

N L I N D U S T R I E S , I N C .

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N L I N D U S T R I E S , I N C .

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A N N U A L  
R E P O R T

## NL INDUSTRIES, INC. - MAKING THE WORLD BRIGHTER

NL, through its wholly owned subsidiary Kronos, is the world's fifth largest producer of titanium dioxide pigments ("TiO<sub>2</sub>") with an estimated 12% share of worldwide TiO<sub>2</sub> sales volume. TiO<sub>2</sub>, a ubiquitous quality-of-life product that can be manufactured as a white powder or wet slurry, is a key ingredient for end-use products in a wide variety of industries, including paints, plastics, paper, rubber, inks, man-made fibers and ceramics. TiO<sub>2</sub>, with its unique ability to reflect light, is used to impart whiteness, brightness and opacity to various end-use products. Kronos has six production sites located in Europe and North America with a combined annual capacity of 450,000 metric tons and sells to over 4,000 customers in 100 countries.

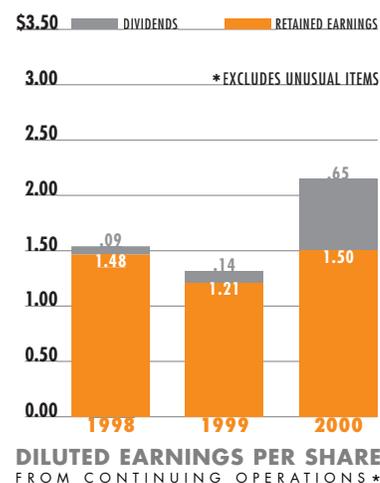
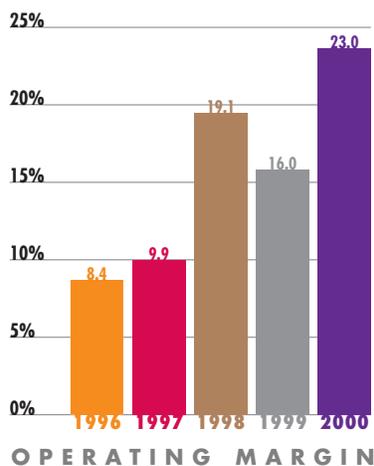
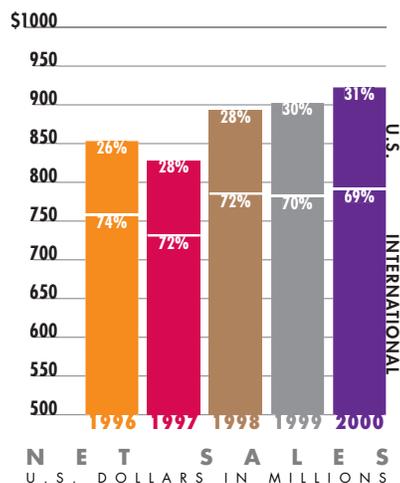
## FINANCIAL HIGHLIGHTS

(\$ in millions, except per share and volume data)

	2000	1999	1998
Net sales	\$ 922.3	\$ 908.4	\$ 894.7
Operating income	212.5	145.7	171.2
Income from continuing operations	155.3	159.8	89.9
Net income	154.6	159.8	366.7
Income from continuing operations per diluted common share	\$ 3.06	\$ 3.08	\$ 1.73
Net income per diluted common share	3.05	3.08	7.05
Dividends per share	.65	.14	.09
Cash flow from operating activities	\$ 139.7	\$ 108.3	\$ 45.1
Capital expenditures	31.1	35.6	22.4
Cash, cash equivalents, current and noncurrent restricted cash equivalents	\$ 207.6	\$ 151.8	\$ 163.1
Total debt	266.1	301.6	389.8
Net debt <sup>(1)</sup>	58.5	149.8	226.7
EBITDA <sup>(2)</sup>	286.3	162.5	187.4
Operating data (metric tons of TiO <sub>2</sub> , in thousands):			
Sales volume	436	427	408
Production volume	441	411	434

(1) Net debt represents notes payable and long-term debt less cash, cash equivalents, and current and noncurrent restricted cash equivalents.

(2) EBITDA, as presented, represents operating income less corporate expense, net, plus depreciation, depletion and amortization. EBITDA in 2000 includes \$70 million of net litigation settlement gains. See Page 21 for a more detailed description of EBITDA.



**DEAR SHAREHOLDER:** The first year of the new millennium was a good year for NL. The Company, through its Kronos TiO<sub>2</sub> operations, took advantage of the strong worldwide demand for titanium dioxide pigments and posted its highest operating income in a decade. Although worldwide demand for TiO<sub>2</sub> began slowing late in the year and may remain slow for the first half of 2001, we remain optimistic about the long-term prospects of our business.

