

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934 - For the fiscal year ended December 31, 1999

Commission file number 1-5467

VALHI, INC.

(Exact name of registrant as specified in its charter)

Delaware	87-0110150
----- (State or other jurisdiction of incorporation or organization)	----- (IRS Employer Identification No.)
5430 LBJ Freeway, Suite 1700, Dallas, Texas	75240-2697
----- (Address of principal executive offices)	----- (Zip Code)
Registrant's telephone number, including area code:	(972) 233-1700

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

Title of each class	Name of each exchange on which registered
Common stock (\$0.01 par value per share)	New York Stock Exchange Pacific Stock Exchange
9.25% Liquid Yield Option Notes, due October 20, 2007	New York Stock Exchange

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

None.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Indicate by check mark 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

As of February 29, 2000, 114,628,514 shares of common stock were outstanding. The aggregate market value of the 8.4 million shares of voting stock held by nonaffiliates of Valhi, Inc. as of such date approximated \$93.6 million.

Documents incorporated by reference

The information required by Part III is incorporated by reference from the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

[INSIDE FRONT COVER]

A chart showing, as of December 31, 1999, (i) Valhi's 59% ownership of NL Industries, Inc., (ii) Valhi's 64% ownership of CompX International Inc., (iii) Valhi's 69% ownership of Waste Control Specialists LLC, (iv) Valhi's 50%

ownership of Tremont Corporation, (v) Tremont's 39% ownership of Titanium Metals Corporation and (vi) Tremont's 20% ownership of NL.

PART I

ITEM 1. BUSINESS

As more fully described on the chart on the opposite page, Valhi, Inc. (NYSE: VHI), has continuing operations through majority-owned subsidiaries or less than majority-owned affiliates in the chemicals, component products, waste management and titanium metals industries. Information regarding the Company's business segments and the companies conducting such businesses is set forth below. Business and geographic segment financial information is included in Note 2 to the Company's Consolidated Financial Statements, which information is incorporated herein by reference. The Company is based in Dallas, Texas.

Chemicals
NL Industries, Inc.

NL is currently the world's fourth-largest producer of titanium dioxide pigments ("TiO2"), which are used for imparting whiteness, brightness and opacity to a wide range of products including paints, plastics, paper, fibers and other "quality-of-life" products. NL had an estimated 12% share of worldwide TiO2 sales volume in 1999. NL has production facilities throughout Europe and North America.

Component Products
CompX International Inc.

CompX is a leading manufacturer of ergonomic computer support systems, precision ball bearing slides and security products for office furniture, computer related applications and a variety of other applications. CompX has production facilities in North America, Europe and Asia.

Waste Management
Waste Control Specialists LLC

Waste Control Specialists operates a facility in West Texas for the processing, treatment and storage of hazardous, toxic and low-level and mixed radioactive wastes, and for the disposal of hazardous and toxic and certain types of low-level and mixed radioactive wastes. Waste Control Specialists is seeking additional regulatory authorizations to expand its treatment and disposal capabilities for low-level and mixed radioactive wastes.

Titanium Metals
Titanium Metal Corporation

Titanium Metals Corporation ("TIMET") is one of the world's leading integrated producers of titanium sponge, ingot, slab and mill products. TIMET has the largest sales volumes worldwide, with an estimated 24% share of worldwide industry shipments of titanium mill products in 1999. TIMET has production facilities in the U.S. and Europe.

Valhi, a Delaware corporation, is the successor of the 1987 merger of LLC Corporation and The Amalgamated Sugar Company. Contran Corporation holds, directly or through subsidiaries, approximately 93% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held either by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is the sole trustee, or by Mr. Simmons directly. Mr. Simmons is Chairman of the Board and Chief Executive Officer of Contran and Valhi and may be deemed to control such companies.

Each of NL (NYSE: NL), CompX (NYSE: CIX), Tremont (NYSE: TRE) and TIMET (NYSE: TIE) file periodic reports with the Securities and Exchange Commission. The information set forth below with respect to such companies has been derived from such reports.

In early 1997, the Company completed the transfer of control of the refined sugar operations previously conducted by the Company to Snake River Sugar Company, an Oregon agricultural cooperative formed by certain sugarbeet growers. In 1998, (i) NL sold its specialty chemicals business unit, (ii) CompX issued approximately 6 million shares of its common stock in an initial public offering, (iii) Valhi acquired an interest in Tremont Corporation, primarily from Contran and certain Contran subsidiaries and (iv) CompX acquired two lock producers. In 1999, CompX acquired two slide producers, and in January 2000 acquired another lock producer. See Notes 3 and 5 to the Consolidated Financial Statements. Discontinued operations consist of the Company's former building products and fast food operations. See Note 19 to the Consolidated Financial Statements.

As provided by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions that the statements in this Annual Report on Form 10-K relating to matters that are not historical facts, including, but not limited to, statements found in this Item 1 - "Business," Item 3 - "Legal Proceedings," Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A - "Quantitative and Qualitative Disclosures About Market Risk," are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "should," "anticipates," "expected" or comparable terminology, or by discussions of strategies or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such forward-looking statements. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed in this Annual Report and those described from time to time in the Company's other filings with the Securities and Exchange Commission including, but not limited to, future supply and demand for the Company's products, the extent of the dependence of certain of the Company's businesses on certain market sectors (such as the dependence of TIMET's titanium metals business on the aerospace industry), the cyclicity of certain of the Company's businesses (such as NL's TiO₂ operations and TIMET's titanium metals operations), the impact of certain long-term contracts on certain of the Company's businesses (such as the impact of TIMET's long-term contracts with certain of its customers and such customers' performance thereunder and the impact of TIMET's long-term contracts with certain of its vendors on its ability to reduce or increase supply or achieve lower costs), customer inventory levels, the possibility of labor disruptions, general global economic conditions, competitive products and substitute products, customer and competitor strategies, the impact of pricing and production decisions, competitive technology positions, potential difficulties in integrating completed acquisitions (such as CompX's acquisitions of two slide producers in 1999 and its acquisition of a lock producer in January 2000), environmental matters (such as those requiring emission and discharge standards for existing and new facilities), government regulations and possible changes therein, the ultimate resolution of pending litigation (such as NL's lead pigment litigation and litigation surrounding environmental matters of NL, Tremont and TIMET) and possible future litigation. Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected. The Company disclaims any intention or obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise.

CHEMICALS - NL INDUSTRIES, INC.

General. NL Industries is an international producer and marketer of TiO₂ to customers in over 100 countries from facilities located throughout Europe and North America. NL's TiO₂ operations are conducted through its wholly-owned subsidiary, Kronos, Inc. Kronos is currently the world's fourth-largest TiO₂ producer, with an estimated 12% share of worldwide TiO₂ sales volumes in 1999. Approximately one-half of Kronos' 1999 sales volumes were

attributable to markets in Europe, where Kronos is the second-largest producer of TiO₂ with an estimated 18% share of European TiO₂ sales volumes. Kronos has an estimated 12% share of North American TiO₂ sales volumes. TiO₂ accounted for substantially all of NL's net sales in 1999.

Pricing within the global TiO₂ industry is cyclical, and changes in industry economic conditions, particularly supply/demand relationships, can significantly impact NL's earnings and operating cash flows. During the early 1990's, TiO₂ supply exceeded demand, primarily due to new chloride-process capacity coming on-stream, and prices were generally declining. Prices improved in the mid-1990's with a peak in the first half of 1995. Prices declined until the first quarter of 1997, when selling prices of TiO₂ began to increase as a result of increased demand. Prices peaked in the fourth quarter of 1998.

NL's average TiO₂ selling prices declined during the first three quarters of 1999. However, NL and other major producers began to implement certain TiO₂ price increases during the fourth quarter of 1999, and NL's average TiO₂ selling prices increased 1% in the fourth quarter of 1999 compared to the third quarter of 1999. Overall, NL's average selling prices in 1999 were 1% lower than 1998. Prices at the end of the fourth quarter of 1999 were 1% higher than the average for the quarter. Industry-wide demand for TiO₂ increased in 1999, with second-half 1999 demand higher than first-half 1999 demand as a result of, among other things, customers buying in advance of announced price increases. NL's 1999 sales volumes increased 5% from its 1998 sales volumes with growth in all major regions.

NL expects industry demand in 2000 will be relatively unchanged from 1999, depending primarily upon global economic conditions. NL is continuing to phase-in previously-announced price increases during the first quarter of 2000. In addition, NL recently announced a price increase in Europe that is expected to become effective at the beginning of the second quarter of 2000. Should demand in 2000 remain strong, NL expects additional price increases could be announced later in 2000. No assurance can be given that demand or price trends will conform to NL's expectations. NL's expectations as to the future prospects of the TiO₂ industry and prices are based on a number of factors beyond NL's control, including continued worldwide growth of gross domestic product, competition in the market place, unexpected or earlier-than-expected capacity additions, technological advancements and other market conditions. If actual developments differ from NL's expectations, NL and the TiO₂ industry's future performance could be unfavorably affected.

Products and operations. Titanium dioxide pigments are chemical products used for imparting whiteness, brightness and opacity to a wide range of products, including paints, paper, plastics, fibers and ceramics. TiO₂ is considered to be a "quality-of-life" product with demand affected by the gross domestic product in various regions of the world.

Per capita TiO₂ consumption 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. Significant regions for TiO₂ consumption could emerge in Eastern Europe, the Far East or China if the economies in these countries develop to the point that quality-of-life products, many of which utilize TiO₂, are in greater demand. Kronos believes that, due to its strong presence in Western Europe, it is well positioned to participate in potential growth in consumption of TiO₂ in Eastern Europe.

NL believes that there are no effective substitutes for TiO₂. However, extenders such as kaolin clays, calcium carbonate and polymeric opacifiers are used in a number of Kronos' markets. Generally, extenders are used to reduce to some extent, but not replace, the utilization of higher-cost TiO₂. The use of extenders has not significantly changed anticipated TiO₂ consumption over the past decade because, to date, extenders generally have failed to match the performance characteristics of TiO₂. As a result, NL believes that the use of extenders will not materially alter the growth of the TiO₂ business in the foreseeable future.

Kronos currently produces over 40 different TiO₂ grades, sold under the Kronos and Titanox trademarks, which provide a variety of performance properties to meet customers' specific requirements. Kronos' customers include domestic and international paint, paper and plastics manufacturers. Kronos and its distributors and agents sell and provide technical services for its products to over 4,000 customers with the majority of sales in Europe and North America.

Kronos and its predecessors have produced and marketed TiO₂ in North America and Europe for over 80 years. As a result, Kronos believes that it has

developed considerable expertise and efficiency in the manufacture, sale, shipment and service of its products in domestic and international markets. By volume, approximately one-half of Kronos' 1999 TiO₂ sales were to Europe, with 37% to North America and the balance to export markets. Kronos' international operations are conducted through Kronos International, Inc. ("KII"), a German-based holding company formed in 1989 to manage and coordinate NL's manufacturing operations in Europe and Canada and its sales and marketing activities in over 100 countries worldwide.

Kronos is also engaged in the mining and sale of ilmenite ore (a raw material used in the sulfate pigment production process described below), and Kronos has estimated ilmenite reserves that are expected to last at least 20 years. Kronos is also engaged in the manufacture and sale of iron-based water treatment chemicals (derived from co-products of the pigment production processes). Water treatment chemicals are used as treatment and conditioning agents for industrial effluents and municipal wastewater, and in the manufacture of iron pigments.

Manufacturing process, properties and raw materials. TiO₂ is manufactured by Kronos using both the chloride process and the sulfate process. Approximately two-thirds of Kronos' current production capacity is based on its chloride process, which generates less waste than the sulfate process. Although most end-use applications can use pigments produced by either process, chloride-process pigments are generally preferred in certain coatings and plastics applications, and sulfate-process pigments are generally preferred for certain paper, fibers and ceramics applications. 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 in the past few years, and worldwide chloride-process production facilities in 1999 represented almost 60% of industry capacity.

Kronos currently operates four TiO₂ facilities in Europe (Leverkusen and Nordenham, Germany; Langerbrugge, Belgium; and Fredrikstad, Norway). In North America, Kronos has a facility in Varennes, Quebec and, through a manufacturing joint venture discussed below, a one-half interest in a plant in Lake Charles, Louisiana. Kronos also owns a TiO₂ slurry facility in Louisiana and leases various corporate, administrative and sales offices in the U.S. and Europe.

Kronos' principal German operating subsidiary leases the land under its Leverkusen production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with about one-third of Kronos' current TiO₂ production capacity, is located within an extensive manufacturing complex owned by Bayer AG, and Kronos is the only unrelated party so situated. Under a separate supplies and services agreement expiring in 2011, Bayer provides some raw materials, auxiliary and operating materials and utilities services necessary to operate the Leverkusen facility. Both the lease and supplies and services agreement restrict Kronos' ability to transfer ownership or use of the Leverkusen facility. All of Kronos' principal production facilities are owned, except for the land under the Leverkusen facility. Kronos also has a governmental concession with an unlimited term to operate its ilmenite mine in Norway.

Kronos produced 411,000 metric tons of TiO₂ in 1999 compared to its record level of 434,000 metric tons produced in 1998 and 408,000 metric tons produced in 1997. Due primarily to NL's decision to manage inventory levels by curtailing production during the first quarter of 1999, Kronos' average production capacity utilization was approximately 93% in 1999 compared to full capacity utilization in 1998. Kronos believes its current annual attainable production capacity is currently approximately 440,000 metric tons, including the production capacity relating to its one-half interest in the Louisiana plant.

The primary raw materials used in the TiO₂ chloride production process are chlorine, coke and titanium-containing feedstock derived from beach sand ilmenite and natural rutile ore. Chlorine and coke are available from a number of suppliers. Titanium-containing feedstock suitable for use in the chloride process is available from a limited number of suppliers around the world, principally located in Australia, South Africa, Canada, India and the United States. Kronos purchases slag refined from beach sand ilmenite from Richards Bay Iron and Titanium (Proprietary) Ltd. (South Africa) under a long-term supply contract that expires at the end of 2003. Natural rutile ore, another chloride feedstock, is purchased primarily from Iluka Resources, Inc. (formerly RGC Mineral Sands Limited) under a long-term supply contract that expires at the end of 2000. NL does not expect to encounter difficulties obtaining long-term

extensions to existing supply contracts prior to the expiration of the contracts. Raw materials purchased under these contracts and extensions thereof are expected to meet Kronos' chloride feedstock requirements over the next several years.

The primary raw materials used in the TiO₂ sulfate production process are sulfuric acid and titanium-containing feedstock derived primarily from rock and beach sand ilmenite. Sulfuric acid is available from a number of suppliers. Titanium-containing feedstock suitable for use in the sulfate process is available from a limited number of suppliers around the world. Currently, the principal active sources are located in Norway, Canada, Australia, India and South Africa. As one of the few vertically-integrated producers of sulfate-process pigments, Kronos operates a Norwegian rock ilmenite mine which provided all of Kronos' feedstock for its European sulfate-process pigment plants in 1999. Kronos also purchases sulfate grade slag for its Canadian plant from Rio Tinto Iron and Titanium, Inc. (formerly Q.I.T. Fer et Titane Inc.) under a long-term supply contract which expires in 2002.

Kronos believes the availability of titanium-containing feedstock for both the chloride and sulfate processes is adequate for the next several years. NL does not expect to encounter difficulties or adverse financial consequences in obtaining long-term extensions to existing supply contracts prior to the expiration dates of the contracts. Kronos does not expect to experience any interruptions of its raw material supplies because of its long-term supply contracts. However, political and economic instability in certain countries where NL purchases its raw material supplies could adversely affect the availability of such feedstock.

TiO₂ manufacturing joint venture. Subsidiaries of Kronos and Huntsman ICI Holdings ("HICI") each own a 50%-interest in a manufacturing joint venture. The joint venture owns and operates a chloride-process TiO₂ plant in Lake Charles, Louisiana. Production from the plant is shared equally by Kronos and HICI pursuant to separate offtake agreements.

A supervisory committee, composed of four members, two of whom are appointed by each partner, directs the business and affairs of the joint venture, including production and output decisions. Two general managers, one appointed and compensated by each partner, manage the operations of the joint venture acting under the direction of the supervisory committee.

The manufacturing joint venture operates on a break-even basis, and accordingly Kronos' transfer price for its share of the TiO₂ produced is equal to its share of the joint venture's production costs and interest expense, if any. Kronos' share of the production costs are reported as part of cost of sales as the related TiO₂ acquired from the joint venture is sold, and Kronos' share of any joint venture interest expense is reported as a component of interest expense.

Competition. The TiO₂ industry is highly competitive. Kronos competes primarily on the basis of price, product quality and technical service, and the availability of high performance pigment grades. Although certain TiO₂ grades are considered specialty pigments, the majority of Kronos' grades and substantially all of Kronos' production are considered commodity pigments with price generally being the most significant competitive factor. During 1999, Kronos had an estimated 12% share of worldwide TiO₂ sales volumes, and Kronos believes that it is the leading seller of TiO₂ in a number of countries, including Germany and Canada.

Kronos' principal competitors are E.I. du Pont de Nemours & Co. ("DuPont"), Millennium Chemicals, Inc., HICI, Kerr-McGee Corporation, Kemira Oy, and Ishihara Sangyo Kaisha, Ltd. These six largest competitors have estimated individual worldwide shares of TiO₂ production capacity ranging from 5% to 23%, and an aggregate estimated 74% share of worldwide TiO₂ production volume. DuPont has about one-half of total U.S. TiO₂ production capacity and is Kronos' principal North American competitor.

In June 1999, Imperial Chemicals Industries plc ("ICI") sold its titanium dioxide business, including its 50%-ownership interest in the Louisiana TiO₂ manufacturing joint venture discussed above, to HICI, a newly formed company that is 70%-owned by Huntsman Corporation and 30%-owned by ICI. In February 2000, Kerr-McGee announced an agreement to acquire Kemira's TiO₂ business in The Netherlands and the U.S. If this acquisition is completed, Kronos would become the world's fifth-largest TiO₂ producer.

Worldwide capacity additions in the TiO₂ market resulting from

construction of greenfield plants require significant capital expenditures and substantial lead time (typically three to five years in NL's experience). No greenfield plants have been announced, but NL expects industry capacity to increase as Kronos and its competitors complete debottlenecking projects at existing facilities. Based on factors described above, NL expects that the average annual increase in industry capacity from announced debottlenecking projects will be less than the average annual demand growth for TiO₂ during the next three to five years.

Research and development. Kronos' annual expenditures for research and development and certain technical support programs have averaged approximately \$7 million during the past three years. TiO₂ research and development activities are conducted principally at KII's Leverkusen, Germany facility. Such activities are directed primarily towards improving both the chloride and sulfate production processes, improving product quality and strengthening Kronos' competitive position by developing new pigment applications.

Patents and trademarks. Patents held for products and production processes are believed to be important to NL and to the continuing business activities of Kronos. NL continually seeks patent protection for its technical developments, principally in the United States, Canada and Europe, and from time to time enters into licensing arrangements with third parties. NL's major trademarks, including Kronos and Titanox, are protected by registration in the United States and elsewhere with respect to those products it manufactures and sells.

Customer base and seasonality. NL believes that neither its aggregate sales nor those of any of its principal product groups are concentrated in or materially dependent upon any single customer or small group of customers. Neither NL's business as a whole nor that of any of its principal product groups is seasonal to any significant extent. Due in part to the increase in paint production in the spring to meet spring and summer painting season demand, TiO₂ sales are generally higher in the second and third calendar quarters than in the first and fourth calendar quarters.

Employees. As of December 31, 1999, NL employed approximately 2,500 persons (excluding employees of the Louisiana joint venture), with 100 employees in the United States and 2,400 at non-U.S. sites. Hourly employees in production facilities worldwide, including the TiO₂ joint venture, are represented by a variety of labor unions, with labor agreements having various expiration dates. NL believes its labor relations are good.

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

NL's U.S. manufacturing operations (conducted principally through its TiO₂ joint venture) are governed by federal environmental and worker health and safety laws and regulations, principally the Resource Conservation and Recovery Act, the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act, the Safe Drinking Water Act, the Toxic Substances Control Act, and the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA"), as well as the state counterparts of these statutes. NL believes that the Louisiana TiO₂ plant owned and operated by the joint venture is in substantial compliance with applicable requirements of these laws or compliance orders issued thereunder. From time to time, NL facilities may be subject to environmental regulatory enforcement under such statutes. Resolution of such matters typically involves the establishment of compliance programs. Occasionally, resolution may result in the payment of penalties, but to date such penalties have not involved amounts having a material adverse effect on NL's consolidated financial position, results of operations or liquidity.

NL's European and Canadian production facilities operate in an

environmental regulatory framework in which governmental authorities typically are granted broad discretionary powers which allow them to issue operating permits required for the plants to operate. NL believes all of its European and Canadian plants are in substantial compliance with applicable environmental laws.

While the laws regulating operations of industrial facilities in Europe vary from country to country, a common regulatory denominator is provided by the European Union ("EU"). Germany and Belgium, each members of the EU, follow the initiatives of the EU; Norway, although not a member, generally patterns its environmental regulatory actions after the EU. Kronos believes it is in substantial compliance with agreements reached with European environmental authorities and with an EU directive to control the effluents produced by TiO2 production facilities.

NL has a contract with a third party to treat certain German sulfate-process effluents. Either party may terminate the contract after giving four years notice with regard to the Nordenham plant. Under certain circumstances, Kronos may terminate the contract after giving six months notice with respect to treatment of effluents from the Leverkusen plant.

In order to reduce sulfur dioxide emissions into the atmosphere consistent with applicable environmental regulations, Kronos completed the installation of off-gas desulfurization systems in 1997 at its Norwegian and German plants at a cost of \$30 million. Kronos expects to complete an \$8 million landfill expansion in 2000 for its Belgian plant which will provide the plant with twenty years of storage space for neutralized chloride process solids.

NL's capital expenditures related to its ongoing environmental protection and compliance programs are currently expected to approximate \$7 million in 2000 and \$11 million in 2001.

NL has been named as a defendant, potentially responsible party ("PRP") or both, pursuant to CERCLA and similar state laws in approximately 75 governmental and private actions associated with waste disposal sites, mining locations and facilities currently or previously owned, operated or used by NL, certain of which are on the U.S. Environmental Protection Agency's Superfund National Priorities List or similar state lists. See Item 3 - "Legal Proceedings."

COMPONENT PRODUCTS - COMPX INTERNATIONAL INC.

General. CompX is a leading manufacturer of ergonomic computer support systems, precision ball bearing slides and security products (cabinet locks and other locking mechanisms) for office furniture, computer related applications and a variety of other applications. CompX's products are principally designed for use in medium- to high-end applications, where product design, quality and durability are critical to CompX's customers. CompX believes that it is among the world's largest producers of ergonomic computer support systems for office furniture manufacturers, precision ball bearing slides and security products. In 1999, precision ball bearing slides, ergonomic computer support systems and security products accounted for approximately 48%, 19% and 33% of net sales, respectively.

In 1998, CompX acquired two lock producers. In 1999, CompX acquired two slide producers. In January 2000, CompX acquired another lock producer. See Note 3 to the Consolidated Financial Statements and "Management's Discussions and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources." These acquisitions have expanded CompX's product lines and customer base.

Products, product design and development. CompX's ergonomic computer support systems and precision ball bearing slides are sold under the Waterloo Furniture Components Limited, Thomas Regout and Dynaslide brand names, and its security products are sold under the National Cabinet Lock, Fort Lock, Timberline Lock and Chicago Lock brand names. CompX believes that its brand names are well recognized in the industry.

Ergonomic computer support systems include adjustable computer keyboard support arms, designed to attach to office desks in the workplace and home office environments to alleviate possible strains and stress and maximize usable workspace, adjustable computer table mechanisms which provide variable workspace heights, CPU storage devices which minimize adverse effects of dust and moisture and a number of complementary accessories, including ergonomic wrist rest aids, mouse pad supports and computer monitor support arms. These products include

CompX's Leverlock ergonomic keyboard arm, which is designed to make the adjustment of the keyboard arm easier for all (including physically-challenged) users, the Lift-n-Lock mechanism that allows adjustment of the keyboard arm without the use of levers or knobs and Monitor Master for the adjustment of heavy monitors to reduce eye strain. In 1999, CompX began a program in which it will use its engineering and design capabilities to design and manufacture ergonomic products on a proprietary basis for key customers.

Precision ball bearing slides are used in such applications as file cabinets, desk drawers, tool storage cabinets, electromechanical imaging equipment and computer network server cabinets. These products include CompX's Integrated Slide Lock in which a file cabinet manufacturer can reduce the possibility of multiple drawers being opened at the same time, and the adjustable Ball Lock which reduces the risk of heavily-filled drawers, such as auto mechanic tool boxes, from opening while in movement.

Security products, or locking mechanisms, are used in applications such as vending machines, computers, gaming machines, ignition systems, motorcycle storage compartments, hotel room safes, parking meters, electrical circuit panels and transportation equipment as well as office and institutional furniture. These include CompX's KeSet high security system, which has the ability to change the keying on a single lock 64 times without removing the lock from its enclosure.

Sales, marketing and distribution. CompX sells components to original equipment manufacturers ("OEMs") and to distributors through a specialized sales force. The majority of CompX's sales is to OEMs, while the balance represents standardized products sold through distribution channels.

Sales to large OEM customers are made through the efforts of factory-based sales and marketing professionals and engineers working in concert with salaried field salespeople and independent manufacturer's representatives. Manufacturers' representatives are selected based on special skills in certain markets or with current or potential customers.

A significant portion of CompX's sales are made through distributors. CompX has a significant market share of cabinet lock sales to the locksmith distribution channel. CompX supports its distributor sales with a line of standardized products used by the largest segments of the marketplace. These products are packaged and merchandised for easy availability and handling by distributors and the end user. Based on CompX's successful STOCK LOCKS inventory program, similar programs have been implemented for distributor sales of ergonomic computer support systems and to some extent precision ball bearing slides.

To afford a competitive advantage to CompX as well as to customers, sales of ergonomic computer support systems and precision ball bearing slide products in North America are delivered from CompX's Canadian facilities primarily by means of a company-owned tractor/trailer fleet. This satellite-monitored fleet improves the timely and economic delivery of products to customers. Another important economic advantage to CompX's customers of an in-house trucking fleet is that it allows the shipment of many products in returnable metal baskets (in lieu of corrugated paper cartons), which avoids both the environmental and economic burden of disposal.

CompX does not believe it is dependent upon one or a few customers, the loss of which would have a material adverse effect on its component products operations. In 1997 and 1999, the ten largest customers accounted for about 30% of component products sales with the largest customer less than 10% in each year. In 1998, the ten largest customers accounted for 40% of CompX's sales with one customer, Hon Industries Inc., accounting for approximately 10% of sales.

Manufacturing and operations. At December 31, 1999, CompX operated six manufacturing facilities in North America (two in each of Ontario, Canada and Illinois and one in each of South Carolina and Michigan), one facility in The Netherlands and two facilities in Taiwan. Ergonomic products or precision ball bearing slides are manufactured in the facilities located in Canada, The Netherlands, Michigan and Taiwan and security products are manufactured in the facilities located in South Carolina and Illinois. All of such facilities are owned by CompX except one of the facilities in Taiwan, which is leased. CompX also leases a distribution center in California. The lock producer acquired in January 2000 operates out of a leased facility in Wisconsin. CompX believes that all its facilities are well maintained and satisfactory for their intended purposes.

Raw materials. Coiled steel is the major raw material used in the manufacture of precision ball bearing slides and ergonomic computer support systems. Plastic resins for injection molded plastics are also an integral material for ergonomic computer support systems. Purchased components, including zinc castings, are the principal raw materials used in the manufacture of security products. These raw materials are purchased from several suppliers and readily available from numerous sources.

CompX occasionally enters into raw material arrangements to mitigate the short-term impact of future increases in raw material costs. While these arrangements do not commit CompX to a minimum volume of purchases, they generally provide for stated unit prices based upon achievement of specified volume purchase levels. This allows CompX to stabilize raw material purchase prices provided the specified minimum monthly purchase quantities are met. Materials purchased on the spot market are sometimes subject to unanticipated and sudden price increases. Due to the competitive nature of the markets served by CompX's products, it is often difficult to recover such increases in raw material costs through increased product selling prices, and consequently overall operating margins can be affected by such raw material cost pressures.

Competition and customer base. The office furniture and security products markets are highly competitive. CompX competes primarily on the basis of product design, including ergonomic and aesthetic factors, product quality and durability, price, on-time delivery and service and technical support. CompX focuses its efforts on the middle- and high-end segments of the market, where product design, quality, durability and service are placed at a premium.

Ergonomic computer support systems and precision ball bearing slides are sold primarily to the office furniture manufacturing industry. Approximately 15% of security product sales are made through CompX's STOCK LOCKS distribution program, in which shipments to customers are generally made within 24 hours. Most remaining security products are made through OEMs.

CompX competes in the ergonomic computer support system market with one major producer and a number of smaller manufacturers that compete primarily on the basis of product quality, features and price. CompX competes in the precision ball bearing slide market with two large manufacturers and a number of smaller manufacturers that compete primarily on the basis of product quality and price. CompX competes in the security products market with a variety of relatively small competitors, which makes significant price increases difficult. Although CompX believes that it has been able to compete successfully in its markets to date, there can be no assurance that it will be able to continue to do so in the future.

Patents and trademarks. CompX holds a number of patents relating to its component products, certain of which are believed by CompX to be important, and owns a number of trademarks and brand names, including National Cabinet Lock, Fort Lock, Timberline Lock, Chicago Lock, Thomas Regout, Tubar, STOCK LOCKS, ShipFast, Waterloo Furniture Components Limited and Dynaslide. CompX believes these trademarks are well recognized in the component products industry.

Regulatory and environmental matters. CompX's operations are subject to federal, state, local and foreign laws and regulations relating to the use, storage, handling, generation, transportation, treatment, emission, discharge, disposal and remediation of, and exposure to, hazardous and non-hazardous substances, materials and wastes. CompX believes that it is in substantial compliance with all such laws and regulations. The costs of maintaining compliance with such laws and regulations have not significantly impacted CompX to date, and CompX has no significant planned costs or expenses relating to such matters. There can be no assurance, however, that compliance with such future laws and regulations will not require CompX to incur significant additional expenditures, or that such additional costs would not have a material adverse effect on CompX's consolidated financial condition, results of operations or liquidity.

Employees. As of December 31, 1999, CompX employed approximately 2,145 employees, including 700 in the United States, 890 in Canada, 385 in The Netherlands and 130 in Taiwan. Approximately 85% of CompX's employees in Canada are covered by a collective bargaining agreement which expired in January 2000 and is currently being renegotiated. The provisions of the expired agreement are being maintained during the negotiation period for a new agreement. The lock operations acquired in January 2000 employed approximately 240 individuals at the date of acquisition. Substantially all of the 170 hourly employees of such operation are covered by a collective bargaining agreement expiring in October 2000. CompX believes that its labor relations are satisfactory.

WASTE MANAGEMENT - WASTE CONTROL SPECIALISTS LLC

General. Waste Control Specialists LLC, formed in 1995, completed construction in early 1997 of the initial phase of its facility in West Texas for the processing, treatment, storage and disposal of certain hazardous and toxic wastes, and the first of such wastes were received for disposal in February 1997. Subsequently, Waste Control Specialists has expanded its permitting authorizations to include the processing, treatment and storage of low-level and mixed radioactive wastes and the disposal of certain types of such radioactive wastes. To date, Valhi has contributed \$55 million to Waste Control Specialists' equity in return for its 69% membership interest, which cash capital contributions were used primarily to fund construction of the facility and fund Waste Control Specialists' operating losses. The other owner contributed certain assets, primarily land and operating permits for the facility site, and Waste Control Specialists also assumed certain indebtedness of the other owner.

Facility, operations, services and customers. Waste Control Specialists has been issued permits by the Texas Natural Resource Conservation Commission ("TNRCC") and the U.S. EPA to accept hazardous and toxic wastes governed by the Resource Conservation and Recovery Act ("RCRA") and the Toxic Substances Control Act ("TSCA"). The ten-year RCRA and TSCA permits initially expire in 2004, but are subject to renewal by the TNRCC assuming Waste Control Specialists remains in compliance with the provisions of the permits. While there can be no assurance, Waste Control Specialists believes it will be able to obtain extensions to continue operating the facility for the foreseeable future.

