KRONOS INTERNATIONAL INC
Form 10-K
March 07, 2011

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

FORM 10-K

X Annual Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934:
For the fiscal year ended December 31, 2010
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)

Registrant's telephone number, including area code: (972) 233-1700
No securities are registered pursuant to Section 12(b) of the Act.

No securities are registered pursuant to Section 12(g) of the Act.

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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).* Yes _ No

* The registrant has not yet been phased into the interactive data requirements.

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

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, 2009 (the last business day of the Registrant's most recently-completed second fiscal quarter).

As of February 28, 2011, 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.

Forward-Looking Information

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Statements in this Annual Report that are not historical facts are forward-looking in nature and represent management's beliefs and assumptions based on currently available information. In some cases, you can identify forward-looking statements by the use of words such as "believes," "intends," "may," "should," "could," "anticipates," "expects" or comparable terminology, or by discussions of strategies or trends. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we do not know if these expectations will be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results. Actual future results could differ materially from those predicted. 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 our other filings with the SEC include, but are not limited to, the following:

- Future supply and demand for our products
- The extent of the dependence of certain of our businesses on certain market sectors
- The cyclicality of our businesses
- Customer inventory levels
- Changes in raw material and other operating costs (such as energy and ore costs)
- Changes in the availability of raw material (such as ore)
- 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
- Potential consolidation of our competitors
- The impact of pricing and production decisions
- Competitive technology positions
- Possible disruption of our business or increases in the cost of doing business resulting from terrorist activities or global conflicts
- 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 krone)
- Operating interruptions (including, but not limited to, labor disputes, leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime and transportation interruptions)
- The timing and amounts of insurance recoveries
- Our ability to renew or refinance credit facilities
- Our ability to maintain sufficient liquidity
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters
- Our 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
- 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 forecasted or expected. We disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of changes in information, future events or otherwise.

PART I

ITEM 1. BUSINESS

General

Kronos International, Inc., a Delaware corporation, is a leading global producer and marketer of value-added titanium dioxide pigments ("TiO2"), a base industrial product used in a wide range of applications. We, along with our distributors and agents, sell and provide technical services for our products to over 3,000 customers in approximately 100 countries with the majority of sales in Europe. We believe we have developed considerable expertise and efficiency in the manufacture, sale, shipment and service of our products in international markets.

TiO2 is a white inorganic pigment used in a wide range of products for its exceptional ability to impart whiteness, brightness, opacity and durability. TiO2 is a critical component of everyday applications, such as coatings, plastics and paper, as well as many specialty products such as inks, food and cosmetics. TiO2 is widely considered to be superior to alternative white pigments in large part due to its hiding power (or opacity), which is the ability to cover or mask other materials effectively and efficiently. TiO2 is designed, marketed and sold based on specific end-use applications.

TiO2 is the largest commercially used whitening pigment because it has a high refractive rating giving it more hiding power than any other commercially produced white pigment. In addition, TiO2 has excellent resistance to interaction with other chemicals, good thermal stability and resistance to ultraviolet degradation. Although there are other white pigments on the market, we believe there are no effective substitutes for TiO2 because no other white pigment has the physical properties for achieving comparable opacity and brightness or can be incorporated in as cost-effective a manner. Pigment extenders such as kaolin clays, calcium carbonate and polymeric opacifiers are used in a number of end-use markets as white pigments. However, these products are not able to duplicate the opacity performance characteristics of TiO2 and we believe these products are unlikely to have a significant impact on the use of TiO2.

TiO2 is considered a “quality-of-life” product. Demand for TiO2 has generally been driven by worldwide gross domestic product and has generally increased with rising standards of living in various regions of the world. According to industry estimates, TiO2 consumption, excluding China, has grown at a compound annual growth rate of approximately 2.6% since 1990. Per capita consumption of TiO2 in the United States and Western Europe far exceeds that in other areas of the world, and these regions are expected to continue to be the largest consumers of TiO2. We believe that North America and Western Europe account for approximately 24% and 33% of global TiO2 consumption, respectively. Markets for TiO2 are increasing in South America, Eastern Europe, the Far East and China and we believe they will become significant as economies in these regions continue to develop and quality-of-life products, including TiO2, experience greater demand.

In recent years, global production capacity for TiO2 has modestly increased due primarily to debottlenecking existing chloride production facilities. However, during 2008 and 2009 several TiO2 manufacturers have permanently reduced capacity at high operating cost facilities in Europe, North America and China, in part in connection with environmental-related issues. Decreased capacity, along with the decline in customer inventories which occurred in the first half of 2009, led to industry-wide tightness in TiO2 inventories. As a result of these factors, TiO2 selling prices began to increase in the second half of 2009, and continued to increase during 2010. Further increases in TiO2 selling prices are expected to be implemented in 2011. We believe the decreased capacity, higher demand and improved pricing should result in improved operating rates and product margins for TiO2 producers.

We are registered in the Commercial Register of the Federal Republic of Germany. We are a wholly-owned subsidiary of Kronos Worldwide, Inc. (NYSE: KRO; “Kronos”). At December 31, 2010, (i) Valhi, Inc. (NYSE: VHI) held approximately 50% of Kronos’ common stock and NL Industries, Inc. (NYSE: NL) held approximately 30% of Kronos’ common stock, (ii) Valhi held approximately 83% of NL’s outstanding common stock and (iii) Subsidiaries of Contran Corporation held approximately 94% of Valhi’s outstanding common stock. Substantially all of Contran’s outstanding voting stock is held by trusts established for the benefit of certain descendants of Harold C. Simmons (of which Mr. Simmons is trustee), or is held by persons or other entities related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control all of these companies.

In November, 2010, Kronos completed a secondary public offering of 8.97 million shares of Kronos common stock. Upon completion of the offering, the Valhi consolidated aggregate ownership of Kronos was reduced from 95.2% (59.2% held by Valhi directly and 36.0% held by NL directly) to 80.4% (50.0% held by Valhi directly and 30.4% held by NL directly). We did not receive any of the net proceeds from such offering.

Products and End-Use Markets

We, including our predecessors, have produced and marketed TiO2 in Europe, our primary market, for over 80 years. We estimate our current market share at 22%. We believe we are the largest producer of TiO2 in Europe with over three-fourths of our sales volumes attributable to markets in Europe.

We believe we are the leading seller of TiO2 in several countries, including Germany, with an estimated 9% share of worldwide TiO2 sales volume in 2010.

We offer our customers a broad portfolio of products that include over 40 different TiO2 pigment grades under the Kronos® trademark which provide a variety of performance properties to meet customers’ specific requirements. Our major customers include domestic and international paint, plastics and paper manufacturers. We ship TiO2 to our customers in either a powder or slurry form via rail, truck or ocean carrier. Sales of our core TiO2 pigments represented over 86% of our net sales in 2010. We and our agents and distributors primarily sell and provide technical services for our products in three major end-use markets: coatings, plastics and paper. The following tables show our approximate sales volume by geographic region and end use for the year ending December 31, 2010:

Sales Volumes Percentages by Geographic Region		Sales Volumes Percentages by End Use	
Europe	80%	Coatings	50%
North America	1%	Plastics	32%
Asia Pacific	14%	Paper	16%
Rest of World	5%	Other	2%

Some of the principal applications for our products include the following:

TiO2 for Coatings. Our TiO2 is used to provide opacity, durability, tinting strength and brightness in industrial coatings, as well as coatings for home interiors and exteriors, automobiles, aircraft, machines, appliances, traffic paint and other special purpose coatings. The amount of TiO2 used in coatings varies widely depending on the opacity, color and quality desired. Generally, the higher the opacity requirement of the coating, the greater the TiO2 content.

TiO2 for Plastics. We produce TiO2 pigments that improve the optical and physical properties in plastics, including whiteness and opacity. TiO2 is used to provide opacity in items such as containers and packaging materials, and vinyl products such as windows, door profiles and siding. TiO2 also generally provides hiding power, neutral undertone, brightness and surface durability for housewares, appliances, toys, computer cases and food packages. TiO2's high brightness along with its opacity, is used in some engineering plastics to help mask their undesirable natural color. TiO2 is also used in masterbatch, which is a concentrate of TiO2 and other additives and is one of the largest uses for TiO2 in the plastics end-use market. In masterbatch, the TiO2 is dispersed at high concentrations into a plastic resin and is then used by manufacturers of plastic containers, bottles and packaging and agricultural films.

TiO2 for Paper. Our TiO2 is used in the production of several types of paper, including laminate (decorative) paper, filled paper and coated paper, to provide whiteness, brightness, opacity and color stability. Although we sell our TiO2 to all segments of the paper end-use market, our primary focus is on the TiO2 grades used in paper laminates, where several layers of paper are laminated together using melamine resin under high temperature and pressure. The top layer of paper contains TiO2 and is the layer that is printed with decorative patterns. Paper laminates are used to replace materials such as wood and tile for such applications as counter tops, furniture and wallboard. TiO2 is beneficial in these applications because it assists in preventing the material from fading or changing color after prolonged exposure to sunlight and other weathering agents.

TiO2 for Other Applications. We produce TiO2 to improve the opacity and hiding power of printing inks. TiO2 allows inks to achieve very high print quality while not interfering with the technical requirements of printing machinery, including low abrasion, high printing speed and high temperatures. Our TiO2 is also used in textile applications where TiO2 functions as an opacifying and delustering agent. In man-made fibers such as rayon and polyester, TiO2 corrects an otherwise undesirable glossy and translucent appearance. Without the presence of TiO2, these materials would be unsuitable for use in many textile applications.

We produce high purity sulfate process anatase TiO2 used to provide opacity, whiteness and brightness in a variety of cosmetic and personal care products, such as skin cream, lipstick, eye shadow and toothpaste. Our TiO2 is also found in food products, such as candy and confectionaries, and in pet foods where it is used to obtain uniformity of color and appearance. In pharmaceuticals, our TiO2 is used commonly as a colorant in pill and capsule coatings as well as in liquid medicines to provide uniformity of color and appearance. Kronos® purified anatase grades meet the applicable requirements of the CTFA (Cosmetics, Toiletries and Fragrances Association), USP and BP (United States Pharmacopoeia and British Pharmacopoeia) and the FDA (United States Food and Drug Administration).

Our TiO2 business is enhanced by the following three complementary businesses, which comprised approximately 14% of our net sales in 2010:

- We own and operate two ilmenite mines in Norway pursuant to a governmental concession with an unlimited term. We commenced production from our second mine in 2009. Ilmenite is a raw material used directly as a feedstock by some sulfate-process TiO2 plants. We believe we have a significant competitive advantage because our mines supply our feedstock requirements for all of our European sulfate-process plants. We also sell ilmenite ore to third-parties, some of whom are our competitors. The mines have estimated ilmenite reserves that are expected to last at least 60 years.

- We manufacture and sell iron-based chemicals, which are co-products and processed co-products of the sulfate and chloride process TiO2 pigment production. These co-product chemicals are marketed through our Ecochem division and are primarily used as treatment and conditioning agents for industrial effluents and municipal wastewater as well as in the manufacture of iron pigments, cement and agricultural products.

- We manufacture and sell titanium oxychloride and titanyl sulfate, which are side-stream specialty products from the production of TiO2. Titanium oxychloride is used in specialty applications in the formulation of pearlescent pigments, production of electroceramic capacitors for cell phones and other electronic devices. Titanyl sulfate productions are used in pearlescent pigments, natural gas pipe and other specialty applications.

Manufacturing, Operations and Properties

We produce TiO2 in two crystalline forms: rutile and anatase. Rutile TiO2 is manufactured using both a chloride production process and a sulfate production process, whereas anatase TiO2 is only produced using a sulfate production process. Many end-use applications can use either form, especially during periods of TiO2 supply tightness such as we are currently experiencing. The chloride process is the preferred form for use in coatings and plastics, the two largest end-use markets. Due to environmental factors and customer considerations, the proportion of TiO2 industry sales represented by chloride process pigments has increased relative to sulfate process pigments and, in 2010, chloride process production facilities represented approximately 60% of industry capacity. The sulfate process represents a much smaller percentage of annual global TiO2 production and is preferred for use in selected paper products, ceramics, rubber tires, man-made fibers, food and cosmetics. Once an intermediate TiO2 pigment has been produced by either the chloride or sulfate process, it is “finished” into products with specific performance characteristics for particular end-use applications through proprietary processes involving various chemical surface treatments and intensive micronizing (milling).

- Chloride Process. The chloride process is a continuous process in which chlorine is used to extract rutile TiO2. The chloride process typically has lower manufacturing costs than the sulfate process due to higher yield, less waste, lower energy requirements and lower labor costs. This process has also gained market share over the sulfate process because of the relatively lower upfront capital investment in plant and equipment required. The chloride process produces less waste than the sulfate process because much of the chlorine is recycled and feedstock bearing higher titanium content is used. The chloride process produces an intermediate base pigment with a wide range of properties.

- Sulfate Process. The Sulfate process is a batch process in which sulfuric acid is used to extract the TiO2 from ilmenite or titanium slag. After separation from the impurities in the ore (mainly iron) the TiO2 is precipitated and calcined to form an intermediate base pigment ready for sale or can be upgraded through finishing treatment.

We produced 349,000 metric tons of TiO2 in 2010, up from the 257,000 metric tons we produced in 2009. Our average production capacity utilization rates were near full capacity in 2008 and 2010 and approximately 71% in 2009. In late 2008, and as a result of the sharp decline in global demand, we experienced a build up in our inventory levels. In order to decrease our inventory levels and improve our liquidity, we implemented production curtailments during the first half of 2009. Consequently, our average production capacity utilization rates were approximately 51% during the first half of 2009 as compared to 92% during the second half of 2009.