**CONSIDER SOME OF THE HIGHLIGHTS FROM 2000:**

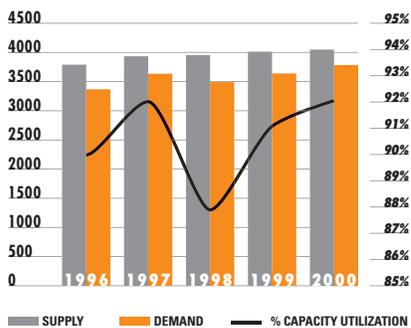
- Operating profits increased 46% to \$212 million.
- Earnings per share were up 59%, excluding unusual items.
- Operating cash flow was \$140 million, up 30%.
- Our operating margin rate grew to 23%, a 7 point improvement over 1999.
- We settled certain insurance-related lawsuits and set aside \$70 million in cash to be used to fund environmental costs currently reserved at \$110 million.
- We reduced net debt by \$91 million.
- We increased the quarterly dividend by 33% to \$.20 per share.
- Our return on equity was 52%, the second consecutive year of excellent returns.
- We repurchased 1,682,000 shares of NL stock, 3% of NL's outstanding shares.
- The total return on a share of NL stock from January 1, 2000 to December 31, 2000 was 67%.

HAROLD C. SIMMONS  
C H A I R M A N



As we evaluate the performance of our TiO<sub>2</sub> business, the key variables that drive our operating income - selling price and sales and production volumes - were all better than 1999, and sales and production volumes both set new records. Although demand for TiO<sub>2</sub> was strong during 2000, worldwide economic forces produced a weak euro and a significant rise in energy costs. We have shown that we can successfully navigate a fluctuating euro, and we are meeting head-on the challenges of higher energy costs.

The TiO<sub>2</sub> price recovery, which began in late 1999, continued throughout 2000 and average TiO<sub>2</sub> selling prices in billing currencies were up 6% over 1999, with all regions improving. Prices in 2000 reached their highest level since the fourth quarter of 1990, the end of the last prolonged up-cycle for TiO<sub>2</sub>. Since the fourth quarter of 1999, average selling prices have increased 16% in Europe while prices in North America increased about 3%. NL's strong presence in Europe, which accounts for about one-half of our sales volume, favorably affected our average selling price due to European selling prices rising faster than those in other regions. Even though TiO<sub>2</sub> prices and sales volume improved in Europe during 2000, a 14% weaker euro decreased NL's sales revenue when converted into U.S. dollars in 2000 compared to 1999. However, having a significant amount of manufacturing costs also denominated in euros helped us to maintain our operating margins. This natural hedge against certain European currency changes is one of NL's strengths which proved instrumental in maintaining operating income levels in 2000.



**WORLDWIDE TiO<sub>2</sub> SUPPLY & DEMAND**  
METRIC TONS IN THOUSANDS

SOURCE: COMPANY ESTIMATES

We were not, however, immune to all of the vagaries of worldwide economies in 2000. Along with most other chemical manufacturers, higher energy costs eroded margins in the latter half of the year. We are planning several projects at our facilities designed to mitigate higher energy costs, including projects to conserve energy. Controlling costs is a core objective for the Company and we are constantly looking for ways to operate more efficiently and reduce costs in all areas of our business.

Running our plants safely, with a focus on enhancing production capacity continues to be a major goal of the Company. We currently estimate our production capacity to be 450,000 metric tons, and we predict that it will rise to 465,000 metric tons by the end of 2002 with moderate capital expenditures in line with recent years. Although current prices for TiO<sub>2</sub> do not support investments in either greenfield or brownfield plants, we will continue to explore opportunities to add capacity at appropriate capital investment levels.

NL also strengthened its Norwegian ilmenite business, entering into several long-term sales contracts which will ensure higher margins from our mining operations. NL's water treatment chemicals business, which will now be handled primarily on a direct-sales basis rather than through agents, continues to improve.

We will not rest on this year's accomplishments. We intend to exploit our competitive advantages and to continue our focus on maintaining market share and expanding sales in those key markets which provide NL above-average margins. Kronos' technical strength has resulted in it having one of the best relationships with its customers in the TiO<sub>2</sub> industry, and customer satisfaction will remain a high priority.

The future market for titanium dioxide pigments will be directly influenced by the health of worldwide economies. As the year 2000 ended, a weakening in demand was apparent as some economies started to falter. The current slowdown in North America and certain export markets, and the uncertainty of economic recovery later in the year, could result in a challenging year for NL. Unless these economies rebound in the latter half of 2001, we expect our operating results for 2001 will be below the levels we achieved in 2000. We will continue to manage our business with a vigilant eye on controlling costs, benefiting from the efforts, experience and resourcefulness of the many dedicated employees that make up NL Industries.