In November 1997, the Texas Department of Health ("TDH") issued a license to Waste Control Specialists for the treatment and storage, but not disposal, of low-level and mixed radioactive wastes. The current provisions of this license generally enable Waste Control Specialists to accept such wastes for treatment and storage from U.S. commercial and federal facility generators, including the Department of Energy ("DOE") and other governmental agencies. Waste Control Specialists accepted the first shipments of such wastes in February 1998. Waste Control Specialists has also been issued a permit by the TNRCC to establish a research, development and demonstration facility in which third parties could use the facility to develop and demonstrate new technologies in the waste management industry, including possibly those involving low-level and mixed radioactive wastes. Waste Control Specialists has also obtained additional authority that allows Waste Control Specialists to dispose of certain categories of low-level radioactive materials, including naturally-occurring radioactive material ("NORM") and exempt-level materials (radioactive materials that do not exceed certain specified radioactive concentrations and which are exempt from licensing). Although there are other categories of low-level and mixed radioactive wastes which continue to be ineligible for disposal under the increased authority, Waste Control Specialists will continue to pursue additional regulatory authorizations to expand its treatment and disposal capabilities for low-level and mixed radioactive wastes. There can be no assurance that any such additional permits or authorizations will be obtained.

The facility is located on a 1,338-acre site in West Texas owned by Waste Control Specialists. The 1,338 acres are permitted for 11.3 million cubic yards of airspace landfill capacity for the disposal of RCRA and TSCA wastes. Following the initial phase of the construction, Waste Control Specialists had approximately 400,000 cubic yards of airspace landfill capacity in which customers' wastes can be disposed. Waste Control Specialists expects to begin construction during 2000 for the next 240,000 cubic yards of capacity. As part of its current permits, Waste Control Specialists has the authorization to construct separate "condominium" landfills, in which each condominium cell is dedicated to an individual customer's waste materials. Waste Control Specialists owns approximately 15,000 additional acres of land surrounding the permitted site, a small portion of which is located in New Mexico. This presently undeveloped additional acreage is available for future expansion assuming appropriate permits could be obtained.

The 1,338-acre site has, in Waste Control Specialists' opinion, superior geological characteristics which make it an environmentally-desirable location. The site is located in a relatively remote and arid section of West Texas. The ground is composed of triassic red bed clay for which the possibility of leakage into any underground water table is considered highly remote.

While the West Texas facility operates as a final repository for wastes that cannot be further reclaimed and recycled, it also serves as a staging and processing location for material that requires other forms of treatment prior to

final disposal as mandated by the U.S. EPA or other regulatory bodies. The facility, as constructed, provides for waste treatment/stabilization, warehouse storage, treatment facilities for hazardous, toxic and dioxin wastes, drum to bulk, and bulk to drum materials handling and repackaging capabilities. Waste Control Specialists' policy is to conduct these operations in compliance with its current permits. Treatment operations involve processing wastes through one or more thermal, chemical or other treatment methods, depending upon the particular waste being disposed and regulatory and customer requirements. Thermal treatment uses a thermal destruction technology as the primary mechanism for waste destruction. Physical treatment methods include distillation, evaporation and separation, all of which result in the separation or removal of solid materials from liquids. Chemical treatment uses chemical oxidation and reduction, chemical precipitation of heavy metals, hydrolysis and neutralization of acid and alkaline wastes, and basically results in the transformation of wastes into inert materials through one or more chemical processes. Certain of such treatment processes may involve technology which Waste Control Specialists may acquire, license or subcontract from third parties.

Once treated and stabilized, wastes are either (i) placed in the landfill disposal site, (ii) stored onsite in drums or other specialized containers or (iii) shipped to third-party facilities for further treatment or final disposition. Only wastes which meet certain specified regulatory requirements can be disposed of by placing them in the landfill, which is fully-lined and includes a leachate collection system.

Waste Control Specialists takes delivery of wastes collected from customers and transported on behalf of customers, via rail or highway, by independent contractors to the West Texas site. Such transportation is subject to regulations governing the transportation of hazardous wastes issued by the U.S. Department of Transportation.

In the U.S., the major federal statutes governing management, and responsibility for clean-up, of hazardous and toxic wastes include RCRA, TSCA and CERCLA. Waste Control Specialists' business is heavily dependent upon the extent to which regulations promulgated under these or other similar statutes and their enforcement require wastes to be managed and disposed of at facilities of the type constructed by Waste Control Specialists.

Waste Control Specialists' target customers are industrial companies, including chemical, aerospace and electronics businesses and governmental agencies, including the DOE, which generate hazardous and other wastes. A majority of the customers are expected to be located in the southwest United States, although customers outside a 500-mile radius can be handled via rail lines. Waste Control Specialists employs a salesforce to market its services to potential customers.

Competition. The hazardous waste industry (other than low-level and mixed radioactive waste) currently has excess industry capacity caused by a number of factors, including a relative decline in the number of environmental remediation projects generating hazardous wastes and efforts on the part of generators to reduce the volume of waste and/or manage it onsite at their facilities. These factors have led to reduced demand and increased price pressure for non-radioactive hazardous waste management services. While Waste Control Specialists believes its broad range of permits for the treatment and storage of low-level and mixed radioactive waste streams provides certain competitive advantages, a key element of Waste Control Specialists' long-term strategy to provide "one-stop shopping" for hazardous, low-level and mixed radioactive wastes includes obtaining additional regulatory authorizations for the disposal of a broad range of low-level and mixed radioactive wastes.

Competition within the hazardous waste industry is diverse. Competition is based primarily on pricing and customer service. Price competition is expected to be intense with respect to RCRA and TSCA-related wastes. Principal competitors are Waste Management, Inc., Safety-Kleen Corp., American Ecology Corporation, U.S. Pollution Control, Inc. and Envirosafe Services, Inc. These competitors are well established and have significantly greater resources than Waste Control Specialists, which could be important competitive factors. However, Waste Control Specialists believes it may have certain competitive advantages, including its environmentally-desirable location, broad level of local community support, a public transportation network leading to the facility and capability for future site expansion.

Employees. At December 31, 1999, Waste Control Specialists employed approximately 120 persons.

Regulatory and environmental matters. While the waste management industry has benefited from increased governmental regulation, the industry itself has become subject to extensive and evolving regulation by federal, state and local authorities. The regulatory process requires businesses in the waste management industry to obtain and retain numerous operating permits covering various aspects of their operations, any of which could be subject to revocation, modification or denial. Regulations also allow public participation in the permitting process. Individuals as well as companies may oppose the grant of permits. In addition, governmental policies are by their nature subject to change and the exercise of broad discretion by regulators, and it is possible that Waste Control Specialists' ability to obtain any desired applicable permits on a timely basis, and to retain those permits, could in the future be impaired. The loss of any individual permit could have a significant impact on Waste Control Specialists' financial condition, results of operations and liquidity, especially because Waste Control Specialists owns only one disposal site. For example, adverse decisions by governmental authorities on permit applications submitted by Waste Control Specialists could result in the abandonment of projects, premature closing of the facility or operating restrictions. Waste Control Specialists' ten-year RCRA and TSCA permits expire in 2004, although such permits are subject to renewal if Waste Control Specialists is in compliance with the required operating provisions of the permits.

Federal, state and local authorities have, from time to time, proposed or adopted other types of laws and regulations with respect to the waste management industry, including laws and regulations restricting or banning the interstate or intrastate shipment of certain wastes, imposing higher taxes on out-of-state waste shipments compared to in-state shipments, reclassifying certain categories of hazardous wastes as non-hazardous and regulating disposal facilities as public utilities. Certain states have issued regulations which attempt to prevent waste generated within that particular state from being sent to disposal sites outside that state. The U.S. Congress has also, from time to time, considered legislation which would enable or facilitate such bans, restrictions, taxes and regulations. Due to the complex nature of the waste management industry regulation, implementation of existing or future laws and regulations by different levels of government could be inconsistent and difficult to foresee. Waste Control Specialists will attempt to monitor and anticipate regulatory, political and legal developments which affect the waste management industry, but there can be no assurance that Waste Control Specialists will be able to do so. Nor can Waste Control Specialists predict the extent to which legislation or regulations that may be enacted, or any failure of legislation or regulations to be enacted, may affect its operations in the future.

The demand for certain hazardous waste services expected to be provided by Waste Control Specialists is dependent in large part upon the existence and enforcement of federal, state and local environmental laws and regulations governing the discharge of hazardous wastes into the environment. The waste management industry would be adversely affected to the extent such laws or regulations are amended or repealed or their enforcement is lessened.

Because of the high degree of public awareness of environmental issues, companies in the waste management business may be, in the normal course of their business, subject to judicial and administrative proceedings. Governmental agencies may seek to impose fines or revoke, deny renewal of, or modify any applicable operating permits or licenses. In addition, private parties and special interest groups could bring actions against Waste Control Specialists alleging, among other things, violation of operating permits.

TITANIUM METALS - TITANIUM METALS CORPORATION

General. Titanium Metals Corporation ("TIMET") is one of the world's leading integrated producers of titanium sponge, ingot, slab and mill products and has the largest sales volumes worldwide. TIMET is the only integrated producer with major manufacturing facilities in both the United States and Europe, the world's principal markets for titanium. TIMET estimates that in 1999 it accounted for approximately 24% of worldwide industry shipments of mill products and approximately 13% of worldwide sponge production.

Titanium was first manufactured for commercial use in the 1950s. Titanium's unique combination of corrosion resistance, elevated-temperature performance and high strength-to-weight ratio makes it particularly desirable for use in commercial and military aerospace applications in which these qualities are essential design requirements for certain critical parts such as wing supports and jet engine components. While aerospace applications have historically accounted for a substantial portion of the worldwide demand for

titanium and were approximately 40% of industry mill product shipments in 1999, the number of non-aerospace end-use markets for titanium has expanded. Today, numerous industrial uses for titanium exist, including chemical and industrial power plants, desalination plants, pollution control equipment, medical implants, sporting equipment, offshore oil and gas production installations, geothermal facilities, military armor, automotive and architectural uses. Several of these emerging applications represent potential growth opportunities that TIMET believes may reduce the industry's historical dependence on the aerospace market.

Recent industry conditions. The titanium industry historically has derived the majority of its business from the aerospace industry. The cyclical nature of the aerospace industry has been the principal cause of the historical fluctuations in performance of titanium companies, which had cyclical peaks in mill products shipments in 1980, 1989 and 1997 and cyclical lows in 1983 and 1991. During 1996 to 1998, TIMET reported aggregate net income of \$176 million, which substantially more than offset the aggregate net losses of \$93 million TIMET reported during the 1991 to 1995 period. TIMET reported a net loss of \$31 million in 1999. TIMET's outlook for 2000 remains weak, and TIMET expects to report a net loss in 2000 greater than its 1999 net loss. TIMET currently expects to return to profitability in late 2001.

Demand for titanium reached a peak in 1997 when worldwide industry mill product shipments aggregated 60,000 metric tons. Since this peak, industry mill product shipments declined 10% in 1998 to approximately 54,000 metric tons, and further declined 11% in 1999 to approximately 48,000 metric tons. Industry mill product shipment volumes are expected to be lower in 2000 compared to 1999, although the rate of decline is not expected to be as high as the rates of decline experienced during each of the past two years. TIMET believes that the reduction in demand for aerospace products is attributable to a decline in the number of commercial aircraft forecast to be produced, particularly in titanium-intensive wide body planes, compounded by reductions in customer inventory levels throughout the aerospace industry supply chain as customers adjust to decreases in overall production rates. Industrial demand for titanium has also declined due to weakness in Asian and other economies.

Aerospace demand for titanium products, which includes both jet engine components such as rotor blades, discs, rings and engine cases, and air frame components, such as bulkheads, tail sections, landing gear and wing supports, can be broken down into commercial and military sectors. Industry shipments to the commercial aerospace sector in 1999 accounted for approximately 85% of total aerospace demand (35% of total titanium demand).

TIMET believes commercial aircraft deliveries peaked in 1999. Current expected deliveries for 2000 and 2001, while below the record levels of 1998 and 1999, are still high by historical standards, and the current generations of airplanes use substantially more titanium than its predecessors. The demand for titanium generally precedes aircraft deliveries by about a year, which results in TIMET's cycle preceding the cycle of the aircraft industry and related deliveries. TIMET can give no assurance as to the extent or duration of the current commercial aerospace cycle or the extent to which it will result in demand for titanium.

Products and operations. TIMET products include: (i) titanium sponge, the basic form of titanium metal used in processed titanium products, (ii) titanium ingot and slab, the result of melting sponge and titanium scrap, either alone or with various other alloying elements and (iii) forged and rolled products produced from ingot or slab, including billet, bar, flat products (plate, sheet, and strip), welded pipe, pipe fittings, extrusions and wire.

Titanium sponge (so called because of its appearance) is the commercially pure, elemental form of titanium metal. The first step in sponge production involves the chlorination of titanium-containing rutile ores, derived from beach sand, with chlorine and coke to produce titanium tetrachloride. Titanium tetrachloride is purified and then reacted with magnesium in a closed system, producing titanium sponge and magnesium chloride as co-products. TIMET's titanium sponge production capacity in Nevada incorporates vacuum distillation process ("VDP") technology, which removes the magnesium and magnesium chloride residues by applying heat to the sponge mass while maintaining vacuum in the chamber. The combination of heat and vacuum boils the residues from the reactor mass into the condensing vessel. The titanium mass is then mechanically pushed out of the original reactor, sheared and crushed, while the residual magnesium chloride is electrolytically separated and recycled.

Titanium ingots and slabs are solid shapes (cylindrical and

rectangular, respectively) that weigh up to 8 metric tons in the case of ingots and up to 16 metric tons in the case of slabs. Each is formed by melting titanium sponge or scrap or both, usually with various other alloying elements such as vanadium, aluminum, molybdenum, tin and zirconium. Titanium scrap is a by-product of the forging, rolling, milling and machining operations, and significant quantities of scrap are generated in the production process for most finished titanium products. The melting process for ingots and slabs is closely controlled and monitored utilizing computer control systems to maintain product quality and consistency and meet customer specifications. Ingots and slabs are both sold to customers and further processed into mill products.

Titanium mill products result from the forging, rolling, drawing, welding and/or extrusion of titanium ingots or slabs into products of various sizes and grades. These mill products include titanium billet, bar, rod, plate, sheet, strip, welded pipe, pipe fittings, extrusions and wire. TIMET sends certain products to outside vendors for further processing before being shipped to customers or to TIMET's service centers. TIMET's customers usually process TIMET's products for their ultimate end-use or for sale to third parties.

During the production process and following the completion of products, TIMET performs extensive testing on its products, including sponge, ingot and mill products. Testing may involve chemical analysis, mechanical testing and ultrasonic and x-ray testing. The inspection process is critical to ensuring that TIMET's products meet the high quality requirements of customers, particularly in aerospace components production.

TIMET is dependent upon the services of outside processors to perform important processing functions with respect to certain of its products. In particular, TIMET currently relies upon a single processor to perform certain rolling steps with respect to some of its plate, sheet and strip products. Although TIMET believes that there are other metal producers with the capability to perform these same processing functions, arranging for alternative processors, or possibly acquiring or installing comparable capabilities, could take several months and any interruption in these functions could have a material and adverse effect on TIMET's business, results of operations, financial condition and cash flows in the short term. TIMET is exploring ways to lessen its dependence on any individual processor.

Raw materials. The principal raw materials used in the production of titanium mill products are titanium sponge, titanium scrap and alloying materials. TIMET processes rutile ore into titanium tetrachloride and further processes the titanium tetrachloride into titanium sponge.

While TIMET is one of six major worldwide producers of titanium sponge, it cannot supply all of its needs for all grades of titanium sponge internally and is dependent, therefore, on third parties for a portion of its sponge needs. During 1999, approximately 25% of TIMET's production was made from sponge internally produced by TIMET, 35% was from purchased sponge, 32% was from titanium scrap and the remainder from alloying elements. Based on TIMET's evaluation of the relative cost of raw materials and the technical requirements of TIMET's customers, TIMET expects the mix of raw materials in 2000 will generally be consistent with its 1999 raw material mix. TIMET expects to receive all of its 2000 purchased sponge needs from suppliers in Japan and Kazakhstan.

TIMET has entered into agreements with certain key suppliers that were intended to assure anticipated raw material needs to satisfy production requirements for TIMET's key customers. Primarily because of the lack of orders from Boeing discussed below, the order flow did not meet expectations in 1999, and TIMET restructured the terms of certain agreements. For example, in 1997, TIMET entered into a ten-year agreement for the purchase of titanium sponge produced in Kazakhstan to support demand for both aerospace and non-aerospace applications. This sponge purchase agreement provides for firm pricing for the first five years (subject to certain possible adjustments). This contract provides for annual purchases by TIMET of 6,000 to 10,000 metric tons. The parties agreed to a reduced minimum for 1999 and 2000. Due to a decrease in demand for titanium, TIMET has abandoned its plans to purchase on a long-term basis premium quality sponge in Japan.

The primary raw materials used in the production of titanium sponge are titanium-containing rutile ore, chlorine, magnesium and petroleum coke. Titanium-containing rutile ore is currently available from a number of suppliers around the world, principally located in Australia, Africa (South Africa and Sierra Leone), India and the United States. A majority of TIMET's supply of rutile ore is currently purchased from Australian suppliers. TIMET believes the availability of rutile ore will be adequate for the foreseeable future and does

not anticipate any interruptions of its raw material supplies, although political or economic instability in the countries from which TIMET purchases its raw materials could materially and adversely affect availability. In addition, although TIMET believes that the availability of rutile ore is adequate in the near-term, there can be no assurance that TIMET will not experience interruptions. Chlorine is currently obtained from a single source near TIMET's Nevada plant, but alternative suppliers are available. Magnesium and petroleum coke are generally available from a number of suppliers. Various alloying elements used in the production of titanium ingot are available from a number of suppliers.

Properties. TIMET currently has manufacturing facilities in the United States in Nevada, Ohio, Pennsylvania and California, and also has two facilities in the United Kingdom and one facility in France. Titanium sponge is produced at the Nevada facility while ingot, slab and mill products are produced at the other facilities. TIMET also maintains ten service centers (six in the United States and four in Europe), which sell TIMET's products on a just-in-time basis. The facilities in Nevada, Ohio and Pennsylvania, and one of the U.K. facilities, are owned, and the remainder of the facilities are leased.

In addition to its U.S. sponge capacity discussed below, TIMET's 2000 worldwide melting capacity aggregates approximately 48,000 metric tons (estimated 26% of world capacity), and its mill products capacity aggregates approximately 20,000 metric tons (estimated 16% of world capacity). Approximately 35% of TIMET's worldwide melting capacity is represented by electron beam cold hearth melting furnaces, 62% by vacuum arc remelting ("VAR") furnaces and 3% by a vacuum induction melting furnace.

TIMET has operated its major production facilities at varying levels of practical capacity during the past three years. In 1997, TIMET's plants operated at 90% of practical capacity, decreasing to 80% in 1998 and 55% in 1999. In 2000, TIMET's plants are expected to operate at about 50% of practical capacity. During 1998 and 1999, TIMET closed or idled certain facilities in response to changing market conditions.

TIMET's VDP sponge facility is expected to operate at approximately 60% of its annual practical capacity of 9,100 metric tons during 2000, which approximates the 1999 level of utilization and is down from 85% utilization in 1998. VDP sponge is used principally as a raw material for TIMET's ingot melting facilities in the U.S., with some VDP production used in Europe. TIMET expects the consumption of VDP sponge in its European operations to increase to one-third of their sponge requirements in 2000, which is expected to assist the Nevada facility in maintaining operating volumes and manufacturing cost rates. Due to changing market conditions for certain grades of sponge, TIMET temporarily idled its older Kroll-leach process sponge plant in Nevada at the end of March 1999. The raw materials processing facilities in Pennsylvania primarily process scrap used as melting feedstock, either in combination with sponge or separately.

TIMET's U.S. melting facilities produce ingots and slabs both sold to customers and used as feedstock for its mill products operations. These melting facilities are expected to operate at approximately 50% of aggregate capacity in 2000, with certain production facilities temporarily idled.

Titanium mill products are principally produced at a forging and rolling facility in Ohio, which receives titanium ingots and slabs from TIMET's U.S. melting facilities. These facilities are expected to operate at 55% of practical capacity in 2000.

One of TIMET's facilities in the United Kingdom produces VAR ingots which are both sold to customers and used as raw material feedstock at the same facility. The forging operation at this facility principally processes the ingots into billet product for sale to customers and for further processing into bar and plate at TIMET's other facility in the United Kingdom. TIMET's United Kingdom melting and mill products production in 2000 is expected to be approximately 60% and 55%, respectively, of practical capacity.

Sponge for melting requirements in both the United Kingdom and France is purchased principally from suppliers in Japan and Kazakhstan, with one-third of 2000 European requirements expected to be provided by TIMET's Nevada VDP plant.

Distribution, market and customer base. TIMET sells its products through its own sales force based in the U.S. and Europe, and through independent agents worldwide. TIMET's marketing and distribution system also

includes the ten TIMET-owned service centers. TIMET believes that it has a competitive sales and cost advantage arising from the location of its production plants and service centers, which are in close proximity to major customers. These centers primarily sell value-added and customized mill products including bar and flat-rolled sheet and strip. TIMET believes its service centers give it a competitive advantage because of their ability to foster customer relationships, customize products to suit specific customer requirements and respond quickly to customer needs.

About 50% of TIMET's 1999 sales were to customers within North America, with about 42% to European customers and the balance to other regions. No single customer represents more than 10% of TIMET's direct sales. However, in 1999, about 85% of TIMET's mill product shipment sales were used by TIMET's customers to produce parts and other materials for the aerospace industry. TIMET expects that a majority of its 2000 sales will be to the aerospace sector.

The aerospace industry consists of two major manufacturers of large (over 100 seats) commercial aircraft (Boeing Commercial Airplane Group and the Airbus consortium) and four major manufacturers of aircraft engines (Rolls-Royce, Pratt & Whitney (a United Technology Company), General Electric and SNECMA). TIMET's sales are made both directly to these major manufacturers and to companies (including forgers such as Wyman-Gordon) that use TIMET's titanium to produce parts and other materials for such manufacturers. If any of the major aerospace manufacturers were to significantly reduce build rates from those currently expected, there could be a material adverse effect, both directly and indirectly, on TIMET.

TIMET has long-term agreements with certain major aerospace customers, including Boeing, Rolls-Royce, United Technologies Corporation (and related companies) and Wyman-Gordon Company. These agreements are intended to provide for (i) minimum market shares of the customers' titanium requirements (generally at least 70%) for extended periods (nine to ten years) and (ii) fixed or formula-determined prices generally for at least the first five years. With respect to the Boeing contract, TIMET believes its orders in 1999 were significantly below contractual volume requirements. TIMET has received virtually no Boeing-related orders under the contract for 2000. Boeing has informed TIMET that they will either order the required contractual volume under the contract in 2000 or pay the liquidated damages provided for in the agreement. Beyond 2000, Boeing is unwilling to commit to the contract. On March 21, 2000, TIMET filed a lawsuit against Boeing in Colorado state court seeking damages for Boeing's repudiation and breach of the Boeing contract. TIMET's complaint seeks damages from Boeing that TIMET believes are in excess of \$600 million and a declaration from the court of TIMET's rights under the contract.

TIMET's order backlog was approximately \$195 million at December 31, 1999, down from \$350 million at December 31, 1998 and \$530 million at December 31, 1997. Substantially all of the 1999 year-end backlog is expected to be delivered during 2000. Although TIMET believes that the backlog is a reliable indicator of near-term business activity, conditions in the aerospace industry could change and result in future cancellations or deferrals of existing aircraft orders and materially and adversely affect TIMET's existing backlog, orders, and future financial condition and operating results.

As of December 31, 1999, the estimated firm order backlog for Boeing and Airbus, as reported by The Airline Monitor, was 2,943 planes versus 3,224 planes at the end of 1998 and 2,753 planes at the end of 1997. The newer wide body planes, such as the Boeing 777 and the Airbus A-330 and A-340, tend to use a higher percentage of titanium in their frames, engines and parts (as measured by total fly weight) than narrow body planes. "Fly weight" is the empty weight of a finished aircraft with engines but without fuel or passengers. The Boeing 777, for example, utilizes titanium for approximately 9% of total fly weight, compared to between 2% to 3% on the older 737, 747 and 767 models. The estimated firm order backlog for wide body planes at year-end 1999 was 679 (23% of total backlog) compared to 820 (25%) at the end of 1998.

Through various strategic relationships, TIMET seeks to gain access to unique process technologies for the manufacture of its products and to expand existing markets and create and develop new markets for titanium. TIMET has explored and will continue to explore strategic arrangements in the areas of product development, production and distribution. TIMET also will continue to work with existing and potential customers to identify and develop new or improved applications for titanium that take advantage of its unique qualities.

Competition. The titanium metals industry is highly competitive on a worldwide basis. Producers of mill products are located primarily in the United

States, Japan, Europe, the Former Soviet Union ("FSU") and China. TIMET is one of five integrated producers in the world, with "integrated producers" being considered as those that produce at least both sponge and ingot. There are also a number of non-integrated producers that produce mill products from purchased sponge, scrap or ingot. TIMET believes that most producers will generally operate at lower capacity utilization levels in 2000 than in 1999, increasing price competition.

TIMET's principal competitors in aerospace markets are Allegheny Teledyne Inc., RTI International Metals, Inc. and Verkhanya Salda Metallurgical Production Organization ("VSMPO"). These companies, along with the Japanese producers and other companies, are also principal competitors in industrial markets. TIMET competes primarily on the basis of price, quality of products, technical support and the availability of products to meet customers' delivery schedules.

In the U.S. market, the increasing presence of non-U.S. participants has become a significant competitive factor. Until 1993, imports of foreign titanium products into the U.S. had not been significant. This was primarily attributable to relative currency exchange rates, tariffs and, with respect to Japan and the FSU, existing and prior duties (including antidumping duties). However, imports of titanium sponge, scrap, and mill products, principally from the FSU, have increased in recent years and have had a significant competitive impact on the U.S. titanium industry. To the extent TIMET has been able to take advantage of this situation by purchasing such sponge, scrap or intermediate mill products from such countries for use in its own operations during recent years, the negative effect of these imports on TIMET has been somewhat mitigated.

Generally, imports into the U.S. of titanium products from countries designated by the U.S. Government as "most favored nations" are subject to a 15% tariff (45% for other countries). Titanium products for tariff purposes are broadly classified as either wrought or unwrought. Wrought products include bar, sheet, strip, plate and tubing. Unwrought products include sponge, ingot, slab and billet. Starting in 1993, imports of titanium wrought products from Russia were exempted from this duty under the "generalized system of preferences" or "GSP" program designed to aid developing economies. The GSP program has been renewed for two years and is scheduled to expire during the second quarter of 2001.

In 1997, GSP benefits to these products were suspended when the level of Russian wrought products imports reached 50% of all imports of titanium wrought products. A petition was filed in 1997 to restore duty-free status to these products, and that petition was granted in June 1998. In addition, a petition was also filed to bring unwrought products under the GSP program, which would allow such products from the countries of the FSU (notably Russia and, in the case of sponge, Kazakhstan and Ukraine) to be imported into the U.S. without the payment of regular duties. This petition concerning unwrought products has not been acted upon pending further investigation of the merits of such a change.

In addition to regular duties, titanium sponge imported from countries of the FSU (Russia, Kazakhstan and Ukraine) has for many years been subject to substantial antidumping penalties. In addition, titanium sponge imports from Japan were subject to a standing antidumping order, but no penalties had been attached in recent years. In 1998, the International Trade Commission revoked all outstanding antidumping orders on titanium sponge based upon a determination that changed circumstances in the industry did not warrant continuation of the orders. TIMET has appealed that decision, and briefing concluded in the third quarter of 1999. A decision is expected during 2000 and until such decision is reached, the orders remain revoked.

Further reductions in, or the complete elimination of, all or any of these tariffs could lead to increased imports of foreign sponge, ingot, and mill products into the U.S. and an increase in the amount of such products on the market generally, which could adversely affect pricing for titanium sponge and mill products and thus TIMET's business, financial condition, results of operations and cash flows. However, TIMET has, in recent years, been one of the largest importers of foreign titanium sponge and mill products into the U.S. To the extent TIMET remains a substantial purchaser of these products, any adverse effects on product pricing as a result of any reduction in, or elimination of, any of these tariffs would be partially mitigated by the decreased cost to TIMET for these products to the extent it currently bears the cost of the import duties.

Producers of other metal products, such as steel and aluminum, maintain forging, rolling and finishing facilities that could be modified without substantial expenditures to produce titanium products. TIMET believes, however, that entry as a producer of titanium sponge would require a significant capital investment and substantial technical expertise. Titanium mill products also compete with stainless steels, nickel alloys, steel, plastics, aluminum and composites in many applications.

Research and development. TIMET's research and development activities are directed toward improving process technology, developing new alloys, enhancing the performance of TIMET's products in current applications, and searching for new uses of titanium products. TIMET conducts the majority of its research and development activities at its Nevada laboratory, which TIMET believes is one of the largest titanium research and development centers in the world. Additional research and development activities are performed at a TIMET facility in the United Kingdom.

Patents and trademarks. TIMET holds U.S. and non-U.S. patents applicable to certain of its titanium alloys and manufacturing technology. TIMET continually seeks patent protection with respect to its technical base and has occasionally entered into cross-licensing arrangements with third parties. However, most of the titanium alloys and manufacturing technology used by TIMET do not benefit from patent or other intellectual property protection. TIMET believes that the trademarks TIMET and TIMETAL, which are protected by registration in the U.S. and other countries, are significant to its business.

Employees. As of December 31, 1999, TIMET employed approximately 2,350 persons (1,490 in the U.S. and 860 in Europe), down from a total of 2,740 at the end of 1998 and 3,025 at the end of 1997. TIMET's production and maintenance workers at its Nevada facility and its production, maintenance, clerical and technical workers in its Ohio facility are represented by the United Steelworkers of America ("USWA") under contracts expiring in October 2000 and June 2002, respectively. Negotiations with respect to the Nevada contract are expected to begin during the third quarter of 2000. Employees at TIMET's other U.S. facilities are not covered by collective bargaining agreements. Over 70% of the salaried and hourly employees at TIMET's European facilities are represented by various European labor unions, generally under annual agreements, the majority of which are still under negotiation for 2000. TIMET expects to successfully complete the negotiation of a one year contract in the U.K. that would include a modest wage increase. While TIMET currently considers its employee relations to be satisfactory, it is possible that there could be future work stoppages that could materially and adversely affect TIMET's business, financial condition, results of operations or cash flows.

Regulatory and environmental matters. TIMET's operations are governed by various federal, state, local and foreign environmental and worker safety laws and regulations. In the U.S., such laws include the Federal Clean Air Act, the Clean Water Act and the Resource Conservation and Recovery Act. TIMET uses and manufactures substantial quantities of substances that are considered hazardous or toxic under environmental and worker safety and health laws and regulations. In addition, at TIMET's Nevada facility, TIMET uses substantial quantities of titanium tetrachloride, a material classified as extremely hazardous under Federal environmental laws. TIMET has used such substances throughout the history of its operations. As a result, risk of environmental damage is inherent in TIMET's operations. TIMET's operations pose a continuing risk of accidental releases of, and worker exposure to, hazardous or toxic substances. There is also a risk that government environmental requirements, or enforcement thereof, may become more stringent in the future. There can be no assurances that some, or all, of the risks discussed under this heading will not result in liabilities that would be material to TIMET's business, results of operations, financial condition or cash flows.

TIMET's operations in Europe are similarly subject to foreign laws and regulations respecting environmental and worker safety matters, which laws are generally less stringent than U.S. laws and which have not had, and are not presently expected to have, a material adverse effect on TIMET.

