash flows for the December 31, 2005 then ended from functional currency amounts to U.S. dollars are as follows:

	Balance sheet (period-end exchange rate)		Statements of operations and cash flows (average exchange rates for the period)	
	Functional currency per US $	US $ per functional currency	Functional currency per US $	US $ per functional currency
Euro	0.8453	1.1830	0.8554	1.1691
Canada	1.1609	0.8614	1.1692	0.8553
Norway	6.7705	0.1477	6.7204	0.1488
United Kingdom	0.5795	1.7257	0.5860	1.7065
Denmark	6.3052	0.1586	6.3776	0.1568

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING FINANCIAL STATEMENTS

March 31, 2006

(Not reported on by independent public accountants)

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

March 31, 2006
(Not reported on by independent public accountants)

(In thousands)

ASSETS	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Current assets:							
Cash and cash equivalents	$ 7,708	45,458	1,423	814	348	-	$ 55,751
Restricted cash equivalents	-	-	951	-	-	-	951
Accounts and notes receivable	6,419	101,097	20,819	9,743	13,003	(2,439) (B)	148,642
Receivable from affiliates:							
Income taxes	30,623	-	-	-	-	(30,623) (B)	-
Other	5,862	33,074	32,960	2,122	39	(69,840) (B)	4,217
Refundable income taxes	861	14,035	-	-	-	(14,032) (B)	864
Inventories	372	113,353	67,727	4,366	1,428	(4,464) (A)	182,782
Prepaid expenses	386	3,035	1,070	53	50	-	4,594
Deferred income taxes	30	-	50	-	-	(28) (A)	52
Total current assets	52,261	310,052	125,000	17,098	14,868	(121,426)	397,853
Other assets:							
Investment in subsidiaries	514,386	-	-	-	-	(514,386) (C)	-
Notes receivable from affiliates	-	-	11,406	-	-	(11,406) (B)	-
Restricted marketable debt securities	-	-	2,635	-	-	-	2,635
Deferred income taxes	164,535	43,020	-	246	-	4,712 (A)	212,513
Other	7,048	3,898	3,623	-	44	-	14,613
Total other assets	685,969	46,918	17,664	246	44	(521,080)	229,761
Property and equipment	33,444	568,305	306,310	321	299	-	908,679
Less accumulated depreciation and depletion	24,226	340,892	194,335	184	217	-	559,854
Net property and equipment	9,218	227,413	111,975	137	82	-	348,825
	$ 747,448	584,383	254,639	17,481	14,994	(642,506)	$ 976,439

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

March 31, 2006
(Not reported on by independent public accountants)

(In thousands)

LIABILITIES AND SHAREHOLDER'S EQUITY	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Current liabilities:							
Current maturities of long-term debt	-	-	959	-	-	-	959
Accounts payable and accrued liabilities	15,132	73,878	36,551	2,019	2,656	(2,439) (B)	127,797
Payable to affiliates:							
Income taxes	-	32,444	-	-	-	(32,444) (B)	-
Other	23,042	40,099	3,309	1,903	1,570	(69,839) (B)	84
Income taxes	28,085	-	9,190	90	42	(13,270) (B)	24,137
Deferred income taxes	-	1,010	-	-	27	(358)	679
Total current liabilities	66,259	147,431	50,009	4,012	4,295	(118,350)	153,656
Noncurrent liabilities:							
Long-term debt	455,609	-	3,636	-	-	-	459,245
Notes payable to affiliate	-	11,407	-	-	-	(11,407) (B)	-
Deferred income taxes	-	-	22,046	-	-	2 (B)	22,048
Accrued pension cost	-	120,679	3,271	689	-	-	124,639
Other	1,070	13,380	2,580	-	(3)	-	17,027
Total noncurrent liabilities	456,679	145,466	31,533	689	(3)	(11,405)	622,959
Minority interest	-	-	-	-	78	-	78
Shareholder's equity:							
Capital and retained earnings	629,456	290,245	190,065	13,236	9,548	(514,252) (A)	618,298
Other comprehensive income (loss):							
Currency translation	(111,775)	74,102	(7,054)	414	1,076	(82,144) (C)	(125,381)
Pension liabilities	(83,645)	(72,861)	(9,914)	(870)	-	83,645 (C)	(83,645)
Notes receivable from affiliates	(209,526)	-	-	-	-	-	(209,526)
Total shareholder's equity	224,510	291,486	173,097	12,780	10,624	(512,751)	199,746
	$ 747,448	584,383	254,639	17,481	14,994	(642,506)	$ 976,439