We operate four TiO2 plants in Europe (one in each of Leverkusen, Germany; Nordenham, Germany; Langerbrugge, Belgium; and Fredrikstad, Norway). We operate two ilmenite mines in Hauge i Dalane, Norway pursuant to a governmental concession.

Our production capacity in 2010 was 362,000 metric tons, approximately two-thirds of which was from the chloride production process. The following table presents the division of our 2010 manufacturing capacity by plant location and type of manufacturing process:

		% of Capacity by TiO2 Manufacturing Process			
Facility	Description	Chloride		Sulfate	
Leverkusen, Germany (1)	TiO2 production, chloride and sulfate process, co-products	67	%	30	%
Nordenham, Germany	TiO2 production, sulfate process, co-products	-		47	
Langerbrugge, Belgium	TiO2 production, chloride process, co-products, titanium chemicals products	33		-	
Fredrikstad, Norway (2)	TiO2 production, sulfate process, co-products	-		23	
Total		100	%	100	%

(1) The Leverkusen facility is located within an extensive manufacturing complex owned by Bayer AG. We own the Leverkusen facility, which represents about one-half of our current TiO2 production capacity, but we lease the land under the facility from Bayer under a long term agreement which expires in 2050. Lease payments are periodically negotiated with Bayer for periods of at least two years at a time. Bayer or its affiliates provides some raw materials, including chlorine, auxiliary and operating materials, utilities and services necessary to operate the Leverkusen facility under separate supplies and services agreements.

(2) The Fredrikstad plant is located on public land and is leased until April 2013 with an option to extend the lease for an additional 50 years.

We own the land underlying all of our principle production facilities unless otherwise indicated in the table above.

Our production capacity has increased by approximately 30% over the past ten years due to debottlenecking programs, with only moderate capital expenditures. We believe that our annual attainable production capacity for 2011 is approximately 362,000 metric tons and we currently expect we will operate at near full production capacity for the year.

We also operate two ilmenite mines in Norway pursuant to a governmental concession with an unlimited term. Our principal place of business is in Leverkusen, Germany.

We have various corporate and administrative offices located in Germany, Norway, and Belgium and various sales offices located in Belgium, France, the Netherlands and the U.K.

Raw Materials

The primary raw materials used in chloride process TiO2 are titanium-containing feedstock (natural rutile ore or purchased slag), chlorine and coke. Chlorine is available from a number of suppliers, while petroleum coke is available from a limited number of suppliers. Titanium-containing feedstock suitable for use in the chloride process is available from a limited but increasing number of suppliers principally in Australia, South Africa, Canada, India and the United States. We purchase chloride process grade slag from Rio Tinto Iron and Titanium under a long-term supply contract that expires at the end of 2011 and from Exxaro TSA Sands (PTY) LTD under a supply contract that expires in December 2013. We purchase upgraded slag from Q.I.T. Fer et Titane Inc. (a subsidiary of Rio Tinto Iron and Titanium) under a long-term supply contract that expires at the end of 2015. We purchase natural rutile ore primarily from Iluka Resources, Limited under contracts that expire at the end of 2011. In the past we have been, and we expect in the future, we will continue to be, successful in obtaining long-term extensions to these and other existing supply contracts prior to their expiration. We expect the raw materials purchased under these contracts to meet our chloride process feedstock requirements over the next several years.

The primary raw materials used in sulfate process TiO2 are titanium-containing feedstock, primarily ilmenite or purchased sulfate grade slag 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 principally in Norway, Canada, Australia, India and South Africa. As one of the few vertically-integrated producers of sulfate process TiO2, we operate two rock ilmenite mines in Norway, which provided all of the feedstock for our sulfate process TiO2 plants in 2010. We expect ilmenite production from our mines to meet our sulfate process feedstock requirements for the foreseeable future.

Many of our raw material contracts contain fixed quantities we are required to purchase, although these contracts allow for an upward or downward adjustment in the quantity purchased. The pricing under these agreements is generally negotiated annually.

The following table summarizes our raw materials purchased or mined in 2010.

Production Process/Raw Material	Raw Materials Procured or Mined (In thousands of metric tons)
Chloride process plants:	
Purchased slag or natural rutile ore	256
Sulfate process plants:	
Ilmenite ore mined and used internally	328

Kronos U.S. ("KUS"), an affiliate and subsidiary of our parent company, has long-term supply contracts that provide for certain of its affiliates', including us, TiO2 feedstock requirements. KUS purchases the rutile and slag feedstock used as a raw material in all of our chloride process TiO2 facilities. We purchase such feedstock from KUS for use in our facilities for an amount equal to the amount paid by KUS to the third-party supplier plus an administrative fee. See Note 11 to our Consolidated Financial Statements.

Sales and Marketing

Our marketing strategy is aimed at developing and maintaining strong customer relationships with new and existing accounts. Because TiO2 represents a significant raw material cost for our customers, the purchasing decisions are often made by our customers' senior management. We work to maintain close relationships with the key decision makers, through in-depth frequent in-person meetings. We endeavor to extend these commercial and technical relationships to multiple levels within our customers' organization using our direct sales force and technical service group to accomplish this objective. We believe this has helped build customer loyalty to Kronos and strengthen our competitive position. Close cooperation and strong customer relationships enable us to stay closely attuned to trends in our customers' businesses. Where appropriate, we work in conjunction with our customers to solve formulation or application problems by modifying specific product properties or developing new pigment grades. We also focus our sales and marketing efforts on those geographic and end-use market segments where we believe we can realize higher selling prices. This focus includes continuously reviewing and optimizing our customer and product portfolios.

Our marketing strategy is also aimed at working directly with customers to monitor the success of our products in their end-use applications, evaluate the need for improvements in product and process technology and identify opportunities to develop new product solutions for our customers. Our marketing staff closely coordinates with our sales force and technical specialists to ensure that the needs of our customers are met, and to help develop and commercialize new grades where appropriate.

We sell a majority of our products through our direct sales force operating from six sales offices in Europe. We also utilize sales agents and distributors who are authorized to sell our products in specific geographic areas. Our sales efforts are conducted primarily through our direct sales force and our sales agents. Our agents do not sell any TiO2 products other than Kronos® brand products. In addition to our direct sales force and sales agents, many of our sales agents also act as distributors to service our smaller customers. We offer the same high level of customer and technical service to the customers who purchase our products through distributors as we offer to our larger customers serviced by our direct sales force.

We sell to a diverse customer base and no single customer made up more than 10% of our sales for 2010. Our largest ten customers accounted for approximately 21% of sales in 2010.

Neither our business as a whole nor that of any of our principal product groups is seasonal to any significant extent. However, TiO2 sales are generally higher in the second and third quarters of the year, due in part to the increase in paint production in the spring to meet demand during the spring and summer painting seasons. We have historically operated our production facilities at near full capacity rates throughout the entire year, which among other things helps to minimize our per-unit production costs. As a result, we normally will build inventories during the first and fourth quarters of each year, in order to maximize our product availability during the higher demand periods normally experienced in the second and third quarters.

Competition

The TiO2 industry is highly competitive. We compete primarily on the basis of price, product quality, technical service and the availability of high performance pigment grades. Since TiO2 is not a traded commodity, its pricing is largely a product of negotiation between suppliers and their respective customers. Although certain TiO2 grades are considered specialty pigments, the majority of our grades and substantially all of our production are considered commodity pigments with price and availability being the most significant competitive factors along with quality and customer service. During 2010, we had an estimated 9% share of worldwide TiO2 sales volume, and based on sales volumes, we believe we are the leading seller of TiO2 in several countries, including Germany.

Our principal competitors are E.I. du Pont de Nemours & Co., or Dupont; Millennium Inorganic Chemicals, Inc. (a subsidiary of National Titanium Dioxide Company Ltd.), or Cristal; Huntsman Corporation; Tronox Incorporated; and Sachtleben Chemie GmbH. The top five TiO2 producers account for approximately 63% of the world's production capacity. The following chart shows our estimate of worldwide production capacity in 2010:

Worldwide Production Capacity - 2010

DuPont	23	%
Cristal	14	%
Kronos Worldwide*	10	%
Huntsman	9	%
Tronox	7	%
Other	37	%

* Our production capacity represents approximately 68% of Kronos Worldwide's production capacity.

Tronox filed for Chapter 11 bankruptcy protection in January 2009, and has continued to operate as a debtor-in-possession until February 2011, at which time it emerged from Chapter 11. It remains unclear how and to what extent Tronox will compete in the TiO2 industry at the conclusion of Tronox's bankruptcy proceedings.

Over the past ten years, we and our competitors have increased industry capacity through debottlenecking projects, which in part compensated for the shut down of TiO2 plants in France, the United States and China. Although overall industry pigment demand is expected to be higher in 2011 as compared to 2010 as a result of improving worldwide economic conditions, we do not expect any significant efforts will be undertaken by us or our competitors to further increase capacity for the foreseeable future, other than through debottlenecking projects. If actual developments differ from our expectations, ours and the TiO2 industry's performance could be unfavorably affected.

The TiO2 industry is characterized by high barriers to entry consisting of high capital costs, proprietary technology and significant lead times (typically three to five years in our experience) required to construct new facilities or expand existing capacity. In addition, we believe the suppliers of titanium-containing feedstock do not currently have the ability to supply the raw materials that would be required to operate any such new TiO2 production capacity until they have invested in additional infrastructure required to expand their own production capacity, which we believe will take a few years to complete.

We are not aware of any TiO2 plants currently under construction and we believe it is unlikely any new plants will be constructed in Europe or North America in the foreseeable future.

Research and Development

We employ scientists, chemists, process engineers and technicians who are engaged in research and development, process technology and quality assurance activities in Leverkusen, Germany. These individuals have the responsibility for improving chloride and sulfate production processes, improving product quality and strengthening our competitive position by developing new applications. Our expenditures for these activities were approximately $12 million in each of 2008 and 2009 and $13 million in 2010. We expect to spend $18 million to $20 million on research and development in 2011.

We continually seek to improve the quality of our grades and have been successful at developing new grades for existing and new applications to meet the needs of our customers and increase product life cycles. Since 2005, we have added four new grades for plastics and coatings.

Patents, Trademarks, Trade Secrets and Other Intellectual Property Rights

We have a comprehensive intellectual property protection strategy that includes obtaining, maintaining and enforcing our patents, primarily in the United States, Canada and Europe. We also protect our trademark and trade secret rights and have entered into license agreements with third parties concerning various intellectual property matters. We have also from time to time been involved in disputes over intellectual property.

Patents. We have obtained patents and have numerous patent applications pending that cover our products and the technology used in the manufacture of our products. Our patent strategy is important to us and our continuing business activities. In addition to maintaining our patent portfolio, we seek patent protection for our technical developments, principally in the United States, Canada and Europe. U.S. Patents are generally in effect for 20 years from the date of filing. Our U.S. patent portfolio includes patents having remaining terms ranging from one year to 20 years.

Trademarks and Trade Secrets. Our trademarks, including Kronos®, are covered by issued and or pending registrations, including in Canada and the United States. We protect the marks that we use in connection with the products we manufacture and sell and have developed goodwill in connection with our long-term use of our trademarks. We conduct research activities in secret and we protect the confidentiality of our trade secrets through reasonable measures, including confidentiality agreements and security procedures. We rely upon unpatented proprietary knowledge and continuing technological innovation and other trade secrets to develop and maintain our competitive position. Our proprietary chloride production process is an important part of our technology and our business could be harmed if we fail to maintain confidentiality of our trade secrets used in this technology.

Employees

As of December 31, 2010, we employed approximately 2,000 persons. Hourly employees in our production facilities are represented by a variety of labor unions, with labor agreements having various expiration dates. Our union employees are covered by master collective bargaining agreements in the chemicals industry that are generally renewed annually. We believe our labor relations are good.

Regulatory and Environmental Matters

Our operations and properties are governed by various environmental laws and regulations, which are complex, change frequently and have tended to become stricter over time. These environmental laws govern, among other things, the generation, storage, handling, use and transportation of hazardous materials; the emission and discharge of hazardous materials into the ground, air or water; and the health and safety of our employees. Certain of our operations are, or have been, engaged in the generation, storage, 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 of our past and current operations and products have the potential to cause environmental or other damage. We have implemented and continue to implement various policies and programs in an effort to minimize these risks. Our policy is to comply with applicable environmental laws and regulations at all our facilities and to strive to improve our environmental performance. It is possible that future developments, such as stricter requirements in environmental laws and enforcement policies, could adversely affect our operations, including production, handling, use, storage, transportation, sale or disposal of hazardous or toxic substances or require us to make capital and other expenditures to comply, and could adversely affect our consolidated financial position and 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, or the EU. Germany and Belgium are members of the EU and follow its initiatives. Norway is not a member but generally patterns its environmental regulatory actions after the EU.

At our sulfate plant facilities in Germany, we recycle spent sulfuric acid either through contracts with third parties or at our own facilities. In addition, at our German locations we have a contract with a third-party to treat certain sulfate-process effluents. At our Norwegian plant, we ship spent acid to a third party location where it is used as a neutralization agent. These contracts may be terminated by either party after giving three or four years advance notice, depending on the contract.

From time to time, our facilities may be subject to environmental regulatory enforcement under U.S. and non-U.S. statutes. Typically we establish compliance programs to resolve these matters. Occasionally, we may pay penalties. To date such penalties have not involved amounts having a material adverse effect on our consolidated financial position, results of operations or liquidity. We believe that all of our facilities are in substantial compliance with applicable environmental laws.