TIMET believes that its operations are in compliance in all material respects with applicable requirements of environmental and worker safety laws. TIMET's policy is to continually strive to improve environmental, health and safety performance. From time to time, TIMET may be subject to environmental regulatory enforcement under various statutes, resolution of which typically involves the establishment of compliance programs. Occasionally, resolution of these matters may result in the payment of penalties. TIMET incurred capital expenditures for health, safety and environmental protection and compliance of

approximately \$4 million in 1999, and its capital budget provides for approximately \$5 million of such expenditures in 2000. However, the imposition of more strict standards or requirements under environmental laws and regulations could result in expenditures in excess of amounts estimated to be required for such matters.

OTHER

Tremont Corporation. Tremont is primarily a holding company which owns 20% of NL and 39% of TIMET. In addition, Tremont owns indirect ownership interests in Basic Management, Inc. ("BMI"), which provides utility services to, and owns property (the "BMI Complex") adjacent to, TIMET's facility in Nevada, and The Landwell Company L.P. (formerly Victory Valley Land Company, L.P.), which is actively engaged in efforts to develop certain land holdings for commercial, industrial and residential purposes surrounding the BMI Complex.

Foreign operations. The Company has substantial operations and assets located outside the United States, principally chemicals operations in Germany, Belgium and Norway, titanium metals operations in the United Kingdom and France, chemicals and component products operations in Canada, and beginning in 1999, component products operations in The Netherlands and Taiwan. See Note 2 to the Consolidated Financial Statements. Approximately three-quarters of NL's 1999 TiO2 sales were to non-U.S. customers, including 11% to customers in areas other than Europe and Canada. Substantially all of CompX's 1999 non-U.S. sales are to customers located in Canada and Europe. About half of TIMET's 1999 sales are to non-U.S. customers, primarily in Europe. Foreign operations are subject to, among other things, currency exchange rate fluctuations and the Company's results of operations have in the past been both favorably and unfavorably affected by fluctuations in currency exchange rates. See Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A - "Quantative and Qualitative Disclosures About Market Risk."

CompX's Canadian component products subsidiary has, from time to time, entered into currency forward contracts to mitigate exchange rate fluctuation risk for a portion of its receivables denominated in currencies other than the Canadian dollar (principally the U.S. dollar), and the Company has in the past used currency forward contracts to fix the dollar equivalent of specific foreign currency commitments. See Note 1 to the Consolidated Financial Statements. Otherwise, the Company does not generally engage in currency derivative transactions.

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

Regulatory and environmental matters. Regulatory and environmental matters are discussed in the respective business sections contained elsewhere herein and in Item 3 - "Legal Proceedings." In addition, the information included in Note 18 to the Consolidated Financial Statements under the captions "Legal proceedings -- lead pigment litigation" and - "Environmental matters and litigation" is incorporated herein by reference.

Discontinued operations. See Note 19 to the Consolidated Financial Statements.

Acquisition and restructuring activities. The Company routinely compares its liquidity requirements and alternative uses of capital against the estimated future cash flows to be received from its subsidiaries and unconsolidated affiliates, and the estimated sales value of those units. As a result of this process, the Company has in the past and may in the future seek to raise additional capital, refinance or restructure indebtedness, repurchase indebtedness in the market or otherwise, modify its dividend policy, consider the sale of interests in subsidiaries, business units, marketable securities or other assets, or take a combination of such steps or other steps, to increase liquidity, reduce indebtedness and fund future activities. Such activities have in the past and may in the future involve related companies. From time to time, the Company and related entities also evaluate the restructuring of ownership interests among its subsidiaries and related companies and expects to continue this activity in the future.

The Company and other entities that may be deemed to be controlled by or affiliated with Mr. Harold C. Simmons routinely evaluate acquisitions of interests in, or combinations with, companies, including related companies, perceived by management to be undervalued in the marketplace. These companies may or may not be engaged in businesses related to the Company's current businesses. In a number of instances, the Company has actively managed the businesses acquired with a focus on maximizing return-on-investment through cost reductions, capital expenditures, improved operating efficiencies, selective marketing to address market niches, disposition of marginal operations, use of leverage and redeployment of capital to more productive assets. In other instances, the Company has disposed of the acquired interest in a company prior to gaining control. The Company intends to consider such activities in the future and may, in connection with such activities, consider issuing additional equity securities and increasing the indebtedness of Valhi, its subsidiaries and related companies.

ITEM 2. PROPERTIES

Valhi leases approximately 34,000 square feet of office space for its principal executive offices in a building located at 5430 LBJ Freeway, Dallas, Texas, 75240-2697.

The principal properties used in the operations of the Company, including certain risks and uncertainties related thereto, are described in the applicable business sections of Item 1 - "Business." The Company believes that its facilities are generally adequate and suitable for their respective uses.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various legal proceedings. In addition to information that is included below, certain information called for by this Item is included in Note 18 to the Consolidated Financial Statements under the caption "Legal proceedings -- Other litigation," which information is incorporated herein by reference.

NL lead pigment litigation. NL was formerly involved in the manufacture of lead-based paints and lead pigments for use in paint. NL has been named as a defendant or third party defendant in various legal proceedings alleging that NL and other manufacturers are responsible for personal injury, property damage and government expenditures allegedly associated with the use of lead pigments. NL is vigorously defending against such litigation. Considering NL's previous involvement in the lead pigment and lead-based paint businesses, there can be no assurance that additional litigation, similar to that described below, will not be filed. In addition, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to (i) impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and (ii) effectively overturn court decisions in which NL and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product resulted in the alleged damage, and bills which would revive actions currently barred by statutes of limitations. While no legislation or regulations have been enacted to date which are expected to have a material adverse effect on NL's consolidated financial position, results of operations or liquidity, the imposition of market share liability or other legislation could have such an effect. NL has not accrued any amounts for the pending lead pigment and lead-based paint litigation. There is no assurance that NL will not incur future liability in respect of this litigation in view of the inherent uncertainties involved in court and jury rulings in pending and possible future cases. However, based on, among other things, the results of such litigation to date, NL believes that the pending lead pigment and lead-based paint litigation is without merit. Liability that may result, if any, cannot reasonably be estimated.

In 1989 and 1990, the Housing Authority of New Orleans ("HANO") filed third-party complaints for indemnity and/or contribution against NL, other alleged manufacturers of lead pigment (together with NL, the "pigment manufacturers") and the Lead Industries Association (the "LIA") in 14 actions commenced by residents of HANO units seeking compensatory and punitive damages for injuries allegedly caused by lead pigment. The actions, which were pending in the Civil District Court for the Parish of Orleans, State of Louisiana, were dismissed by the district court in 1990. Subsequently, HANO agreed to consolidate all the cases and appealed. In March 1992, the Louisiana Court of

Appeals, Fourth Circuit, dismissed HANO's appeal as untimely with respect to three of these cases. With respect to the other cases included in the appeal, the court of appeals reversed the lower court decision dismissing the cases. These cases were remanded to the District Court for further proceedings. In November 1994, the District Court granted defendants' motion for summary judgment in one of the remaining cases and in June 1995 the District Court granted defendants' motion for summary judgment in several of the remaining cases. After such grant, only two cases remained pending and have been inactive since 1992 (Hall v. HANO, et al., No. 89-3552, and Allen v. HANO, et al., No. 89-427, Civil District Court for the Parish of Orleans, State of Louisiana).

In June 1989, a complaint was filed in the Supreme Court of the State of New York, County of New York, against the pigment manufacturers and the LIA. Plaintiffs seek damages, contribution and/or indemnity in an amount in excess of \$50 million for monitoring and abating alleged lead paint hazards in public and private residential buildings, diagnosing and treating children allegedly exposed to lead paint in city buildings, the costs of educating city residents to the hazards of lead paint, and liability in personal injury actions against the City and the Housing Authority based on alleged lead poisoning of city residents (The City of New York, the New York City Housing Authority and the New York City Health and Hospitals Corp. v. Lead Industries Association, Inc., et al., No. 89-4617). In December 1991, the court granted the defendants' motion to dismiss claims alleging negligence and strict liability and denied the remainder of the motion. In January 1992, defendants appealed the denial. In May 1993, the Appellate Division of the Supreme Court affirmed the denial of the motion to dismiss plaintiffs' fraud, restitution and indemnification claims. In May 1994, the trial court granted the defendants' motion to dismiss the plaintiffs' restitution and indemnification claims, the plaintiffs appealed, and in June 1996 the Appellate Division reversed the trial court's dismissal of the restitution and indemnification claims, reinstating those claims. In December 1998, plaintiffs moved for partial summary judgment on their claims of market share, alternative liability, enterprise liability and concert of action, and in April 1999 defendants moved for summary judgment on statute of limitations grounds. In September 1999, the trial court denied the plaintiffs' motions for summary judgment on market share and conspiracy issues and denied defendants' motion for summary judgment on statute of limitations grounds. Plaintiffs have appealed the denial of their motions. In February 1999, claims by the New York City and the New York City Health and Hospital Corporation plaintiffs were dismissed with prejudice and they are no longer parties to the case. Also in February 1999, the New York City Housing Authority dismissed with prejudice all of its claims except for claims for damages relating to two housing projects. Discovery has resumed.

In August 1992, NL was served with an amended complaint in Jackson, et al. v. The Glidden Co., et al., Court of Common Pleas, Cuyahoga County, Cleveland, Ohio (Case No. 236835). Plaintiffs seek compensatory and punitive damages for personal injury caused by the ingestion of lead, and an order directing defendants to abate lead-based paint in buildings. Plaintiffs purport to represent a class of similarly situated persons throughout the State of Ohio. The amended complaint asserts causes of action under theories of strict liability, negligence per se, negligence, breach of express and implied warranty, fraud, nuisance, restitution, and negligent infliction of emotional distress. The complaint asserts several theories of liability including joint and several, market share, enterprise and alternative liability. Plaintiffs moved for class certification in October 1998, and all briefing on the issue was completed in April 1999. No decision regarding class certification has been issued by the trial court.

In November 1993, NL was served with a complaint in Brenner, et al. v. American Cyanamid, et al. (No. 12596-93), Supreme Court, State of New York, Erie County alleging injuries to two children purportedly caused by lead pigment. The complaint seeks \$24 million in compensatory and \$10 million in punitive damages for alleged negligent failure to warn, strict liability, fraud and misrepresentation, concert of action, civil conspiracy, enterprise liability, market share liability, and alternative liability. In June 1998, defendants moved for partial summary judgment dismissing plaintiffs' market share and alternative liability claims. In January 1999, the trial court granted defendants' summary judgment motion to dismiss the alternative liability and enterprise liability claims, but denied defendants' motion to dismiss the market share liability claim. In May 1999, defendants appealed the denial of their motion to dismiss the market share liability claim, and in December 1999, the Appellate Division Fourth Department reversed the trial court's market share decision, thus granting defendants' summary judgment motion on that claim. The case has been remanded to the trial court for further proceedings on the remaining claims. Plaintiffs are seeking a review in the Court of Appeals.

In April 1997, NL was served with a complaint in Parker v. NL Industries, Inc., et al. (Circuit Court, Baltimore City, Maryland, No. 97085060 CC915). Plaintiff, now an adult, and his wife seek compensatory and punitive damages from NL, another former manufacturer of lead paint and a local paint retailer, based on claims on negligence, strict liability and fraud for plaintiff's alleged ingestion of lead paint as a child. In February 1998, the Court dismissed the fraud claim, and in July 1998 the Court granted NL's motion for summary judgment on all remaining claims. Plaintiffs appealed, and in September 1999 the Special Court of Appeals reversed the grant of summary judgment to defendants. In December 1999, the Court of Appeals denied review of the Special Court of Appeals' decision. Trial has been set for May 2000.

In December 1998, NL was served with a complaint on behalf of four children and their guardians in Sabater, et al. v. Lead Industries Association, et al. (Supreme Court of the State of New York, County of Bronx, Index No. 25533/98). Plaintiffs purport to represent a class of all persons similarly situated. The complaint alleges against NL, the LIA, and other former manufacturers of lead pigment various causes of action including negligence, strict products liability, fraud and misrepresentation, concert of action, civil conspiracy, enterprise liability, market share liability, breach of warranties, nuisance and violation of New York State's consumer protection act. The complaint seeks damages for establishment of property abatement and medical monitoring funds and compensatory damages for alleged injuries to plaintiffs. In February 2000, the trial court granted defendants' motions to dismiss the product defect, express warranty, nuisance and consumer fraud statute claims.

In April 1999, NL was served with an amended complaint in Sweet, et al. v. Sheahan, et al., (U.S. District Court, Northern District of New York, Civil Action No. 97-CV-1666/LEK-DNH), adding NL and other defendants to a suit originally filed against plaintiffs' landlord. Plaintiffs, a parent and child, allege injuries purportedly caused by lead pigment, and seek recovery of actual and punitive damages from their landlord, alleged former manufacturers of lead pigment and the Lead Industries Association, and purport to allege causes of action against the former pigment manufacturers based on negligence, strict product liability, fraud and misrepresentation, concert of action, civil conspiracy and market share liability. In November 1999, the trial court denied defendants' motion to dismiss based upon absence of federal jurisdiction. In January 2000, the court certified for interlocutory review the issue of federal jurisdiction. Defendants have requested such review from the U.S. Court of Appeals for the Second Circuit.

In September 1999, an amended complaint was filed in Thomas v. Lead Industries Association, et al. (Circuit Court, Milwaukee, Wisconsin, Case No. 99-CV-6411) adding as defendants NL and seven other companies alleged to have manufactured lead products in paint to a suit originally filed against plaintiff's landlords. Plaintiff, a minor, alleges injuries purportedly caused by lead on the surfaces of premises in homes in which he resided. Plaintiff seeks compensatory and punitive damages. Plaintiff alleges strict liability, negligence, negligent misrepresentation and omissions, fraudulent misrepresentations and omissions, concert of action, civil conspiracy and enterprise liability causes of action against NL, seven other former manufacturers of lead products contained in paint and the LIA. In January 2000, NL filed an answer denying all allegations of wrongdoing and liability, and all manufacturer defendants filed a motion to dismiss the product defect claim and strike the demand for relief under the Wisconsin consumer protection statute.

In October 1999, NL was served with a complaint in State of Rhode Island v. Lead Industries Association, et al. (Superior Court of Rhode Island, No. 99-5226). Rhode Island, by and through its Attorney General, seeks compensatory and punitive damages for medical, school and public and private building abatement expenses that the State alleges were caused by lead paint, and for funding of a public education campaign and screening programs. Plaintiff seeks judgments of joint and several liability against NL, seven other companies alleged to have manufactured lead products in paint and the Lead Industries Association. Plaintiffs allege public nuisance, violation of the Rhode Island Unfair Trade Practices and Consumer Protection Act, strict liability, negligence, negligent misrepresentation and omissions, fraudulent misrepresentation and omissions, civil conspiracy, unjust enrichment, indemnity and equitable relief to protect children. In January 2000, defendants moved to dismiss all claims. Plaintiffs' response is not yet due.

In October 1999, NL was served with a complaint in Cofield, et al. v. Lead Industries Association, et al. (Circuit Court for Baltimore City, Maryland, Case No. 24-C-99-004491). Plaintiffs, six homeowners, seek to represent a class

of all owners of non-rental residential properties in Maryland. Plaintiffs seek compensatory and punitive damages for the existence of lead-based paint in their homes, including funds for monitoring, detecting and abating lead-based paint in those residences. Plaintiffs allege that NL, fourteen other companies alleged to have manufactured lead pigment, paint and/or gasoline additives, the Lead Industries Association and the National Paint and Coatings Association are jointly and severally liable for alleged negligent product design, negligent failure to warn, supplier negligence, strict liability/defective design, strict liability/failure to warn, nuisance, indemnification, fraud and deceit, conspiracy, concert of action, aiding and abetting, and enterprise liability. Plaintiffs seek damages in excess of \$20,000 per household. In October 1999, defendants removed the case to Maryland federal court. In February 2000, defendants moved to dismiss the design defect, fraud and deceit, indemnification and nuisance claims.

In October 1999, NL was served with a complaint in Smith, et al. v. Lead Industries Association, et al. (Circuit Court for Baltimore City, Maryland, Case No. 24-C-99-004490). Plaintiffs, six minors, each seek compensatory damages of \$5 million and punitive damages of \$10 million. Plaintiffs allege that NL, fourteen other companies alleged to have manufactured lead pigment, paint and/or gasoline additives, the Lead Industries Association and the National Paint and Coatings Association are jointly and severally liable for alleged negligent product design, negligent failure to warn, supplier negligence, fraud and deceit, conspiracy, concert of action, aiding and abetting, strict liability/failure to warn and strict liability/defective design. In October 1999, defendants removed the case to Maryland federal court and in November 1999 the case was remanded to state court. In February 2000, NL answered the complaint and denied all allegations of wrongdoing and liability, and all defendants filed motions to dismiss the product defect and fraud and deceit claims.

In February 2000, NL was served with a complaint in City of St. Louis v. Lead Industries Association, et al. (Missouri Circuit Court 22nd Judicial Circuit, St. Louis City, Cause No. 002-245, Division 1). The City of St. Louis seeks compensatory and punitive damages for its expenses discovering and abating lead, detecting lead poisoning and providing medical care, educational programs for City residents and the costs of educating children suffering injuries due to lead exposure. Plaintiff seeks judgments of joint and several liability against NL, eight other companies alleged to have manufactured lead products for paint and the LIA. Plaintiff alleges claims of public nuisance, product liability, negligence, negligent misrepresentation, fraudulent misrepresentation, civil conspiracy, unjust enrichment and indemnity. NL intends to deny all allegations of wrongdoing and liability and to defend the case vigorously.

NL believes that the foregoing lead pigment actions are without merit and intends to continue to deny all allegations of wrongdoing and liability and to defend such actions vigorously.

NL has filed actions seeking declaratory judgment and other relief against various insurance carriers with respect to costs of defense and indemnity coverage for certain of its environmental and lead pigment litigation. NL Industries, Inc. v. Commercial Union Insurance Cos., et al., Nos. 90-2124, -2125 (HLS) (District Court of New Jersey). The action relating to lead pigment litigation defense costs, filed in May 1990 against Commercial Union Insurance Company ("Commercial Union") seeks to recover defense costs incurred in the City of New York lead pigment case and two other cases which have since been resolved in NL's favor. In July 1991, the court granted NL's motion for summary judgment and ordered Commercial Union to pay NL's reasonable defense costs for such cases. In June 1992, NL filed an amended complaint in the United States District Court for the District of New Jersey against Commercial Union seeking to recover costs incurred in defending four additional lead pigment cases which have since been resolved in NL's favor. In August 1993, the court granted NL's motion for summary judgment and ordered Commercial Union to pay the reasonable costs of defending those cases. In July 1994, the court entered judgment on the order requiring Commercial Union to pay previously-incurred NL costs in defending those cases. In September 1995, the U.S. Court of Appeals for the Third Circuit reversed and remanded for further consideration the decision by the trial court that Commercial Union was obligated to pay the Company's reasonable defense costs in certain of the lead pigment cases. The trial court made its decision applying New Jersey law; the Appeals Court concluded that New York law, and not New Jersey law, applied and remanded the case to the trial court for a determination under New York law. On remand from the Court of Appeals, the trial court in April 1996 granted NL's motion for summary judgment, finding that Commercial Union had a duty to defend NL in the four lead paint cases which were the subject of NL's second amended complaint. The court also issued a partial

ruling on Commercial Union's motion for summary judgment in which it sought allocation of defense costs and contribution from NL and two other insurance carriers in connection with three lead paint actions on which the court had granted NL summary judgment in 1991. The court ruled that Commercial Union is entitled to receive contribution from NL and the two carriers, but reserved ruling with respect to the relative contributions to be made by each of the parties, including contributions by NL that may be required with respect to periods in which NL was self-insured and contributions from one carrier which were reinsured by a former subsidiary of NL, the reinsurance costs of which NL may ultimately be required to bear. In June 1997, NL reached a settlement in principle with its insurers regarding allocation of defense costs in the lead pigment cases in which reimbursement of defense costs had been sought. Other than granting motions for summary judgment brought by two excess liability insurance carriers, which contended their policies contained absolute pollution exclusion language, and certain summary judgment motions regarding policy periods, the Court has not made any final rulings on defense costs or indemnity coverage with respect to NL's pending environmental litigation. Nor has the Court made any final rulings on indemnity coverage in the lead pigment litigation. No trial dates have been set. Other than ruling to date, the issue of whether insurance coverage for defense costs or indemnity or both will be found to exist depends upon a variety of factors, and there can be no assurance that such insurance coverage will exist in other cases. NL has not considered any potential insurance recoveries for lead pigment or environmental litigation in determining related accruals.

Environmental matters and litigation. NL has been named as a defendant, PRP, or both, pursuant to CERCLA and similar state laws in approximately 75 governmental and private actions associated with waste disposal sites, mining locations and facilities currently or previously owned, operated or used by NL, or its subsidiaries, or their predecessors, certain of which are on the U.S. Environmental Protection Agency's Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although NL may be jointly and severally liable for such costs, in most cases it is only one of a number of PRPs who are also jointly and severally liable.

The extent of CERCLA liability cannot be determined until the Remedial Investigation and Feasibility Study ("RIFS") is complete, the U.S. EPA issues a record of decision and costs are allocated among PRPs. The extent of liability under analogous state cleanup statutes and for common law equivalents are subject to similar uncertainties. NL believes it has provided adequate accruals for reasonably estimable costs for CERCLA matters and other environmental liabilities. At December 31, 1999, NL had accrued \$112 million with respect to those environmental matters which are reasonably estimable. NL determines the amount of accrual on a quarterly basis by analyzing and estimating the range of possible costs to NL. Such costs include, among other things, expenditures for remedial investigations, monitoring, managing, studies, certain legal fees, clean-up, removal and remediation. It is not possible to estimate the range of costs for certain sites. NL has estimated that the upper end of the range of reasonably possible costs to NL for sites for which it is possible to estimate costs is approximately \$150 million. No assurance can be given that actual costs will not exceed either accrued amounts or the upper end of the range for sites for which estimates have been made, and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. The imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes respecting site cleanup costs or allocation of such costs among PRPs, or a determination that NL is potentially responsible for the release of hazardous substances at other sites could result in expenditures in excess of amounts currently estimated by NL to be required for such matters. Furthermore, there can be no assurance that additional environmental matters will not arise in the future. More detailed descriptions of certain legal proceedings relating to environmental matters are set forth below.

In July 1991, the United States filed an action in the U.S. District Court for the Southern District of Illinois against NL and others (United States of America v. NL Industries, Inc., et al., Civ. No. 91-CV 00578) with respect to the Granite City, Illinois lead smelter formerly owned by NL. The complaint seeks injunctive relief to compel the defendants to comply with an administrative order issued pursuant to CERCLA, and fines and treble damages for the alleged failure to comply with the order. NL and the other parties did not implement the order, believing that the remedy selected by the U.S. EPA was invalid, arbitrary, capricious and was not selected in accordance with law. The complaint also seeks recovery of past costs and a declaration that the

defendants are liable for future costs. Although the action was filed against NL and ten other defendants, there are 330 other PRPs who have been notified by the U.S. EPA. Some of those notified were also respondents to the administrative order. In February 1992, the court entered a case management order directing that the remedy issues be tried before the liability aspects are presented. In September 1995, the U.S. EPA released its amended decision selecting cleanup remedies for the Granite City site. NL is presently challenging certain portions of the U.S. EPA's selection of the remedy. In September 1997, the U.S. EPA informed NL that the past and future cleanup costs were estimated to total approximately \$63.5 million. In 1999, the U.S. EPA and certain other PRPs entered into a consent decree settling their liability at the site for approximately 50% of the site costs, and NL and the U.S. EPA reached an agreement in principle to settle NL's liability at the site for \$31.5 million. NL and the U.S. EPA are negotiating a consent decree embodying the terms of this agreement in principle.

At the Pedricktown, New Jersey lead smelter formerly owned by NL, the U.S. EPA has divided the site into two operable units. Operable unit one addresses contaminated ground water, surface water, soils and stream sediments. In July 1994, the U.S. EPA issued the Record of Decision for operable unit one. The U.S. EPA estimates the cost to complete the remediation of operable unit one is \$18.7 million. In May 1996, certain PRPs, but not NL, entered into an administrative consent order with the U.S. EPA to perform the remedial phase of operable unit one. In June 1998, NL entered into a consent decree with the U.S. EPA and other PRPs to perform the remedial action phase of operable unit one. In addition, in March 1999 NL executed an agreement in principle with certain PRPs with respect to NL's liability at this site to settle the matter within previously-accrued amounts. The U.S. EPA issued an order with respect to operable unit two in March 1992 to NL and 30 other PRPs directing immediate removal activities including the cleanup of waste, surface water and building surfaces. NL has complied with the order, and the work with respect to operable unit two is completed. NL has paid approximately 50% of operable unit two costs, or \$2.5 million.

Having completed the RIFS at NL's former Portland, Oregon lead smelter site, NL conducted predesign studies to explore the viability of the U.S. EPA's selected remedy pursuant to a June 1989 consent decree captioned U.S. v. NL Industries, Inc., Civ. No. 89-408, United States District Court for the District of Oregon. In May 1997, the U.S. EPA issued an Amended Record of Decision ("ARD") for the soils operable unit changing portions of the cleanup remedy selected. The ARD requires construction of an onsite containment facility estimated to cost between \$11.5 million and \$13.5 million, including capital costs and operating and maintenance costs. NL and certain other PRPs have entered into a consent decree to perform the remedial action in the ARD. In November 1991, Gould, Inc., the current owner of the site, filed an action, Gould Inc. v. NL Industries, Inc., No. 91-1091, United States District Court for the District of Oregon, against NL for damages for alleged fraud in the sale of the smelter, rescission of the sale, past CERCLA response costs and a declaratory judgment allocating future response costs and punitive damages. In February 1998, NL and the other defendants reached an agreement settling the litigation by NL agreeing to pay a portion of future costs, which are estimated to be within previously-accrued amounts. The capital construction for the remediation is expected to be completed in 2000.

In 1999, NL and other PRPs entered into an administrative consent order with the U.S. EPA requiring the performance of a RIFS at two subsites in Cherokee County, Kansas, where NL and others formerly mined lead and zinc. A former NL subsidiary mined at the Baxter Springs subsite, where it is the largest viable PRP. In August 1997, the U.S. EPA issued the record of decision for the Baxter Springs and Treece subsites. The U.S. EPA has estimated the selected remedy will cost an aggregate of approximately \$7.1 million for both subsites (\$5.4 million for the Baxter Springs subsite). In 1999, NL entered into a consent decree with the U.S. EPA resolving its liability at the Baxter Springs subsite, and NL has reached an agreement in principle with other PRPs with respect to allocation of this subsite's costs. NL and other PRPs are performing an investigation of four additional subsites in Cherokee County.

In 1996, the U.S. EPA ordered NL to perform a removal action at a facility in Chicago, Illinois formerly owned by NL. NL is complying with the order and has completed the on-site work at the facility. Offsite contamination is being investigated.

Residents in the vicinity of NL's former Philadelphia lead chemicals plant commenced a class action allegedly comprised of over 7,500 individuals seeking medical monitoring and damages allegedly caused by emissions from the

plant. Wagner, et al v. Anzon and NL Industries, Inc., No. 87-4420, Court of Common Pleas, Philadelphia County. The complaint sought compensatory and punitive damages from NL and the current owner of the plant, and alleged causes of action for, among other things, negligence, strict liability, and nuisance. A class was certified to include persons who resided, owned or rented property, or who work or have worked within up to approximately three-quarters of a mile from the plant from 1960 through the present. NL answered the complaint, denying liability. In December 1994, the jury returned a verdict in favor of NL. Plaintiffs appealed, and in September 1996 the Superior Court of Pennsylvania affirmed the judgment in favor of NL. In December 1996, plaintiffs filed a petition for allowance of appeal to the Pennsylvania Supreme Court, which petition was declined. Residents also filed consolidated actions in the United States District Court for the Eastern District of Pennsylvania, Shinozaki v. Anzon, Inc. and Wagner and Antczak v. Anzon and NL Industries, Inc., Nos. 87-3441, 87-3502, 87-4137 and 87-5150. The consolidated action is a putative class action seeking CERCLA response costs, including cleanup and medical monitoring, declaratory and injunctive relief and civil penalties for alleged violations of the Resource Conservation and Recovery Act ("RCRA"), and also asserting pendent common law claims for strict liability, trespass, nuisance and punitive damages. The court dismissed the common law claims without prejudice, dismissed two of the three RCRA claims as against NL with prejudice, and stayed the case pending the outcome of the state court litigation.

At a municipal and industrial waste disposal site in Batavia, New York, NL and approximately 75 others have been identified as PRPs. The U.S. EPA has divided the site into two operable units. Pursuant to an administrative consent order entered into with the U.S. EPA, NL conducted a RIFS for operable unit one, the closure of the industrial waste disposal section of the landfill. NL's RIFS costs were approximately \$2 million. In June 1995, the U.S. EPA issued the record of decision for operable unit one, which is estimated by the U.S. EPA to cost approximately \$17.3 million. In September 1995, the U.S. EPA and certain PRPs (including NL), entered into an administrative order on consent for the remedial design phase of the remedy for operable unit one and the design phase is proceeding. NL and other PRPs entered into an interim cost sharing arrangement for this phase of the work. NL and the other PRPs have completed the work comprising operable unit two (the extension of the municipal water supply), with the exception of annual operation and maintenance. The U.S. EPA alleges it has incurred approximately \$4 million in past costs. NL and the other PRPs have concluded a nonbinding allocation process, as a result of which NL was assigned a 30% share of future site costs. NL and the other PRPs are currently negotiating a consent decree based on this allocation.

See also Item 1 - "Business - Chemicals - Regulatory and environmental matters."

In 1993, Tremont entered into a settlement agreement with the Arkansas Division of Pollution Control and Ecology in connection with certain alleged water discharge permit violations at one of several abandoned barite mining sites in Arkansas. The settlement agreement, in addition to requiring the payment in 1993 of a \$20,000 penalty, required Tremont to undertake a remediation/reclamation program, which program has been completed at a total cost of approximately \$2 million. This site is now subject only to ongoing monitoring and maintenance obligations. Another of these abandoned barite mining sites is currently being evaluated by the Arkansas Department of Environmental Quality ("ADEQ"). Tremont, along with two other identified PRPs, have entered into discussions with the ADEQ that are expected to result in one or more voluntary settlement agreements pertaining to investigation and remedial actions to be undertaken at this site. Tremont believes that to the extent it has any additional liability for remediation at this site, it is only one of a number of PRPs that would ultimately share in any such costs. As of December 31, 1999, Tremont had accrued \$6 million related to these matters.

In the early 1990s, TIMET and certain other companies that currently have or formerly had operations within the BMI Complex (the "BMI Companies") began environmental assessments of the BMI Complex and each of the individual company sites located within the BMI Complex pursuant to a series of consent agreements entered into with the Nevada Division of Environmental Protection ("NDEP"). Most of this assessment work has now been completed, although some of the assessment work with respect to TIMET's property is continuing. In 1999, TIMET entered into a series of agreements with BMI and, in certain cases, other BMI Companies, pursuant to which, among other things: (i) BMI, TIMET and the other BMI Companies each agreed to contribute to the cost of remediating any soils contamination within the BMI Complex (excluding the individual active plant sites), certain lands surrounding the BMI Complex and certain lands owned by TIMET adjacent to its plant site (the "TIMET Pond Property"), and TIMET

contributed \$2.8 million to the cost of this remediation (which payment was charged against TIMET's accrued liabilities), (ii) BMI assumed responsibility for the conduct of soils remediation activities on the properties described, including, subject to final NDEP approval, the responsibility to complete all outstanding requirements under the consent agreements with NDEP insofar as they relate to the investigation and remediation of soils conditions on such properties, (iii) BMI indemnified TIMET and the other BMI Companies against certain future liabilities associated with any soils contamination on such properties and (iv) TIMET agreed to convey to BMI, at no additional cost, the TIMET Pond Property upon payment by BMI of the cost to design, purchase, and install the technology and equipment necessary to allow TIMET to stop discharging liquid and solid effluents and co-products onto the TIMET Pond Property. With respect to the TIMET Pond Property project, BMI will pay 100% of the first \$15.9 million cost for this project, and TIMET will contribute 50% of the cost, if any, in excess of \$15.9 million, up to a maximum payment by TIMET of \$2 million. TIMET does not currently expect to incur any cost in connection with this project. TIMET, BMI and the other BMI Companies are continuing investigation with respect to certain additional issues associated with the properties described above, including possible groundwater issues. In addition, TIMET is continuing assessment work with respect to its own active plant site.