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

Three months ending March 31, 2006
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Net sales	$ 11,574	145,819	84,970	10,234	12,264	(56,225) (A)	$ 208,636
Cost of sales	5,748	119,744	67,849	9,400	11,389	(58,541) (A)	155,589
Gross margin	5,826	26,075	17,121	834	875	2,316	53,047
Selling general & administrative expense	7,817	12,962	5,854	607	421	-	27,661
Other operating income (expense):							
Currency transaction gain (loss)	(61)	(908)	(229)	(9)	-	-	(1,207)
Disposition of property and equipment	-	(452)	8	8	3	-	(433)
Royalty income	5,006	-	-	-	-	(2,853) (A)	2,153
Other income	-	-	28	-	-	-	28
Other expense	-	-	(19)	-	-	-	(19)
Income from operations	2,954	11,753	11,055	226	457	(537)	25,908
Equity in income of subsidiaries	20,193	-	-	-	-	(20,193) (C)	-
Other income (expense):							
Interest exp to affiliates	-	(80)	-	-	-	80 (A)	-
Interest inc from affiliates	4,451	-	80	-	-	(80) (A)	4,451
Trade interest income	17	410	12	21	-	-	460
Intercompany and other	(938)	1,495	(581)	19	5 (A)	-	-
Interest expense	(10,063)	(61)	(179)	-	-	-	(10,303)
Income before taxes and minority interest	16,614	13,517	10,387	266	462	(20,730)	20,516
Provision (benefit) for income taxes	3,086	5,353	3,238	87	157	(4,555) (A)	7,366
Minority interest	-	-	-	-	2	-	2
Net income (loss)	$ 13,528	8,164	7,149	179	303	(16,175)	$ 13,148

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME

Three months ending March 31, 2006
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Net income (loss)	$ 13,528	8,164	7,149	179	303	(16,175) (A)	$ 13,148
Other comprehensive income (loss), net of tax:							
Currency translation adjustment	4,841	5,205	3,530	96	153	(9,028) (C)	4,797
Other comprehensive income (loss)	4,841	5,205	3,530	96	153	(9,028)	4,797
Comprehensive income (loss)	$ 18,369	13,369	10,679	275	456	(25,203)	$ 17,945

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF SHAREHOLDER'S EQUITY

Three months ending March 31, 2006
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Balance at December 31, 2005	$ 206,143	278,117	162,418	12,504	10,168	(487,549) (A)	$ 181,801
Net income (loss)	13,528	8,164	7,149	179	303	(16,175) (A)	13,148
Other comprehensive income (loss):							
Currency translation	4,839	5,205	3,530	97	153	(9,027) (A)	4,797
Balance at March 31, 2006	$ 224,510	291,486	173,097	12,780	10,624	(512,751)	$ 199,746