In December 2006, the EU approved Registration, Evaluation and Authorization of Chemicals, or REACH, which took effect on June 1, 2007 and will be phased in over an 11-year period from the implementation date. Under REACH, companies that manufacture or import more than one ton of a chemical substance per year in the EU will be required to register such chemical substances in a central data base. REACH affects our European operations by imposing a testing, evaluation and registration program for many of the chemicals we use or produce in Europe. Under REACH, substances of very high concern may require authorization for further use and may also be restricted in the future, which could increase our production costs. We have established a REACH team that is working to identify and list all substances purchased, manufactured or imported by or for us in the EU. We spent $.5 million in 2008, $.7 million in 2009 and $2.6 million in 2010 on REACH compliance and we do not anticipate that future compliance costs will be material to us.

Our capital expenditures related to ongoing environmental compliance, protection and improvement programs in 2010 were approximately $16 million and are currently expected to be approximately $17 million in 2011.

Website and other available information

Our fiscal year ends December 31. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports are available on our website at www.kronosww.com. These reports are available on the website, without charge, as soon as is reasonably practicable after we file or furnish them electronically with the Securities and Exchange Commission (“SEC”). Additional information regarding us, as well as the Audit Committee charter, Code of Business Conduct and Ethics and Corporate Governance Guidelines of Kronos, can also be found at this website. Information contained on our website is not part of this report. We will also provide free copies of such documents upon written request. Such requests should be directed to the Corporate Secretary at our address on the cover page of this Form 10-K.

The public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are 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 at www.sec.gov.

ITEM 1A. RISK FACTORS

Below are certain risk factors associated with our business. 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 influenced by changing market conditions for our products, which may result in reduced earnings or operating losses.

Approximately 86% of our revenues are attributable to sales of TiO2. Pricing within the global TiO2 industry over the long term is cyclical and changes in economic conditions, especially in Western industrialized nations, can significantly impact our earnings and operating cash flows. Historically, the markets for many of our products have experienced alternating periods of increasing and decreasing demand. Relative changes in the selling prices for our products are one of the main factors that affect the level of our profitability. In periods of increasing demand, our selling prices and profit margins generally will tend to increase, while in periods of decreasing demand our selling prices and profit margins generally tend to decrease. In addition, pricing may affect customer inventory levels as customers may from time to time accelerate purchases of TiO2 in advance of anticipated price increases or defer purchases of TiO2 in advance of anticipated price decreases. Our ability to further increase capacity without additional investment in greenfield or brownfield capacity increases may be limited and as a result, our profitability may become even more dependent upon the selling prices of our products.

The demand for TiO2 during a given year is also subject to annual seasonal fluctuations. TiO2 sales are generally higher in the second and third quarters of the year. This is due in part to the increase in paint production in the spring to meet demand during the spring and summer painting season.

The TiO2 industry is concentrated and highly competitive and we face price pressures in the markets in which we operate, which may result in reduced earnings or operating losses.

The global market in which we operate our business is concentrated with the top five TiO2 producers accounting for 63% of the world's production capacity and is 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 or make it more difficult for us to compete with our competitors. 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 reduce our earnings and decrease our liquidity. In addition, many of our raw material contracts contain fixed quantities we are required to purchase.

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 TiO2 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. If our worldwide vendors were unable to meet their contractual obligations and we were unable to obtain necessary raw materials, we could incur higher costs for raw materials or may be required to reduce production levels. In addition, we may also experience higher operating costs such as energy costs, which could affect our profitability. We may not always be able to increase our selling prices to offset the impact of any higher costs or reduced production levels, which could reduce our earnings and decrease our liquidity.

Kronos U.S. (KUS), an affiliate and subsidiary of our parent company has long-term supply contracts that provide for certain of its affiliates', including us, TiO2 feedstock requirements that currently expire through 2015, some of which we may be able to renew. KUS may not be successful in renewing these contracts or in obtaining long-term extensions to these contracts prior to expiration. The agreements require the purchase of certain minimum quantities of feedstock with minimum purchase commitments aggregating approximately $592 million at December 31, 2010. In addition, we have other long-term supply and service contracts that provide for various raw materials and services. These agreements require us to purchase certain minimum quantities or services with minimum purchase commitments aggregating approximately $115 million at December 31, 2010. Our commitments under these contracts could adversely affect our financial results if we significantly reduce our production and were unable to modify the contractual commitments.

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, 2010, our total consolidated debt was approximately $539.6 million, which relates primarily 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 flows from operations be used for the payment of interest on our debt, which reduces our ability to use our cash flow to fund working capital, capital expenditures, dividends on our common stock, acquisitions or general corporate requirements;
- limiting the ability of our subsidiaries to pay dividends to us;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or 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 $117 million in 2011. 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 in a timely manner on favorable terms, if at all, in the current credit markets. 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.

Global climate change legislation could negatively impact our financial results or limit our ability to operate our businesses.

We operate production facilities in several countries. In many of the countries in which we operate, legislation has been passed, or proposed legislation is being considered, to limit greenhouse gases through various means, including emissions permits and/or energy taxes. In several of our production facilities, we consume large amounts of energy, primarily electricity and natural gas. To date, the permit system in effect in the various countries in which we operate has not had a material adverse effect on our financial results. However, if further greenhouse gas legislation were to be enacted in one or more countries, it could negatively impact our future results from operations through increased costs of production, particularly as it relates to our energy requirements or our need to obtain emissions permits. If such increased costs of production were to materialize, we may be unable to pass price increases onto our customers to compensate for increased production costs, which may decrease our liquidity, operating income and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES

Information on our properties is incorporated by reference to Item 1: Manufacturing, Operations and Properties above. See Note 12 to our Consolidated Financial Statements for information on our leases.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various environmental, contractual, intellectual property, product liability and other claims and disputes incidental to our business. Information called for by this Item is incorporated by reference to Note 12 to our Consolidated Financial Statements.

ITEM 4. RESERVED

PART II

ITEM 5. MARKET FOR OUR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

All of our common stock is held by Kronos. There is no established public trading market for our common stock. The indenture governing our 6.5% Senior Secured Notes Due 2013 limits our ability 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. We currently expect to pay dividends or make other restricted payments as permitted by the indenture. Declaration and payment of future dividends is discretionary and the amount thereof is dependent upon our results of operations, financial condition, contractual limitations, cash requirements for our businesses and other factors deemed relevant by our Board of Directors. At December 31, 2010, $41.9 million was available for dividends or other restricted payments, as defined. See Note 6 to our Consolidated Financial Statements.

We paid $34.9 million of dividends to Kronos in 2008. We paid no dividends to Kronos in 2009 and 2010.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with our Consolidated Financial Statements and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Years ended December 31,				
	2006(2)	2007	2008	2009	2010
	(In millions, except ratios)				
STATEMENTS OF OPERATIONS DATA:					
Net sales	$914.2	$946.1	$952.9	$819.9	$998.5
Gross margin	223.0	196.4	170.4	67.2	224.5
Income (loss) from operations	107.4	78.7	45.1	(33.8)	112.1
Net income (loss)	73.7	(58.8)	21.3	(46.5)	86.5
BALANCE SHEET DATA (at year end):					
Total assets	$1,080.6	$1,103.1	$1,053.5	$1,013.9	$1,023.7
Long-term debt including current maturities	529.8	590.8	605.6	596.5	539.6
Stockholder’s equity	211.5	181.4	137.3	103.4	180.4
STATEMENTS OF CASH FLOW DATA:					
Net cash provided by (used in):					
Operating activities	$62.5	$84.9	$1.0	$67.5	$64.7
Investing activities	(47.1)	(42.5)	(61.7)	(19.5)	(31.3)
Financing activities	(31.1)	(34.0)	7.2	(33.6)	(11.3)
TiO2 OPERATING STATISTICS:					
Sales volume*	353	348	317	304	347
Production volume*	348	350	350	257	349
Production rate as a percentage of capacity	Full	98%	97%	71%	97%

OTHER FINANCIAL DATA:					
Ratio of earnings to combined fixed charges (unaudited) (1)	2.0	2.6	1.5	-	2.8

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* 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 (iii) amortization of capitalized interest. Total earnings available for fixed charges were insufficient to cover fixed charges for the year ended December 31, 2009 by $73.4 million. As a result, the ratio of earnings to combined fixed charges is not meaningful for 2009.
(2) We adopted the asset and liability recognition provisions of Accounting Standard Codification Topic 715 Compensation – Retirement Benefits effective December 31, 2006.

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

RESULTS OF OPERATIONS

Business overview

We are a leading global producer and marketer of value-added TiO2. TiO2 is used for a variety of manufacturing applications, including plastics, paints, paper and other industrial products. For 2010, approximately 80% of our sales volumes were sold into European markets. We believe we are the largest producer of TiO2 in Europe with an estimated 22% share of European TiO2 sales volumes in 2010. Our production facilities are located throughout Europe.

We consider TiO2 to be a “quality of life” product, with demand affected by gross domestic product (or “GDP”) and overall economic conditions in our markets located in various regions of the world. Over the long-term, we expect demand for TiO2 will grow by 2% to 3% per year, consistent with our expectations for the long-term growth in GDP. However, even if we and our competitors maintain consistent shares of the worldwide market, demand for TiO2 in any interim or annual period may not change in the same proportion as the change in GDP, in part due to relative changes in the TiO2 inventory levels of our customers. We believe our customers’ inventory levels are influenced in part by their expectation for future changes in market TiO2 selling prices as well as their expectation for future availability of product. The majority of our TiO2 grades and substantially all of our production are considered commodity pigment products; we compete for sales primarily on the basis of price.

The factors having the most impact on our reported operating results are:

- Our TiO2 selling prices,
- Our TiO2 sales and production volumes,
- Currency exchange rates (particularly the exchange rate for the U.S. dollar relative to the euro and the Norwegian krone) and
- Manufacturing costs, particularly raw materials, maintenance and energy-related expenses.

Our key performance indicators are our TiO2 average selling prices, and our level of TiO2 sales and production volumes. TiO2 selling prices generally follow industry trends and prices will increase or decrease generally as a result of competitive market pressures.

In addition, our effective income tax rate in each of 2008, 2009 and 2010 has been impacted by certain favorable and unfavorable developments.

Executive summary

We reported net income of $86.5 million in 2010 compared to a net loss of $46.5 million in 2009. The $133 million increase in net income from 2009 to 2010 is primarily due to (i) the net effects of higher income from operations in 2010 resulting principally from higher sales and production volumes and higher selling prices throughout 2010 and (ii) a non-cash deferred income tax benefit recognized in the first quarter of 2010.

We reported a net loss of $46.5 million in 2009 compared to net income of $21.3 million in 2008. The $67.8 million decrease in net income from 2008 to 2009 is primarily due to the net effects of (i) lower income (loss) from operations in 2009 resulting principally from lower sales and production volumes and (ii) an income tax benefit we recognized in 2008. In late 2008, as a result of the sharp decline in global demand, we experienced a build up in our inventory levels. In order to decrease our inventory levels and improve our liquidity, we implemented production curtailments during the first half of 2009. In addition, throughout all of 2009 we implemented cost controls and reduced our capital spending. Through these actions we successfully reduced our inventory and increased our liquidity, although the resulting curtailments led to a net loss in 2009 due to the large amount of unabsorbed fixed production costs we charged to expense as incurred.

Net income for 2010 includes a $35.2 million first quarter non-cash income tax benefit related to a European Court ruling that resulted in the favorable resolution of certain income tax issues in Germany and an increase in the amount of our German corporate and trade tax net operating loss carryforwards.

Net income for 2009 includes a $4.7 million non-cash deferred income tax benefit related to a net decrease in our reserve for uncertain tax positions.

Net income for 2008 includes a $7.2 million non-cash income tax benefit related to a European Court ruling that resulted in the favorable resolution of certain income tax issues in Germany and an increase in the amount of our German corporate and trade tax net operating loss carryforwards.

Each of these items is more fully discussed below and/or in the Notes to our Consolidated Financial Statements.

Critical accounting policies and estimates

The accompanying "Management's Discussion and Analysis of Financial Condition and Results of Operations" is based upon our Consolidated Financial Statements, which we have prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires us 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, we evaluate our estimates, including those related to the recoverability of long-lived 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. We base our estimates on historical experience and on various other assumptions which we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ significantly from previously-estimated amounts under different assumptions or conditions.

The following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Consolidated Financial Statements:

- Long-lived assets. We recognize an impairment charge associated with our long-lived assets, including property and equipment, whenever we determine that recovery of such long-lived asset is not probable. Such determination is made in accordance with the applicable GAAP requirements of Accounting Standard Codification ("ASC") Topic 360-10-35, Property, Plant and Equipment 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. Significant judgment is required in estimating such cash flows. Adverse changes in such estimates of future net cash flows or estimates of fair value could result in an inability to recover the carrying value of the long-lived asset, thereby possibly requiring an impairment charge to be recognized in the future. We do not assess our property and equipment for impairment unless certain impairment indicators specified in ASC Topic 360-10-35 are present. We did not evaluate any long-lived assets for impairment during 2010 because no such impairment indicators were present.

- Pension plans. We maintain various defined benefit pension plans. The amounts recognized as defined benefit pension expenses and the reported amounts of pension asset 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 "Defined Benefit Pension Plans."

- Income taxes. We recognize deferred taxes for future tax effects of temporary differences between financial and income tax reporting. We record a valuation allowance to reduce our deferred income tax assets to the amount that is believed to be realized under the more-likely-than-not recognition criteria. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance, it is possible that in the future we may change our estimate of the amount of the deferred income tax assets that would more-likely-than-not be realized 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, we have substantial net operating loss carryforwards in Germany (the equivalent of $952 million for German corporate purposes and $349 million for German trade tax purposes at December 31, 2010). At December 31, 2010, we have concluded that no deferred income tax asset valuation allowance is required to be recognized with respect to such carryforwards, principally because (i) such carryforwards have an indefinite carryforward period, (ii) we have utilized a portion of such carryforwards during the most recent three-year period, and (iii) we currently expect to utilize the remainder of such carryforwards over the long term. However, prior to the complete utilization of such carryforwards if we were to generate operating losses in our German operations for an extended period of time, it is possible that we might conclude the benefit of such carryforwards would no longer meet the more-likely-than-not recognition criteria, at which point we would be required to recognize a valuation allowance against some or all of the then-remaining tax benefit associated with the carryforwards.