In April 1998, the U. S. EPA filed a civil action against TIMET (United States of America v. Titanium Metals Corporation; Civil Action No. CV-S-98-682-HDM (RLH), U. S. District Court, District of Nevada) in connection with an earlier notice of violation alleging that TIMET violated several provisions of the Clean Air Act in connection with the start-up and operation of certain environmental equipment at TIMET's Nevada facility during the early to mid-1990s. The action seeks civil penalties in an unspecified total amount at the statutory rate of up to \$25,000 per day of violation (\$27,500 per day for violations after January 30, 1997). TIMET and the EPA have agreed to settle the matter for a cash payment by TIMET aggregating \$400,000 from 2000 through 2002, and TIMET agreed to undertake certain additional monitoring and emissions controls at an estimated capital cost of \$1.5 million. The settlement has been approved by the court.

At December 31, 1999, TIMET had accrued an aggregate of approximately \$1 million for these environmental matters discussed above.

In addition to amounts accrued by NL, Tremont and TIMET for environmental matters, at December 31, 1999, the Company also had approximately \$4 million accrued for the estimated cost to complete environmental cleanup matters at certain of its former facilities. Costs for future environmental remediation efforts are not discounted to their present value, and no recoveries for remediation costs from third parties have been recognized. Such accruals will be adjusted, if necessary, as further information becomes available or as circumstances change. No assurance can be given that the actual costs will not exceed accrued amounts. At one of such facilities, the Company has been named as a PRP pursuant to CERCLA at a Superfund site in Indiana. The Company has also undertaken a voluntary cleanup program to be approved by state authorities at another Indiana site. The total estimated cost for cleanup and remediation at the Indiana Superfund site is \$39 million. The Company's share of such estimated cleanup and remediation cost is currently estimated to be approximately \$2 million, of which about one-half has been paid. The Company's estimated cost to complete the voluntary cleanup program at the other Indiana site, which involves both surface and groundwater remediation, is relatively nominal. The Company believes it has adequately provided accruals for reasonably estimable costs for CERCLA matters and other environmental liabilities for all of such non-NL former facilities. The imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes respecting site cleanup costs or allocation of such costs among PRPs or a determination that the Company is potentially responsible for the release of hazardous substances at other sites could result in expenditures in excess of amounts currently estimated by the Company to be required for such matters. Furthermore, there can be no assurance that additional environmental matters related to current or former operations will not arise in the future.

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 1999.

PART II

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

Valhi's common stock is listed and traded on the New York and Pacific Stock Exchanges (symbol: VHI). As of February 29, 2000, there were approximately 2,700 holders of record of Valhi common stock. The following table sets forth the high and low closing sales prices for Valhi common stock for the periods indicated, according to the New York Stock Exchange Composite Tape, and dividends paid during such periods. On February 29, 2000 the closing price of Valhi common stock according to the NYSE Composite Tape was \$11.13.

	High	Low	Dividends paid
Year ended December 31, 1998			
First Quarter	\$ 10 3/16	\$ 9 3/8	\$.05
Second Quarter	10 1/2	9 1/16	.05
Third Quarter	14 1/16	11 1/8	.05
Fourth Quarter	13 3/8	11	.05
Year ended December 31, 1999			
First Quarter	\$ 12 3/4	\$ 11	\$.05
Second Quarter	12 1/8	10 3/4	.05
Third Quarter	14	10 7/8	.05
Fourth Quarter	11 3/8	10 1/4	.05

Valhi's regular quarterly dividend is currently \$.05 per share. Declaration and payment of future dividends and the amount thereof will be dependent upon the Company's results of operations, financial condition, cash requirements for its businesses, contractual requirements and restrictions and other factors deemed relevant by the Board of Directors. Certain covenants contained in Valhi's revolving bank credit facility generally limit Valhi quarterly dividends to \$.05 per share.

ITEM 6. SELECTED FINANCIAL DATA

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

	Years ended December 31,				
	1995	1996	1997	1998	1999
	----	----	----	----	----

(In millions, except per share data)

STATEMENTS OF OPERATIONS DATA:
Net sales:

Chemicals	\$ 1,023.9	\$ 986.1	\$ 984.4	\$ 907.3	\$ 908.4
Component products	80.2	88.7	108.7	152.1	225.9
Waste management (1)	--	--	--	--	10.9
	-----	-----	-----	-----	-----
	\$ 1,104.1	\$ 1,074.8	\$ 1,093.1	\$ 1,059.4	\$ 1,145.2
	=====	=====	=====	=====	=====

Operating income:

Chemicals	\$ 178.5	\$ 92.0	\$ 106.7	\$ 154.6	\$ 126.2
Component products	19.9	22.1	28.3	31.9	40.2
Waste management (1)	--	--	--	--	(1.8)
	-----	-----	-----	-----	-----
	\$ 198.4	\$ 114.1	\$ 135.0	\$ 186.5	\$ 164.6
	=====	=====	=====	=====	=====
Prior to consolidation:					
Equity in Waste Control Specialists (1)	\$ (.5)	\$ (6.4)	\$ (12.7)	\$ (15.5)	\$ (8.5)
Equity in Tremont Corporation (2)				7.4	(48.7)
Equity in Amalgamated Sugar Company (3) .	\$ 8.9	\$ 10.0			
	=====	=====			
Income from continuing operations	\$ 54.9	\$ --	\$ 27.1	\$ 225.8	\$ 47.4
Discontinued operations	13.6	42.0	33.6	--	2.0
Extraordinary item	--	--	(4.3)	(6.2)	--
	-----	-----	-----	-----	-----
Net income	\$ 68.5	\$ 42.0	\$ 56.4	\$ 219.6	\$ 49.4
	=====	=====	=====	=====	=====
DILUTED EARNINGS PER SHARE DATA:					
Income from continuing operations	\$.48	\$ --	\$.24	\$ 1.94	\$.41
Net income	\$.60	\$.37	\$.49	\$ 1.89	\$.43
Cash dividends	\$.12	\$.20	\$.20	\$.20	\$.20
Weighted average common shares outstanding	115.3	115.1	115.9	116.1	116.2
BALANCE SHEET DATA (at year end):					
Total assets	\$ 2,572.2	\$ 2,145.0	\$ 2,178.1	\$ 2,242.2	\$ 2,235.2
Long-term debt	1,084.3	844.5	1,008.1	630.6	613.2
Stockholders' equity	274.3	303.9	384.9	578.5	589.4

- (1) Consolidated effective June 30, 1999.
- (2) Commenced recognizing equity in earnings effective July 1, 1998; consolidated effective December 31, 1999.
- (3) Ceased recognizing equity in earnings effective December 31, 1996.

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

RESULTS OF OPERATIONS

Continuing operations

The Company reported income from continuing operations of \$47.4 million, or \$.41 per diluted share, in 1999 compared to income of \$225.8 million, or \$1.94 per diluted share, in 1998. Excluding the effect of the non-recurring items discussed in the next paragraph, the Company would have reported income from continuing operations in 1999 of \$27.6 million, or \$.24 per diluted share, compared to income of \$46.1 million, or \$.39 per diluted share, in 1998.

The 1999 results include a \$90 million non-cash income tax benefit (\$52 million, or \$.45 per diluted share, net of minority interest) recognized by NL Industries and a non-cash impairment charge of \$50 million (\$32 million, or \$.28 per diluted share, net of income taxes) for an other than temporary decline in the market value of TIMET. The 1998 results include gains aggregating \$196 million, or \$1.69 per diluted share, net of income taxes and minority interest, related to the sale of NL Industries' specialty chemicals business and the initial public offering of CompX International common stock, a charge of \$32

million (\$21 million, or \$.18 per diluted share, net of income taxes) related to the settlement of two lawsuits and an \$8 million tax benefit (\$5 million, or \$.04 per diluted share, net of minority interest) resulting from refunds of prior-year German withholding taxes received by NL.

As discussed above, the net impact to the Company in 1999 of NL's non-cash income tax benefit and the other than temporary impairment charge related to TIMET is a net credit of \$20 million, or \$.17 per diluted share, net of income taxes and minority interest. Excluding the effect of these two items, the Company currently believes its income from continuing operations in 2000 will be higher compared to 1999 due primarily to expected improved operating results in all three of the Company's consolidated business segments (chemicals, component products and waste management).

Chemicals

As discussed above, selling prices for TiO₂, NL's principal product, were generally increasing during most of 1997 and 1998, were generally decreasing during the first three quarters of 1999 and increased during the fourth quarter of 1999. NL's TiO₂ operations are conducted through Kronos while its specialty chemicals operations were conducted through Rheox. As discussed above, in January 1998 NL completed the disposition of its specialty chemicals business unit.

Chemicals operating income, as presented below, is stated net of amortization of Valhi's purchase accounting adjustments made in conjunction with the acquisitions of its interest in NL. Such adjustments result in additional depreciation, depletion and amortization expense beyond amounts separately reported by NL. Such additional non-cash expenses reduced chemicals operating income, as reported by Valhi, by approximately \$19 million in 1999 as compared to amounts separately reported by NL. As discussed in Note 3 to the Consolidated Financial Statements, the Company will commence consolidating Tremont's results of operations effective January 1, 2000. Tremont owns 20% of NL and accounts for its interest in NL by the equity method. Tremont also has purchase accounting adjustments made in conjunction with the acquisitions of its interest in NL. Beginning in 2000, amortization of such Tremont purchase accounting adjustments will further reduce chemicals operating income, as reported by Valhi, compared to amounts separately reported by NL by approximately \$5 million annually.

	Years ended December 31,			% Change	
	1997	1998	1999	1997-98	1998-99
(In millions) Net sales:					
Kronos (TiO ₂)	\$837.2	\$894.6	\$908.4	+ 7%	+2%
Rheox	147.2	12.7	-		
	=====	=====	=====		
	\$984.4	\$907.3	\$908.4	- 8%	+0
Operating income:					
Kronos (TiO ₂)	\$ 63.7	\$151.9	\$126.2	+ 138%	-18%
Rheox	43.0	2.7	-		
	=====	=====	=====		
	\$106.7	\$154.6	\$126.2	+45%	-18%
Kronos operating income margin	8%	17%	14%		
TiO ₂ data:					
Sales volumes (thousands of metric tons)	427	408	427	- 4%	+5%
Average price index					

Kronos' TiO2 sales increased slightly in 1999 compared to 1998 due primarily to higher TiO2 sales volumes, partially offset by lower average TiO2 selling prices. Despite the slightly higher TiO2 sales, Kronos' TiO2 operating income in 1999 decreased compared to 1998 due primarily to lower TiO2 production volumes. In addition, Kronos' operating income in 1999 includes \$5.3 million of foreign currency transaction gains related to certain of NL's short-term intercompany cross-border financings that were settled in July 1999. Kronos' average TiO2 selling prices in 1999 were 1% lower than in 1998, with higher North American prices offset by lower prices in Europe and export markets. At the end of 1999, average European TiO2 selling prices (expressed in U.S. dollars at year-end exchange rates) were 9% lower than U.S. average selling prices as a result of the strong U.S. dollar against major European currencies. Kronos' average TiO2 selling prices in the fourth quarter of 1999 were 3% lower than the fourth quarter of 1998, but were 1% higher than average selling prices in the third quarter of 1999 as NL and other TiO2 producers began to implement certain price increases. Kronos' average TiO2 selling prices at the end of the fourth quarter of 1999 were 1% higher than the average for the quarter.

Kronos' TiO2 sales volumes in 1999 were 5% higher than 1998, with growth in all major regions. Industry-wide demand for TiO2 increased in 1999, with second-half 1999 demand higher than first-half 1999 demand as a result of, among other things, customers buying in advance of announced price increases. TiO2 demand was particularly strong in the fourth quarter of 1999, as NL's TiO2 sales volumes were 21% higher than the fourth quarter of 1998. Approximately one-half of Kronos' TiO2 sales volumes in 1999 were attributable to markets in Europe, with 37% attributable to North America and the balance to export markets.

Due primarily to Kronos' decision to manage its inventory levels by curtailing production in the first quarter of 1999, Kronos' TiO2 production volumes of 411,000 metric tons in 1999 were 5% lower than its record 434,000 metric tons produced in 1998. Kronos' average TiO2 production capacity utilization in 1999 was 93% compared to full capacity utilization in 1998.

Kronos' TiO2 sales and operating income increased in 1998 compared to 1997 due primarily to higher average TiO2 selling prices, partially offset by lower sales volumes. Kronos' average TiO2 selling prices in 1998 were 16% higher than 1997. TiO2 selling prices at the end of 1998 were 10% higher than the end of 1997. Kronos' average TiO2 selling prices in the fourth quarter of 1998 were 11% higher than the fourth quarter of 1997 and even with the third quarter of 1998. Kronos' TiO2 sales volumes of 408,000 metric tons in 1998 were 4% below its previous-record level of 1997 primarily reflecting lower volumes in Asia and Latin America. Kronos' operating income in 1997 includes income of \$12.9 million related to refunds of German franchise taxes related to prior years, including interest.

Pricing within the TiO2 industry is cyclical, and changes in industry economic conditions can significantly impact NL's earnings and operating cash flows. The average TiO2 selling price index (using 1983 = 100) of 152 in 1999 was 1% lower than the 1998 index of 153 (1998 was 16% higher than the 1997 index of 133). In comparison, the 1999 index was 13% below the 1990 price index of 175 and 20% higher than the 1993 price index of 127. Many factors influence TiO2 pricing levels, including industry capacity, worldwide demand growth and customer inventory levels and purchasing decisions.

As discussed above, NL experienced strong demand for TiO2 in 1999, especially in the second half of the year. NL expects TiO2 industry demand in 2000 will be relatively unchanged from 1999, depending primarily upon global economic conditions. NL expects its TiO2 sales volumes in 2000 will approximate its sales volumes in 1999. NL is continuing to phase-in previously-announced price increases during the first quarter of 2000. In addition, NL recently announced a price increase in Europe that is expected to become effective at the beginning of the second quarter of 2000. If demand remains strong, NL expects additional price increases could be announced later in 2000. The successful implementation of any such price increase will depend on market conditions discussed above. As a result of anticipated higher average selling prices in 2000 and continued focus on controlling costs, NL expects its chemicals operating income in 2000 will be higher than 1999. The extent of the improvement

will be determined by, among other things, the magnitude of realized price increases.

NL has substantial operations and assets located outside the United States (principally Germany, Belgium, Norway and Canada). A significant amount of NL's sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar (61% in 1999), primarily the euro, other major European currencies and the Canadian dollar. In addition, a portion of NL's sales generated from its non-U.S. operations are denominated in the U.S. dollar, and exchange rate fluctuations do not impact the reported amount of such net sales. Certain raw materials, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of NL's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or adversely impact reported earnings and may affect the comparability of period-to-period operating results. Fluctuations in the value of the U.S. dollar relative to other currencies decreased 1999 sales by \$15 million compared to 1998, and decreased 1998 sales by \$24 million compared to 1997. Fluctuations in the value of the U.S. dollar relative to other currencies similarly impacted NL's foreign currency-denominated operating expenses, and the net impact of currency exchange rate fluctuations on NL's operating income comparisons, other than the \$5.3 million foreign currency transaction gain discussed above, has not been significant during the past three years.

Component products

	Years ended December 31,			% Change	
	1997	1998	1999	1997-98	1998-99
	(In millions)				
Net sales	\$ 108.7	\$ 152.1	\$ 225.9	+40%	+49%
Operating income	28.3	31.9	40.2	+13%	+26%
Operating income margin	26%	21%	18%		

Component products sales and operating income increased in 1999 compared to 1998 due primarily to the effect of the slide operations acquired in January and November 1999 and the lock operations acquired in March and November 1998. Component products operating income in 1998 included a \$3.3 million non-recurring pre-tax charge related to certain stock awarded in conjunction with CompX's March 1998 initial public offering. Excluding the effect of these acquisitions and the stock award charge, sales increased 5% in 1999 compared to 1998 and operating income increased 4%, with increased sales in both slide and ergonomic products (up 5%) and security products (up 3%). Sales of slides and ergonomic products were impacted in the first half of 1999 by softening demand in the office furniture industry, however such sales improved in the second half of 1999 as office furniture industry demand improved.

Component products sales and operating income increased in 1998 compared to 1997 due primarily to higher volumes in all three major product lines (ergonomic computer support systems, precision ball bearing slides and security products). Combined sales of precision ball bearing slides and ergonomic computer support systems in 1998 increased \$11.6 million, or 14%, compared to 1997, and security products sales increased \$31.8 million, or 113%. The higher sales volumes of security products resulted primarily from the March and November 1998 acquisitions of two lock producers. Component products operating income in 1998 includes the \$3.3 million non-cash charge discussed above. Excluding such charge, operating income increased in 1998 due primarily to the higher sales volumes and slightly lower raw material costs, primarily steel, offset in part by lower margins attributable to sales from the two business units acquired in 1998 resulting principally from goodwill amortization.

CompX has substantial operations and assets located outside the United States (principally Canada and, beginning in 1999, The Netherlands and Taiwan). A portion of CompX's sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, including the Canadian

dollar, the Dutch Guilder and the Euro. In addition, a portion of CompX's sales generated from its non-U.S. operations (principally in Canada) are denominated in the U.S. dollar, and exchange rate fluctuations do not impact the reported amount of such sales. Most raw materials, labor and other production costs for such non-U.S. operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of CompX's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect comparability of period-to-period operating results. Fluctuations in the value of the U.S. dollar relative to the Canadian dollar increased component products operating income in 1998 (excluding the effect of the stock award charge) by 3% compared to 1997, and reduced net sales by approximately 1%. Fluctuations in the value of the U.S. dollar against such other currencies did not significantly impact component products sales or operating income in 1999 compared to 1998.

Due in part to expected improved demand in the office furniture industry, CompX expects its sales and operating income in 2000 will be higher compared to 1999.

Waste management

As discussed in Note 3 to the Consolidated Financial Statements, the Company commenced consolidating Waste Control Specialists' results of operations in the third quarter of 1999. Prior to consolidation, the Company reported its interest in Waste Control Specialists by the equity method. Waste Control Specialists reported net sales of \$3.4 million in 1997, \$11.9 million in 1998 and \$19.2 million in 1999. During those same periods Waste Control Specialists reported operating losses (net losses before interest expense) of \$11.3 million, \$13.8 million and \$9.4 million, respectively, and reported net losses of \$12.4 million, \$15.1 million and \$10.8 million, respectively. However, due primarily to the favorable effect of certain cost control measures implemented during the second half of 1999, Waste Control Specialists reported an operating loss in the second half of 1999 of \$1.6 million compared to a \$7.8 million operating loss in the first half of the year.

Waste Control Specialists currently has permits which allow it to treat, store and dispose of a broad range of hazardous and toxic wastes, and to treat and store a broad range of low-level and mixed radioactive wastes. The hazardous waste industry (other than low-level and mixed radioactive waste) currently has excess industry capacity caused by a number of factors, including a relative decline in the number of environmental remediation projects generating hazardous wastes and efforts on the part of generators to reduce the volume of waste and/or manage wastes onsite at their facilities. These factors have led to reduced demand and increased price pressure for non-radioactive hazardous waste management services. While Waste Control Specialists believes its broad range of permits for the treatment and storage of low-level and mixed radioactive waste streams provides certain competitive advantages, a key element of Waste Control Specialists' long-term strategy to provide "one-stop shopping" for hazardous, low-level and mixed radioactive wastes includes obtaining additional regulatory authorizations for the disposal of low-level and mixed radioactive wastes.

The current state law in Texas (where Waste Control Specialists' disposal facility is located) prohibits the applicable Texas regulatory agency from issuing a permit for the disposal of low-level radioactive waste to a private enterprise. During the latest Texas legislative session which ended in May 1999, Waste Control Specialists was supporting a proposed change in state law which would allow the regulatory agency to issue a disposal permit to a private entity. While the legislative session ended without any change in state law, Waste Control Specialists has been pursuing other alternatives with respect to the disposal of low-level and mixed radioactive wastes, including obtaining certain modifications to its existing permits that would allow Waste Control Specialists to dispose of certain types of low-level and mixed radioactive wastes. Waste Control Specialists has obtained additional authority that allows Waste Control Specialists to dispose of certain categories of low-level radioactive materials, including NORM and exempt level materials (radioactive materials that do not exceed certain specified radioactive concentrations and are exempt from licensing). Although there are other categories of low-level and mixed radioactive wastes that continue to be ineligible for disposal under the increased authority, Waste Control Specialists will continue to pursue permit modifications to further expand its treatment and disposal capabilities for low-level and mixed radioactive wastes. In addition, Waste Control Specialists currently expects to continue to support a change in state law, as discussed above, during the next Texas legislative session which begins in January 2001. Expenditures associated with any additional permit modifications concerning the

disposal of low-level and mixed radioactive wastes in the next few quarters are expected to be significantly lower than those incurred in connection with the Texas legislative session which ended in May 1999. There can be no assurance that Waste Control Specialists will be successful in obtaining any future permit modifications.

In June 1999, Waste Control Specialists was awarded a contract by the Kansas City District of the Corps of Engineers for the disposal of NORM, low-level radioactive materials and certain hazardous wastes, all of which are eligible for treatment and disposal under Waste Control Specialists' permits currently in place. The Corps of Engineers oversees the Formerly Utilized Sites Remedial Action Program ("FUSRAP") that involves the remediation of 46 government sites in 14 states throughout the U.S. The contract provides for disposal of FUSRAP wastes for a minimum volume of \$500,000 and a maximum volume of \$96 million over a five-year period ending July 2004, with an option to extend the contract for an additional five years (the maximum contract value remains \$96 million). Waste Control Specialists believes this contract provides a convenient vehicle for a variety of federal facilities to directly contract with Waste Control Specialists for disposal of such wastes at listed prices. Waste Control Specialists began receiving orders under this contract in the third quarter of 1999. Waste Control Specialists' ability to realize significant future sales pursuant to this contract is dependent upon a number of factors, including the availability of government funding for the clean-up of specified sites and Waste Control Specialists' successful marketing efforts that will focus on getting managers and operators of these sites to select this contract vehicle for disposal of specified wastes.

Waste Control Specialists has entered into an agreement with an independent contractor pursuant to which the contractor will operate certain indirect thermal desorption equipment owned by the contractor on behalf of Waste Control Specialists at its West Texas facility. This equipment and related technology is expected to allow Waste Control Specialists to process and dispose of new hazardous waste streams (principally petroleum hydrocarbons) beginning in the second quarter of 2000.

The completion of the Texas legislative session in May 1999 resulted in a significant reduction in the Company's expenditures for permitting during the last half of 1999 compared to the first half of this year. Waste Control Specialists' program to improve operating efficiencies at its West Texas facility and to curtail certain of its corporate and administrative costs has also reduced operating costs in the last half of 1999 compared to the first half of the year. Waste Control Specialists is also refocusing its sales and marketing efforts to (i) emphasize opportunities where Waste Control Specialists believes it has unique permitting capabilities for the treatment and storage of mixed radioactive wastes that currently provide Waste Control Specialists with certain competitive advantages and (ii) capitalize on the recent permit modifications regarding disposal of certain types of low-level radioactive wastes. Realizing significant sales volumes from these types of waste streams may involve lengthy negotiations and due diligence processes necessary to satisfy potential customers of the adequacy of Waste Control Specialists' permitting ability for its facility and compliance with regulatory procedures. The ability of Waste Control Specialists to achieve increased volumes of these waste streams, together with improved operating efficiencies through further cost reductions and increased capacity utilization, are important factors in Waste Control Specialists' ability to achieve improved cash flows. The Company currently believes Waste Control Specialists can become a viable, profitable operation with its current operating permits. However, there can be no assurance that Waste Control Specialists' efforts will prove successful in improving its cash flows. In the event such efforts are not successful or Waste Control Specialists is not successful in expanding its disposal capabilities for low-level radioactive wastes, it is possible that Valhi will consider other strategic alternatives with respect to Waste Control Specialists.

Tremont Corporation and TIMET

In June 1998, the Company acquired 2.9 million shares of Tremont Corporation common stock held by Contran and certain of Contran's subsidiaries. Subsequently in 1998 and during 1999, the Company purchased in market and private transactions additional shares of Tremont common stock which, by late December 1999, increased the Company's ownership of Tremont to 50.2%. See Note 3 to the Consolidated Financial Statements. Accordingly, the Company commenced consolidating Tremont's balance sheet at December 31, 1999, and the Company will commence consolidating Tremont's results of operations and cash flows effective January 1, 2000. Prior to December 31, 1999, the Company accounted for its interest in Tremont by the equity method, and the Company commenced reporting

equity in Tremont's earnings beginning in the third quarter of 1998. The Company's equity in Tremont's earnings differs from the amount that would be expected by applying the Company's ownership percentage to Tremont's separately-reported earnings because of the effect of amortization of purchase accounting adjustments made in conjunction with the Company's acquisitions of its interest in Tremont. Such non-cash amortization reduced earnings (or increases losses) attributable to Tremont in 1998 and 1999, as reported by the Company, by approximately \$3 million per year, exclusive of the impact of the other than temporary impairment charge related to TIMET discussed below.

Tremont accounts for its interests in both NL and TIMET by the equity method. Tremont's equity in earnings of TIMET and NL differs from the amounts that would be expected by applying Tremont's ownership percentage to TIMET's and NL's separately-reported earnings because of the effect of amortization of purchase accounting adjustments made by Tremont in conjunction with Tremont's acquisitions of its interests in TIMET and NL. Amortization of such basis differences generally increases earnings (or reduces losses) attributable to TIMET as reported by Tremont (exclusive of the impact of the impairment charge with respect to TIMET discussed below), and generally reduces earnings (or increases losses) attributable to NL as reported by Tremont.

For the six months ended December 31, 1998, Tremont reported income before extraordinary items of \$18.7 million, comprised principally of equity in earnings of TIMET (\$4.3 million) and NL (\$7.6 million) and an income tax benefit of \$6.1 million. For the year ended December 31, 1999, Tremont reported a net loss of \$28.2 million, comprised principally of equity in earnings of NL of \$28.1 million, equity in losses of TIMET of \$72.0 million and an income tax benefit of \$18.9 million. Tremont's equity in losses of TIMET in 1999 includes an impairment provision for an other than temporary decline in the value of TIMET discussed below. The Company's pro-rata share of such charge, together with amortization of purchase accounting adjustments related to the Company's investment in Tremont which were attributable to Tremont's investment in TIMET, resulted in a \$50 million pre-tax charge related to the other than temporary impairment of TIMET being included in the Company's equity in losses of Tremont in 1999.

Tremont's effective income tax rate in 1998 varies from the 35% U.S. federal statutory income tax rate in 1998 primarily because of a deferred income tax benefit recognized by Tremont in the fourth quarter of 1998 upon the complete reversal of its deferred income tax asset valuation allowance with respect to its investment in NL, which deferred income tax asset Tremont believed then met the "more-likely-than-not" recognition criteria.

NL's operating results are discussed above. Tremont's equity in earnings of NL in 1999 includes Tremont's pro-rata share (\$17.7 million) of NL's non-cash income tax benefit discussed below.

In 1999, TIMET reported sales of \$480.0 million, an operating loss of \$31.4 million and a net loss of \$31.4 million compared to sales, operating income and net income of \$707.7 million, \$82.7 million and \$45.8 million, respectively, in 1998. For the six months ended December 31, 1998, TIMET reported sales, operating income and income before extraordinary items of \$329.8 million, \$27.1 million and \$13.6 million, respectively. TIMET's results in 1999 were below those of 1998 principally due to a 23% decline in mill products sales volumes and a 7% decline in average selling prices caused by the previously-reported lower demand in both its aerospace and industrial markets. TIMET's sales in the fourth quarter of 1999, the lowest quarterly sales amount for TIMET in four years, was 6% lower than the third quarter of this year due primarily to a 4% decline in mill products average selling prices and a 22% decline in volume of ingot and slab products. TIMET's results in 1999 were also impacted by production difficulties and inefficiencies at TIMET's North American operations, as yield, rework and deviated material levels were higher and plant operating rates were lower. TIMET's results in 1999 also include \$11 million of special charges related to, among other things, personnel reductions of about 100 people, slow-moving inventories and write-downs associated with TIMET's investments in certain start-up joint ventures. TIMET's results in the fourth quarter of 1998 included an \$18 million pre-tax restructuring charge related to TIMET's decision to close certain facilities and other cost reduction efforts.

TIMET's outlook for 2000 remains weak, and TIMET expects to report a net loss in 2000 greater than its 1999 net loss. Customers and end-users continue to indicate that a substantial inventory overhang exists. TIMET's backlog was approximately \$195 million at December 31, 1999 compared to \$350 million at December 31, 1998 and \$530 million at the end of 1997. Orders under TIMET's long-term supply contract with Boeing for 1999 are believed to be far

below contractual volume requirements. TIMET has received virtually no Boeing-related orders under the contract for 2000. Boeing has informed TIMET that they will either order the required contractual volume under the contract in 2000 or pay the liquidated damages provided for in the agreement. Beyond 2000, Boeing is unwilling to commit to the contract. On March 21, 2000, TIMET filed a lawsuit against Boeing in Colorado state court seeking damages for Boeing's repudiation and breach of the Boeing contract. TIMET's complaint seeks damages from Boeing that TIMET believes are in excess of \$600 million and a declaration from the court of TIMET's rights under the contract. All of these factors lead TIMET to currently believe its sales in 2000 will be somewhat lower than the fourth quarter of 1999 annualized due to lower expected sales volumes and selling prices. Industrial demand for titanium is also expected to remain soft during 2000. In light of the continuing weak market conditions, TIMET has targeted further personnel reductions of about 250 people, and TIMET expects to report an additional restructuring charge in the first quarter of 2000 of about \$10 million to primarily cover termination costs associated with this additional headcount reduction. TIMET will focus additional resources with the intent to improve the quality of its manufacturing, customer service and management processes and to return to profitability.

Tremont periodically evaluates the net carrying value of its long-term assets, principally its investments in NL and TIMET, to determine if there has been any decline in value below their net carrying amounts that is other than temporary and would, therefore, require a write-down which would be accounted for as a realized loss. At December 31, 1999, after considering what it believes to be all relevant factors, including, among other things, TIMET's operating results, financial position, estimated asset values and prospects, Tremont recorded a \$60.8 million pre-tax non-cash charge to earnings to reduce the net carrying value of its investment in TIMET for an other than temporary impairment. After the writedown discussed above, at December 31, 1999, Tremont's net carrying value of its investment in TIMET was \$7 per share compared to NYSE market price of \$4.50 at that date. In determining the amount of the impairment charge, Tremont considered, among other things, recent ranges of TIMET's NYSE market price and current estimates of TIMET's future operating losses which would further reduce Tremont's carrying value of its investment in TIMET as it records additional equity in losses of TIMET.

General corporate and other items

Gains on disposal of business unit and reduction in interest in CompX. See Note 3 to the Consolidated Financial Statements. The pre-tax gain on disposal of NL's specialty chemicals business unit differs from the amount separately-reported by NL due to the write-off of a portion of the Company's purchase accounting adjustments related to the net assets sold, including an allocated portion of goodwill associated with the Company's investment in NL. See Note 1 to the Consolidated Financial Statements.

General corporate. General corporate interest and dividend income decreased in 1999 compared to 1998 due primarily to a lower level of funds available for investment, partially offset by a higher level of dividend distributions received from The Amalgamated Sugar Company LLC. General corporate interest and dividend income decreased in 1998 compared to 1997 due primarily to a lower level of LLC distributions. Dividend distributions from the LLC are dependent in part upon the LLC's results of operations, and the Company received \$23.5 million of dividend distributions from the LLC in 1999 compared to \$18.4 million in 1998 and \$25.4 million in 1997. See Notes 5 and 11 to the Consolidated Financial Statements. Aggregate general corporate interest and dividend income is expected to be somewhat lower in 2000 compared to 1999 due primarily to a lower level of funds available for investment.