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS

Three months ending March 31, 2006
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Cash flows from operating activities:							
Net income (loss)	$ 13,528	8,164	7,149	179	303	(16,175) (D)	$ 13,148
Depreciation, depletion and amortization	469	4,916	3,381	12	10	-	8,788
Noncash interest income	(411)	-	1	-	-	-	(410)
Noncash interest expense	514	22	40	-	-	-	576
Deferred income taxes	3,977	1,455	56	-	4	(3,499) (D)	1,993
Minority interest	-	-	-	-	2	-	2
Equity in income of subsidiaries	(20,193)	-	-	-	-	20,193 (D)	-
Net (gain) loss from:			-				
Disposition of property and equipment	-	451	(8)	(8)	(2)	-	433
Benefit plan expense less than cash funding:							
Defined benefit pension plans	463	(475)	(591)	(69)	-	-	(672)
Stock option expense	(96)	(26)	(71)	-	(12)	-	(205)
Other, net	-	(94)	456	(10)	4	-	356
Accounts and notes receivable	2,669	(26,908)	(3,127)	(602)	37	-	(27,931)
Inventories	32	2,039	2,545	630	(635)	537 (D)	5,148
Prepaid expenses	(353)	(1,386)	(148)	(3)	5	-	(1,885)
Accounts payable and accrued liabilities	10,754	1,379	(1,284)	(366)	(155)	-	10,328
Income taxes	(2,008)	880	2,636	(11)	(177)	765 (D)	2,085
Accounts with affiliates	(11,268)	6,617	(10,549)	(497)	828	(1,821) (D)	(16,690)
Other noncurrent assets	(53)	(55)	3	-	(44)	-	(149)
Other noncurrent liabilities	30	8	(5)	-	-	-	33
Net cash provided (used) by operating activities	(1,946)	(3,013)	484	(745)	168	-	(5,052)

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS (CONTINUED)

Three months ending March 31, 2006
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Cash flows from investing activities:							
Capital expenditures	(164)	(2,937)	(479)	(85)	(31)	-	(3,696)
Change in restricted cash, net	-	-	411	-	-	-	411
Proceeds from disposition of			-				
property and equipment	-	-	8	14	7	-	29
Net cash provided (used) by investing activities	(164)	(2,937)	(60)	(71)	(24)	-	(3,256)
Cash flows from financing activities:							
Indebtedness:							
Principal payments	-	-	(39)	-	-	-	(39)
Net cash provided (used) by financing activities	-	-	(39)	-	-	-	(39)
Cash and cash equivalents:							
Net change from:							
Operating, investing and financing activities	(2,110)	(5,950)	385	(816)	144	-	(8,347)
Currency translation	154	643	(4)	16	5	-	814
Balance at beginning of period	9,664	50,765	1,042	1,614	199	-	63,284
Balance at end of period	$ 7,708	45,458	1,423	814	348	-	$ 55,751

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF CASH FLOWS (CONTINUED)

Three months ending March 31, 2006
(Not reported on by independent public accountants)

(In thousands)

	Kronos International (Germany)	Kronos Titan (Germany)	Kronos Denmark	Kronos Limited (U. K.)	SIT (France)	Eliminations	Kronos International Consolidated
Supplemental disclosures							
Cash paid (received) for:							
Interest	$ -	-	66	-	-	-	$ 66
Income taxes	$ 1,022	1,192	531	102	334	-	$ 3,181

See accompanying notes to consolidating financial statements

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

(Not reported on by independent public accountants)

Note 1 - Organization and basis of presentation:

Kronos International, Inc.("KII"), a Delaware corporation, is a wholly-owned subsidiary of Kronos Worldwide, Inc.("KWI"), a majority-owned subsidiary of Valhi, Inc. At March 31, 2006, Contran Corporation and its subsidiaries held approximately 92% of Valhi's outstanding common stock.

The accompanying consolidating financial statements should be read in conjunction with KII's Quarterly Report on Form 10-Q for the three months ended, March 31, 2006.

Note 2 - Eliminations are explained below:

A. Elimination of intercompany profit in assets, income, costs and expenses, and dividends.

B. Elimination of intercompany receivable and payable balances.

C. Elimination of investment in affiliates.

D. Elimination of intercompany cash flows.

E. Entry to net tax accounts.

Note 3 - Currency translation of financial statements:

The currency exchange rates used to translate the balance sheets for KII and its subsidiaries at March 31, 2006 and statements of operations and cash flows for the March 31, 2006 then ended from functional currency amounts to U.S. dollars are as follows:

	Balance sheet (period-end exchange rate)		Statements of operations and cash flows (average exchange rates for the period)	
	Functional currency per US $	US $ per functional currency	Functional currency per US $	US $ per functional currency
Euro	0.8328	1.2007	0.8404	1.1899
Canada	1.1727	0.8527	1.1534	0.8670
Norway	6.6094	0.1513	6.7659	0.1478
United Kingdom	0.5753	1.7383	0.5716	1.7496
Denmark	6.2150	0.1609	6.2696	0.1595