We record a reserve for uncertain tax positions for tax positions where we believe it is more-likely-than-not our position will not prevail with the applicable tax authorities. It is possible that in the future we may change our assessment regarding the probability that our tax positions will prevail that would require an adjustment to the amount of our reserve for uncertain tax positions that could either increase or decrease, as applicable, reported net income in the period the change in assessment was made.

In addition, we evaluate at the end of each reporting period as to whether or not some or all of the undistributed earnings of our non-U.S. subsidiaries are permanently reinvested (as that term is defined in GAAP). While we 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 our non-U.S. subsidiaries, could result in a conclusion that some or all of such undistributed earnings are no longer permanently reinvested. In such an event, we 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.

- Contingencies. We record accruals for legal and other contingencies when estimated future expenditures associated with such contingencies and commitments 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 (loss) from operations is impacted by certain of these significant judgments and estimates, such as allowance for doubtful accounts, reserves for obsolete or unmarketable inventories, impairment of long-lived assets, defined benefit pension plans and loss accruals. In addition, net income (loss) is impacted by the significant judgments and estimates for deferred income tax asset valuation allowances and loss accruals.

Comparison of 2010 to 2009 Results of Operations

	Year ended December 31,			
	2009		2010	
	(Dollars in millions)			
Net sales	$819.9	100 %	$998.5	100 %
Cost of sales	752.7	92	774.0	78
Gross margin	67.2	8	224.5	22
Other operating income and expenses, net	101.0	12	112.4	11
Income (loss) from operations	$(33.8)	(4)%	$112.1	11 %
				% Change
TiO2 operating statistics:				
Sales volumes*	304		347	14 %
Production volumes*	257		349	36 %
Percent change in net sales:				
TiO2 product pricing				12 %
TiO2 sales volumes				14
TiO2 product mix				-
Changes in currency exchange rates				(4)
Total				22 %

* Thousands of metric tons

Current Industry Conditions & 2010 Overview – Throughout 2010, global customer demand for our TiO2 products continued to strengthen, and our production facilities operated at near full practical capacity rates. We believe that inventories throughout the TiO2 industry remain at historically low levels despite efforts of the major TiO2 producers to operate their facilities at near full practical capacity. As a result of improved TiO2 industry conditions, we implemented significant increases in TiO2 selling prices during 2010 that resulted in increased profitability and cash flows. Even with such increased profitability, we currently believe that profit margins are significantly lower than necessary to reasonably justify greenfield or other major expansions of TiO2 capacity. Provided global demand for TiO2 products remains strong, we expect the low level of worldwide TiO2 inventories to continue for several years, and anticipate further implementation of TiO2 selling price increases. Based on these positive market dynamics in the TiO2 industry, we expect our profitability and cash flows to significantly increase in 2011 and the foreseeable future.

Net sales – As a result of the above conditions in the TiO2 industry, our net sales increased 22% or $178.6 million for 2010 compared to 2009, primarily due to a 14% increase in sales volumes and a 12% increase in average selling prices. In addition, we estimate the unfavorable effect of changes in currency exchange rates decreased our net sales by approximately $36 million, or 4%, as compared to the same period in 2009. TiO2 selling prices will increase or decrease generally as a result of competitive market pressures and changes in the relative level of supply and demand. Based on the current conditions in the TiO2 industry, we currently expect average selling prices in 2011 to be significantly higher than the average selling prices in 2010.

Sales volumes in 2010 increased 14% as compared to 2009 due to higher demand in the European and export market segments resulting from the improvement in current economic conditions. We expect demand in 2011 will exceed 2010 levels.

Cost of sales - Cost of sales increased $21.3 million or 3% for 2010 compared to 2009 due to the net impact of a 36% increase in TiO_2 production volumes to 349,000 metric tons, a 14% increase in sales volumes, an increase in maintenance costs of $22.6 million, and higher raw material costs of $3.2 million. In addition, cost of sales for 2010 was negatively impacted by approximately $15 million as a result of higher production costs in 2010 at our ilmenite mines in Norway. Cost of sales as a percentage of net sales decreased to 78% in 2010 compared to 92% in 2009 primarily due to higher selling prices in 2010 and the significantly higher production volumes in 2010, as we implemented temporary plant curtailments during the first half of 2009 in order to reduce our finished goods inventories to an appropriate level. Such temporary plant curtailments resulted in approximately $70 million of unabsorbed fixed production costs which were charged directly to cost of sales in the first six months of 2009.

Income (loss) from operations – Income (loss) from operations increased by $145.9 million from an operating loss of $33.8 million in 2009 to operating income of $112.1 million in 2010. Income (loss) from operations as a percentage of net sales increased to 11% in 2010 from (4)% in 2009. This increase is driven by the improvement in gross margin, which increased to 22% for 2010 compared to 8% for 2009. Our gross margin has increased primarily because of higher sales volumes, higher selling prices and lower manufacturing costs per ton resulting from higher production volumes. However, changes in currency exchange rates have negatively affected our gross margin and income (loss) from operations. We estimate that changes in currency exchange rates decreased income (loss) from operations by approximately $11 million in 2010 as compared to 2009.

As a percentage of net sales, selling, general and administrative expenses were relatively consistent at approximately 13% and 14% for 2010 and 2009 respectively.

Interest expense – Interest expense decreased $2.2 million from $40.2 million in 2009 to $38.0 million in 2010 due to decreased average borrowings under our revolving credit facility. The interest expense we recognize will vary with fluctuations in the euro exchange rate.

Income tax provision (benefit) – Our income tax benefit was $12.2 million in 2010 compared to an income tax benefit of $27.3 million in 2009. See Note 7 to our Consolidated Financial Statements for a tabular reconciliation of our statutory income tax provision to our actual tax provision. Some of the more significant items impacting this reconciliation are summarized below.

- Our income tax provision in 2010 includes a $35.2 million non-cash income tax benefit related to a European Court ruling that resulted in the favorable resolution of certain income tax issues in Germany and an increase in the amount of our German corporate and trade tax net operating loss carryforwards.

- Our income tax benefit for 2009 includes a non-cash benefit of $4.7 million related to a net decrease in our reserve for uncertain tax positions, primarily as a result of the resolution of tax audits in Belgium and Germany in the third and fourth quarters.

Comparison of 2009 to 2008 Results of Operations

	Year ended December 31, 2008		Year ended December 31, 2009	
	(Dollars in millions)			
Net sales	$952.9	100 %	$819.9	100 %
Cost of sales	782.5	82	752.7	92
Gross margin	170.4	18	67.2	8
Other operating income and expenses, net	125.3	13	101.0	12
Income (loss) from operations	$45.1	5 %	$(33.8)	(4)%

	2008	2009	% Change
TiO2 operating statistics:			
Sales volumes*	317	304	(4)%
Production volumes*	350	257	(27)%
Percent change in net sales:			
TiO2 product pricing			(2)%
TiO2 sales volumes			(4)
TiO2 product mix			(4)
Changes in currency exchange rates			(4)
Total			(14)%

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* Thousands of metric tons

Net sales – Net sales decreased 14% or $133.0 million for 2009 compared to 2008, primarily due to a 4% decrease in sales volumes and a 2% decrease in average selling prices. Variations in grades of products sold unfavorably impacted net sales by 4%. In addition, we estimate the unfavorable effect of changes in currency exchange rates decreased our net sales by approximately $40 million, or 4%, as compared to the same period in 2008. TiO2 selling prices generally follow industry trends and prices will increase or decrease generally as a result of competitive market pressures. As a result of these market pressures our average TiO2 prices in 2009 were 2% lower than the prior year. During the first half of 2009, our average selling prices were generally declining, as we faced weak demand and excessive inventory levels. Beginning in mid-2009, we and our competitors announced various price increases. A portion of these price increase announcements were implemented during the third and fourth quarters of 2009, and as a result our average selling price at the end of the second half of 2009 was 2% higher than at the end of the first half of 2009.

Our 4% decrease in sales volumes in 2009 is primarily due to lower sales volumes in the European market as a result of a global weakening of demand due to poor overall economic conditions, principally in the first half of 2009.

Cost of sales - Cost of sales decreased 4% or $29.8 million for 2009, compared to 2008, primarily due to the net impact of a 4% decrease in sales volumes, lower raw material costs of $14.3 million, a decrease in maintenance costs of $24.1 million as part of our efforts to reduce operating costs where possible and currency fluctuations (primarily the euro). The cost of sales as a percentage of net sales increased to 92% in the year ended December 31, 2009 compared to 82% in the same period of 2008 primarily due to the unfavorable effects of the significant amount of unabsorbed fixed production costs resulting from reduced production volumes during the first six months of 2009. TiO2 production volumes decreased due to temporary plant curtailments during the first six months of 2009 that resulted in approximately $70 million of unabsorbed fixed production costs which were charged directly to cost of sales in the first six months of 2009.

Income (loss) from operations – Income (loss) from operations declined by $78.9 million from income from operations of $45.1 million in 2008 to a loss from operations of $33.8 million in 2009. Income (loss) from operations as a percentage of net sales declined to (4%) in 2009 from 5% in 2008. This decrease is driven by the decline in gross margin, which fell to 8% for 2009 compared to 18% for 2008. Our gross margin has decreased primarily because of the significant amount of unabsorbed fixed production costs resulting from the production curtailments we implemented during the first six months of 2009 as well as the effect of lower sales volumes. However, changes in currency rates have positively affected our gross margin and income (loss) from operations. We estimate that changes in currency exchange rates increased income (loss) from operations by approximately $24 million in 2009 as compared to 2008.

As a percentage of net sales, selling, general and administrative expenses were relatively consistent at approximately 14% for both 2008 and 2009.

Interest expense – Interest expense decreased $.5 million from $40.7 million in 2008 to $40.2 million in 2009 due to changes in currency exchange rates which offset the effect of increased average borrowings under our revolving credit facility and higher interest rates on our revolving credit facility. The interest expense we recognize will vary with fluctuations in the euro exchange rate.

Income tax provision (benefit) – Our income tax benefit was $27.3 million in 2009 compared to an income tax provision of $1.4 million in 2008. See Note 7 to our Consolidated Financial Statements for a tabular reconciliation of our statutory income tax benefit to our actual tax benefit. Some of the more significant items impacting this reconciliation are summarized below.

- Our income tax benefit for 2009 includes a non-cash benefit of $4.7 million related to a net decrease in our reserve for uncertain tax positions, primarily as a result of the resolution of tax audits in Belgium and Germany in the third and fourth quarters.

- Our income tax provision for 2008 includes a non-cash benefit of $7.2 million relating to a European Court ruling that resulted in the favorable resolution of certain income tax issues in Germany and an increase in the amount of our German corporate and trade tax net operating loss carryforwards.

Effects of currency exchange rates

All of our operations and assets are located outside the United States (primarily in Germany, Belgium and Norway). The majority of our sales are denominated in currencies other than the U.S. dollar, principally the euro and other major European currencies. A portion of our sales generated from our operations are denominated in the U.S. dollar. Certain raw materials used worldwide, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are purchased primarily in local currencies. Consequently, the translated U.S. dollar value of our sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect the comparability of period-to-period operating results. In addition to the impact of the translation of sales and expenses over time, our operations also generate currency transaction gains and losses which primarily relate to the difference between the currency exchange rates in effect when non-local currency sales or operating costs are initially accrued and when such amounts are settled with the non-local currency.

Overall, we estimate that fluctuations in currency exchange rates had the following effects on our sales and income (loss) from operations for the periods indicated.

Impact of changes in currency exchange rates - 2009 vs. 2010

	Transaction gains/(losses) recognized			Translation gain/loss-impact of rate changes	Total currency impact 2009 vs. 2010
	2009 (in millions)	2010	Change		
Impact on:					
Net sales	$-	$-	$-	$(36)	$(36)
Income (loss) from operations	8	5	(3)	(8)	(11)

Impact of changes in currency exchange rates - 2008 vs. 2009

	Transaction gains/(losses) recognized			Translation gain/loss-impact of rate changes	Total currency impact 2008 vs. 2009
	2008 (in millions)	2009	Change		
Impact on:					
Net sales	$-	$-	$-	$(40)	$(40)
Income (loss) from operations	(1)	8	9	15	24

The negative impact on income (loss) from operations for the 2009 versus 2010 comparison is due to increased currency transaction losses in 2010 as compared to 2009 which were a function of the timing of currency exchange rate changes and the settlement of non-local currency receivables and payables. The positive impact on income (loss) from operations for the 2008 versus 2009 comparison is due to increased currency transaction gains in 2009 as compared to 2008 which were a function of the timing of currency exchange rate changes and the settlement of non-local currency receivables and payables.

Outlook

We operated our production facilities at near full capacity levels during 2010, and given the current TiO2 industry dynamics, we currently expect to continue to operate our facilities at near full capacity levels throughout 2011. While we will continue to work on debottlenecking projects in 2011 to increase our production capacity, we believe such debottlenecking projects are now only able to produce nominal increases in our capacity, and as a result our production volumes in 2011 are only expected to increase by a few thousand metric tons as compared to 2010.