Securities transactions in each of the past three years relate principally to the disposition of a portion of the shares of Halliburton Company common stock (and its predecessor Dresser Industries, Inc.) held by the Company when certain holders of the Company's LYONS debt obligations exercised their right to exchange their LYONS for such Halliburton shares. See Notes 5 and 10 to the Consolidated Financial Statements. Any additional exchanges in 2000 or thereafter would similarly result in additional securities transaction gains. Absent significant additional LYONS exchanges in 2000, the Company currently expects securities transactions in 2000 will be nominal.

Net general corporate expenses in 1998 include an aggregate \$32 million pre-tax charge related to the settlements of two shareholder derivative lawsuits in which Valhi was the defendant, and in 1997 include NL's \$30 million pre-tax charge related to adoption of a new accounting standard regarding environmental remediation liabilities. See Note 1 to the Consolidated Financial Statements.

Net general corporate expenses in 1998 also include \$3 million of nonrecurring costs related to NL's unsuccessful attempt to acquire certain TiO2 operations and production facilities. Such charges are included in selling, general and administrative expenses. NL's \$20 million of proceeds from the disposal of its specialty chemicals business unit related to its agreement not to compete in the rheological products business will be recognized as a component of general corporate income (expense) ratably over the five-year non-compete period (\$3.7 million recognized in 1998 and \$4 million in 1999). See Note 11 to the Consolidated Financial Statements. Net general corporate expenses in 2000 are currently expected to be higher compared to 1999 due to, among other things, the effect of consolidating Tremont's results of operations effective January 1, 2000.

Interest expense. Interest expense declined in 1999 and 1998 compared to the respective prior year due primarily to a lower average level of outstanding indebtedness. Such lower average levels of outstanding indebtedness reflects in part the repayment of indebtedness over the past three years using a portion of the proceeds generated from the disposal of discontinued operations and business units. Assuming interest rates do not increase significantly from year-end 1999 levels and that there is not a significant reduction in the amount of outstanding LYONs indebtedness from exchanges, interest expense in 2000 is not expected to be significantly different from interest expense in 1999 due principally to the net effects of (i) lower expected levels of outstanding indebtedness and interest rates with respect to NL, (ii) higher levels of outstanding indebtedness with respect to CompX and (iii) the consolidation of Tremont effective January 1, 2000.

At December 31, 1999, approximately \$596 million of consolidated indebtedness, principally publicly-traded debt and Valhi's loans from Snake River Sugar Company, bears interest at fixed interest rates averaging 10.4% (1998 - \$582 million with a weighted average fixed interest rate of 10.4%; 1997 - \$761 million at 11%). The weighted average interest rate on \$99 million of outstanding variable rate borrowings at December 31, 1999 was 5.0% compared to an average interest rate on outstanding variable rate borrowings of 5.6% at December 31, 1998 and 6.8% at December 31, 1997. The weighted average interest rate on outstanding variable rate borrowings decreased from December 31, 1998 to December 31, 1999 due primarily to the payoff in 1999 of NL's variable rate DM-denominated borrowings which was funded, in part, by borrowings under other NL non-U.S. short-term credit facilities which bear interest at rates lower than the DM credit facility, offset in part by Valhi's \$21 million of bank borrowings during 1999 which bear interest at an interest rate higher than the DM borrowings repaid during 1999. The weighted average interest rate on outstanding variable rate borrowings decreased from December 31, 1997 to December 31, 1998 due primarily to the 1998 payoff of certain NL indebtedness (Rheox bank credit facility and joint venture term loan). Such indebtedness carried a higher interest rate than NL's DM-denominated borrowings, which comprised most of the remaining variable rate borrowings at December 31, 1997 and comprised substantially all of the outstanding variable rate borrowings at December 31, 1998.

NL has a certain amount of indebtedness denominated in currencies other than the U.S. dollar and, accordingly, NL's interest expense is also subject to currency fluctuations. See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk." Periodic cash interest payments are not required on Valhi's 9.25% deferred coupon LYONs. As a result, current cash interest expense payments are lower than accrual basis interest expense.

Provision for income taxes. The principal reasons for the difference between the Company's effective income tax rates and the U.S. federal statutory income tax rates are explained in Note 15 to the Consolidated Financial Statements. Income tax rates vary by jurisdiction (country and/or state), and relative changes in the geographic mix of the Company's pre-tax earnings can result in fluctuations in the effective income tax rate. Certain subsidiaries, including NL, Tremont and, beginning in March 1998, CompX, are not members of the consolidated U.S. tax group and the Company provides incremental income taxes on such earnings.

In 1999, NL recognized a \$90 million non-cash income tax benefit related to (i) a favorable resolution of NL's previously-reported tax contingency in Germany (\$36 million) and (ii) a net reduction in NL's deferred income tax valuation allowance due to a change in estimate of NL's ability to utilize certain income tax attributes under the "more-likely-than-not" recognition criteria (\$54 million). With respect to the favorable resolution of the German tax contingency, the German government has conceded substantially all of its income tax claims against NL, and the government has released a DM 94

million (\$50 million) lien on one of NL's German TiO₂ plants that secured the government's claim. The \$54 million net reduction in NL's deferred income tax valuation allowance is comprised of (i) a \$78 million decrease in the valuation allowance to recognize the benefit of certain deductible income tax attributes which NL now believes meets the recognition criteria as a result of, among other things, a corporate restructuring of NL's German subsidiaries and (ii) a \$24 million increase in the valuation allowance to reduce the previously-recognized benefit of certain other deductible income tax attributes which NL now believes do not meet the recognition criteria due to a change in German tax law. The German tax law change, enacted on April 1, 1999, was effective retroactively to January 1, 1999 and resulted in an increase in NL's current income tax expense during 1999.

Also during 1999, NL reduced its deferred income tax valuation allowance by \$16 million primarily as a result of utilization of certain tax attributes for which the benefit had not been previously recognized under the "more-likely-than-not" recognition criteria.

The provision for income taxes in 1998 includes (i) an \$8 million tax benefit resulting from a refund of prior-year German dividend withholding taxes received by NL and (ii) a \$57 million benefit resulting from NL's net reduction of its deferred income tax valuation allowance primarily as a result of utilization of certain deductible tax attributes for which the benefit had not been previously recognized under the "more-likely-than-not" recognition criteria. In 1997, the geographic mix of pre-tax income included losses in certain of NL's tax jurisdictions for which no current refund was available and for which recognition of a deferred tax asset was not considered appropriate. All of these factors also impacted the Company's overall effective tax rate.

As discussed above, the Company expects to report equity in losses of TIMET in 2000, and the Company does not expect that recognizing a deferred income tax asset with respect to such equity in losses will be appropriate under the "more-likely-than-not" recognition criteria. Consequently, this will affect the Company's consolidated effective tax rate in 2000.

Minority interest, discontinued operations and extraordinary item. See Notes 12, 19 and 1, respectively, to the Consolidated Financial Statements. Minority interest in NL's subsidiaries in 1999 relates principally to NL's majority-owned environmental management subsidiary, NL Environmental Management Services, Inc. ("EMS"). EMS was established in 1998, at which time EMS contractually assumed certain of NL's environmental liabilities. EMS' earnings are based, in part, upon its ability to favorably resolve these liabilities on an aggregate basis. The shareholders of EMS, other than NL, actively manage the environmental liabilities and share in 39% of EMS' cumulative earnings. NL continues to consolidate EMS and provides accruals for the reasonably estimable costs for the settlement of EMS' environmental liabilities, as discussed below.

As discussed above, the Company will commence consolidating Tremont's results of operations beginning in 2000. Consequently, the Company will commence reporting minority interest in Tremont's net earnings or losses beginning in 2000.

Year 2000 Issue

General. As a result of certain computer programs being written using two digits rather than four to define the applicable year, certain computer programs that had date-sensitive software may have recognized a date using "00" as the year 1900 rather than the year 2000. This could have resulted in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in normal business activities.

Over the past few years, each of the Company's business units spent varying amounts of time, effort and money in order to address the Year 2000 Issue in an attempt to ensure that their computer systems, both information technology ("IT") systems and non-IT systems involving embedded chip technology, and software applications would function properly after December 31, 1999. This process included, among other things, the identification of all systems and applications potentially affected by the Year 2000 Issue, the determination of which systems and applications required remediation and the completion thereof and the testing of systems and applications following remediation for Year 2000 compliance. In addition, each business unit requested confirmation from their major software and hardware vendors, suppliers and customers that they were developing and implementing plans to become, or that they had become, Year 2000 compliant. Contingency plans were also developed to address potential Year 2000

issues related to business interruption in the event one or more of each business unit's internal systems or the systems of third parties upon which they rely ultimately proved not to be Year 2000 compliant. As part of these contingency plans, certain units (NL and TIMET) temporarily idled their manufacturing facilities shortly before the end of 1999 as an added safeguard against unexpected loss of utility service; all of such facilities resumed production shortly after midnight of year-end 1999. After all of the efforts described above, each business unit believed that their key systems were Year 2000 compliant prior to December 31, 1999.

The extent to which each business unit spent time, effort and money varied due to its particular circumstances. For example, the manufacturing processes and facilities of NL and TIMET are more heavily dependent upon non-IT systems involving embedded chip technology than those of CompX and Waste Control Specialists. Accordingly, NL and TIMET were required to spend relatively more time, effort and money addressing the Year 2000 Issue than CompX and Waste Control Specialists. As part of their normal business operations, CompX, NL and TIMET had, to varying degrees, already installed upgraded information systems at certain of their locations which addressed the Year 2000 Issue. Waste Control Specialists did not encounter significant Year 2000 problems with its systems, primarily because it had only commenced operations in 1997 and most of its systems were Year 2000 compliant at installation (or the cost to become compliant was not significant). Tremont and Valhi, as holding companies, do not have numerous applications or systems, and therefore very little effort was required to ensure Year 2000 compliance for their systems. Excluding the cost of the ongoing system upgrades, the amount spent by NL and TIMET to address the Year 2000 Issue was as follows: NL - \$2 million (\$1 million in 1999) and TIMET - \$4 million (\$2 million in 1999). The amount spent by CompX, Waste Control Specialists, Tremont and Valhi was not significant.

To date in 2000, none of the Company's manufacturing facilities have suffered any downtime due to non-compliant systems, nor has any significant problems associated with the Year 2000 Issue been identified in any of such companies' systems. Each business unit will continue to monitor its major systems in order to ensure that such systems continue to be Year 2000 compliant. However, based primarily upon the length of time into 2000 which has elapsed without the identification of any significant problems related to the Year 2000 Issue, the Company does not currently expect to experience any significant Year 2000 Issue-related problems.

European monetary conversion

Beginning January 1, 1999, 11 of the 15 members of the European Union ("EU"), including Germany, Belgium, the Netherlands and France, established fixed conversion exchange rates between their existing national currencies and the European currency unit ("euro"). Such members adopted the euro as their common legal currency on that date. The remaining four EU members (including the United Kingdom) may convert their national currencies to the euro at a later date. Certain European countries, such as Norway, are not members of the EU and their national currencies will remain intact. Each national government retained authority to establish their own tax and fiscal spending policies and public debt levels, although such public debt will be issued in, or re-denominated into, the euro. However, monetary policies, including money supply and official euro interest rates, are now established by a new European Central Bank. Following the introduction of the euro, the participating countries' national currencies are scheduled to remain legal tender as denominations of the euro through January 1, 2002, although the exchange rates between the euro and such currencies will remain fixed.

NL. NL conducts substantial operations in Europe, principally in Germany, Belgium, the Netherlands, France and Norway. In addition, at December 31, 1999, NL has a certain amount of outstanding indebtedness denominated in the euro. The national currency of the country in which such operations are located are such operation's functional currency. The functional currency of the German, Belgian, Dutch and French operations will convert from their respective national currencies to the euro over a two-year period that began in 1999. The euro conversion may impact NL's operations including, among other things, changes in product pricing decisions necessitated by cross-border price transparencies. Such changes in product pricing decisions could impact both sales prices and purchasing costs, and consequently favorably or unfavorably impact NL's reported consolidated results of operations, financial condition or liquidity. At December 31, 1999, NL had substantial net assets denominated in the Canadian dollar and the Norwegian kroner, partially offset by net liabilities denominated in the euro (or currencies whose exchange rates are fixed with respect to the euro).

CompX. The functional currency of CompX's Thomas Regout operations in the Netherlands will convert to the euro from its national currency (Dutch guilders) over a two-year period that began in 1999. The euro conversion may impact CompX's operations including, among other things, changes in product pricing decisions necessitated by cross-border price transparencies. Such changes in product pricing decisions could impact both selling prices and purchasing costs and, consequently, favorably or unfavorably impact results of operations. Because of the inherent uncertainty of the ultimate effect of the euro conversion, CompX cannot accurately predict the impact of the euro conversion on its consolidated results of operations, financial condition or liquidity.

TIMET. TIMET also has operations and assets located in Europe, principally in the United Kingdom. The United Kingdom has not adopted the euro. Approximately 60% of TIMET's European sales are denominated in currencies other than the U.S. dollar, principally the British pound and other major European currencies. Certain purchases of raw materials for TIMET's European operations, principally titanium sponge and alloys, are denominated in U.S. dollars while labor and other production costs are primarily denominated in local currencies. The U.S. dollar value of TIMET's foreign sales and operating costs are subject to currency exchange rate fluctuations that can impact reported earnings and may affect the comparability of period-to-period operating results.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash flows

Operating activities. Trends in cash flows from operating annual activities (excluding the impact of significant asset dispositions and relative changes in assets and liabilities) are generally similar to trends in the Company's earnings. Changes in assets and liabilities generally result from the timing of production, sales, purchases and income tax payments. In addition, cash flows from operating activities in 1997 and 1998 include the impact of the payment of cash income taxes related to the disposal of discontinued operations and the sale of NL's specialty chemicals business unit, even though the pre-tax proceeds from the disposal of such assets are reported as a component of cash flows from investing activities. Noncash interest expense consists of amortization of original issue discount on certain Valhi and NL indebtedness and amortization of deferred financing costs.

Investing activities. Capital expenditures are disclosed by business segment in Note 2 to the Consolidated Financial Statements.

At December 31, 1999, the estimated cost to complete capital projects in process approximated \$15 million, of which \$11 million relates to NL's Ti02 facilities and the remainder relates to CompX's facilities. Aggregate capital expenditures for 2000 are expected to approximate \$67 million (\$37 million for NL, \$25 million for CompX and \$5 million for Waste Control Specialists). Capital expenditures in 2000 are expected to be financed primarily from operations or existing cash resources and credit facilities.

During 1999, (i) CompX acquired two slide producers for approximately \$65.0 million using funds on hand and \$20 million of borrowing under its unsecured revolving bank credit facility, (ii) Valhi contributed an additional \$10 million to Waste Control Specialists' equity, (iii) Valhi purchased \$1.9 million of additional shares of Tremont common stock and \$.8 million of additional shares of CompX common stock, (iv) Valhi sold certain marketable securities for an aggregate of \$6.6 million, (v) Valhi received \$2 million of additional consideration related to the 1997 disposal of its former fast food operations and (vi) NL purchased \$7.2 million of shares of its common stock.

During 1998, (i) Valhi purchased 3.1 million shares of Tremont Corporation for an aggregate cost of \$173 million, (ii) Valhi contributed an additional \$10 million to Waste Control Specialists' equity, (iii) Valhi purchased \$14 million of additional shares of NL common stock, \$6 million of additional shares of CompX common stock and \$4 million of certain marketable securities, (iv) CompX purchased two lock producers for \$42 million and (v) Valhi loaned a net \$6 million to Waste Control Specialists pursuant to its \$10 million revolving facility. In addition, NL sold its specialty chemicals

business unit conducted by Rheox for \$465 million cash consideration (before fees and expenses), including \$20 million attributable to a five-year agreement by NL not to compete in the rheological products business.

During 1997, Valhi (i) loaned \$180 million to Snake River Sugar Company and \$12.1 million to a subsidiary of Snake River, (ii) collected \$112.1 million principal amount on such loans, (iii) received an \$11.5 million pre-closing dividend from Amalgamated, (iv) contributed \$13 million in capital contributions to Waste Control Specialists, (v) loaned a net \$4 million to Waste Control Specialists and (vi) purchased \$6 million of certain marketable securities and \$14 million of additional shares of NL common stock.

Financing activities. Net repayments of indebtedness in 1999 include (i) NL's repayment in full of the outstanding balance under its DM credit facility (\$100 million net when repaid) using funds on hand and an increase in outstanding borrowings under other NL non-U.S. credit facilities (\$26 million when borrowed), (ii) CompX's \$20 million of borrowing under its revolving bank credit facility, (iii) Valhi's \$21 million of borrowing under its revolving bank credit facility and (iv) Valhi's repayment of a net \$7.2 million of short-term borrowings from Contran.

Net repayments of indebtedness in 1998 include (i) NL's prepayment and termination of the Rheox bank credit facility (\$118 million) and the joint venture term loan (\$42 million), (ii) NL's open-market purchases of approximately \$65 million accreted value of its Senior Secured Discount Notes and approximately \$6 million principal amount of its Senior Secured Notes, (iii) NL's redemption of the remaining \$121 million principal amount of Senior Secured Discount Notes at a redemption price of 106% of principal amount and (iv) NL's repayment of DM 81 million (\$44 million when paid) of the DM term loan, using funds on hand and a DM 35 million (\$19 million when borrowed) increase in outstanding borrowings under NL's short-term non-U.S. credit facilities.

Changes in indebtedness in 1997 include \$250 million borrowed from Snake River Sugar Company, the impact of NL's refinancing of its Rheox term loan and prepayment of a portion of NL's DM credit facility, the impact of Valhi LYON holders exchanging their LYONs debt obligation for shares of Dresser Industries common stock held by the Company and Valcor Senior Notes purchased pursuant to tender offers completed in 1997.

At December 31, 1999, unused credit available under existing credit facilities approximated \$127 million, which was comprised of \$80 million available to CompX under its revolving senior credit facility discussed below, \$19 million available to NL under non-U.S. credit facilities and \$28 million available to Valhi under its revolving bank credit facility.

In January 1998, the Company's board of directors authorized the Company to purchase up to 2 million shares of its common stock in open market or privately-negotiated transactions over an unspecified period of time. As of December 31, 1999, the Company had purchased approximately 383,000 shares for an aggregate of \$3.7 million pursuant to such authorization. The most recent such purchase was in 1998.

Chemicals - NL Industries

Pricing within the TiO₂ industry is cyclical, and changes in industry economic conditions can significantly impact NL's earnings and operating cash flows.

In January 1998, NL sold its specialty chemicals business unit conducted by Rheox for \$465 million cash consideration (before fees and expenses), including \$20 million attributable to a five-year agreement by NL not to compete in the rheological products business. A majority of the \$380 million net-of-tax proceeds were used by NL to prepay certain indebtedness. The remaining net proceeds were available for NL's general corporate purposes, subject to compliance with the terms of the indenture governing its publicly-traded debt.

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

NL's capital expenditures during the past three years, excluding capital expenditures of its disposed specialty chemicals business unit,

aggregated \$86 million, including \$22 million (\$10 million in 1999) for NL's ongoing environmental protection and compliance programs. NL's estimated 2000 capital expenditures are \$37 million (2001 - \$35 million) and include \$7 million (2001 - \$11 million) in the area of environmental protection and compliance. NL spent \$7 million in 1997 in capital expenditures related to a debottlenecking project at its Leverkusen, Germany chloride-process TiO₂ facility, and NL spent \$6 million in 1999 with respect to an expansion of a landfill for its Belgian TiO₂ facility. The capital expenditures of the TiO₂ manufacturing joint venture are not included in NL's capital expenditures.

At December 31, 1999, NL had cash and cash equivalents, including restricted cash balances, of \$152 million, and NL had \$19 million available for borrowing under its non-U.S. credit facilities. At December 31, 1999, NL had complied with all financial covenants governing its debt agreements.

In November 1999, NL's board of directors authorized NL to purchase up to 1.5 million shares of its common stock in open market or privately-negotiated transactions over an unspecified period of time. Through February 29, 2000, NL had purchased 1.1 million of its shares pursuant to such authorization for an aggregate of \$15.5 million, including \$7.2 million purchased in 1999.

Certain of NL's U.S. and non-U.S. tax returns are being examined and tax authorities have or may propose tax deficiencies, including non-income related items and interest. As discussed above, in 1999 certain significant German tax contingencies aggregating an estimated DM 188 million (\$100 million) through 1998 were resolved in NL's favor.

On April 1, 1999, the German government enacted certain income tax law changes that were retroactively effective as of January 1, 1999. Based on these changes, NL's effective current (cash) income tax rate in Germany increased in 1999.

During 1997, NL received a tax assessment from the Norwegian tax authorities proposing tax deficiencies of NOK 51 million (\$6 million at December 31, 1999) relating to 1994. NL appealed this assessment, and in February 2000 the Norwegian local court ruled in favor of the Norwegian tax authorities on the primary issue, but asserted such tax authorities' assessment was overstated by NOK 34 million (\$4 million). The tax authorities' response to the court's contention is expected by the end of March 2000. NL is considering its appeal options. During 1998, NL was informed by the Norwegian tax authorities that additional tax deficiencies of NOK 39 million (\$5 million) will likely be proposed for 1996 on an issue similar to the aforementioned 1994 case. The outcome of the 1996 issue is dependent upon the eventual outcome of the 1994 case. NL intends to vigorously contest this issue and litigate, if necessary. Although NL believes that it will ultimately prevail, NL has granted a lien for the 1994 tax assessment on its Norwegian TiO₂ plant in favor of the Norwegian tax authorities and will be required to grant security on the 1996 assessment when received.

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

At December 31, 1999, NL had recorded net deferred tax liabilities of \$97 million. NL, which is not a member of the tax group of which Contran and Valhi are members, operates in numerous tax jurisdictions, in certain of which it has temporary differences that net to deferred tax assets (before valuation allowance). NL has provided a deferred tax valuation allowance of \$234 million at December 31, 1999, principally related to Germany, partially offsetting deferred tax assets which NL believes do not currently meet the "more-likely-than-not" recognition criteria.

In addition to the chemicals businesses conducted through Kronos, NL also has certain liabilities relating to certain discontinued or divested businesses. See Item 3 - "Legal Proceedings."

NL has been named as a defendant, PRP, or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites, mining locations and facilities currently or previously owned, operated or used by NL, certain of which are on the U.S. EPA's Superfund National Priorities List or similar state lists. On a quarterly basis, NL evaluates the

potential range of its liability at sites where it has been named as a PRP or defendant, including sites for which EMS has contractually assumed NL's obligation as discussed above. NL believes it has provided adequate accruals (\$112 million at December 31, 1999) for reasonably estimable costs of such matters, but NL's ultimate liability may be affected by a number of factors, including changes in remedial alternatives and costs and the allocation of such costs among PRPs. It is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to NL for sites for which it is possible to estimate costs is approximately \$150 million. NL's estimates of such liabilities have not been discounted to present value, and NL has not recognized any potential insurance recoveries. No assurance can be given that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. NL is also a defendant in a number of legal proceedings seeking damages for personal injury, property damage and government expenditures allegedly arising from the sale of lead pigments and lead-based paints. NL has not accrued any amounts for the pending lead pigment and lead-based paint litigation. There is no assurance that NL will not incur future liability in respect of this pending litigation in view of the inherent uncertainties involved in court and jury rulings in pending and possible future cases. However, based on, among other things, the results of such litigation to date, NL believes that the pending lead pigment and lead-based paint litigation is without merit. Liability that may result, if any, cannot reasonably be estimated. In addition, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and to effectively overturn court decisions in which NL and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage, and bills which would revive actions currently barred by statutes of limitations. NL currently believes the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on its consolidated financial position, results of operations or liquidity. There can be no assurance that additional matters of these types will not arise in the future.

NL periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, its capital resources, debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, NL has in the past and may in the future seek to reduce, refinance, repurchase or restructure indebtedness, raise additional capital, issue additional securities, repurchase shares of its common stock, modify its dividend policy, restructure ownership interests, sell interests in subsidiaries or other assets, or take a combination of such steps or other steps to manage its liquidity and capital resources. In the normal course of its business, NL may review opportunities for the acquisition, divestiture, joint venture or other business combinations in the chemicals industry or other industries. In the event of any such transaction, NL may consider using its available cash, issuing its equity securities or refinancing or increasing its indebtedness to the extent permitted by the agreements governing NL's existing debt. In this regard, the indentures governing NL's publicly-traded debt contain provisions which limit the ability of NL and its subsidiaries to incur additional indebtedness or hold noncontrolling interests in business units.

As discussed in "Results of Operations - Chemicals," NL has substantial operations located outside the United States for which the functional currency is not the U.S. dollar. As a result, the reported amount of NL's assets and liabilities related to its non-U.S. operations, and therefore NL's consolidated net assets, will fluctuate based upon changes in currency exchange rates.

Component products - CompX International

In March 1998, CompX completed an initial public offering of shares of its common stock. The net proceeds to CompX were approximately \$110 million. \$75 million of the net proceeds were used to completely repay the outstanding balance of CompX's \$100 million credit facility discussed above. CompX believes that the net proceeds to CompX from the offering, after repayment of borrowings under the credit facility, together with cash generated from operations and borrowing availability under the new credit facility will be sufficient to meet CompX's liquidity needs for working capital, capital expenditures, debt service and future acquisitions for the foreseeable future.

In 1998, CompX acquired two lock producers for aggregate cash consideration of \$42 million, primarily using available cash on hand. In 1999, CompX acquired two slide producers for approximately \$65 million cash consideration, using available cash on hand and \$20 million of borrowing under its revolving bank credit facility. In January 2000, CompX acquired another lock producer for an aggregate of \$9.2 million cash consideration using primarily borrowings under its bank credit facility.

CompX's capital expenditures during the past three years aggregated \$38 million. Such capital expenditures included manufacturing equipment that emphasizes improved production efficiency and increased production capacity.

CompX periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and available resources in view of, among other things, its capital expenditure requirements in light of its capital resources and estimated future operating cash flows. As a result of this process, CompX may in the future seek to raise additional capital, refinance or restructure indebtedness, issue additional securities, modify its dividend policy or take a combination of such steps or other steps to manage its liquidity and capital resources. In the normal course of business, CompX may review opportunities for acquisitions, joint ventures or other business combinations in the component products industry. In the event of any such transaction, CompX may consider using available cash, issuing additional equity securities or increasing the indebtedness of CompX or its subsidiaries.

Waste management - Waste Control Specialists

Waste Control Specialists capital expenditures during the past three years aggregated \$11 million. Such capital expenditures were funded primarily from Valhi's capital contributions as well as certain debt financing provided to Waste Control Specialists by Valhi.

Tremont Corporation and Titanium Metals Corporation

Tremont. Tremont is primarily a holding company which, at December 31, 1999, owned approximately 39% of TIMET and 20% of NL. At December 31, 1999, the market value of the 12.3 million shares of TIMET and the 10.2 million shares of NL held by Tremont was approximately \$55 million and \$154 million, respectively.

In 1998, Tremont entered into a revolving advance agreement with Contran. Through December 31, 1999, Tremont had borrowed \$13 million from Contran under such facility, primarily to fund Tremont's purchases of shares of NL and TIMET common stock. Tremont expects to begin to repay such loan from Contran beginning in 2000 as the cash received from its dividends from NL, which increased its quarterly dividend rate to \$.15 per share beginning in 2000, is expected to exceed its other cash requirements (including its dividends).

In 1997, Tremont's board of directors authorized Tremont to purchase up to 2 million shares of its common stock in open market or privately-negotiated transactions over an unspecified period of time. As of December 31, 1999, Tremont had acquired 1.2 million shares under such authorization. No such shares were acquired in 1999. To the extent Tremont acquires additional shares of its common stock, the Company's ownership interest in Tremont would increase as a result of the fewer number of Tremont shares outstanding.

Based upon certain technical provisions of the Investment Company Act of 1940 (the "1940 Act"), Tremont might arguably be deemed to be an "investment company" under the 1940 Act, despite the fact that Tremont does not now engage, nor has it engaged or intended to engage, in the business of investing, reinvesting, owning, holding or trading of securities. Tremont has taken the steps necessary to give itself the benefits of a temporary exemption under the 1940 Act and has sought an order from the Securities and Exchange Commission that Tremont is primarily engaged, through TIMET and NL, in a non-investment company business. Tremont believes another exemption may be currently available to it under the 1940 Act should the Commission deny Tremont's application for an exemptive order.

Tremont periodically evaluates its liquidity requirements, capital needs and availability of resources in view of, among other things, its alternative uses of capital, its debt service requirements, the cost of debt and

equity capital and estimated future operating cash flows. As a result of this process, Tremont has in the past and may in the future seek to obtain financing from related parties or third parties, raise additional capital, modify its dividend policy, restructure ownership interests of subsidiaries and affiliates, incur, refinance or restructure indebtedness, purchase shares of its common stock, consider the sale of interests in subsidiaries, affiliates, marketable securities or other assets, or take a combination of such steps or other steps to increase or manage liquidity and capital resources. In the normal course of business, Tremont may investigate, evaluate, discuss and engage in acquisition, joint venture and other business combination opportunities. In the event of any future acquisition or joint venture opportunities, Tremont may consider using available cash, issuing equity securities or incurring indebtedness.

TIMET. At December 31, 1999, TIMET had net debt of approximately \$96 million (\$117 million of notes payable and long-term debt and \$21 million of cash and equivalents). In February 2000, TIMET entered into a new \$125 million U.S. revolving credit agreement which replaced its previous U.S. credit facility. Borrowings under the new facility are limited to a formula-determined borrowing base derived from the value of accounts receivable, inventories and equipment. The new facility limits additional indebtedness of TIMET, prohibits the payment of common stock dividend and contains other covenants customary in lending transactions of this type. In addition, in February 2000 TIMET also entered into a new U.K. credit facility denominated in Pound Sterling which replaced its prior U.K. credit facility. At closing, TIMET had about \$95 million of borrowing availability under these new facilities. TIMET believes these two new credit facilities will provide TIMET with the liquidity necessary for its current market and operating conditions.

At December 31, 1999, TIMET had \$201.2 million outstanding of its 6.625% convertible preferred securities. Such convertible preferred securities do not require principal amortization, and TIMET has the right to defer dividend payments for one or more periods of up to 20 consecutive quarters. TIMET is prohibited from, among other things, paying dividends on its common stock while dividends are being deferred on the convertible preferred securities. TIMET suspended the payment of dividends on its common stock during the fourth quarter of 1999 in view of, among other things, the continuing weakness in demand for titanium metals products. TIMET's new U.S. credit facility prohibits the payment of dividends on TIMET's common stock, and the facility also prohibits the payment of dividends on the convertible preferred securities under certain conditions. TIMET's board of directors will continue to evaluate the payment of dividends on the convertible preferred securities on a quarter-by-quarter basis based upon, among other things, TIMET's actual and forecasted results of operations, financial condition, cash requirements for its businesses, contractual requirements and other factors deemed relevant.

In October 1998, TIMET purchased for cash \$80 million of Special Metals Corporation 6.625% convertible preferred stock (the "SMC Preferred Stock"), in conjunction with, and concurrent with, SMC's acquisition of a business unit from Inco Limited. Dividends on the SMC Preferred Stock are being accrued but have not been paid due to limitations imposed by SMC's bank credit agreement. As a result, at December 31, 1999 TIMET has classified its accrued dividends on the SMC preferred securities as a non-current asset. TIMET understands that SMC has sued Inco Limited alleging that it made various misrepresentations to SMC in connection with the acquisition. TIMET is evaluating the position it will take with respect to SMC's claims. TIMET currently believes it will realize the carrying value of its investment in the SMC Preferred Stock.

TIMET's capital expenditures during 2000 are currently expected to be below \$15 million, which is less than expected depreciation and amortization expense of approximately \$44 million.

TIMET periodically evaluates its liquidity requirements, capital needs and availability of resources in view of, among other things, its alternative uses of capital, its debt service requirements, the cost of debt and equity capital, and estimated future operating cash flows. As a result of this process, TIMET has in the past and may in the future seek to raise additional capital, modify its common and preferred dividend policies, restructure ownership interests, incur, refinance or restructure indebtedness, repurchase shares of capital stock, sell assets, or take a combination of such steps or other steps to increase or manage its liquidity and capital resources. In the normal course of business, TIMET investigates, evaluates, discusses and engages in acquisition, joint venture, strategic relationship and other business combination opportunities in the titanium and related industries. In the event of any future acquisition or joint venture opportunities, TIMET may consider using then-available liquidity, issuing equity securities or incurring

additional indebtedness.