*Harold Simmons*

**HAROLD C. SIMMONS**

*Janny Martin*

**J. LANDIS MARTIN**

**J. LANDIS MARTIN**  
PRESIDENT & CHIEF EXECUTIVE OFFICER



March 9, 2001

## BOARD OF DIRECTORS

**Harold C. Simmons**  
*Chairman of the Board —  
NL Industries, Inc.  
Chairman and Chief Executive  
Officer — Valhi, Inc.*

**J. Landis Martin**  
*President and Chief Executive  
Officer — NL Industries, Inc.*

**Kenneth R. Peak**  
*Chairman, President and Chief Executive  
Officer — Contango Oil & Gas Co.*

**Glenn R. Simmons**  
*Vice Chairman — Valhi, Inc.*

**General Thomas P. Stafford** *(retired)*  
*Co-Founder —  
Stafford, Burke & Hecker, Inc.*

**Steven L. Watson**  
*President — Valhi, Inc.*

**Dr. Lawrence A. Wigdor**  
*Executive Vice President —  
NL Industries, Inc.  
President and Chief Executive  
Officer — Kronos, Inc.*

## BOARD COMMITTEES

### **Audit Committee**

**Kenneth R. Peak, Chairman**  
**General Thomas P. Stafford** *(retired)*

### **Management Development and Compensation Committee**

**Kenneth R. Peak, Chairman**  
**General Thomas P. Stafford** *(retired)*

### **Nominations Committee**

**Glenn R. Simmons, Chairman**  
**Kenneth R. Peak**

## CORPORATE OFFICERS

**Harold C. Simmons**  
*Chairman of the Board*

**J. Landis Martin**  
*President and Chief Executive Officer*

**Dr. Lawrence A. Wigdor**  
*Executive Vice President;  
President and Chief Executive  
Officer — Kronos, Inc.*

**Susan E. Alderton**  
*Vice President and Chief  
Financial Officer*

**David B. Garten**  
*Vice President, General Counsel  
and Secretary*

**Robert D. Hardy**  
*Vice President and Controller*

## SHAREHOLDER INFORMATION

### **Annual Meeting**

The Annual Meeting of Shareholders will be held at 10:00 a.m. (C.D.T.) on Wednesday, May 9, 2001 at 5430 LBJ Freeway, Suite 1700, Dallas, Texas. Shareholders of record as of March 23, 2001 will be entitled to vote at this meeting.

Notice of the meeting, proxy statement and form of proxy will be mailed to shareholders in advance of the meeting. Proxy cards should be marked, signed, dated and returned promptly to ensure that all shares are represented at the annual meeting and voted in accordance with the instruction of their owners. Shareholders of record may vote their proxies on the internet at: [www.eproxyvote.com/nl](http://www.eproxyvote.com/nl) or by calling 1-877-779-8683.

### **Registrar and Transfer Agent**

First Chicago Trust Company  
of New York c/o Equiserve  
P.O. Box 2500  
Jersey City,  
New Jersey 07303-2500  
Telephone: (201) 324-1225  
Internet address:  
<http://www.equiserve.com>  
E-mail address:  
[equiserve@equiserve.com](mailto:equiserve@equiserve.com)

## Form 10-K

Shareholders may obtain a free copy of the Company's Form 10-K as filed with the Securities and Exchange Commission for the year ended December 31, 2000. Requests for copies can be mailed to: NL Industries, Inc.  
Attn: Investor Relations Department  
P.O. Box 4272  
Houston, Texas 77210-4272  
or call (281) 423-3332.

## Stock Exchanges

NL is headquartered in Houston, Texas and its common stock is traded on the New York Stock Exchange and the Pacific Exchange under the symbol "NL."

## Visit us on the Web

<http://www.nl-ind.com>

## PRODUCT INFORMATION

Information about our products and services is available online or by contacting: Kronos, Inc.  
5 Cedar Brook Drive  
Cranbury, NJ 08512  
Phone: (609) 860-6200  
Customer Service: 1-800-866-5600  
Email: [kronos.marketing@nli-usa.com](mailto:kronos.marketing@nli-usa.com)

## FORWARD-LOOKING INFORMATION

The statements contained in this Annual Report to Shareholders that are not historical facts, including, without limitation, statements found in the Letter to Shareholders, are forward-looking statements that involve a number of risks and uncertainties, and actual results could differ materially from those stated in such forward-looking statements. The factors that could cause actual results to differ include future global economic and political conditions, global titanium dioxide pigment productive capacity and the amount and timing of capacity changes, competitive products and prices and the risks and uncertainties discussed in the enclosed Annual Report on Form 10-K for the year ended December 31, 2000 and in the Company's other filings with the Securities and Exchange Commission.



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