The overall strong global demand for TiO2 we experienced in 2010 is expected to continue in 2011, and inventory levels throughout the TiO2 industry remain at historically low levels. As a result, in 2011 we expect we will be able to sell all of the TiO2 we can produce. Given our expectations for the level of our increased production capacity in 2011 discussed above, we similarly expect our sales volumes in 2011 will only increase by a few thousand metric tons as compared to 2010.

During 2009 and 2010, we announced various TiO2 price increases, a portion of which were implemented during the second half of 2009 and throughout the year of 2010. Our average TiO2 selling prices were 12% higher for the full year 2010 as compared to the full year 2009, and our average selling prices at the end of 2010 were 26% higher as compared to the end of 2009. As discussed above, even with the increased profitability we achieved in 2010, we currently believe that profit margins are significantly lower than necessary to reasonably justify greenfield or other major expansions of TiO2 capacity. As a result, we anticipate our average selling prices will continue to increase significantly during 2011.

We also expect relative increases in our raw material, energy and freight costs during 2011, including more-than-normal-inflationary increases in the cost of our feedstock ore and petroleum coke. Overall, we currently expect our per metric ton cost of TiO2 we produce will increase approximately 6% to 10% in 2011 as compared to 2010. Given the current conditions in the TiO2 industry, if our costs of production exceed our current expectations in 2011, we believe we could recoup such higher costs through additional selling price increases.

Overall, we expect income from operations will be significantly higher in 2011 as compared to 2010, as the favorable effect of higher selling prices will more than offset the impact of higher production costs.

Our expectations as to the future of the TiO2 industry are based upon a number of factors beyond our control, including worldwide growth of gross domestic product, competition in the marketplace, continued operation of competitors, unexpected or earlier than expected capacity additions or reductions and technological advances. If actual developments differ from our expectations, our results of operations could be unfavorably affected.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash flows

Operating activities

Trends in cash flows as a result of our operating activities (excluding the impact of significant asset dispositions and relative changes in assets and liabilities) are generally similar to trends in our earnings.

Our cash flows from operating activities provided $64.7 million for 2010, compared to $67.5 million for 2009. This decrease was due primarily to the net effects of the following items:

- higher income from operations in 2010 of $145.9 million;
- higher cash paid for income taxes in 2010 of $7.2 million due primarily to improved profitability in 2010;
- lower cash paid for interest in 2010 of $2.5 million; and
- higher amount of net cash used for relative charges in our inventories, receivables, payables and accruals of $159.2 million in 2010.

Our cash flows from operating activities provided $67.5 million for 2009, compared to $1.0 million for 2008. This increase was due primarily to the net effects of the following items:

- lower income (loss) from operations in 2009 of $78.9 million;
- lower cash paid for income taxes in 2009 of $7.8 million, in part due to lower taxable income and the receipt of tax refunds;
- a lower amount of net cash used from relative changes in our inventories, receivables, payables and accruals of $154.4 million in 2009 due primarily to relative changes in our inventory levels, as discussed below; and
- lower depreciation expense of $4.0 million in 2009, primarily as a result of the effects of currency exchange rates.

Changes in working capital are affected by accounts receivable and inventory changes. As shown below:

- Our average days sales outstanding ("DSO") at December 31, 2010 was consistent with December 31, 2009; and
- Our average days sales in inventory ("DSI") increased at December 31, 2010 compared to December 31, 2009, as our TiO2 production volumes in 2010 exceeded our sales volumes.

For comparative purposes, we have provided prior year numbers below.

	December 31, 2008	December 31, 2009	December 31, 2010
Days sales outstanding	68 days	55 days	54 days
Days sales in inventory	123 days	46 days	50 days

Investing activities

Our capital expenditures were $61.7 million in 2008, $19.5 million in 2009 and $31.2 million in 2010. Capital expenditures are primarily for maintenance to existing facilities. Our capital expenditures during the past three years include an aggregate of approximately $31 million (approximately $16 million in 2010) for our ongoing environmental compliance, protection and improvement programs. We significantly lowered our capital expenditures in 2009 in response to the economic conditions and as part of our efforts to improve our liquidity.

Financing activities

During 2010, we borrowed and repaid net euro 9 million ($8.5 million when borrowed/repaid) on our credit facility.

During 2009, we borrowed and repaid $31.5 million on our credit facility.

During 2008, we made net borrowings of $44.4 million on our credit facility.

During 2008, we paid dividends of $34.9 million. We did not pay any dividends to Kronos in 2009 and 2010. See Item 5. Market For Common Equity and Related Stockholder Matters.

Outstanding debt obligations and borrowing availability

At December 31, 2010, our consolidated debt was comprised of:

- euro 400 million principal amount of our 6.5% Senior Secured Notes ($532.8 million) due in 2013;
- approximately $6.8 million of other indebtedness.

Our revolving credit facility described above contains provisions which could result in the acceleration of indebtedness prior to their stated maturity for reasons other than defaults for failure to comply with applicable covenants. For example, certain credit agreements allow the lender to accelerate the maturity of the indebtedness upon a change of control (as defined in the agreement) 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. We are in compliance with all of our debt covenants at December 31, 2010. See Note 6 to our Consolidated Financial Statements.

In addition to the outstanding indebtedness indicated above, at December 31, 2010 we have our euro 80 million European Credit Facility, for which no amounts were outstanding and the equivalent of $106.8 million was available for borrowing by the subsidiaries.

On February 17, 2011, we called for redemption euro 80 million principal amount of the 6.5% Notes on March 24, 2011. We intend to borrow under our European revolving credit facility discussed above in order to fund such redemption.

Our assets consist primarily of investments in operating subsidiaries, and our ability to service parent level obligations, including the Senior Secured Notes, depends in large part upon the distribution of earnings of our subsidiaries, whether in the form of dividends, advances or payments on account of intercompany obligations or otherwise. None of our subsidiaries have guaranteed the Senior Secured Notes, we have pledged 65% of the common stock or other ownership interests of certain of our first-tier operating subsidiaries as collateral for the Senior Secured Notes. The terms of the indenture governing the Senior Secured Notes limits KII’s ability to pay dividends and make other restricted payments. At December 31, 2010, the maximum amount of dividends and other restricted payments that we could make (the “Restricted Payment Basket”) was approximately $41.9 million.

Liquidity

Our primary source of liquidity on an ongoing basis is cash flows from operating activities which is generally used to (i) fund working capital expenditures, (ii) repay any short-term indebtedness incurred for working capital purposes and (iii) provide for the payment of dividends. From time-to-time we will incur indebtedness, generally to (i) fund short-term working capital needs, (ii) refinance existing indebtedness or (iii) fund major capital expenditures or the acquisition of other assets outside the ordinary course of business. We will also from time-to-time sell assets outside the ordinary course of business and use the proceeds to (i) repay existing indebtedness, (ii) make investments in marketable and other securities, (iii) fund major capital expenditures or the acquisition of other assets outside the ordinary course of business or (iv) pay dividends.

Pricing within the TiO2 industry is cyclical and changes in industry economic conditions significantly impact earnings and operating cash flows. Changes in TiO2 pricing, production volumes and customer demand, among other things, could significantly affect our liquidity.

We routinely evaluate our liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, our dividend policy, our debt service, our capital expenditure requirements and estimated future operating cash flows. As a result of this process, we have in the past and may in the future seek to reduce, refinance, repurchase or restructure indebtedness, raise additional capital, repurchase shares of our common stock, modify our dividend policy, restructure ownership interests, sell interests in our subsidiaries or other assets, or take a combination of these steps or other steps to manage our liquidity and capital resources. Such activities have in the past and may in the future involve related companies. In the normal course of our business, we may investigate, evaluate, discuss and engage in acquisition, joint venture, strategic relationship and other business combination opportunities in the TiO2 industry. In the event of any future acquisition or joint venture opportunity, we may consider using then-available liquidity, issuing our equity securities or incurring additional indebtedness.

At December 31, 2010, we had credit available under our existing credit facility of $106.8 million. At December 31, 2010, we could borrow such amount without violating any covenants in the facility. Based upon our expectation for the TiO2 industry and anticipated demands on cash resources, we expect to have sufficient liquidity to meet our short term obligations (defined as the twelve-month period ending December 31, 2011) and our long-term obligations (defined as the five-year period ending December 31, 2015, our time period for long-term budgeting). If actual developments differ from our expectations, our liquidity could be adversely affected.

Capital expenditures

We intend to spend approximately $52 million to maintain and improve our existing facilities during 2011, including approximately $17 million in the area of environmental compliance, protection and improvement. The majority of our expenditures in 2011 will be to maintain our facilities. Capital spending for 2011 is expected to be funded through cash on hand or borrowings under our existing credit facility.

Off-balance sheet financing

Other than operating lease commitments disclosed in Note 12 to our Consolidated Financial Statements, we are not party to any material off-balance sheet financing arrangements.

Cash, cash equivalents and restricted cash

At December 31, 2010, we had current cash and cash equivalents aggregating $49.8 million and current restricted cash of $1.9 million.

Related party transactions

We are party to certain transactions with related parties. See Note 11 to our Consolidated Financial Statements. It is our policy to engage in transactions with related parties on terms, in our opinion, no less favorable to us than could be obtained from unrelated parties.

Commitments and contingencies

See Notes 7 and 12 to our Consolidated Financial Statements for a description of certain income tax examinations currently underway and certain legal proceedings.

Recent accounting pronouncements

There have been no recent accounting pronouncements expected to have a material impact on our Consolidated Financial Statements for the period ended December 31, 2010.

Debt and other contractual commitments

As more fully described in the Notes to the Consolidated Financial Statements, we are a party to various debt, lease and other agreements which contractually and unconditionally commit us to pay certain amounts in the future. See Notes 6, 12 and 13 to our Consolidated Financial Statements. The timing and amount shown for our commitments in the table below are based upon the contractual payment amount and the contractual payment date for such commitments. The following table summarizes such contractual commitments of ours and our consolidated subsidiaries as of December 31, 2010 by the type and date of payment.

Contractual commitment	2011	2012/2013	2014/2015	2016 and after	Total
			Payment due date (In millions)		
Indebtedness (1)	$2.2	$536.2	$.9	$.3	$539.6
Interest payments on indebtedness (2)	34.9	46.4	-	-	81.3
Operating leases	4.2	6.4	3.1	18.0	31.7
Long-term service and other supply contracts (3)	46.3	43.8	24.2	1.1	115.4
Fixed asset acquisitions	22.8	-	-	-	22.8
Estimated tax obligations (4)	5.9	-	-	-	5.9
	$116.3	$632.8	$28.2	$19.4	$796.7

(1) A significant portion of the amount shown for indebtedness relates to our 6.5% Senior Secured Notes ($532.8 million at December 31, 2010). Such indebtedness is denominated in euro. See Item 7A – "Quantitative and Qualitative Disclosures About Market Risk" and Note 6 to the Consolidated Financial Statements.
(2) The amounts shown for interest for any outstanding variable-rate indebtedness is based upon the December 31, 2010 interest rates and assumes that such variable-rate indebtedness remains outstanding until maturity.
(3) The amounts shown for the long-term service and other supply contracts primarily pertain to agreements we have entered into with various providers of products or services which help to run our plant facilities (electricity, natural gas, etc.), utilizing December 31, 2010 exchange rates. See Note 12 to our Consolidated Financial Statements.
(4) The amount shown for estimated tax obligations is the consolidated amount of net income taxes payable at December 31, 2010, which is assumed to be paid during 2011.

The above table does not reflect:

- Any amounts we might pay to purchase our TiO2 feedstock requirements. As discussed above in "Business – Raw Materials," our affiliate, KUS, purchases the rutile and slag feedstock used as a raw material in all of our chloride process TiO2 facilities. We purchase feedstock for our chloride process TiO2 facilities from KUS. See Note 11 to our Consolidated Financial Statements;
- Any amounts we might pay to fund our 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 and interest rate assumptions. We expect to be required to contribute approximately $21.6 million to our defined benefit pension plans during 2011. Our defined benefit pension plans are discussed below in greater detail. See Note 8 to our Consolidated Financial Statements.
- Any amounts we might pay related to our asset retirement obligations as the terms and amounts of such future fundings are unknown; and
- Any amounts we might pay to settle any of our uncertain tax positions, as the timing and amount of any such future settlements are unknown and dependent on, among other things, the timing of tax audits. See Notes 7 and 14 to our Consolidated Financial Statements.

We occasionally enter into raw material supply arrangements to mitigate the short-term impact of future increases in raw material costs. While these arrangements do not necessarily commit us to a minimum volume of purchases, they generally provide for stated unit prices based upon achievement of specified volume purchase levels. This allows us to stabilize raw material purchase prices to a certain extent, provided the specified minimum monthly purchase quantities are met.

Defined benefit pension plans

We maintain various defined benefit pension plans in Europe. See Note 8 to our Consolidated Financial Statements.

Under defined benefit pension plan accounting, defined benefit pension plan expense and pension assets 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. We recognize the full funded status of our defined benefit pension plans as either an asset (for overfunded plans) or a liability (for underfunded plans) in our Consolidated Balance Sheet.

We recognized consolidated defined benefit pension plan expense of $6.9 million in 2008, $18.2 million in 2009 and $18.2 million in 2010. In the fourth quarter of 2008 we recognized a $6.9 million pension adjustment in connection with the correction of our pension expense previously recognized for 2006 and 2007. See Note 8 to our Consolidated Financial Statements. 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 for financial reporting purposes. Our contributions to all of our plans aggregated $15.4 million in 2008, $18.1 million in 2009 and $17.8 million in 2010.

The discount rates we use 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, we receive third-party advice about appropriate discount rates and these advisors may in some cases use their own market indices. We adjust these discount rates as of each December 31 valuation date to reflect then-current interest rates on such long-term bonds. We use these discount rates to determine the actuarial present value of the pension obligations as of December 31 of that year. We also use these discount rates to determine the interest component of defined benefit pension expense for the following year.