Other

Condensed cash flow data related to discontinued operations (Medite and Sybra) for 1997 is presented in Note 19 to the Consolidated Financial Statements. In 1999, the Company received \$2 million of additional consideration related to the 1997 disposal of the Company's former fast food operations. No such additional consideration is expected to be received in the future related to the fast food operations.

General corporate - Valhi

Valhi's operations are conducted primarily through its subsidiaries (NL Industries, CompX, Tremont and Waste Control Specialists). Accordingly, Valhi's long-term ability to meet its parent company level corporate obligations is dependent in large measure on the receipt of dividends or other distributions from its subsidiaries. NL, which paid dividends in the first three quarters of 1996, suspended its dividend in the fourth quarter of 1996. Suspension of NL's dividend did not materially adversely impact Valhi's financial position or liquidity. Starting in the second quarter of 1998, NL resumed regular quarterly dividends at a rate of \$.03 per NL share. NL increased its quarterly dividend to \$.035 per share in the first quarter of 1999 and further increased the dividend in the first quarter of 2000 to \$.15 per quarter. At the current \$.15 per share quarterly rate, and based on the 30.1 million NL shares held by Valhi at December 31, 1999, Valhi would receive aggregate annual dividends from NL of approximately \$18.1 million. Tremont's quarterly dividend is currently \$.07 per share. At that rate, and based upon the 3.2 million Tremont shares owned by Valhi at December 31, 1999, Valhi would receive aggregate annual dividends from Tremont of approximately \$.9 million. CompX commenced quarterly dividends of \$.125 per share in the fourth quarter of 1999. At this current rate and based on the 10.4 million CompX shares held by Valhi and Valcor, Valhi/Valcor would receive annual dividends from CompX of \$5.2 million. Various credit agreements to which certain subsidiaries or affiliates are parties contain customary limitations on the payment of dividends, typically a percentage of net income or cash flow; however, such restrictions have not significantly impacted Valhi's ability to service its parent company level obligations. Valhi has not guaranteed any indebtedness of its subsidiaries or affiliates. At December 31, 1999, Valhi had \$3 million of parent level cash and cash equivalents, including a portion held by Valcor which could be distributed to Valhi, and had \$21 million of outstanding borrowings under its revolving bank credit agreement and had \$2 million of short-term borrowings owed to Contran. In addition, Valhi had \$28 million of borrowing availability under its bank credit facility.

Valhi's LYONs do not require current cash debt service. At December 31, 1999, Valhi held 2.7 million shares of Halliburton common stock, which shares are held in escrow for the benefit of holders of the LYONs. The LYONs are exchangeable at any time, at the option of the holder, for the Halliburton shares owned by Valhi. Exchanges of LYONs for Halliburton stock result in the Company reporting income related to the disposition of the Halliburton stock for both financial reporting and income tax purposes, although no cash proceeds are generated by such exchanges. Valhi's potential cash income tax liability that would have been triggered at December 31, 1999, assuming exchanges of all of the outstanding LYONs for Halliburton stock at such date, was approximately \$27 million. Valhi continues to receive regular quarterly Halliburton dividends (currently \$.125 per share) on the escrowed shares. At December 31, 1999, the LYONs had an accreted value equivalent to approximately \$34.20 per Halliburton share, and the market price of the Halliburton common stock was \$40.25 per share.

Valhi received approximately \$73 million cash in early 1997 at the transfer of control of its refined sugar operations to Snake River Sugar Company, including a net \$11.5 million pre-closing dividend received from Amalgamated. As part of the transaction, Snake River made certain loans to Valhi aggregating \$250 million in January 1997. Snake River's sources of funds for its loans to Valhi, as well as for the \$14 million it contributed to The Amalgamated Sugar Company LLC for its voting interest in the LLC, included cash capital contributions by the grower members of Snake River and \$192 million in debt financing provided by Valhi in January 1997, of which \$100 million was subsequently prepaid in 1997 when Snake River obtained \$100 million of

third-party term loan financing. In addition, another \$12 million of loans from Valhi were prepaid during 1997. After these prepayments, \$80 million of Valhi's loans to Snake River Sugar Company remain outstanding. See Notes 5 and 7 to the Consolidated Financial Statements.

Based on The Amalgamated Sugar Company LLC's current projections, Valhi currently expects that distributions received from the LLC in 2000, which are dependent in part upon the future operations of the LLC, will approximate its debt service requirements under its \$250 million loans from Snake River. Certain covenants contained in Snake River Sugar Company's third-party senior debt limit the amount of debt service payments (principal and interest) which Snake River is permitted to remit to Valhi under Valhi's \$80 million loan to Snake River, and such loan is subordinated to Snake River's third-party senior debt. Due to these covenants, Snake River was limited in the amount of principal and interest payments it could make on the \$80 million loan in 1998 and 1999 to the \$3 million of accrued and unpaid interest owed as of December 31, 1997 (paid in 1998) and \$7.2 million of accrued and unpaid interest from 1998 (paid in 1999). Additional collections of a portion of accrued and unpaid interest are currently expected to be received in 2000. The Company believes both such accrued and unpaid interest as well as the \$80 million principal amount outstanding at December 31, 1999, will ultimately be collected.

The Company has the ability to temporarily take control of the LLC in the event the Company's cumulative distributions from the LLC fall below specified levels. Through December 31, 1999, the Company's cumulative distributions from the LLC had not fallen below such specified levels. The current estimate of distributions to be received from the LLC in 2000 would result in cumulative distributions still above the specified levels. However, distributions from the LLC are dependent in part upon the future operations of the LLC. Currently, the refined sugar industry is experiencing downward pressure on selling prices due to, among other things, relative demand/supply relationships. There can be no assurance that distributions actually received from the LLC in 2000 or beyond will be sufficient to maintain cumulative distributions above the specified levels. If cumulative distributions were to fall below the specified levels, and if the Company exercised its right to temporarily take control of the LLC, the Company would be required to escrow funds in amounts up to the next three years of debt service on Snake River's third-party term loan (\$46 million at December 31, 1999) unless the Company and Snake River's third-party lender otherwise mutually agree. See Note 5 to the Consolidated Financial Statements.

Redemption of the Company's interest in the LLC would result in the Company reporting income related to the disposition of its LLC interest for both financial reporting and income tax purposes, although the net cash proceeds that would be generated from such a disposition would likely be less than the specified redemption price due to Snake River's ability to simultaneously call its \$250 million loans to Valhi. As a result, such net cash proceeds generated by redemption of the Company's interest in the LLC could be less than the income taxes that would become payable as a result of the disposition.

The Company routinely compares its liquidity requirements and alternative uses of capital against the estimated future cash flows to be received from its subsidiaries, and the estimated sales value of those units. As a result of this process, the Company has in the past and may in the future seek to raise additional capital, refinance or restructure indebtedness, repurchase indebtedness in the market or otherwise, modify its dividend policies, consider the sale of interests in subsidiaries, affiliates, business units, marketable securities or other assets, or take a combination of such steps or other steps, to increase liquidity, reduce indebtedness and fund future activities. Such activities have in the past and may in the future involve related companies.

The Company and related entities routinely evaluate acquisitions of interests in, or combinations with, companies, including related companies, perceived by management to be undervalued in the marketplace. These companies may or may not be engaged in businesses related to the Company's current businesses. The Company intends to consider such acquisition activities in the future and, in connection with this activity, may consider issuing additional equity securities and increasing the indebtedness of the Company, its subsidiaries and related companies. From time to time, the Company and related entities also evaluate the restructuring of ownership interests among their respective subsidiaries and related companies. In this regard, the indentures governing the publicly-traded debt of NL contain provisions which limit the ability of NL and its subsidiaries to incur additional indebtedness or hold noncontrolling interests in business units.

ITEM 7A.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General. The Company is exposed to market risk from changes in foreign currency exchange rates, interest rates and equity security prices. In the past, the Company has periodically entered into interest rate swaps or other types of contracts in order to manage a portion of its interest rate market risk. The Company has also periodically entered into currency forward contracts to either manage a nominal portion of foreign exchange rate market risk associated with receivables denominated in a currency other than the holder's functional currency or to hedge specific foreign currency commitments. Otherwise, the Company does not generally enter into forward or option contracts to manage such market risks, nor does the Company enter into any such contract or other type of derivative instrument for trading or speculative purposes. Other than the contracts discussed below, the Company was not a party to any forward or derivative option contract related to foreign exchange rates, interest rates or equity security prices at December 31, 1998 and 1999. See Notes 1 and 14 to the Consolidated Financial Statements.

Interest rates. The Company is exposed to market risk from changes in interest rates, primarily related to indebtedness and certain interest-bearing notes receivable.

At December 31, 1999, the Company's aggregate indebtedness was split between 85% of fixed-rate instruments and 15% of variable rate borrowings (1998 - 80% fixed-rate and 20% variable-rate). The large percentage of fixed-rate debt instruments minimizes earnings volatility which would result from changes in interest rates. The following table presents principal amounts and weighted average interest rates, by contractual maturity dates, for the Company's aggregate outstanding indebtedness at December 31, 1999. At December 31, 1999, all outstanding fixed-rate indebtedness was denominated in U.S. dollars, and the outstanding variable rate borrowings were denominated in U.S. dollars or the euro. Information shown below for such euro-denominated indebtedness is presented in its U.S. dollar equivalent at December 31, 1999 using an exchange rate of .99 euro per U.S. dollar. All of such euro-denominated indebtedness relates to NL.

	Contractual maturity date							Fair value 12/31/99
	2000	2001	2002	2003	2004	Thereafter	Total	

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	(In \$ millions, except interest rates)							
Fixed rate debt (U.S. dollar-denominated):								
Principal amount	\$ 1.8	\$.9	\$ 91.8	\$ 246.4	\$ 4.3	\$ 250.0	\$ 595.2	\$ 619.1
Weighted-average interest rate	8.2%	7.0%	9.3%	11.7%	12.3%	9.4%	10.4%	
Variable rate debt (U.S. dollar-denominated):								
Principal amount	\$ 21.0	\$--	\$--	\$ 20.0	\$--	\$ --	\$ 41.0	\$ 41.0
Weighted-average interest rate	7.7%			6.2%			7.0%	
Variable rate debt (euro-denominated):								
Principal amount	\$ 57.1	\$--	\$--	\$ --	\$--	\$ --	\$ 57.1	\$ 57.1
Weighted-average interest rate	3.6%						3.6%	
Variable rate debt (Total):								
Principal amount	\$ 78.1	\$--	\$--	\$ 20.0	\$--	\$ --	\$ 98.1	\$ 98.1
Weighted-average interest rate	4.7%			6.2%			5.1%	

At December 31, 1998 fixed rate indebtedness aggregated \$580.5 million (fair value - \$592.1 million) with a weighted-average interest rate of 10.4%; variable rate indebtedness at such date aggregated \$150.0 million, which approximates fair value, with a weighted-average interest rate of 5.6%. All of such fixed rate indebtedness was denominated in U.S. dollars, and all of such variable rate indebtedness was denominated in Deutsche Marks and related to NL.

The Company has an \$80 million loan to Snake River Sugar Company at December 31, 1998 and 1999. Such loan bears interest at a fixed interest rate of 12.99% at December 31, 1999 (1998 - 10.99%), and the estimated fair value of such loan aggregated \$88.8 million and \$80.4 million at December 31, 1998 and 1999, respectively. The potential decrease in the fair value of such loan resulting from a hypothetical 100 basis point increase in market interest rates would be approximately \$4 million at December 31, 1999 (1998 - \$5 million).

Foreign currency exchange rates. The Company is exposed to market risk arising from changes in foreign currency exchange rates as a result of manufacturing and selling its products worldwide. Earnings are primarily affected by fluctuations in the value of the U.S. dollar relative to the German Deutsche Mark, Canadian Dollar, Belgian Franc, Norwegian Krone, the United Kingdom Pound Sterling and the euro.

As described above, at December 31, 1999, NL had the equivalent of \$58 million of outstanding euro-denominated indebtedness (1998 - \$150 million outstanding denominated in Deutsche Marks). 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 \$6 million (1998 - \$15 million).

Certain of CompX's sales generated by its Canadian operations are denominated in U.S. dollars. To manage a portion of the foreign exchange rate market risk associated with such receivables, at December 31, 1999 CompX had entered into a series of short-term forward exchange contracts maturing through March 2000 to exchange an aggregate of \$6 million for an equivalent amount of Canadian dollars at exchange rates of approximately Cdn\$ 1.49 per U.S. dollar. No such contracts were outstanding at December 31, 1998.

Solely in connection with CompX's January 1999 acquisition of a precision ball bearing slide producer, on December 30, 1998 CompX entered into a short-term currency forward contract to purchase NLG 75 million for \$40.1 million, which contract was executed on January 19, 1999. No such contracts were outstanding at December 31, 1999.

Marketable equity and debt security prices. The Company is exposed to market risk due to changes in prices of the marketable securities which are owned. The fair value of such debt and equity securities at December 31, 1998 and 1999 was \$265.6 million and \$282.5 million, respectively. The potential change in the aggregate fair value of these investments, assuming a 10% change in prices, would be \$26.6 million at December 31, 1998 and \$28.3 million at December 31, 1999.

Other. The Company believes there are certain shortcomings in the sensitivity analyses presented above, which analyses are required under the Securities and Exchange Commission's regulations. For example, the hypothetical effect of changes in interest rates discussed above ignores the potential effect on other variables which affect the Company's results of operations and cash flows, such as demand for the Company's products, sales volumes and selling prices and operating expenses. Contrary to the above assumptions, changes in interest rates rarely result in simultaneous parallel shifts along the yield curve. Also, certain of the Company's marketable securities are exchangeable for certain of the Company's debt instruments, and a decrease in the fair value of such securities would likely be mitigated by a decrease in the fair value of the related indebtedness. Accordingly, the amounts presented above are not necessarily an accurate reflection of the potential losses the Company would incur assuming the hypothetical changes in market prices were actually to occur.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to Valhi's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report (the "Valhi Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Valhi Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the Valhi Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the Valhi Proxy Statement. See Note 17 to the Consolidated Financial Statements.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) and (d) Financial Statements and Schedules

The Registrant

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

(b) Reports on Form 8-K

Reports on Form 8-K filed for the quarter ended December 31, 1999.

October 28, 1999 - Reported Items 5 and 7. October 29, 1999 - Reported Items 5 and 7.

(c) Exhibits

Included as exhibits are the items listed in the Exhibit Index. Valhi will furnish a copy of any of the exhibits listed below upon payment of \$4.00 per exhibit to cover the costs to Valhi of furnishing the exhibits. Instruments defining the rights of holders of long-term debt issues which do not exceed 10% of consolidated total assets as of December 31, 1999 will be furnished to the Commission upon request.

Item No.

Exhibit Item

- 3.1 Restated Articles of Incorporation of the Registrant - incorporated by reference to Appendix A to the definitive Prospectus/Joint Proxy Statement of The Amalgamated Sugar Company and LLC Corporation (File No. 1-5467) dated February 10, 1987.
- 3.2 By-Laws of the Registrant as amended - incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q (File No. 1-5467) for the quarter ended March 31, 1992.
- 4.1 Indenture dated October 20, 1993 governing NL's 11 3/4% Senior Secured Notes due 2003, including form of note, - incorporated by reference to Exhibit 4.1 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
- 9.1 Shareholders' Agreement dated February 15, 1996 among TIMET, Tremont, IMI plc, IMI Kynoch Ltd. and IMI Americas, Inc. - incorporated by reference to Exhibit 2.2 to Tremont's Current Report on Form 8-K (File No. 1-10126) dated March 1, 1996.
- 9.2 Amendment to the Shareholders' Agreement dated March 29, 1996 among TIMET, Tremont, IMI plc, IMI Kynosh Ltd. and IMI Americas, Inc. - incorporated by reference to Exhibit 10.30 to Tremont's Annual Report on Form 10-K (File No. 1-10126) for the year ended December 31, 1995.
- 10.1 Form of Intercorporate Services Agreement between the Registrant and Contran Corporation - incorporated by reference to Exhibit 10.1 of the Registrant's Annual Report on Form 10-K (File No. 1-5467) for the year ended December 31, 1992.
- 10.2 Intercorporate Services Agreement between Contran Corporation and NL effective as of January 1, 1999 - incorporated by reference to Exhibit 10.2 to NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended March 31, 1999.
- 10.3 Intercorporate Services Agreement between Contran Corporation and Tremont effective as of January 1, 1999 - incorporated by reference to Exhibit 10.7 to Tremont's Quarterly Report on Form 10-Q (File No. 1-10126) for the quarter ended March 31, 1999.
- 10.4 Advance Agreement between Contran Corporation and Tremont dated October 5, 1998 - incorporated by reference to Exhibit 10.1 to Tremont's Quarterly Report on Form 10-Q (File No. 1-10126) for the quarter ended March 31, 1999.
- 10.5 Stock Purchase Agreement dated June 19, 1998 by and between Contran Corporation, Valhi Group, Inc. and National City Lines, Inc., as the Sellers, and the Registrant, as the Purchaser - incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 1-5467) dated June 19, 1998.

- | Item No. | Exhibit Item |
|----------|---|
| 10.6* | Valhi, Inc. 1987 Stock Option - Stock Appreciation Rights Plan, as amended - incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K (File No. 1-5467) for the year ended December 31, 1994. |
| 10.7* | Valhi, Inc. 1997 Long-Term Incentive Plan - incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K (File No. 1-5467) for the year ended December 31, 1996. |
| 10.8* | CompX International Inc. 1997 Long-Term Incentive Plan - incorporated by reference to Exhibit 10.2 to CompX's Registration Statement on Form S-1 (File No. 333-42643). |
| 10.9* | Form of Deferred Compensation Agreement between the Registrant and |

certain executive officers - incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 1-5467) for the quarter ended March 31, 1999.

- 10.10 Formation Agreement dated January 3, 1997 (to be effective December 31, 1996) between Snake River Sugar Company and The Amalgamated Sugar Company of The Amalgamated Sugar Company LLC - incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K (File No. 1-5467) for the year ended December 31, 1996.
- 10.11 Company Agreement of The Amalgamated Sugar Company LLC dated January 3, 1997 (to be effective December 31, 1996) - incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K (File No. 1-5467) for the year ended December 31, 1996.
- 10.12 First Amendment to the Company Agreement of The Amalgamated Sugar Company LLC dated May 14, 1997 - incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 1-5467) for the quarter ended June 30, 1997.
- 10.13 Second Amendment to the Company Agreement of the Amalgamated Sugar Company LLC dated November 30, 1998 - incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K (File No. 1-5467) for the year ended December 31, 1998.
- 10.14 Subordinated Promissory Note in the principal amount of \$37.5 million between Valhi, Inc. and Snake River Sugar Company, and the related Pledge Agreement, both dated January 3, 1997 - incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K (File No. 1-5467) for the year ended December 31, 1996.

Item No.

Exhibit Item

- 10.15 Limited Recourse Promissory Note in the principal amount of \$212.5 million between Valhi, Inc. and Snake River Sugar Company, and the related Limited Recourse Pledge Agreement, both dated January 3, 1997 - incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K (File No. 1-5467) for the year ended December 31, 1996.
- 10.16 Subordinated Loan Agreement between Snake River Sugar Company and Valhi, Inc., as amended and restated effective May 14, 1997 - incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q (File No. 1-5467) for the quarter ended June 30, 1997.
- 10.17 Second Amendment to the Subordinated Loan Agreement between Snake River Sugar Company and Valhi, Inc. dated November 30, 1998 - incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K (File No. 1-5467) for the year ended December 31, 1998.
- 10.18 Deposit Trust Agreement related to the Amalgamated Collateral Trust among ASC Holdings, Inc. and Wilmington Trust Company dated May 14, 1997 - incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q (File No. 1-5467) for the quarter ended June 30, 1997.
- 10.19 Pledge Agreement between the Amalgamated Collateral Trust and Snake River Sugar Company dated May 14, 1997 - incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q (File No. 1-5467) for the quarter ended June 30, 1997.
- 10.20 Guarantee by the Amalgamated Collateral Trust in favor of Snake River Sugar Company dated May 14, 1997 - incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q (File No. 1-5467) for the quarter ended June 30, 1997.
- 10.21 Amended and Restated Pledge Agreement between ASC Holdings, Inc. and Snake River Sugar Company dated May 14, 1997 - incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form

10-Q (File No. 1-5467) for the quarter ended June 30, 1997.

- 10.22 Collateral Deposit Agreement among Snake River Sugar Company, Valhi, Inc. and First Security Bank, National Association dated May 14, 199 - incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q (File No. 1-5467) for the quarter ended June 30, 1997.

Item No. Exhibit Item

- 10.23 Voting Rights and Forbearance Agreement among the Amalgamated Collateral Trust, ASC Holdings, Inc. and First Security Bank, National Association dated May 14, 1997 - incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q (File No. 1-5467) for the quarter ended June 30, 1997.
- 10.24 Voting Rights and Collateral Deposit Agreement among Snake River Sugar Company, Valhi, Inc., and First Security Bank, National Association dated May 14, 1997 - incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q (File No. 1-5467) for the quarter ended June 30, 1997.
- 10.25 Subordination Agreement between Valhi, Inc. and Snake River Sugar Company dated May 14, 1997 - incorporated by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q (File No. 1-5467) for the quarter ended June 30, 1997.
- 10.26 Form of Option Agreement among Snake River Sugar Company, Valhi, Inc. and the holders of Snake River Sugar Company's 10.9% Senior Notes Due 2009 dated May 14, 1997 - incorporated by reference to Exhibit 10.11 to the Registrant's Quarterly Report on Form 10-Q (File No. 1-5467) for the quarter ended June 30, 1997.
- 10.27 Formation Agreement dated as of October 18, 1993 among Tioxide Americas Inc., Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.2 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
- 10.28 Joint Venture Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Kronos Louisiana, Inc. - incorporated by reference to Exhibit 10.3 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
- 10.29 Kronos Offtake Agreement dated as of October 18, 1993 by and between Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.4 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
- 10.30 Amendment No. 1 to Kronos Offtake Agreement dated as of December 20, 1995 between Kronos Louisiana, Inc. and Louisiana Pigment Company, L.P. - incorporated by reference to Exhibit 10.22 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31 1995.

Item No. Exhibit Item

- 10.31 Master Technology and Exchange Agreement dated as of October 18, 1993 among Kronos, Inc., Kronos Louisiana, Inc., Kronos International, Inc., Tioxide Group Limited and Tioxide Group Services Limited - incorporated by reference to Exhibit 10.8 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
- 10.32 Allocation Agreement dated as of October 18, 1993 between Tioxide Americas Inc., ICI American Holdings, Inc., Kronos, Inc. and Kronos

Louisiana, Inc. - incorporated by reference to Exhibit 10.10 to NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.

- 10.33 Lease Contract dated June 21, 1952, between Farbenfabrieken Bayer Aktiengesellschaft and Titangesellschaft mit beschränkter Haftung (German language version and English translation thereof) - incorporated by reference to Exhibit 10.14 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1985.
- 10.34 Contract on Supplies and Services among Bayer AG, Kronos Titan GmbH and Kronos International, Inc. dated June 30, 1995 (English translation from German language document) - incorporated by reference to Exhibit 10.1 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1995.
- 10.35 Lease Agreement, dated January 1, 1996, between Holford Estates Ltd. and IMI Titanium Ltd. related to the building known as Titanium Number 2 Plant at Witton, England - incorporated by reference to Exhibit 10.23 to Tremont's Annual Report on Form 10-K (File No. 1-10126) for the year ended December 31, 1995.
- 10.36 Richards Bay Slag Sales Agreement dated May 1, 1995 between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc. - incorporated by reference to Exhibit 10.17 to NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1995.
- 10.37 Amendment to Richards Bay Slag Sales Agreement dated May 1, 1999, between Richards Bay Iron and Titanium (Proprietary) Limited and Kronos, Inc. - incorporated by reference to Exhibit 10.4 to NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1999.
- 10.38 Sponge Purchase Agreement, dated May 30, 1990, between TIMET and Union Titanium Sponge Corporation and Amendments No. 1 and 2 - incorporated by reference to Exhibit 10.25 to Tremont's Annual Report on Form 10-K (File No. 1-10126) for the year ended December 31, 1991.

Item No.

Exhibit Item

- 10.39 Amendment No. 3 to the Sponge Purchase Agreement, dated December 3, 1993, between TIMET and Union Titanium Sponge Corporation - incorporated by reference to Exhibit 10.33 to Tremont's Annual Report on Form 10-K (File No. 1-10126) for the year ended December 31, 1993.
- 10.40 Amendment No. 4 to the Sponge Purchase Agreement, dated May 2, 1996, between TIMET and Union Titanium Sponge Corporation - incorporated by reference to Exhibit 10.1 to Tremont's Quarterly Report on Form 10-Q (File No. 1-10126) for the quarter ended March 31, 1996.
- 10.41 Investment Agreement dated July 9, 1998, between TIMET, TIMET Finance Management Company and Special Metals Corporation - incorporated by reference to Exhibit 10.1 to TIMET's Current Report on Form 8-K (File No. 0-28538) dated July 9, 1998.
- 10.42 Amendment to Investment Agreement, dated October 28, 1998, among TIMET, TIMET Finance Management Company and Special Metals Corporation - incorporated by reference to Exhibit 10.4 to TIMET's Quarterly Report on Form 10-Q (File No. 0-28538) for the quarter ended September 30, 1998.
- 10.43 Registration Rights Agreement, dated October 28, 1998, between TIMET Finance Management Company and Special Metals Corporation - incorporated by reference to Exhibit 10.5 to TIMET's Quarterly Report on Form 10-Q (File No. 0-28538) for the quarter ended September 30, 1998.
- 10.44 Certificate of Designations for the Special Metals Corporation Series A Preferred Stock - incorporated by reference to Exhibit 4.5 to Special Metals Corporation's Current Report on Form 8-K (File No. 000-22029)

dated October 28, 1998.

- 10.45 Registration Rights Agreement dated October 30, 1991, by and between NL and Tremont - incorporated by reference to Exhibit 4.3 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1991.
- 10.46 Insurance Sharing Agreement, effective January 1, 1990, by and between NL, TRE Insurance, Ltd., and Baroid Corporation - incorporated by reference to Exhibit 10.20 to NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1991.
- 10.47 Indemnification Agreement between Baroid, Tremont and NL Insurance, Ltd. dated September 26, 1990 - incorporated by reference to Exhibit 10.35 to Baroid's Registration Statement on Form 10 (No. 1-10624) filed with the Commission on August 31, 1990.

Item No.	Exhibit Item
21.1	Subsidiaries of the Registrant.
23.1	Consent of PricewaterhouseCoopers LLP
27.1	Financial Data Schedule for the year ended December 31, 1999.
99.1	Complaint and Jury Demand filed by TIMET against The Boeing Company in District Court, City and County of Denver, State of Colorado, on March 21, 2000, Case No. 00CV1402, including Exhibit A, Purchase and Sale Agreement (for titanium products) dated as of November 5, 1997 by and between The Boeing Company, acting through its division, Boeing Commercial Airplane Group, and TIMET - incorporated by reference to Exhibit 99.2 to TIMET's Current Report on Form 8-K (File No. 0-28538) dated March 22, 2000.

* Management contract, compensatory plan or agreement.

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.

VALHI, INC.
(Registrant)

By: /s/ Steven L. Watson

Steven L. Watson, March 24, 2000
(President)

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/ Harold C. Simmons

Harold C. Simmons, March 24, 2000
(Chairman of the Board and
Chief Executive Officer)

/s/ Steven L. Watson

Steven L. Watson, March 24, 2000
President and Director

/s/ Norman S. Edelcup

Norman S. Edelcup, March 24, 2000
(Director)

/s/ Glenn R. Simmons

Glenn R. Simmons, March 24, 2000
(Vice Chairman of the Board)

/s/ Edward J. Hardin

Edward J. Hardin, March 24, 2000
(Director)

/s/ Bobby D. O'Brien

Bobby D. O'Brien, March 24, 2000
(Vice President and Treasurer,
Principal Financial Officer)

/s/ Kenneth R. Ferris

Kenneth R. Ferris, March 24, 2000
(Director)

/s/ Gregory M. Swalwell

Gregory M. Swalwell, March 24, 2000
(Vice President and Controller,
Principal Accounting Officer)

/s/ J. Walter Tucker, Jr.

J. Walter Tucker, Jr. March 24, 2000
(Director)

Annual Report on Form 10-K

Items 8, 14(a) and 14(d)

Index of Financial Statements and Schedules

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Schedules III and IV are omitted because they are not applicable.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of Valhi, Inc.:

In our opinion, the accompanying consolidated balance sheets of Valhi, Inc. and Subsidiaries, and the related consolidated statements of income, comprehensive income, cash flows and stockholders' equity, present fairly, in all material respects, the consolidated financial position of Valhi, Inc. and Subsidiaries as of December 31, 1998 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these consolidated financial statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, in 1997 the Company changed its method of accounting for environmental remediation costs in accordance with Statement of Position No. 96-1.

PricewaterhouseCoopers LLP

Dallas, Texas
March 16, 2000

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 1998 and 1999

(In thousands, except per share data)

ASSETS	1998	1999
	----	----
Current assets:		
Cash and cash equivalents	\$ 224,572	\$ 174,982
Accounts and other receivables	167,660	202,200
Refundable income taxes	16,443	5,146
Receivable from affiliates	11,890	14,606
Inventories	246,338	219,618
Prepaid expenses	3,723	7,221

Deferred income taxes	4,836	14,330
	-----	-----
Total current assets	675,462	638,103
	-----	-----
Other assets:		
Marketable securities	265,567	266,362
Investment in and advances to affiliates	370,654	256,982
Loans and notes receivable	82,290	83,268
Mining properties	15,581	20,120
Prepaid pension costs	24,190	23,271
Goodwill	259,336	356,523
Deferred income taxes	--	2,672
Other assets	21,737	22,467
	-----	-----
Total other assets	1,039,355	1,031,665
	-----	-----
Property and equipment:		
Land	16,364	25,952
Buildings	150,879	167,100
Equipment	511,042	544,278
Construction in progress	7,918	13,843
	-----	-----
	686,203	751,173
Less accumulated depreciation	158,867	185,772
	-----	-----
Net property and equipment	527,336	565,401
	-----	-----
	\$2,242,153	\$2,235,169
	=====	=====

See accompanying notes to consolidated financial statements

VALHI, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)

December 31, 1998 and 1999

(In thousands, except per share data)

LIABILITIES AND STOCKHOLDERS' EQUITY	1998	1999
	----	----
Current liabilities:		
Notes payable	\$ 36,391	\$ 57,076
Current maturities of long-term debt	65,448	27,846
Accounts payable	67,592	70,971
Accrued liabilities	148,838	163,556
Payable to affiliates	20,137	25,266
Income taxes	12,943	7,203
Deferred income taxes	1,237	326
	-----	-----
Total current liabilities	352,586	352,244
	-----	-----

Noncurrent liabilities:		
Long-term debt	630,554	609,339
Accrued OPEB costs	41,981	58,756
Accrued pension costs	44,929	39,612
Accrued environmental costs	83,922	73,062
Deferred income taxes	353,717	266,752
Other	44,220	45,164
	-----	-----
Total noncurrent liabilities	1,199,323	1,092,685
	-----	-----
Minority interest	111,722	200,826
	-----	-----
Stockholders' equity:		
Preferred stock, \$.01 par value; 5,000 shares authorized; none issued	--	--
Common stock, \$.01 par value; 150,000 shares authorized; 125,521 and 125,611 shares issued ...	1,255	1,256
Additional paid-in capital	42,789	43,444
Retained earnings	512,468	538,744
Accumulated other comprehensive income:		
Marketable securities	122,826	127,837
Currency translation	(22,712)	(40,833)
Pension liabilities	(2,845)	(5,775)
Treasury stock, at cost - 10,545 and 10,545 shares	(75,259)	(75,259)
	-----	-----
Total stockholders' equity	578,522	589,414
	-----	-----
	\$ 2,242,153	\$ 2,235,169
	=====	=====

Commitments and contingencies (Notes 5, 7, 15 and 18)

VALHI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 1997, 1998 and 1999
(In thousands, except per share data)

	1997	1998	1999
	----	----	----
Revenues and other income:			
Net sales	\$ 1,093,091	\$ 1,059,447	\$ 1,145,222
Gain on:			
Disposal of business unit	--	330,217	--
Reduction in interest in CompX	--	67,902	--
Other, net	124,825	80,739	68,456
	-----	-----	-----
	1,217,916	1,538,305	1,213,678
	-----	-----	-----
Cost and expenses:			
Cost of sales	804,438	736,656	840,326
Selling, general and administrative	227,108	212,122	189,036
Interest	118,895	91,188	72,039
	-----	-----	-----
	1,150,441	1,039,966	1,101,401

	-----	-----	-----
Equity in earnings (prior to consolidation) of:	67,475	498,339	112,277
Tremont Corporation	--	7,385	(48,652)
Waste Control Specialists	(12,700)	(15,518)	(8,496)
	-----	-----	-----
Income before taxes	54,775	490,206	55,129
Provision for income taxes (benefit)	27,631	192,212	(71,285)
Minority interest in after-tax earnings	43	72,177	78,992
	-----	-----	-----
Income from continuing operations	27,101	225,817	47,422
Discontinued operations	33,550	--	2,000
Extraordinary item	(4,291)	(6,195)	--
	-----	-----	-----
Net income	\$ 56,360	\$ 219,622	\$ 49,422
	=====	=====	=====

See accompanying notes to consolidated financial statements.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

Years ended December 31, 1997, 1998 and 1999

(In thousands, except per share data)

	1997	1998	1999
	----	----	----
Basic earnings per share:			
Continuing operations	\$.24	\$ 1.96	\$.41
Discontinued operations .....	.29	--	.02
Extraordinary item	(.04)	(.05)	--
	-----	-----	-----
Net income	\$.49	\$ 1.91	\$.43
	=====	=====	=====
Diluted earnings per share:			
Continuing operations	\$.24	\$ 1.94	\$.41
Discontinued operations .....	.29	--	.02
Extraordinary item	(.04)	(.05)	--
	-----	-----	-----
Net income	\$.49	\$ 1.89	\$.43
	=====	=====	=====
Cash dividends per share	\$.20	\$.20	\$.20
	=====	=====	=====
Shares used in the calculation of per share amounts:			
Basic earnings per share	115,031	115,002	115,030
Dilutive impact of stock options	850	1,124	1,164
	-----	-----	-----

Diluted earnings per share	115,881	116,126	116,194
	=====	=====	=====

VALHI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 1997, 1998 and 1999
(In thousands)

	1997	1998	1999
	----	----	----
Net income	\$ 56,360	\$219,622	\$ 49,422
	-----	-----	-----
Other comprehensive income (loss), net of tax:			
Marketable securities adjustment:			
Unrealized net gains arising during			
the period	94,424	299	5,503
Less reclassification for net gains			
included in net income	(31,798)	(5,204)	(492)
	-----	-----	-----
	62,626	(4,905)	5,011
Currency translation adjustment	(18,230)	1,728	(18,121)
Pension liabilities adjustment	627	(312)	(2,930)
	-----	-----	-----
Total other comprehensive income (loss), net	45,023	(3,489)	(16,040)
	-----	-----	-----
Comprehensive income	\$ 101,383	\$ 216,133	\$ 33,382
	=====	=====	=====

VALHI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 1997, 1998 and 1999
(In thousands)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income			Treasury stock	Total stockholders' equity
				Marketable securities	Currency translation	Pension liabilities		
Balance at December 31, 1996	\$1,248	\$35,258	\$ 282,766	\$ 65,105	\$ (6,210)	\$(3,160)	\$(71,088)	\$ 303,919
Net income	--	--	56,360	--	--	--	--	56,360
Cash dividends	--	--	(23,149)	--	--	--	--	(23,149)
Other comprehensive income (loss), net	--	--	--	62,626	(18,230)	627	--	45,023
Other, net	5	3,097	--	--	--	--	(321)	2,781
Balance at December 31, 1997	1,253	38,355	315,977	127,731	(24,440)	(2,533)	(71,409)	384,934
Net income	--	--	219,622	--	--	--	--	219,622
Cash dividends	--	--	(23,131)	--	--	--	--	(23,131)
Other comprehensive income (loss), net	--	--	--	(4,905)	1,728	(312)	--	(3,489)
Common stock reacquired	--	--	--	--	--	--	(3,692)	(3,692)
Other, net	2	4,434	--	--	--	--	(158)	4,278
Balance at December 31, 1998	1,255	42,789	512,468	122,826	(22,712)	(2,845)	(75,259)	578,522
Net income	--	--	49,422	--	--	--	--	49,422
Cash dividends	--	--	(23,146)	--	--	--	--	(23,146)
Other comprehensive income (loss), net	--	--	--	5,011	(18,121)	(2,930)	--	(16,040)
Other, net	1	655	--	--	--	--	--	656
Balance at December 31, 1999	\$1,256	\$43,444	\$ 538,744	\$ 127,837	\$ (40,833)	\$(5,775)	\$(75,259)	\$ 589,414

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1997, 1998 and 1999

(In thousands)

	1997	1998	1999
	----	----	----
Cash flows from operating activities:			
Net income	\$ 56,360	\$ 219,622	\$ 49,422
Depreciation, depletion and amortization	62,283	58,976	64,654
Gain on:			
Disposal of business unit	--	(330,217)	--
Reduction in interest in CompX	--	(67,902)	--
Securities transaction gains	(48,920)	(8,006)	(757)
Noncash interest expense	36,077	26,117	9,788
Change in accounting principle	30,000	--	--
Deferred income taxes	(18,761)	143,134	(92,840)
Minority interest	43	72,177	78,992
Other, net	(13,047)	(14,356)	(7,825)
Equity in:			
Tremont Corporation	--	(7,385)	48,652
Waste Control Specialists	12,700	15,518	8,496
Discontinued operations	(33,550)	--	(2,000)
Extraordinary item	4,291	6,195	--
Distributions from:			
Manufacturing joint venture	--	--	13,650
Tremont Corporation	--	431	655
	87,476	114,304	170,887
Discontinued operations, net	(43,132)	--	--
Change in assets and liabilities:			
Accounts and other receivables	(24,206)	(10,463)	(34,616)
Inventories	20,269	(51,914)	18,671
Accounts payable and accrued			

liabilities	12,626	(1,622)	1,080
Income taxes	17,762	(14,336)	5,150
Accounts with affiliates	26,496	(27,800)	(7,055)
Other, net	(4,269)	8,858	(15,812)
	-----	-----	-----
Net cash provided by operating activities	93,022	17,027	138,305
	-----	-----	-----

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 1997, 1998 and 1999

(In thousands)

	1997	1998	1999
	----	----	----
Cash flows from investing activities:			
Capital expenditures	\$ (36,725)	\$ (35,541)	\$ (55,869)
Purchases of:			
Business units	--	(41,646)	(64,975)
NL common stock	(14,222)	(13,890)	(7,210)
Tremont common stock	--	(172,918)	(1,945)
CompX common stock	--	(5,670)	(816)
Marketable securities	(6,000)	(3,766)	--
Investment in Waste Control Specialists (prior to consolidation)	(13,000)	(10,000)	(10,000)
Proceeds from disposal of:			
Marketable securities	6,875	6,875	6,588
Business unit	--	435,080	--
Loans to affiliates:			
Loans	(67,625)	(126,250)	(6,000)
Collections	63,625	120,250	6,000
Other loans and notes receivable:			
Loans	(200,600)	--	--
Collections	119,100	--	--
Pre-close dividend from Amalgamated Sugar Company	11,518	--	--
Discontinued operations, net	91,819	--	2,000
Other, net	11,448	973	1,854
	-----	-----	-----
Net cash provided (used) by investing activities	(33,787)	153,497	(130,373)
	-----	-----	-----
Cash flows from financing activities:			
Indebtedness:			
Borrowings	390,369	105,966	123,203
Principal payments	(333,101)	(496,445)	(157,310)
Deferred financing costs	(4,643)	(200)	--
Loans from affiliates:			
Loans	--	15,500	45,000
Repayments	(7,244)	(6,000)	(52,218)
Proceeds from issuance of CompX common stock	--	110,378	--
Valhi dividends paid	(23,149)	(23,131)	(23,146)
Valhi common stock reacquired	--	(3,692)	--
Distributions to minority interest	(2)	(1,937)	(3,744)
Discontinued operations, net	22,380	--	--

Other, net	4,049	1,354	860
	-----	-----	-----
Net cash provided (used) by financing activities	48,659	(298,207)	(67,355)
	-----	-----	-----
Net increase (decrease)	\$ 107,894	\$ (127,683)	\$ (59,423)
	=====	=====	=====

See accompanying notes to consolidated financial statements.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 1997, 1998 and 1999

(In thousands)

	1997	1998	1999
	----	----	----
Cash and cash equivalents - net change from:			
Operating, investing and financing			
activities	\$ 107,894	\$ (127,683)	\$ (59,423)
Currency translation	(3,204)	(871)	(3,398)
Business units acquired	--	387	4,785
Consolidation of Waste Control Specialists and Tremont Corporation	--	--	8,446
Business unit sold	--	(7,630)	--
	-----	-----	-----
	104,690	(135,797)	(49,590)
Balance at beginning of year	255,679	360,369	224,572
	-----	-----	-----
Balance at end of year	\$ 360,369	\$ 224,572	\$ 174,982
	=====	=====	=====
Supplemental disclosures - cash paid for:			
Interest, net of amounts capitalized	\$ 87,115	\$ 62,616	\$ 62,208
Income taxes	51,264	85,471	16,296
Business units acquired - net assets consolidated:			
Cash and cash equivalents	\$ --	\$ 387	\$ 4,785
Goodwill and other intangible assets	--	26,202	22,700
Other non-cash assets	--	21,653	54,966
Liabilities	--	(6,596)	(17,476)
	-----	-----	-----
Cash paid	\$ --	\$ 41,646	\$ 64,975
	=====	=====	=====
Waste Control Specialists and Tremont Corporation - net assets consolidated:			
Cash and cash equivalents	\$ --	\$ --	\$ 8,446
Investment in			
Titanium Metals Corporation	--	--	85,772
NL Industries*	--	--	159,799
Other joint ventures	--	--	13,658
Property and equipment	--	--	23,716
Other non-cash assets	--	--	17,933
Liabilities	--	--	(83,784)
Minority interest	--	--	(85,610)
	-----	-----	-----

Net investment at respective dates of

consolidation	\$ --	\$ --	\$ 139,930
	=====	=====	=====

*Eliminated in consolidation.

VALHI, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of significant accounting policies:

Organization. Valhi, Inc. (NYSE: VHI) is a subsidiary of Contran Corporation which holds, directly or through subsidiaries, approximately 93% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held either by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee, or by Mr. Simmons directly. Mr. Simmons, the Chairman of the Board and Chief Executive Officer of Valhi and Contran, may be deemed to control such companies.

Management's estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Ultimate actual results may, in some instances, differ from previously estimated amounts.

Principles of consolidation. The consolidated financial statements include the accounts of Valhi and its majority-owned subsidiaries (collectively, the "Company"), except as described below. All material intercompany accounts and balances have been eliminated. Prior to June 30 1999, the Company did not consolidate its majority-owned subsidiary Waste Control Specialists because the Company was not deemed to control Waste Control Specialists. See Note 3. The results of the Company's former building products and fast food operations are presented as discontinued operations. See Note 19.

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

Net sales. Sales are recorded when products are shipped or when services are performed.

Inventories and cost of sales. Inventories are stated at the lower of cost or market. Inventory costs are generally based on average cost or the first-in, first-out method.

Cash and cash equivalents. Cash equivalents, including restricted cash balances, include bank time deposits and government and commercial notes and bills with original maturities of three months or less. Restricted cash of \$22 million at December 31, 1999 represents amounts restricted pursuant to outstanding letters of credit (1998 - \$12 million restricted pursuant to outstanding letters of credit or cash pledged to collateralize certain environmental remediation performance obligations).

Marketable securities and securities transactions. Marketable debt and equity securities are carried at fair value based upon quoted market prices or as otherwise disclosed. Unrealized gains and losses on trading securities are recognized in income currently. Unrealized gains and losses on available-for-sale securities are accumulated in stockholders' equity as part of accumulated other comprehensive income, net of related deferred income taxes and minority interest. Realized gains and losses are based upon the specific identification of the securities sold.

Investment in joint ventures. Investments in more than 20%-owned but

less than majority-owned companies, and the Company's investment in Waste Control Specialists prior to June 30 1999, are accounted for by the equity method. Differences between the cost of each investment and the Company's pro rata share of the entity's separately-reported net assets, if any, are allocated among the assets and liabilities of the entity based upon estimated relative fair values. Such differences approximate a \$74 million credit at December 31, 1999, relate principally to Titanium Metals Corporation ("TIMET") and are charged or credited to income as the entities depreciate, amortize or dispose of the related net assets.

Goodwill, other intangible assets and amortization. Goodwill, representing the excess of cost over fair value of individual net assets acquired in business combinations accounted for by the purchase method, is amortized by the straight-line method over not more than 40 years (weighted average remaining life of 25.5 years at December 31, 1999) and is stated net of accumulated amortization of \$45.0 million at December 31, 1999 (1998 - \$33.2 million). At December 31, 1999, approximately 87% of the aggregate amount of unamortized goodwill represents enterprise level goodwill generated from the Company's various step acquisitions of its interest in NL Industries during 1986 through 1999, and substantially all of the remainder represents goodwill generated from CompX International's acquisitions of certain businesses during 1998 and 1999. At December 31, 1999, the quoted market prices for NL common stock (\$15.06 per share) and CompX common stock (\$18.38 per share) were in excess of the Company's aggregate net investment in NL (\$14.76 per share) and CompX (\$9.57 per share) at that date.

Other intangible assets are amortized by the straight-line method over the periods expected to be benefited (up to 20 years) and are stated net of accumulated amortization of \$11.4 million at December 31, 1999 (1998 - \$10.6 million).

When events or changes in circumstances indicate that goodwill or other intangible assets may be impaired, an evaluation is performed to determine if an impairment exists. Such events or circumstances include, among other things, (i) a prolonged period of time during which the Company's net carrying value of its investment in subsidiaries whose common stocks are publicly-traded is greater than quoted market prices for such stocks and (ii) significant current and prior periods or current and projected periods with operating losses related to the applicable business unit. All relevant factors are considered in determining whether impairment exists. If an impairment is determined to exist, goodwill and, if appropriate, the underlying long-lived assets associated with the goodwill, are written down to reflect the estimated future discounted cash flows expected to be generated by the underlying business.

Generally, enterprise level goodwill is not considered to be disposed unless the company to which it relates is disposed in total. However, if a large business unit or other separable group of assets of such company is sold, an allocated portion of the unamortized balance of goodwill will be included in the cost of the assets sold. In this regard, the Company included an allocated portion of the enterprise level goodwill related to its investment in NL as part of the cost of the assets sold in conjunction with NL's 1998 sale of its specialty chemicals business unit. See Note 3.

Property and equipment, mining properties, depreciation and depletion. Property and equipment are stated at cost. Mining properties are stated at cost less accumulated depletion. Depreciation for financial reporting purposes is computed principally by the straight-line method over the estimated useful lives of ten to 40 years for buildings and three to 20 years for equipment. Depletion for financial reporting purposes is computed by the unit-of-production and straight-line methods. Accelerated depreciation and depletion methods are used for income tax purposes, as permitted. Expenditures for maintenance, repairs and minor renewals are expensed; expenditures for major improvements are capitalized. Upon sale or retirement of an asset, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized in income currently. Interest costs related to major long-term capital projects and renewals are capitalized as a component of construction costs. Interest costs capitalized related to the Company's consolidated business segments and comprising continuing operations were \$2 million in 1997, \$1 million in 1998 and nil in 1999.

When events or changes in circumstances indicate that assets may be impaired, an evaluation is performed to determine if an impairment exists. Such events or changes in circumstances include, among other things, (i) significant current and prior periods or current and projected periods with operating losses, (ii) a significant decrease in the market value of an asset or (iii) a

significant change in the extent or manner in which an asset is used. All relevant factors are considered. The test for impairment is performed by comparing the estimated future undiscounted cash flows (exclusive of interest expense) associated with the asset to the asset's net carrying value to determine if a write-down to market value or discounted cash flow value is required. If the asset being tested for impairment was acquired in a business combination accounted for by the purchase method, any goodwill which arose out of that business combination may also be considered in the impairment test if the goodwill related specifically to the acquired asset and not to other aspects of the acquired business, such as the customer base or product lines.

Long-term debt. Long-term debt is stated net of unamortized original issue discount ("OID"). OID is amortized over the period during which interest is not paid and deferred financing costs are amortized over the term of the applicable issue, both by the interest method. Capital lease obligations are stated net of imputed interest.

Interest rate swaps and contracts. The Company periodically uses interest rate swaps and other types of contracts to manage interest rate risk with respect to financial assets or liabilities. The Company has not entered into these contracts for trading or speculative purposes in the past, nor does the Company currently anticipate entering into such contracts for trading or speculative purposes in the future. Any cost associated with a swap or contract designated as a hedge of an asset or liability is deferred and amortized over the term of the agreement as an adjustment to interest income or expense. If the swap or contract is terminated, the resulting gain or loss is deferred and amortized over the remaining life of the underlying asset or liability. If the hedged instrument is disposed of, the swap or contract agreement is marked to market with any resulting gain or loss included with the gain or loss from the disposition. The Company was not a party to any such contract at December 31, 1998 or 1999.

Currency forward contracts. Certain of the Company's sales generated by its non-U.S. operations are denominated in U.S. dollars. The Company periodically uses currency forward contracts to manage a very nominal portion of foreign exchange rate risk associated with receivables denominated in a currency other than the holder's functional currency. The Company has not entered into these contracts for trading or speculative purposes in the past, nor does the Company currently anticipate entering into such contracts for trading or speculative purposes in the future. At each balance sheet date, any such outstanding currency forward contract is marked-to-market with any resulting gain or loss recognized in income currently as part of net currency transactions. At December 31, 1999, the Company held contracts designated as a hedge against such receivables to exchange an aggregate of U.S. \$6 million for an equivalent amount of Canadian dollars at an exchange rate of Cdn. \$1.49. Such contracts mature through March 2000. The Company was not a party to any such contract at December 31, 1998.

The Company also will periodically use currency forward contracts to hedge specific foreign currency commitments. Gains and losses on such contracts are deferred and included in the basis of the hedged transaction when it is consummated. In connection with CompX's acquisition of a slide producer in January 1999 (see Note 3), on December 30, 1998 CompX entered into a short-term currency forward contract to purchase NLG 75 million for \$40.1 million, which contract was executed on January 19, 1999. The Company was not a party to any such contract at December 31, 1999.

Income taxes. Valhi and its qualifying subsidiaries are members of Contran's consolidated United States federal income tax group (the "Contran Tax Group"). The policy for intercompany allocation of federal income taxes provides that subsidiaries included in the Contran Tax Group compute the provision for income taxes on a separate company basis. Subsidiaries make payments to or receive payments from Contran in the amounts they would have paid to or received from the Internal Revenue Service had they not been members of the Contran Tax Group. The separate company provisions and payments are computed using the tax elections made by Contran. NL, Tremont and CompX (beginning in March 1998) are separate U.S. taxpayers and are not members of the Contran Tax Group. Waste Control Specialists LLC and The Amalgamated Sugar Company LLC are treated as partnerships for income tax purposes.

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the income tax and financial reporting carrying amounts of assets and liabilities, including investments in the Company's subsidiaries and affiliates not included in the Contran Tax Group. The Company periodically evaluates its deferred tax assets

and adjusts any related valuation allowance based on the estimate of the amount of such deferred tax assets which the Company believes does not meet the "more-likely-than-not" recognition criteria.

Earnings per share. Basic earnings per share of common stock is based upon the weighted average number of common shares actually outstanding during each period. Diluted earnings per share of common stock includes the impact of outstanding dilutive stock options. The weighted average number of outstanding stock options which were excluded from the calculation of diluted earnings per share because their impact would have been antidilutive aggregated approximately 707,000 in 1997, 173,000 in 1998 and 313,000 in 1999.

Deferred income. Deferred income is amortized over the periods earned, generally by the straight-line method.

Stock options. The Company accounts for stock-based employee compensation in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and its various interpretations. Under APBO No. 25, no compensation cost is generally recognized for fixed stock options in which the exercise price is not less than the market price on the grant date. Compensation cost recognized by the Company in accordance with APBO No. 25 has not been significant in any of the past three years.

Environmental costs. The Company records liabilities related to environmental remediation obligations when estimated future expenditures are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Estimated future expenditures are generally not discounted to their present value. Recoveries of remediation costs from other parties, if any, are recognized as assets when their receipt is deemed probable. At December 31, 1998 and 1999, no assets for recoveries have been recognized. The Company adopted the recognition requirements of Statement of Position ("SOP") No. 96-1, Environmental Remediation Liabilities, in 1997. The new rule, among other things, expanded the type of costs that must be considered in determining environmental remediation accruals. As a result of adopting the new SOP, in 1997 the Company recognized a noncash pre-tax charge of \$30 million (\$19.5 million, or \$.17 per share, net-of-tax) in 1997 related to environmental matters at NL.

Closure and post closure costs. The Company provides for estimated closure and post-closure monitoring costs for its waste disposal site over the operating life of the facility as airspace is consumed (\$506,000 accrued at December 31, 1999). Such costs are estimated based on the technical requirements of applicable state or federal regulations, whichever are stricter, and include such items as final cap and cover on the site, methane gas and leachate management and groundwater monitoring. Cost estimates are based on management's judgment and experience and information available from regulatory agencies as to costs of remediation. These estimates are sometimes a range of possible outcomes, in which case the Company provides for the amount within the range which constitutes its best estimate. If no amount within the range appears to be a better estimate than any other amount, the Company provides for at least the minimum amount within the range. Estimates of the ultimate cost of remediation require a number of assumptions, are inherently difficult and the ultimate outcome may differ from current estimates. As additional information becomes available, estimates are adjusted as necessary. Where the Company believes that both the amount of a particular environmental liability and the timing of the payments are reliably determinable, the cost in current dollars is inflated at 3% per annum until expected time of payment. The Company's site has an estimated remaining life of over 100 years based upon current site plans and annual volumes of waste. During this remaining site life, the Company estimates it will provide for an additional \$23 million of closure and post-closure costs, including inflation. Anticipated payments of environmental liabilities at December 31, 1999 are not expected to begin until 2004 at the earliest.

Extraordinary item. The extraordinary losses in 1997 and 1998, stated net of allocable income tax benefit and minority interest, relate to the write-off of unamortized deferred financing costs and premiums paid in connection with the early retirement of Valcor's Senior Notes in 1997 and certain NL Industries indebtedness in 1998. See Note 10.

Other. Advertising costs related to the Company's consolidated business segments and charged to continuing operations, expensed as incurred, aggregated \$2.4 million in 1997, \$1.4 million in 1998 and \$2.0 million in 1999. Research and development costs related to the Company's consolidated business segments and charged to continuing operations, expensed as incurred, were \$10 million in 1997 and \$8 million in each of 1998 and 1999.

New accounting principle not yet adopted. The Company will adopt Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, no later than the first quarter of 2001. Under SFAS No. 133, all derivatives will be recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value of derivatives will depend upon the intended use of the derivative. The impact on the Company of adopting SFAS No. 133, if any, has not yet been determined but will be dependent upon the extent to which the Company is a party to derivative contracts or hedging activities covered by SFAS No. 133 at the time of adoption, including derivatives embedded in non-derivative host contracts.

Note 2 - Business and geographic segments:

Business segment	Entity	% owned at December 31, 1999
Chemicals	NL Industries, Inc.	58.8%*
Component products	CompX International Inc.	64.2%
Waste management	Waste Control Specialists	68.8%
Titanium metals	Tremont Corporation	50.2%*

* Tremont is a holding company which owns an additional 19.9% of NL and 39.1% of Titanium Metals Corporation. See Note 3.

The Company's operating segments are defined as components of our consolidated operations about which separate financial information is available that is regularly evaluated by the chief operating decision maker in determining how to allocate resources and in assessing performance. The Company's chief operating decision maker is Mr. Harold C. Simmons. Each operating segment is separately managed, and each operating segment represents a strategic business unit offering different products.

The Company's reportable operating segments are comprised of the chemicals business conducted by NL, the component products business conducted by CompX and, beginning in July 1999, the waste management business conducted by Waste Control Specialists. NL manufactures and sells titanium dioxide pigments ("TiO2") internationally through its subsidiary Kronos, Inc. Prior to January 1998, NL also manufactured and sold specialty chemicals through its subsidiary Rheox, Inc. See Note 3. CompX produces and sells component products (ergonomic computer support systems, precision ball bearing slides and security products), primarily in North America and Europe. Waste Control Specialists operates a facility in West Texas for the processing, treatment, storage and disposal of hazardous and toxic wastes, and for the treatment and storage of certain low-level and mixed radioactive wastes.

The Company evaluates segment performance based on segment operating income, which is defined as income before income taxes and interest expense, exclusive of certain non-recurring items (such as gains or losses on disposition of business units) and certain general corporate income and expense items (including securities transactions gains and losses, and interest and dividend income) which are not attributable to the operations of the reportable operating segments. The accounting policies of the reportable operating segments are the same as those described in Note 1. Interest income included in the calculation of segment operating income is not material in 1997, 1998 or 1999. Capital expenditures include additions to property and equipment and mining properties but exclude amounts attributable to business units acquired in business combinations accounted for by the purchase method. See Note 3. There are no intersegment sales or any other significant intersegment transactions.

Segment assets are comprised of all assets attributable to each reportable operating segment. The Company's investment in the TiO2 manufacturing joint venture (see Note 8) is included in the chemicals business segment assets. Corporate assets are not attributable to any operating segment and consist principally of cash, cash equivalents, marketable securities and loans to third parties. At December 31, 1999, approximately 15% and 3% of corporate assets were held by NL and Tremont, respectively (1998 - 26% and 5%, respectively, held by NL and CompX). For geographic information, net sales are attributed to the place of manufacture (point-of-origin) and the location of the customer (point-of-destination); property and equipment and mining properties are

attributed to their physical location. At December 31, 1999, the net assets of non-U.S. subsidiaries included in consolidated net assets approximated \$670 million.

	Years ended December 31,		
	1997	1998	1999
	----	----	----
	(In millions)		
Net sales:			
Chemicals	\$ 984.4	\$ 907.3	\$ 908.4
Component products	108.7	152.1	225.9
Waste management (after consolidation) ...	--	--	10.9
	-----	-----	-----
Total net sales	\$1,093.1	\$1,059.4	\$1,145.2
	=====	=====	=====
Operating income:			
Chemicals	\$ 106.7	\$ 154.6	\$ 126.2
Component products	28.3	31.9	40.2
Waste management (after consolidation) ...	--	--	(1.8)
	-----	-----	-----
Total operating income	135.0	186.5	164.6
Gain on:			
Disposal of business unit	--	330.2	--
Reduction in interest in CompX	--	67.9	--
General corporate items:			
Securities transactions	48.9	8.0	.8
Interest and dividend income	60.2	54.9	43.0
General expenses, net	(57.8)	(58.0)	(24.1)
Interest expense	(118.9)	(91.2)	(72.0)
	-----	-----	-----
	67.4	498.3	112.3
Equity in (prior to consolidation):			
Tremont Corporation	--	7.4	(48.7)
Waste Control Specialists	(12.7)	(15.5)	(8.5)
	-----	-----	-----
Income from continuing operations before income taxes	\$ 54.7	\$ 490.2	\$ 55.1
	=====	=====	=====
Net sales - point of origin:			
United States	\$ 388.3	\$ 353.6	\$ 399.5
Germany	465.6	453.3	459.4
Belgium	122.8	159.6	138.7
Norway	96.4	91.1	88.3
Netherlands	--	--	36.8
Other Europe	141.6	103.2	92.8
Canada	225.8	251.2	259.7
Other	--	--	.7
Eliminations	(347.4)	(352.6)	(330.7)
	-----	-----	-----
	\$1,093.1	\$1,059.4	\$1,145.2
	=====	=====	=====
Net sales - point of destination:			
United States	\$ 359.0	\$ 356.4	\$ 412.7
Europe	496.0	501.7	520.1
Canada	99.3	107.7	104.4
Asia	61.3	23.9	45.0
Other	77.5	69.7	63.0
	-----	-----	-----
	\$1,093.1	\$1,059.4	\$1,145.2
	=====	=====	=====

Years ended December 31,
1997 1998 1999
----- ----- -----
(In millions)

Depreciation, depletion and amortization:

Chemicals	\$58.9	\$53.8	\$52.5
Component products	2.8	4.6	9.6
Waste management (after consolidation)	--	--	1.5
Corporate .....	.6	.6	1.1
	-----	-----	-----
	\$62.3	\$59.0	\$64.7
	=====	=====	=====

Capital expenditures:

Chemicals	\$30.5	\$22.3	\$32.7
Component products	5.5	12.9	19.7
Waste management (after consolidation)	--	--	.3
Corporate .....	.7	.3	3.2
	-----	-----	-----
	\$36.7	\$35.5	\$55.9
	=====	=====	=====

December 31,
1997 1998 1999
----- ----- -----
(In millions)

Total assets:

Operating segments:

Chemicals	\$1,447.0	\$1,349.2	\$1,413.8
Component products	63.8	124.7	205.4
Waste management	--	--	33.9
Investment in and advances to:			
Titanium Metals Corporation	--	--	85.8
Other joint ventures	--	--	13.7
Prior to consolidation:			
Tremont Corporation	--	179.5	--
Waste Control Specialists	19.5	20.0	--
Corporate and eliminations	647.8	568.8	482.6
	-----	-----	-----
	\$2,178.1	\$2,242.2	\$2,235.2
	=====	=====	=====

Net property and equipment
and mining properties:

United States	\$ 47.8	\$ 27.8	\$ 67.3
Germany	301.8	306.6	278.5
Belgium	59.1	59.9	57.5
Norway	68.4	63.0	64.1
Netherlands	--	--	17.6
Other Europe	8.8	1.4	1.3
Canada	86.1	84.2	94.3
Other	--	--	4.9
	-----	-----	-----
	\$ 572.0	\$ 542.9	\$ 585.5
	=====	=====	=====

Note 3 - Business combinations and disposals:

NL Industries, Inc. (NYSE: NL). At the beginning of 1997, Valhi held 56% of NL's outstanding common stock. During 1997, 1998 and 1999, Valhi purchased additional NL shares, and NL purchased shares of its own common stock, in market and private transactions for an aggregate of \$35.3 million, and the Company's ownership of NL increased to 59% at December 31, 1999. See Note 17. The Company accounted for such increases in its interest in NL by the purchase method (step acquisition).

In January 1998, NL sold its specialty chemicals business unit conducted by its subsidiary Rheox, Inc. for \$465 million cash consideration (before fees and expenses), including \$20 million attributable to a five-year agreement by NL not to compete in the rheological products business. See Note 11. The Company reported a \$330.2 million pre-tax gain on the disposal of this business unit in 1998. The Company's results of operations in 1997 included net sales of \$147.2 million and operating income of \$43.0 million related to this business unit (1998 prior to the sale - \$12.7 million and \$2.7 million, respectively).

CompX. Prior to March 1998, CompX was a wholly-owned subsidiary of Valcor, Inc., a wholly-owned subsidiary of Valhi. In March 1998, CompX completed an initial public offering of shares of its common stock for net proceeds to CompX of approximately \$110.4 million. CompX used \$75 million of such net proceeds to repay outstanding borrowings under its bank credit facility, of which \$50 million was incurred in connection with the repayment of certain intercompany indebtedness owed by CompX to Valcor and \$25 million which was incurred in connection with CompX's March 1998 acquisition of a lock producer discussed below. As a result of the public offering of shares of CompX common stock and CompX's award of certain shares of its common stock in connection with the offering, the Company's ownership interest in CompX was reduced to 62% from 100%. The Company reported a \$67.9 million pre-tax gain on the Company's reduction in interest in CompX in 1998. Deferred income taxes were provided on this gain on reduction in interest in CompX.