At December 31, 2010, approximately 78% and 17% of the projected benefit obligations related to our plans in Germany and Norway, respectively. We use several different discount rate assumptions in determining our consolidated defined benefit pension plan obligation and expense. This is because we maintain defined benefit pension plans in several different countries in Europe and the interest rate environment differs from country to country.

We used the following discount rates for our defined benefit pension plans:

	Discount rates used for:		
	Obligations at December 31, 2008 and expense in 2009	Obligations at December 31, 2009 and expense in 2010	Obligations at December 31, 2010 and expense in 2011

Germany	5.8	%	5.5	%	5.2	%
Norway	5.8	%	5.3	%	4.8	%

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, the actual fair value of the plan assets as of the beginning of the year and an estimate of the amount of contributions to and distributions from the plan during 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, 2010, approximately 72% and 24% of the plan assets related to our plans in Germany and Norway, respectively. We use several different long-term rates of return on plan asset assumptions in determining our consolidated defined benefit pension plan expense. This is because 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, we consider the long-term asset mix (e.g. equity vs. fixed income) for the assets for each of our plans and the expected long-term rates of return for such asset components. In addition, we receive third-party advice about appropriate long-term rates of return. Such assumed asset mixes are summarized below:

- In Germany, the composition of our plan assets is established to satisfy the requirements of the German insurance commissioner.
- In Norway, we currently have a plan asset target allocation of 14% to equity securities, 72% to fixed income securities, and the remainder primarily to cash and liquid investments. The expected long-term rate of return for such investments is approximately 9.0%, 5.0%, and 4.0%, respectively.

Our pension plan weighted average asset allocations by asset category were as follows:

	December 31, 2009				December 31, 2010			
	Germany		Norway		Germany		Norway	
Equity securities and limited partnerships	18	%	18	%	17	%	17	%
Fixed income securities	61		80		61		68	
Real estate	12		-		11		2	
Cash, cash equivalents and other	9		2		11		13	
Total	100	%	100	%	100	%	100	%

We regularly review our actual asset allocation for each plan and will periodically rebalance the investments in each plan to more accurately reflect the targeted allocation when considered appropriate.

Our assumed long-term rates of return on plan assets for 2008, 2009 and 2010 were as follows:

	2008	2009	2010
Germany	5.3%	5.3%	5.0%
Norway	6.1%	5.8%	5.0%

We currently expect to use the same long-term rate of return on plan asset assumptions in 2011 as we used in 2010 for purposes of determining the 2011 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 our plans for which the benefit formula is so calculated, we generally base 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, the amount of recognized defined benefit pension expense and the amount of net pension asset and net pension liability will vary based upon relative changes in currency exchange rates.

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. These amounts are recognized in other comprehensive income (loss). In addition, 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 2010, all of our defined benefit pension plans generated a combined net actuarial gain of approximately $3.8 million. This actuarial gain resulted primarily from the net effects of (i) the overall return on plan assets being in excess of the assumed return and (ii) the general reduction in discount rates from December 31, 2009 to December 31, 2010.

Based on the actuarial assumptions described above and our current expectation for what actual average currency exchange rates will be during 2011, we expect our defined benefit pension expense will approximate $18 million in 2011. In comparison, we expect to be required to contribute approximately $21.6 million to such plans during 2011.

As noted above, defined benefit pension expense and the amounts recognized as accrued pension costs are based upon the actuarial assumptions discussed above. We believe all of the actuarial assumptions used are reasonable and appropriate. However, if we had lowered the assumed discount rate by 25 basis points for all of our plans as of December 31, 2010, our aggregate projected benefit obligations would have increased by approximately $12.7 million at that date and our defined benefit pension expense would be expected to increase by approximately $1 million during 2010. Similarly, if we lowered the assumed long-term rate of return on plan assets by 25 basis points for all of our plans, our defined benefit pension expense would be expected to increase by approximately $.6 million during 2010.

Operations outside the United States

As discussed above, our operations are located outside the United States for which the functional currency is not the U.S. dollar. As a result, our reported amount for assets and liabilities related to our operations, and therefore our consolidated net assets, will fluctuate based upon changes in currency exchange rates. At December 31, 2010, we had substantial net assets denominated in the euro, Norwegian krone and United Kingdom pound sterling.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

We are exposed to market risk from changes in interest rates, currency exchange rates and raw materials prices.

Interest rates

We are exposed to market risk from changes in interest rates, primarily related to our indebtedness. At December 31, 2009 and 2010, the majority of our 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 our aggregate outstanding indebtedness at December 31, 2010. Information shown below for such non-U.S. dollar denominated indebtedness is presented in its U.S. dollar equivalent at December 31, 2010 using an exchange rate of 1.3350 U.S. dollars per euro. See Note 6 to our Consolidated Financial Statements.

Indebtedness	Amount Carrying value	Fair value	Interest rate	Maturity date
	(In millions)			
As of December 31, 2010:				
Fixed-rate indebtedness - euro-denominated:				
Senior Secured Notes	$532.8	$536.0	6.5 %	2013
As of December 31, 2009:				
Fixed-rate indebtedness - euro-denominated:				
Senior Secured Notes	$574.6	$466.2	6.5 %	2013
Variable rate indebtedness:				
Credit facility – euro denominated	$13.0	$13.0	3.5 %	2013

Currency exchange rates

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

As described above, at December 31, 2010, we had the equivalent of $532.8 million of outstanding euro-denominated indebtedness (2009 – the equivalent of $587.6 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 $58.9 million and $53.4 million at December 31, 2009 and 2010, respectively.

Certain of our sales generated by our non-U.S. operations are denominated in U.S. dollars. We periodically use currency forward contracts to manage a very nominal portion of currency exchange rate risk associated with trade receivables denominated in a currency other than the holder's functional currency or similar exchange rate risk associated with future sales. We have not entered into these contracts for trading or speculative purposes in the past, nor do we currently anticipate entering into such contracts for trading or speculative purposes in the future. At December 31, 2010 we had currency forward contracts to exchange:

- an aggregate $20.1 million for an equivalent value of Norwegian kroner at exchange rates ranging from kroner 5.94 to kroner 6.60 per U.S. dollar. These contracts with DnB Nor Bank ASA mature from January 2011 through July 2011 at a rate of $2.3 million to $5.5 million per month.
- an aggregate euro 17.8 million for an equivalent value of Norwegian kroner at exchange rates ranging from kroner 8.16 to kroner 8.28 per euro. These contracts with DnB Nor Bank ASA mature from January 2011 through August 2011 at a rate of euro 1.8 million to euro 2.5 million per month, subject to early redemption provisions at our option.

The estimated fair value of such currency forward contracts at December 31, 2010 was a $2.6 million net asset, which amount is recognized as part of Accounts and other receivables in our Consolidated Balance Sheet and a corresponding $2.6 million currency transaction gain in our Consolidated Statement of Operations. To the extent we held such contracts during 2008, 2009 and 2010, we did not use hedge accounting for any of our contracts.

See Note 12 to our Consolidated Financial Statements.

Raw Materials

We are exposed to market risk from changes in commodity prices relating to our raw materials. As discussed in Item 1 we and KUS generally enter into long-term supply agreements for certain of our raw material requirements including ore. Many of our raw material contracts contain fixed quantities we are required to purchase, although these contracts allow for an upward or downward adjustment in the quantity purchased. Raw material pricing under these agreements is generally negotiated annually. For certain raw material requirements we do not have long-term supply agreements either because we have assessed the risk of the unavailability of those raw materials and/or the risk of a significant change in the cost of those raw materials to be low, or because long-term supply agreements for those raw materials are generally not available.

Other

We believe there may be a certain amount of incompleteness in the sensitivity analyses presented above. For example, the hypothetical effect of changes in exchange rates discussed above ignores the potential effect on other variables which affect our results of operations and cash flows, such as demand for our products, sales volumes and selling prices and operating expenses. Accordingly, the amounts presented above are not necessarily an accurate reflection of the potential losses we 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 us 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(T). CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures. The term "disclosure controls and procedures," as defined by Exchange Act Rule 13a-15(e), means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit 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 we are required to disclose in the reports we file or submit to the SEC under the Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Steven L. Watson, our Chief Executive Officer and Gregory M. Swalwell, our Vice President, Finance and Chief Financial Officer, have evaluated the design and effectiveness of our disclosure controls and procedures as of December 31, 2010. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of December 31, 2010.

Scope of Management Report on Internal Control Over Financial Reporting

We also maintain internal control over financial reporting. The term “internal control over financial reporting,” as defined by Exchange Act Rule 13a-15(f) means a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by the 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 our assets,
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors and
- Provide reasonable assurance regarding prevention or timely detection of an unauthorized acquisition, use or disposition of assets that could have a material effect on our Condensed Consolidated Financial Statements.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to report on internal control over financial reporting in this Annual Report on Form 10-K for the year ended December 31, 2010. Under the rules of the SEC, our independent registered public accounting firm is not required to, and therefore has not, audited our internal control over financial reporting as of December 31, 2010.

As permitted by the SEC, our assessment of internal control over financial reporting excludes (i) internal control over financial reporting of equity method investees and (ii) internal control over the preparation of our financial statement schedules required by Article 12 of Regulation S-X. However, our assessment of internal control over financial reporting with respect to equity method investees did include controls over the recording of amounts related to our investment that are recorded in the consolidated financial statements, including controls over the selection of accounting methods for our investments, the recognition of equity method earnings and losses and the determination, valuation and recording of our investment account balances.

Changes in Internal Control Over Financial Reporting

There has been no change to our internal control over financial reporting during the quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our evaluation of the effectiveness of internal control over financial reporting is based upon the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (commonly referred to as the “COSO” framework). Based on our evaluation under that framework, we have concluded that our internal control over financial reporting was effective as of December 31, 2010.

This annual report does not include an attestation report of our independent registered public accounting firm regarding our internal control over financial reporting. Management’s report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the SEC that permit us to provide only management’s report in this annual report. See “Scope of Management’s Report on Internal Control Over Financial Reporting” above.

Certifications

Our chief executive officer and chief financial officer are also required to, among other things, quarterly file certifications with the SEC regarding the quality of our public disclosures, as required by Section 302 of the Sarbanes-Oxley Act of 2002. The certifications for the quarter ended December 31, 2010 have been filed as Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

Not applicable

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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 AND RELATED STOCKHOLDER MATTERS

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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, our independent registered public accounting firm ("PwC"), has billed or is expected to bill to us and our subsidiaries for services rendered for 2009 and 2010. No fees were billed or are expected to be billed by PwC to us for services performed in 2009 and 2010 for financial information systems design and implementation.

	December 31,	
	2009	2010
	(In thousands)	
Audit(1)	$1,614	$1,522
Audit related(2)	11	38
Tax(3)	19	10
Total	$1,644	$1,570

1) Fees for the following services:

a) audits of our consolidated year-end financials statements for each year;
b) reviews of the unaudited quarterly financial statements appearing in our Form 10-Q's 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 we reimburse PwC.

2) Fees for assurance and related services reasonably related to the audit or review of our financial statements for each year. These services included 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.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) and (c) Financial Statements and Schedule

The Registrant

The consolidated financial statements and schedule of the Registrant listed on the accompanying Index of Financial Statements and Schedule (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. We will furnish a copy of any of the exhibits listed below upon payment of $4.00 per exhibit to cover our costs to furnish 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, 2010 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).

3.7 Amended and Restated Bylaws of Kronos International, Inc. as of October 4, 2010 – incorporated by reference to Exhibit 3.1 of the Registrant’s Current Report on Form 8-K filed with the U.S. Securities and Exchange

Commission on October 4, 2010.

4.1 Indenture governing the 6.5% Senior Secured Notes due 2013, dated as of April 11, 2006, between Kronos International, Inc. and The Bank of New York, as trustee - incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 333-100047) that was filed with the U.S. Securities and Exchange Commission on April 11, 2006.

4.2 Form of certificate of Series A 6.5% Senior Secured Note due 2013 - incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 333-100047) that was filed with the U.S. Securities and Exchange Commission on April 11, 2006.

4.3 Form of certificate of Series B 6.5% Senior Secured Note due 2013 - incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K (File No. 333-100047) that was filed with the U.S. Securities and Exchange Commission on April 11, 2006.

4.4 Purchase Agreement dated April 5, 2006 between Kronos International, Inc. and Deutsche Bank AG London - incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 333-100047) that was filed with the U.S. Securities and Exchange Commission on April 11, 2006.

4.5 Registration Rights Agreement dated as of April 11, 2006 between Kronos International, Inc. and Deutsche Bank AG London - incorporated by reference to Exhibit 4.5 to the Registrant's Current Report on Form 8-K (File No. 333-100047) that was filed with the U.S. Securities and Exchange Commission on April 11, 2006.

4.6 Collateral Agency Agreement, dated April 11, 2006, among The Bank of New York, U.S. Bank, N.A. and Kronos International, Inc. - incorporated by reference to Exhibit 4.6 to the Registrant's Current Report on Form 8-K (File No. 333-100047) that was filed with the U.S. Securities and Exchange Commission on April 11, 2006.

4.7 Security Over Shares Agreement, dated April 11, 2006, between Kronos International, Inc. and The Bank of New York - incorporated by reference to Exhibit 4.7 to the Registrant's Current Report on Form 8-K (File No. 333-100047) that was filed with the U.S. Securities and Exchange Commission on April 11, 2006.

4.8 Pledge of Shares (shares in Kronos Denmark ApS), dated April 11, 2006, between Kronos International, Inc. and U.S. Bank, N.A. - incorporated by reference to Exhibit 4.8 to the Registrant's Current Report on Form 8-K (File No. 333-100047) that was filed with the U.S. Securities and Exchange Commission on April 11, 2006.

4.9 Pledge Agreement (shares in Societe Industrielle du Titane S.A.), dated April 11, 2006, between Kronos International, Inc. and U.S. Bank, N.A. - incorporated by reference to Exhibit 4.9 to the Registrant's Current Report on Form 8-K (File No. 333-100047) that was filed with the U.S. Securities and Exchange Commission on April 11, 2006.

4.10 Share Pledge Agreement (shares in Kronos Titan GmbH), dated April 11, 2006, between Kronos International, Inc. and U.S. Bank, N.A. - incorporated by reference to Exhibit 4.10 to the Registrant's Current Report on Form 8-K (File No. 333-100047) that was filed with the U.S. Securities and Exchange Commission on April 11, 2006.

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 (File No. 001-00640) 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 10.1 of the Current Report on Form 8-K of Kronos Worldwide, Inc. dated November 17, 2004 (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.

10.4* Third Amendment Agreement Relating to a Facility Agreement dated June 25, 2002 executed as of May 26, 2008 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.

10.5* Fourth Amendment Agreement Relating to a Facility Agreement dated June 25, 2002 executed as of September 15, 2009 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.

10.6 Fifth Amendment Agreement Relating to a Facility Agreement dated June 25, 2002 executed as of October 28, 2010 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 to the Registrant's Current Report on Form 8-K dated October 28, 2010 (File No. 333-100047).

10.7 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 (File No. 001-00640) of NL Industries, Inc. for the year ended December 31, 1985.

10.8 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 (File No. 001-00640) of NL Industries, Inc. for the quarter ended September 30, 1993.

10.9 Intercorporate Services Agreement, dated as of January 1, 2005, among Kronos Worldwide, Inc., Kronos (US), Inc., Kronos International, Inc. and Kronos Canada, Inc. - incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K (File No. 333-100047) for the year ended December 31, 2004.

10.10 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).

10.11 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. - incorporated by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K (File No. 333-100047) for the year ended December 31, 2004.

10.12 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).

10.13 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).

10.14** 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. (File No. 001-00640)for the annual meeting of shareholders held on May 6, 1998.

10.15** Form of Kronos Worldwide, Inc. 2003 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).

10.16** 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).

10.17 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. – incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K (File No. 333-100047) for the year ended December 31, 2004.

10.18 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. – incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K (File No. 333-100047) for the year ended December 31, 2004.

10.19 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. – incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K (File No. 333-100047) for the year ended December 31, 2004.

10.20 Promissory note in the amount of euro 65,000,000, dated as of October 12, 2004 between the Registrant and Kronos Worldwide, Inc. - incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K (File No. 333-100047) for the year ended December 31, 2004.

10.21 Promissory note in the amount of euro 98,094,875, dated as of November 26, 2004 between the Registrant and Kronos Worldwide, Inc. - incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K (File No. 333-100047) for the year ended December 31, 2004.

12.1 Statements of Computation of Ratio of Earnings to Fixed Charges

31.1 Certification.

31.2 Certification.

32.1 Certification.

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* Filed herewith
** 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/ Steven L. Watson
Steven L. Watson
March 4, 2011
(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/ Andrew Kasprowiak Andrew Kasprowiak, March 4, 2011 (Director)	/s/ Steven L. Watson Steven L. Watson, March 4, 2011 (Chief Executive Officer)
/s/ Dr. Ulfert Fiand Dr. Ulfert Fiand, March 4, 2011 (Director)	/s/ Gregory M. Swalwell Gregory M. Swalwell, March 4, 2011 (Vice President, Finance, Principal Financial Officer)
/s/ Klemens Schlueter_ Klemens Schlueter, March 4, 2011 (Director)	/s/ Tim C. Hafer Tim C. Hafer, March 4, 2011 (Vice President, Controller, Principal Accounting Officer)

KRONOS INTERNATIONAL, INC.

Annual Report on Form 10-K

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

Index of Financial Statements and Schedules

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Schedules II, III and IV are omitted either because they are not applicable or the required amounts are either not material, or are presented in the Notes to our Consolidated Financial Statements.

Other Financial Statements filed pursuant to Rule 3-16 of Regulation S-X

Financial Statements of Kronos Titan GmbH	FA-1
Financial Statements of Kronos Denmark ApS	FB-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income (loss), of stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Kronos International, Inc. and its subsidiaries at December 31, 2009 and 2010 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents 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 schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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.

/s/PricewaterhouseCoopers LLP

Dallas, Texas
March 4, 2011

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

ASSETS	December 31, 2009	December 31, 2010
Current assets:		
Cash and cash equivalents	$29.4	$49.8
Restricted cash	1.7	1.9
Accounts and other receivables	139.9	159.6
Receivable from affiliates	1.6	1.9
Inventories	207.7	202.9
Prepaid expenses	6.3	4.0
Deferred income taxes	.1	.4
Total current assets	386.7	420.5
Other assets:		
Deferred financing costs, net	5.8	4.3
Deferred income taxes	185.5	191.6
Other	5.2	5.4
Total other assets	196.5	201.3
Property and equipment:		
Land	45.1	42.4
Buildings	181.6	170.9
Equipment	862.3	828.5
Mining properties	115.7	115.9
Construction in progress	7.9	10.2
Total property and equipment	1,212.6	1,167.9
Less accumulated depreciation and amortization	781.9	766.0
Net property and equipment	430.7	401.9
Total assets	$1,013.9	$1,023.7

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions, except share data)

LIABILITIES AND STOCKHOLDER'S EQUITY	December 31, 2009	December 31, 2010
Current liabilities:		
Current maturities of long-term debt	$2.1	$2.2
Accounts payable and accrued liabilities	133.0	138.2
Payable to affiliates	30.4	14.2
Income taxes	3.6	6.8
Deferred income taxes	4.7	4.7
Total current liabilities	173.8	166.1
Noncurrent liabilities:		
Long-term debt	594.4	537.4
Deferred income taxes	11.6	14.9
Accrued pension cost	108.6	100.7
Other	22.1	24.2
Total noncurrent liabilities	736.7	677.2
Stockholder's equity:		
Common stock, $100 par value; 100,000 shares authorized; 2,968 shares issued	.3	.3
Additional paid-in capital	1,962.1	1,976.0
Retained deficit	(1,471.6)	(1,385.1)
Notes receivable from affiliate	(235.6)	(255.6)
Accumulated other comprehensive loss:		
Currency translation	(93.9)	(97.6)
Defined benefit pension plans	(57.9)	(57.6)
Total stockholder's equity	103.4	180.4
Total liabilities and stockholder's equity	$1,013.9	$1,023.7

Commitments and contingencies (Notes 7 and 12)

See accompanying Notes to Consolidated Financial Statements.

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions)

	Years ended December 31, 2008	2009	2010
Net sales	$952.9	$819.9	$998.5
Cost of sales	782.5	752.7	774.0
Gross margin	170.4	67.2	224.5
Selling, general and administrative expense	130.4	115.0	125.2
Other operating income (expense):			
Currency transaction gains (losses), net	(.8)	8.2	4.6
Disposition of property and equipment	(.9)	(.8)	(1.7)
Royalty income	6.5	5.9	8.6
Other income	.4	.8	1.5
Other expense	(.1)	(.1)	(.2)
Income (loss) from operations	45.1	(33.8)	112.1
Other income (expense):			
Interest income from affiliates	17.3	-	-
Trade interest income	1.0	.2	.2
Interest expense	(40.7)	(40.2)	(38.0)
Income (loss) before income taxes	22.7	(73.8)	74.3
Provision for income taxes (benefit)	1.4	(27.3)	(12.2)
Net income (loss)	$21.3	$(46.5)	$86.5

See accompanying Notes to Consolidated Financial Statements.

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

	Years ended December 31, 2008	2009	2010
Net income (loss)	$21.3	$(46.5)	$86.5
Other comprehensive (loss) income, net of tax:			
Currency translation	(27.6)	14.0	(3.7)
Pension plans:			
Amortization of prior service cost and net losses included in periodic pension cost	(.5)	3.7	3.6
Net actuarial gain (loss) arising during year	(.8)	1.5	(2.6)
Plan amendment	-	-	(.7)
	(1.3)	5.2	.3
Total other comprehensive income (loss)	(28.9)	19.2	(3.4)
Comprehensive income (loss)	$(7.6)	$(27.3)	$83.1

See accompanying Notes to Consolidated Financial Statements.

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

Years ended December 31, 2008, 2009 and 2010

(In millions)

	Common stock	Additional paid-in capital	Retained deficit	Notes receivable from affiliates	Accumulated other comprehensive income (loss) Currency translation	Pension plans	Total stockholder's equity
Balance at December 31, 2007	$.3	$1,944.2	$(1,411.5)	$(209.5)	$(80.3)	$(61.8)	$181.4
Net income	-	-	21.3	-	-	-	21.3
Other comprehensive loss, net of tax	-	-		-	(27.6)	(1.3)	(28.9)
Dividends paid	-	-	(34.9)	-	-	-	(34.9)
Intercompany interest Kronos Worldwide, Inc.	-	3.4	-	(5.0)	-	-	(1.6)
Balance at December 31, 2008	.3	1,947.6	(1,425.1)	(214.5)	(107.9)	(63.1)	137.3
Net loss	-	-	(46.5)	-	-	-	(46.5)
Other comprehensive income, net of tax	-	-	-	-	14.0	5.2	19.2
Intercompany interest Kronos Worldwide, Inc.	-	14.5	-	(21.1)	-	-	(6.6)
Balance at December 31, 2009	.3	1,962.1	(1,471.6)	(235.6)	(93.9)	(57.9)	103.4
Net income	-	-	86.5	-	-	-	86.5
Other comprehensive income (loss), net of tax	-	-	-	-	(3.7)	.3	(3.4)

Intercompany interest Kronos Worldwide, Inc.	-	13.9	-	(20.0)	-	-	(6.1)
Balance at December 31, 2010	$ .3	$ 1,976.0	$ (1,385.1)	$ (255.6)	$ (97.6)	$ (57.6)	$ 180.4

See accompanying Notes to Consolidated Financial Statements.

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years ended December 31, 2008	2009	2010
Cash flows from operating activities:			
Net income (loss)	$21.3	$(46.5)	$86.5
Depreciation and amortization	45.6	41.6	38.4
Deferred income taxes	(6.7)	(25.1)	(26.6)
Defined benefit pension plan expense greater (less) than cash funding	(12.3)	(.6)	.3
Other, net	4.7	4.0	4.8
Change in assets and liabilities:			
Accounts and other receivables	16.7	(3.1)	(30.9)
Inventories	(89.1)	98.8	(9.2)
Prepaid expenses	.1	(2.8)	1.8
Accounts payable and accrued liabilities	12.8	(5.1)	(3.4)
Income taxes	(1.9)	.3	4.1
Accounts with affiliates	9.3	16.2	(14.2)
Other noncurrent assets	(2.3)	.5	(.2)
Other noncurrent liabilities	2.8	(10.7)	13.3
Net cash provided by operating activities	1.0	67.5	64.7
Cash flows from investing activities:			
Capital expenditures	(61.7)	(19.5)	(31.2)
Change in restricted cash	-	-	(.1)
Net cash used in investing activities	(61.7)	(19.5)	(31.3)
Cash flows from financing activities:			
Indebtedness:			
Borrowings	57.6	29.1	41.8
Principal payments	(14.6)	(62.1)	(52.3)
Deferred financing fees	(.9)	(.6)	(.8)
Dividends paid	(34.9)	-	-
Net cash provided by (used in) financing activities	7.2	(33.6)	(11.3)

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In millions)

	Years ended December 31, 2008	2009	2010
Cash and cash equivalents - net change from:			
Operating, investing and financing activities	$(53.5)	$14.4	$22.1
Currency translation	(2.7)	4.2	(1.7)
Net change for year	(56.2)	18.6	20.4
Balance at beginning of year	67.0	10.8	29.4
Balance at end of year	$10.8	$29.4	$49.8
Supplemental disclosures – Cash paid for:			
Interest	$37.9	$38.2	$35.7
Income taxes	10.0	2.2	9.4
Accrual for capital expenditures	6.2	3.9	9.2
Capital lease obligation incurred	-	5.9	-

See accompanying Notes to Consolidated Financial Statements.

KRONOS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of significant accounting policies:

Organization and basis of presentation. We are a Delaware corporation that is a wholly-owned subsidiary of Kronos Worldwide, Inc. ("Kronos"). At December 31, 2010, (i) Valhi, Inc. held approximately 50% of Kronos' outstanding common stock and NL Industries, Inc. (NYSE: NL) held approximately 30% of Kronos' common stock, (ii) Valhi owned 83% of NL's outstanding common stock and (iii) subsidiaries of Contran Corporation held approximately 94% 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 (for which Mr. Simmons is the sole trustee), or is held by Mr. Simmons or other persons or related companies to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control each of such companies.

In November, 2010, Kronos completed a secondary public offering of 8.97 million shares of Kronos common stock. Upon completion of the offering, the Valhi consolidated aggregate ownership of Kronos was reduced from 95.2% (59.2% held by Valhi directly and 36.0% held by NL directly) to 80.4% (50.0% held by Valhi directly and 30.4% held by NL directly). We did not receive any of the net proceeds from such offering.

Unless otherwise indicated, references in this report to "we," "us" or "our" refers to Kronos International, Inc. and its subsidiaries, taken as a whole.

Management's estimates. In preparing our financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") we are required 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. Our consolidated financial statements include our accounts and those of our wholly owned and majority-owned subsidiaries. We have eliminated all material intercompany accounts and balances.

Translation of currencies. We translate the assets and liabilities of our subsidiaries whose functional currency is other than the U.S. dollar at year-end rates of exchange, while we translate our revenues and expenses at average exchange rates prevailing during the year. We accumulate the resulting translation adjustments in stockholder's equity as part of accumulated other comprehensive income (loss), net of related deferred income taxes. We recognize currency transaction gains and losses in income currently.

Derivatives and hedging activities. We recognize derivatives as either assets or liabilities measured at fair value. We recognize the effect of changes in the fair value of derivatives either in net income (loss) or other comprehensive income (loss), depending on the intended use of the derivative.

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

Fair value of financial instruments. We carry marketable debt and equity securities at fair value. Accounting Standard Codification ("ASC") Topic 820, Fair Value Measurements and Disclosures, establishes a consistent framework for measuring fair value and beginning on January 1, 2008 (with certain exceptions) this framework is generally applied to all financial statements items required to be measured at fair value. The standard requires fair value measurements to be classified and disclosed in one of the following three categories:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 – Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the assets or liability; and
- Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

See Notes 8 and 13.

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

Inventories and cost of sales. We state inventories at the lower of cost or market, net of allowance for obsolete and slow-moving inventories. We generally base inventory costs for all inventory categories on average cost that approximates the first-in, first-out method. Inventories include the costs for raw materials, the cost to manufacture the raw materials into finished goods and overhead. Depending on the inventory's stage of completion, our manufacturing costs can include the costs of packing and finishing, utilities, maintenance, depreciation and salaries and benefits associated with our manufacturing process. We allocate fixed manufacturing overheads based on normal production capacity. Unallocated overhead costs resulting from periods with abnormally low production levels are charged to expense as incurred. As inventory is sold to third parties, we recognize the cost of sales in the same period that the sale occurs. We periodically review our inventory for estimated obsolescence or instances when inventory is no longer marketable for its intended use, and we record any write-down equal to the difference between the cost of inventory and its estimated net realizable value based on assumptions about alternative uses, market conditions and other factors.

Property and equipment and depreciation. We state property and equipment at cost including capitalized interest on borrowings during the actual construction period of major capital projects. Capitalized interest costs were $2.1 million in 2008, $.9 million in 2009, and $.8 million in 2010. We compute depreciation of property and equipment for financial reporting purposes (including mining equipment) principally by the straight-line method over the estimated useful lives of the assets as follows:

Asset	Useful lives
Buildings and improvements	10 to 40 years
Machinery and equipment	3 to 20 years
Mine development costs	Units-of-production

We use accelerated depreciation methods for income tax purposes, as permitted. Upon the sale or retirement of an asset, we remove the related cost and accumulated depreciation from the accounts and recognize any gain or loss in income currently.

We expense costs incurred for maintenance, repairs and minor renewals (including planned major maintenance) while we capitalize expenditures for major improvements.

We have a governmental concession with an unlimited term to operate our ilmenite mines in Norway. Mining properties consist of buildings and equipment used in our Norwegian ilmenite mining operations and costs associated with the development of a new mine area which commenced production in 2009. While we own the land and ilmenite reserves associated with the mining operations, such land and reserves were acquired for nominal value and we have no material asset recognized for the land and reserves related to our mining operations.

We perform impairment tests when events or changes in circumstances indicate the carrying value may not be recoverable. We consider all relevant factors. We perform the impairment test 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.

Long-term debt. We state long-term debt net of any unamortized original issue premium or discount. We classify amortization of deferred financing costs and any premium or discount associated with the issuance of indebtedness as interest expense and compute such amortization by the interest method over the term of the applicable issue.

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

Income taxes. We, Kronos and Valhi are members of Contran's consolidated U.S. federal income tax group (the "Contran Tax Group") and we also file consolidated income tax returns with Contran in various U.S. state jurisdictions. As a member of the Contran Tax Group, we are 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 we are included in the Contran Tax Group. See Note 7. As a member of the Contran Tax Group, we are a party to a tax sharing agreement which provides that we compute our provision for U.S. income taxes on a separate-company basis using the tax elections made by Contran. Pursuant to the tax sharing agreement, we make payments to or receive payments from Kronos using the tax elections made by Contran, in amounts we would have paid to or received from the U.S. Internal Revenue Service had we not been a member of the Contran Tax Group. We made no payments to Kronos for income taxes during 2008, 2009 or 2010.

We recognize deferred income tax assets and liabilities 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 our subsidiaries and affiliates who are not members of the Contran Tax Group and undistributed earnings of non U.S. subsidiaries which are not deemed to be permanently reinvested. The earnings of non U.S. subsidiaries subject to permanent reinvestment plans aggregated $666 million at December 31, 2009 and $767 million at December 31, 2010. It is not practical for us to determine the amount of the unrecognized deferred income tax liability related to such earnings due to the complexities associated with the U.S. taxation on earnings of non-U.S. subsidiaries repatriated to the U.S. We periodically evaluate our deferred tax assets in the various taxing jurisdictions in which we operate and adjust any related valuation allowance based on the estimate of the amount of such deferred tax assets that we believe does not meet the more-likely-than-not recognition criteria.

We record a reserve for uncertain tax positions for tax positions where we believe it is more-likely-than-not our position will not prevail with the applicable tax authorities. The amount of the benefit associated with our uncertain tax positions that we recognize is limited to the largest amount for which we believe the likelihood of realization is greater than 50%. We accrue penalties and interest on the difference between tax positions taken on our tax returns and the amount of benefit recognized for financial reporting purposes. We classify our reserves for uncertain tax positions in a separate current or noncurrent liability, depending on the nature of the tax position. See Note 7.

Net sales. We record sales 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 we do not recognize sales until the product is received by the customer). We state sales net of price, early payment and distributor discounts and volume rebates. We report any tax assessed by a governmental authority that we collect from our customers that is both imposed on and concurrent with our revenue-producing activities (such as sales, use, value added and excise taxes) on a net basis (meaning we do not recognize these taxes either in our revenues or in our costs and expenses).

Selling, general and administrative expense; shipping and handling costs. Selling, general and administrative expense includes 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. We include shipping and handling costs in selling, general and administrative expense and these costs were $67 million in 2008, $54 million in 2009, and $57 million in 2010. We expense advertising costs as incurred and these costs were approximately $1 million in 2008, approximately $.6 million in 2009 and $.7 million in 2010. We expense research, development and certain sales technical support costs as incurred and these costs approximated $12 million in each of 2008 and 2009 and $13 million in 2010.

Note 2 - Geographic information:

Our operations are associated with the production and sale of titanium dioxide pigments (“TiO2”). TiO2 is used to impart whiteness, brightness and opacity to a wide variety of products, including paints, plastics, paper, fibers and ceramics. All of our net assets are located in Europe.

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

	Years ended December 31,		
	2008	2009	2010
		(In millions)	
Geographic areas			
Net sales – point of origin:			
Germany	$694.8	$616.5	$714.2
Belgium	207.7	164.4	209.1
Norway	194.3	139.5	188.3
Eliminations	(143.9)	(100.5)	(113.1)
Total	$952.9	$819.9	$998.5

	Years ended December 31,		
	2008	2009	2010
		(In millions)	
Net sales – point of destination:			
Europe	$809.8	$669.0	$821.8
North America	15.5	20.6	11.7
Other	127.6	130.3	165.0
Total	$952.9	$819.9	$998.5

	December 31, 2009	December 31, 2010
	(In millions)	
Identifiable assets - net property and equipment:		
Germany	$263.1	$236.3
Belgium	62.8	66.3
Norway	101.2	95.2
Other	3.6	4.1
Total	$430.7	$401.9

Note 3 - Accounts and other receivables:

	December 31, 2009	December 31, 2010
	(In millions)	
Trade receivables	$126.8	$137.9
Recoverable VAT and other receivables	15.3	23.0
Refundable income taxes	.4	.9
Allowance for doubtful accounts	(2.6)	(2.2)
Total	$139.9	$159.6

Note 4 - Inventories

	December 31, 2009	December 31, 2010
	(In millions)	
Raw materials	$46.8	$41.5
Work in process	13.3	9.9
Finished products	98.9	107.0
Supplies	48.7	44.5
Total	$207.7	$202.9

Note 5 - Accounts payable and accrued liabilities:

	December 31, 2009	December 31, 2010
	(In millions)	
Accounts payable	$69.9	$81.1
Employee benefits	18.7	25.0
Accrued sales discounts and rebates	19.3	9.0
Accrued interest	7.9	7.4
Other	17.2	15.7

Total	$133.0	$138.2

Note 6 - Long-term debt:

	December 31, 2009	December 31, 2010
	(In millions)	
Long-term debt:		
6.5% Senior Secured Notes	$574.6	$532.8
Revolving credit facility	13.0	-
Other	8.9	6.8
Total debt	596.5	539.6
Less current maturities	2.1	2.2
Total long-term debt	$594.4	$537.4

Senior Secured Notes. In April 2006, we issued euro 400 million principal amount of 6.5% Senior Secured Notes ("6.5% Notes") due 2013 at 99.306% of the principal amount ($498.5 million when issued). We collateralized the 6.5% Notes with a pledge of 65% of the common stock or other ownership interests of certain of our first-tier European operating subsidiaries: Kronos Titan GmbH, Kronos Denmark ApS, Kronos Limited and Société Industrielle du Titane, S.A. We issued the 6.5% Notes pursuant to an indenture which contains a number of covenants and restrictions which, among other things, restricts our ability to incur additional debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer all or substantially all of the assets to, another entity. At our option, we may redeem the 6.5% Notes at redemption prices of 102.167% of the principal amount through October 2011, declining to 101.08% of the principal amount through October 2012 and 100% of the principal amount on or after October 15, 2012. In this regard, on February 17, 2011, we called for the redemption of euro 80 million principal amount of the 6.5% Notes on March 24, 2011. We intend to borrow under our European revolving credit facility discussed below in order to fund such redemption.

In the event of a change of control, as defined in the agreement, we would be required to make an offer to purchase our 6.5% Notes at 101% of the principal amount. We would also be required to make an offer to purchase a specified portion of our 6.5% Notes at par value in the event we generate 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. See Note 13. The indenture also contains certain cross-referenced provisions, as discussed below. The carrying amount of the 6.5% Notes includes unamortized original issue discount of euro 1.3 million ($1.9 million) and euro .9 million ($1.2 million) at December 31, 2009 and 2010, respectively.

Revolving Credit Facility. Our operating subsidiaries in Germany, Belgium, Norway and Denmark have a euro 80 million secured revolving bank credit facility that, as amended, matures in October 2013. We may denominate borrowings in euros, Norwegian kroner or U.S. dollars. We may also issue up to euro 5 million of letters of credit. Outstanding borrowings bear interest at rates ranging from LIBOR plus 1.75% to LIBOR plus 1.5%. The 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 facility contains certain restrictive covenants that, 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 the assets to, another entity. In addition, the credit facility contains customary cross-default provisions with respect to other debt and obligations of the borrowers, KII and its other subsidiaries. As of December 31, 2010, no amounts were outstanding under the European Credit Facility and the equivalent of $106.8

million was available for borrowing by the subsidiaries.

Restrictions and other. Aggregate maturities of long-term debt at December 31, 2010:

Years ending December 31,	Amount (In millions)
2011	$2.2
2012	2.2
2013	534.0
2014	.5
2015	.4
2016 and thereafter	.3
Total	$539.6

Under the cross-default provisions of the 6.5% Notes, the 6.5% Notes may be accelerated prior to their stated maturity if we or any of our subsidiaries default under any other indebtedness in excess of $20 million due to a failure to pay the other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under the other indebtedness). Under the cross-default provisions of the credit facility, any outstanding borrowings under the facility may be accelerated prior to their stated maturity if we or the borrowers default under any other indebtedness in excess of euro 5 million due to a failure to pay the other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under the other indebtedness). The credit facility contains provisions that allow the lender to accelerate the maturity of the facility in the event of a change of control, as defined in the respective agreement, of the applicable borrower. In the event any of these cross-default or change-of-control provisions become applicable, and the indebtedness is accelerated, we would be required to repay the indebtedness prior to its stated maturity.

The credit facility described above requires the respective borrower to maintain minimum levels of equity, requires the maintenance of certain financial ratios, limits dividends and additional indebtedness and contains other provisions and restrictive covenants customary in lending transactions of this type. We are in compliance with all of our debt covenants at December 31, 2010. We believe we will be able to comply with the financial covenants contained in our credit facility through the maturity of the facility; however if future operating results differ materially from our expectations we may be unable to maintain compliance.

At December 31, 2010, our restricted net assets approximated $138.4 million. The terms of the indenture governing the 6.5% Notes limits our ability to pay dividends and make other restricted payments. At December 31, 2010, the maximum amount of dividends and other restricted payments that we could make (the “Restricted Payment Basket”) was $41.9 million.

Note 7 - Income taxes:

	Years ended December 31,		
	2008	2009	2010
		(In millions)	
Pre-tax income (loss):			
Germany	$(5.5)	$(76.1)	$36.7
Other non-U.S.	28.2	2.3	37.6
Total	$22.7	$(73.8)	$74.3
Expected tax expense (benefit), at U.S. federal statutory income tax rate of 35%	$7.9	$(25.8)	$26.0
Non-U.S. tax rates	(1.0)	2.3	(2.6)
Incremental tax and rate differences on equity in earnings of non-tax group companies	.3	-	-
German tax attribute adjustments	(7.2)	.2	(35.2)
Nondeductible expenses	2.2	1.9	1.8
Uncertain tax positions, net	-	(4.7)	.7
Nontaxable income	(.9)	(.9)	(.9)
Tax rate change	-	-	(1.7