Subsequently in 1998 and during 1999, Valhi purchased shares of CompX common stock in market transactions for an aggregate of \$6.5 million, thereby increasing the Company's ownership interest of CompX from 62% to 64% at December 31, 1999. The Company accounted for such increases in its interest in CompX by the purchase method (step acquisition).

In 1998, CompX acquired two lock producers for an aggregate of \$41.6 million cash consideration. In 1999, CompX acquired two slide producers for an aggregate of \$65 million cash consideration. Such acquisitions were accounted for by the purchase method. In January 2000, CompX acquired another lock producer for an aggregate of \$9 million cash consideration.

Waste Control Specialists LLC. In 1995, Valhi acquired a 50% interest in newly-formed Waste Control Specialists LLC. See Note 8. Valhi contributed \$25 million to Waste Control Specialists at various dates through early 1997 (including \$3 million in 1997) for its 50% interest. Valhi contributed an additional \$10 million to Waste Control Specialists' equity in each of 1997, 1998 and 1999, thereby increasing its membership interest from 50% to 69% at December 31, 1999. A substantial portion of such equity contributions were used by Waste Control Specialists to reduce the then-outstanding balance of its revolving intercompany borrowings from the Company. Valhi also holds an option to make an additional \$20 million equity contribution which, if exercised, would increase its membership interest in Waste Control Specialists to 90%.

In 1995, the other owner of Waste Control Specialists, KNB Holdings, Ltd., contributed certain assets, primarily land and certain operating permits for the facility site, and Waste Control Specialists also assumed certain indebtedness of the other owner. KNB Holdings is controlled by an individual who had been granted the duties of chief executive officer of Waste Control Specialists under an employment agreement previously-effective through at least 2001. Such individual had the ability to establish management policies and procedures, and had the authority to make routine operating decisions, for Waste

Control Specialists. Prior to June 1999, the rights granted to the owner of the remaining membership interest under the employment agreement discussed above overcame the Company's presumption of control at the majority ownership interest level, and the Company accounted for its interest in Waste Control Specialists by the equity method. As of June 1999, that individual resigned as chief executive officer and a new chief executive officer unrelated to the other owner was appointed. Accordingly, the Company was then deemed to control Waste Control Specialists. The Company commenced consolidating Waste Control Specialists' balance sheet at June 30, 1999, and commenced consolidating its results of operations and cash flows in the third quarter of 1999.

Valhi is entitled to a 20% cumulative preferential return on its initial \$25 million investment, after which earnings are generally split in accordance with ownership interests. The liabilities of the other owner assumed by Waste Control Specialists in 1995 exceeded the carrying value of the assets contributed. Accordingly, all of Waste Control Specialists' net losses to date have accrued to the Company for financial reporting purposes, and all of Waste Control Specialists future net income or net losses will also accrue to the Company until Waste Control Specialists reports positive equity attributable to the other owner. See Note 12.

Tremont. In June 1998, Valhi purchased 2.9 million shares of Tremont Corporation common stock from Contran and certain of Contran's subsidiaries for an aggregate of \$165.4 million cash consideration, including fees and expenses. Subsequently in 1998 and during 1999, Valhi also purchased in market and private transactions additional shares of Tremont for an aggregate of \$9.5 million which, by late December 1999, increased the Company's ownership of Tremont to 50.2%. See Note 17. Accordingly, the Company commenced consolidating Tremont's balance sheet at December 31, 1999, and the Company will commence consolidating Tremont's results of operations and cash flows effective January 1, 2000. Prior to December 31, 1999, Valhi accounted for its interest in Tremont by the equity method, and the Company commenced reporting equity in Tremont's earnings in the third quarter of 1998. See Note 8. Tremont is primarily a holding company which owns 39.1% of the outstanding common stock of Titanium Metals Corporation ("TIMET") and 19.9% of NL's common stock at December 31, 1999. TIMET is a vertically integrated producer of titanium sponge, melted products (ingot and slab) and a variety of titanium mill products for aerospace, industrial and other applications with production facilities located in the U.S. and Europe.

Other. Each of NL (NYSE: NL), CompX (NYSE: CIX), Tremont (NYSE: TRE) and TIMET (NYSE: TIE) file periodic reports pursuant to the Securities Exchange Act of 1934, as amended. The aggregate pro forma impact of CompX's 1999 acquisition of two slide producers, assuming such acquisitions occurred at the beginning of 1998, is not material. Discontinued operations are discussed in Note 19.

Note 4 - Accounts and other receivables:

	December 31,	
	1998	1999
	----	----
	(In thousands)	
Accounts receivable	\$ 157,248	\$ 192,233
Notes receivable	3,622	3,991
Accrued interest	9,477	12,189
Allowance for doubtful accounts	(2,687)	(6,213)
	-----	-----
	\$ 167,660	\$ 202,200
	=====	=====

Note 5 - Marketable securities:

December 31,
1998 1999
---- ----
(In thousands)

Noncurrent assets (available-for-sale):

The Amalgamated Sugar Company LLC	\$170,000	\$170,000
Halliburton Company common stock	79,710	91,825
Other securities	15,857	4,537
	-----	-----
	\$265,567	\$266,362
	=====	=====

Amalgamated. On January 3, 1997, the Company transferred control of the refined sugar operations previously conducted by the Company's wholly-owned subsidiary, The Amalgamated Sugar Company, to Snake River Sugar Company, an Oregon agricultural cooperative formed by certain sugarbeet growers in Amalgamated's areas of operations. Pursuant to the transaction, Amalgamated contributed substantially all of its net assets to the Amalgamated Sugar Company LLC, a limited liability company controlled by Snake River, on a tax-deferred basis in exchange for a non-voting ownership interest in the LLC. The cost basis of the net assets transferred to the LLC was approximately \$34 million.

As part of the transaction, in January 1997 (i) Snake River made certain loans to Valhi aggregating \$250 million and (ii) Valhi provided \$180 million of loans to Snake River, of which \$100 million was repaid in May 1997 when Snake River obtained an equal amount of third-party term loan financing. Valhi's \$250 million in loans from Snake River are collateralized by the Company's interest in the LLC. See Notes 7 and 10.

The Company and Snake River share in distributions from the LLC up to an aggregate of \$26.7 million per year, with a preferential 95% going to the Company. Under certain conditions, the Company is entitled to receive additional cash distributions from the LLC. In addition, the Company may, at its option, require the LLC to redeem the Company's interest in the LLC beginning in 2010, and the LLC has the right to redeem the Company's interest in the LLC beginning in 2027. The redemption price is generally \$250 million plus the amount of certain undistributed income allocable to the Company. In the event the Company requires the LLC to redeem the Company's interest in the LLC, Snake River has the right to accelerate the maturity of and call Valhi's \$250 million loans from Snake River.

The LLC Company Agreement contains certain restrictive covenants intended to protect the Company's interest in the LLC, including limitations on capital expenditures and additional indebtedness of the LLC. The Company also has the ability to temporarily take control of the LLC in the event the Company's cumulative distributions from the LLC fall below specified levels. As a condition to exercising temporary control, the Company would be required to escrow funds in amounts up to the next three years of debt service of Snake River's third-party term loan unless the Company and Snake River's third-party lender otherwise mutually agree. Through December 31, 1999, the Company's cumulative distributions from the LLC had not fallen below such specified levels.

Because the Company surrendered control of the operations contributed to the LLC, the Company ceased consolidating the net assets, results of operations and cash flows of such business effective December 31, 1996. Beginning in 1997, the Company commenced reporting the cash distributions received from the LLC (approximately \$25.4 million in 1997, \$18.4 million in 1998 and \$23.5 million in 1999) as dividend income. The amount of such future distributions is dependent upon, among other things, the future performance of the LLC's operations. Because the Company receives preferential distributions from the LLC and has the right to require the LLC to redeem its interest in the LLC for a fixed and determinable amount beginning at a fixed and determinable date, the Company has classified its investment in the LLC as an available-for-sale marketable security carried at estimated fair value. In determining the estimated fair value of the Company's interest in the LLC, the Company considers, among other things, the outstanding balance of the Company's loans to Snake River and the outstanding balance of the Company's loans from Snake River.

Halliburton. At December 31, 1999, Valhi held 2.7 million shares of Halliburton common stock (aggregate cost of \$22 million) with a quoted market price of \$40.25 per share, or an aggregate market value of \$108 million (1998: 2.7 million shares at a cost of \$22 million with a quoted market price of \$29.63 per share, or an aggregate market value of \$80 million). Valhi's LYONs are exchangeable at any time, at the option of the LYON holder, for such Halliburton shares, and the carrying value of the Halliburton stock is limited to the accreted LYONs obligation. See Note 10. The Halliburton shares are held in escrow for the benefit of holders of the LYONs. Valhi receives the regular quarterly Halliburton dividend on the escrowed Halliburton shares. Prior to the September 1998 merger of Halliburton and Dresser Industries, Inc., in which each share of Dresser common stock was exchanged for one share of Halliburton common stock, Valhi held Dresser shares. During 1997, 1998 and 1999, certain LYON holders exchanged their LYONs for 2.4 million, 385,000 and 7,000 Halliburton/Dresser shares, respectively. Halliburton provides services and products to customers in the oil and gas industry, and provides engineering and construction services for commercial, industrial and governmental customers. Halliburton (NYSE: HAL) files periodic reports with the Securities and Exchange Commission.

Other. The aggregate cost of other available-for-sale securities (primarily common stocks) is approximately \$8 million at December 31, 1999 (December 31, 1998 - \$14 million).

Note 6 - Inventories:

	December 31,	
	1998	1999
	----	----
	(In thousands)	
Raw materials:		
Chemicals	\$ 46,114	\$ 54,861
Component products	6,520	9,038
	-----	-----
	52,634	63,899
	-----	-----
In process products:		
Chemicals	11,530	8,065
Component products	5,748	8,669
	-----	-----
	17,278	16,734
	-----	-----
Finished products:		
Chemicals	137,000	100,973
Component products	4,634	9,898
	-----	-----
	141,634	110,871
	-----	-----
Supplies (primarily chemicals)	34,792	28,114
	-----	-----
	\$246,338	\$219,618
	=====	=====

Note 7 - Other noncurrent assets:

	December 31,	
	1998	1999

	----	----
	(In thousands)	
Loans and notes receivable:		
Snake River Sugar Company	\$80,000	\$80,000
Other	5,912	7,259
	-----	-----
	85,912	87,259
Less current portion	3,622	3,991
	-----	-----
Noncurrent portion	\$82,290	\$83,268
	=====	=====
Other assets:		
Intangible assets	\$ 4,923	\$ 6,979
Deferred financing costs	5,674	3,668
Other	11,140	11,820
	-----	-----
	\$21,737	\$22,467
	=====	=====

Valhi's loan to Snake River is unsecured, is subordinate to Snake River's third-party term loan and bears interest at a fixed rate of 12.99% (10.99% during 1997 and 1998), with all amounts due no later than 2010. Covenants contained in Snake River's third-party term loan allow Snake River, under certain conditions, to pay periodic installments for debt service on the \$80 million loan. Under certain conditions, Valhi is required to pledge \$5 million in cash equivalents or marketable securities to collateralize Snake River's third-party term loan as a condition to permit continued repayment of the \$80 million loan. No such cash equivalents or marketable securities have yet been required to be pledged.

Note 8 - Investment in and advances to affiliates:

	December 31,	
	1998	1999
	----	----
	(In thousands)	
Investments in:		
TiO2 manufacturing joint venture	\$171,202	\$157,552
Titanium Metals Corporation	--	85,772
Other joint ventures	--	13,658
Prior to consolidation:		
Tremont Corporation	179,452	--
Waste Control Specialists LLC	10,000	--
	-----	-----
	360,654	256,982
Loan to Waste Control Specialists LLC (prior to consolidation)	10,000	--
	-----	-----
	\$370,654	\$256,982
	=====	=====

TiO2 manufacturing joint venture. A Kronos TiO2 subsidiary (Kronos Louisiana, Inc., or "KLA") and another TiO2 producer are equal owners of a manufacturing joint venture (Louisiana Pigment Company, L.P., or "LPC") that owns and operates a TiO2 plant in Louisiana. KLA and the other TiO2 producer are each required to purchase one-half of the TiO2 produced by LPC. The manufacturing joint venture operates on a break-even basis, and each owner's acquisition transfer price for its share of the TiO2 produced is equal to its

share of the joint venture's production costs and interest expense, if any.

LPC's net sales aggregated \$162.7 million, \$180.3 million and \$171.6 million in 1997, 1998 and 1999, respectively, of which \$82.2 million, \$90.4 million and \$85.3 million, respectively, represented sales to Kronos and the remainder represented sales to LPC's other owner. Over 95% of LPC's operating costs during the past three years represented costs of sales, with the remainder comprised principally of interest expense. At December 31, 1999, LPC reported total assets and partners' equity of \$335.6 million and \$317.3 million, respectively (1998 - \$355.6 million and \$344.6 million, respectively). Over 80% of LPC's assets at December 31, 1998 and 1999 are comprised of property and equipment; the remainder of LPC's assets is comprised principally of inventories, receivables from its partners and cash and cash equivalents. LPC's liabilities at December 31, 1998 and 1999 are comprised primarily of trade payables and accruals.

Titanium Metals Corporation. At December 31, 1999, the investment in TIMET represents 12.3 million shares of TIMET common stock with a quoted market price of \$4.50 per share, or an aggregate market value of \$55.3 million. At December 31, 1999, TIMET reported total assets and stockholders' equity of \$883.1 million and \$408.1 million, respectively. TIMET's total assets at such date include current assets of \$342.6 million, property and equipment of \$333.4 million and goodwill and other intangible assets of \$71.1 million. TIMET's total liabilities at such date include current liabilities of \$194.4 million, long-term debt of \$22.4 million, accrued OPEB costs of \$20.0 million and convertible preferred securities of \$201.3 million.

Tremont Corporation. The Company commenced reporting equity in earnings of Tremont in the third quarter of 1998. Effective December 31, 1999, the Company commenced consolidating Tremont's balance sheet, and the Company will commence consolidating Tremont's results of operations and cash flows effective January 1, 2000. See Note 3. For the six months ended December 31, 1998, Tremont reported income before extraordinary items of \$18.7 million, comprised principally of equity in earnings of TIMET (\$4.3 million) and NL (\$7.6 million) and an income tax benefit of \$6.1 million. For the year ended December 31, 1999, Tremont reported a net loss of \$28.2 million, comprised principally of equity in earnings of NL of \$28.1 million, equity in losses of TIMET of \$72.0 million and an income benefit of \$18.9 million. The Company's equity in losses of Tremont in 1999 includes a \$50.0 million impairment provision for an other than temporary decline in the value of TIMET. At December 31, 1998, Tremont reported total assets and stockholders' equity of \$288.6 million and \$198.3 million, respectively. Tremont's total assets at December 31, 1998 are comprised principally by its investments in NL (\$95.0 million), TIMET (\$145.2 million) and other joint ventures (\$13.1 million) and \$3.1 million in cash and cash equivalents. At December 31, 1998, Tremont's total liabilities included a demand loan to Contran (\$5.9 million), accrued OPEB costs (\$21.9 million), accrued insurance claims and claim expenses related to its wholly-owned captive insurance subsidiary (\$15.8 million) and deferred income taxes (\$32.9 million).

Waste Control Specialists LLC. The Company commenced consolidating Waste Control Specialists' balance sheet at June 30, 1999, and commenced consolidating its results of operations and cash flows in the third quarter of 1999. For periods prior to consolidation, Waste Control Specialists reported net losses of \$12.7 million in 1997, \$15.5 million in 1998 and \$8.5 million in 1999, all of which accrued to Valhi for financial reporting purposes. Its net sales during the same periods were \$3.4 million in 1997, \$11.9 million in 1998 and \$8.3 million in 1999. See Note 3. At December 31, 1998, Waste Control Specialists' total assets were \$34.7 million and total Members' equity was \$7.5 million. Waste Control Specialists' assets at December 31, 1998 consisted principally of property and equipment related to the West Texas facility and trade accounts receivable, and its liabilities consist principally of indebtedness, including \$10 million of intercompany indebtedness owed to the Company, and trade payables and accruals.

Other. At December 31, 1999, other joint ventures, held by a 75%-owned subsidiary of Tremont, are principally comprised of (i) a 32% equity interest in Basic Investments, Inc., which, among other things, provides utility services in the industrial park where one of TIMET's plants is located, and (ii) a 12% interest in The Landwell Company L.P. (formerly Victory Valley Land Company, L.P.), which is actively engaged in efforts to develop certain real estate. Basic Investments owns an additional 50% interest in Landwell.

	December 31,	
	1998	1999
	----	----
	(In thousands)	
Current:		
Employee benefits	\$ 42,665	\$ 45,674
Environmental costs	46,059	48,891
Interest	7,397	7,210
Deferred income	4,353	7,924
Other	48,364	53,857
	-----	-----
	\$148,838	\$163,556
	=====	=====
Noncurrent:		
Insurance claims and expenses	\$ 15,321	\$ 21,690
Employee benefits	12,523	11,403
Deferred income	13,693	9,573
Other	2,683	2,498
	-----	-----
	\$ 44,220	\$ 45,164
	=====	=====

Note 10 - Notes payable and long-term debt:

	December 31,	
	1998	1999
	----	----
	(In thousands)	
Notes payable - Kronos - bank credit agreements	\$ 36,391	\$ 57,076
	=====	=====
Long-term debt:		
Valhi:		
Snake River Sugar Company	\$250,000	\$250,000
Liquid Yield Option Notes (LYONs)	84,104	91,825
Bank credit facility	--	21,000
	-----	-----
	334,104	362,825
	-----	-----
NL Industries:		
Senior Secured Notes	244,000	244,000
Deutsche mark bank credit facility	112,674	--
Other	955	478
	-----	-----
	357,629	244,478
	-----	-----
Other subsidiaries:		
CompX bank credit facility	--	20,000
Waste Control Specialists bank term loan	--	4,304
Valcor Senior Notes	2,431	2,431
Other	1,838	3,147
	-----	-----
	4,269	29,882
	-----	-----
	696,002	637,185

Less current maturities	65,448	27,846
	-----	-----
	\$630,554	\$609,339
	=====	=====

Valhi. Valhi's \$250 million in loans from Snake River Sugar Company bear interest at a weighted average fixed interest rate of 9.4%, are collateralized by the Company's interest in The Amalgamated Sugar Company LLC and are due in January 2027. Currently, these loans are nonrecourse to Valhi. Under certain conditions, up to \$37.5 million principal amount of such loans may become recourse to Valhi. Under certain conditions, Snake River has the ability to accelerate the maturity of these loans. See Note 5.

The zero coupon Senior Secured LYONs due October 2007 (\$185.9 million principal amount at maturity outstanding at December 31, 1999), were issued with significant OID to represent a yield to maturity of 9.25%. No periodic interest payments are required. Each \$1,000 in principal amount at maturity of the LYONs is exchangeable, at any time, for 14.4308 shares of Halliburton common stock held by Valhi. The LYONs are secured by such Halliburton shares held by Valhi. See Note 5. During 1997, 1998 and 1999, holders representing \$165.3 million, \$26.7 million and \$483,000 principal amount at maturity, respectively, of LYONs exchanged such LYONs for Halliburton shares or Halliburton's predecessor, Dresser. The LYONs are redeemable, at the option of the holder, in October 2002 at \$636.27 per \$1,000 principal amount (the issue price plus accrued OID through such date). Such redemptions may be paid, at Valhi's option, in cash, Halliburton common stock, or a combination thereof. The LYONs are redeemable, at any time, at Valhi's option for cash equal to the issue price plus accrued OID through the redemption date. At December 31, 1998 and 1999, the net carrying value of the LYONs per \$1,000 principal amount at maturity was \$451 and \$494 respectively, and the quoted market price of the LYONs was \$464 and \$573, respectively.

Valhi has a \$50 million revolving bank credit/letter of credit facility which matures in November 2000, bears interest at LIBOR plus 1.5% (7.7% at December 31, 1999) and is collateralized by 30 million shares of NL common stock held by Valhi. The agreement limits quarterly Valhi dividends generally to \$.05 per share, limits additional indebtedness of Valhi and contains other provisions customary in lending transactions of this type. At December 31, 1999, \$28.5 million was available for borrowing under this facility.

NL Industries. NL's 11.75% Senior Secured Notes due 2003 are collateralized by a series of intercompany notes from Kronos International, Inc. ("KII"), a wholly-owned subsidiary of Kronos, to NL, the terms of which mirror those of the Senior Secured Notes (the "NL Mirror Notes"). The Senior Secured Notes are also collateralized by a first priority lien on the stock of Kronos and a second priority lien on the stock of another wholly-owned NL subsidiary. In the event of foreclosure, the Senior Secured noteholders would have access to the consolidated assets, earnings and equity of NL and NL believes the collateralization of the Senior Secured Notes, as described above, is the functional economic equivalent to a full, unconditional and joint and several guarantee by Kronos and the other NL subsidiary. The Senior Secured Notes are redeemable, at NL's option, starting in October 2000 at a redemption price of 101.5% of principal amount, declining to 100% after October 2001. In the event of an NL change of control, as defined, NL would be required to make an offer to purchase the Senior Secured Notes at 101% of the principal amount. The Senior Secured Notes are issued pursuant to an indenture which contains a number of covenants and restrictions which, among other things, restricts the ability of NL and its subsidiaries to incur debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer all or substantially all of their assets to, another entity. The quoted market price of the Senior Secured Notes per \$1,000 principal amount was \$1,037 at each of December 31, 1998 and 1999.

During 1998, NL purchased (i) \$6 million principal amount of its Senior Secured Notes at par value and (ii) the entire issue of its previously-outstanding 13% Senior Secured Discount Notes (\$187.5 million principal amount at maturity) with premiums ranging between 1.25% and 6% in market transactions or pursuant to a tender offer. NL's DM bank credit facility was prepaid and terminated in 1999.

At December 31, 1999, notes payable consists of 57 million of euro-denominated short-term borrowings which mature during 2000 and bear interest at rates ranging from 3.0% to 4.3% (1998 - DM 61 million of short-term borrowings at rates ranging from 3.7% to 4.6%). At December 31, 1999, NL had \$19

million available for borrowing under non-U.S. credit facilities.

Other. CompX has a \$100 million unsecured revolving bank credit facility which matures in 2003. Borrowings bear interest at the Eurodollar Rate plus between 17.5 and 90 basis points depending upon certain CompX financial ratios (6.2% at December 31, 1999). At December 31, 1999, \$80 million was available for borrowing under this facility. Waste Control Specialists' bank term loan is due in April 2000, bears interest at the greater of 12% or prime plus 3.75% (12.25% at December 31, 1999) and is collateralized by substantially all of Waste Control Specialists' assets. Waste Control Specialists expects to refinance such bank term loan in 2000. Valcor's unsecured 9 5/8% Senior Notes due November 2003 are redeemable at the Company's option at 102.406% of principal amount (100% after November 2000). At December 31, 1998 and 1999, the quoted market price of the Valcor Notes was \$1,011 and \$1,005 per \$1,000 principal amount, respectively. In 1997, Valcor purchased \$97.6 million principal amount of its Senior Notes in market transactions or tender offers, including \$66.2 million principal amount purchased with a premium of 5.75% of principal amount.

In addition to the NL Senior Secured Notes discussed above, other credit agreements typically require the respective subsidiary to maintain minimum levels of equity, require the maintenance of certain financial ratios, limit dividends and additional indebtedness and contain other provisions and restrictive covenants customary in lending transactions of this type. At December 31, 1999, the restricted net assets of consolidated subsidiaries approximated \$460 million.

Aggregate maturities of long-term debt at December 31, 1999

Years ending December 31,	Amount (In thousands)
2000	\$ 27,846
2001	539
2002	118,555
2003	266,529
2004	73
2005 and thereafter	250,131

	663,673
Less unamortized OID on Valhi LYONs	26,488

	\$637,185
	=====

The LYONs are reflected in the above table as due October 2002, the next date they are redeemable at the option of the holder, at the aggregate redemption price on such date of \$118.3 million (\$636.27 per \$1,000 principal amount at maturity in October 2007).

Note 11 - Other income, net:

	Years ended December 31,		
	1997	1998	1999
	----	----	----
	(In thousands)		
Securities earnings:			
Dividends and interest	\$ 60,206	\$ 54,960	\$ 43,040
Securities transactions	48,920	8,006	757
	-----	-----	-----
	109,126	62,966	43,797
Currency transactions, net	5,726	4,669	9,865
Noncompete agreement income	--	3,667	4,000
Disposal of property and equipment	1,546	(570)	(635)
Other, net	8,427	10,007	11,429
	-----	-----	-----
	\$124,825	\$ 80,739	\$ 68,456
	=====	=====	=====

Interest and dividend income in 1997, 1998 and 1999 includes \$25.4 million, \$18.4 million and \$23.5 million, respectively, of distributions received from The Amalgamated Sugar Company LLC. See Note 5. Securities transactions in each of the past three years relate principally to dispositions of a portion of the shares of Halliburton common stock (and its predecessor, Dresser) held by the Company when certain holders of the Company's LYONs debt obligation exercised their right to exchange their LYONs for such shares. See Notes 5 and 10. Noncompete agreement income relates to NL's agreement not to compete discussed in Note 3 and is recognized in income ratably over the five-year noncompete period.

Note 12 - Minority interest:

	December 31,	
	1998	1999
	----	----
	(In thousands)	
Minority interest in net assets:		
NL Industries	\$ 64,268	\$ 57,723
CompX International	46,817	53,487
Tremont Corporation	--	81,451
Subsidiaries of NL	633	3,903
Subsidiaries of CompX	4	103
Subsidiaries of Tremont	--	4,159
	-----	-----
	\$111,722	\$200,826
	=====	=====

	Years ended December 31,		
	1997	1998	1999
	----	----	----
	(In thousands)		
Minority interest in net earnings (losses) -			
continuing operations:			
NL Industries	\$-	\$ 64,900	\$ 66,760
CompX International	--	7,402	9,013
Subsidiaries of NL	43	40	3,322
Subsidiaries of CompX	--	(165)	(103)
	-----	-----	-----
	\$ 43	\$ 72,177	\$ 78,992
	=====	=====	=====

NL Industries. During 1997, NL's separate financial statements reflected a stockholders' deficit. Until such time as NL reported positive stockholders' equity, all undistributed income or loss and other undistributed changes in NL's reported stockholders' equity accrued to the Company for financial reporting purposes. Accordingly, no minority interest in NL's net earnings was reported in 1997. Beginning in 1998, NL resumed reporting positive stockholders' equity, and consequently the Company resumed reporting minority interest in NL's net earnings and net assets in 1998.

CompX International. In March 1998, CompX completed an initial public offering of shares of its common stock. Prior to that date, CompX was a wholly-owned subsidiary of Valcor. See Note 3. Following CompX's public offering, the Company commenced reporting minority interest in CompX's net earnings and net assets.

Tremont Corporation. The Company commenced consolidating Tremont's

balance sheet effective December 31, 1999, and will commence consolidating its results of operations effective January 1, 2000. Accordingly, the Company commenced reporting minority interest in Tremont's net assets at December 31, 1999, and the Company will commence reporting minority interest in Tremont's net earnings in 2000. See Note 3.

Waste Control Specialists. Waste Control Specialists was formed by Valhi and another entity in 1995. See Note 3. Waste Control Specialists assumed certain liabilities of the other owner and such liabilities exceeded the carrying value of the assets contributed by the other owner. Consequently, all of Waste Control Specialists net losses to date have accrued to the Company for financial reporting purposes, and all of Waste Control Specialists future net income or net losses will also accrue to the Company until Waste Control Specialists reports positive equity attributable to the other owner. Accordingly, no minority interest in Waste Control Specialists' net assets or net losses is reported at December 31, 1999.

Note 13 - Stockholders' equity:

	Shares of common stock		
	Issued	Treasury	Outstanding
	(In thousands)		
Balance at December 31, 1996	124,768	(10,126)	114,642
Issued	565	--	565
Other	--	(4)	(4)
	-----	-----	-----
Balance at December 31, 1997	125,333	(10,130)	115,203
Issued	188	--	188
Reacquired	--	(383)	(383)
Other	--	(32)	(32)
	-----	-----	-----
Balance at December 31, 1998	125,521	(10,545)	114,976
Issued	90	--	90
	-----	-----	-----
Balance at December 31, 1999	125,611	(10,545)	115,066
	=====	=====	=====

For financial reporting purposes, treasury stock includes the Company's proportional interest in 1.2 million Valhi shares held by NL. However, under Delaware Corporation Law, 100% of a parent company's shares held by a majority-owned subsidiary of the parent is considered to be treasury stock. As a result, shares outstanding for financial reporting purposes differ from those outstanding for legal purposes.

In January 1998, the Company's board of directors authorized the Company to purchase up to 2 million shares of its common stock in open market or privately-negotiated transactions over an unspecified period of time. As of December 31, 1999, the Company had purchased approximately 383,000 shares for an aggregate of \$3.7 million pursuant to such authorization.

Valhi options and restricted stock. Valhi has an incentive stock option plan that provides for the discretionary grant of, among other things, qualified incentive stock options, nonqualified stock options, restricted common stock, stock awards and stock appreciation rights. Up to five million shares of Valhi common stock may be issued pursuant to this plan. Options are generally granted at a price not less than fair market value on the date of grant, generally vest ratably over a five-year period beginning one year from the date of grant and expire 10 years from the date of grant. Restricted stock, when granted, is generally forfeitable unless certain periods of employment are completed and held in escrow in the name of the grantee until the restriction period expires. No stock appreciation rights have been granted.

Outstanding options at December 31, 1999 represent approximately 2.6% of Valhi's outstanding shares at that date and expire at various dates through 2009, with a weighted-average remaining term of 6 years. At December 31, 1999, options to purchase 1.9 million Valhi shares were exercisable at prices ranging from \$4.76 to \$12.16 per share, or an aggregate amount payable upon exercise of \$11.3 million. Substantially all of such exercisable options are exercisable at various dates through 2008 at prices lower than the Company's December 31, 1999 market price of \$10.50 per share. At December 31, 1999, options to purchase 365,000 shares are scheduled to become exercisable in 2000, and an aggregate of 4.3 million shares were available for future grants.

The following table sets forth changes in outstanding options during the past three years under all option plans in effect during such periods.

	Shares	Exercise price per share (In thousands, except per share amounts)	Amount payable upon exercise
Outstanding at December 31, 1996	5,328	\$ 4.76-\$14.66	\$ 38,070
Granted	885	6.38	5,646
Exercised	(565)	4.76- 8.16	(3,027)
Canceled	(2,937)	4.76- 14.66	(23,035)
	-----	-----	-----
Outstanding at December 31, 1997	2,711	4.76- 14.66	17,654
Granted	380	9.50	3,610
Exercised	(188)	4.76- 8.00	(1,196)
Canceled	(2)	4.76	(9)
	-----	-----	-----
Outstanding at December 31, 1998	2,901	4.76- 14.66	20,059
Granted	323	12.00- 12.06	3,876
Exercised	(87)	5.48- 9.50	(621)
Canceled	(172)	6.56- 14.66	(2,500)
	-----	-----	-----
Outstanding at December 31, 1999	2,965	\$ 4.76-\$12.16	\$ 20,814
	=====	=====	=====

Stock option plans of subsidiaries and affiliates. NL, CompX and Tremont each maintain plans which provide for the grant of options to purchase their respective common stocks. Provisions of these plans vary by company. Outstanding options to purchase common stock of NL, CompX, Tremont and TIMET at December 31, 1999 are summarized below.

	Shares	Exercise price per share (In thousands, except per share amounts)	Amount payable upon exercise
NL Industries	2,437	\$ 5.00-\$24.19	\$34,943
CompX	658	15.88- 20.00	12,784
Tremont	148	8.00- 56.50	1,883
TIMET	1,738	7.38- 35.31	37,059

Other. The following pro forma information, required by SFAS No. 123, "Accounting for Stock-Based Compensation," is based on an estimation of the fair value of options issued subsequent to January 1, 1995. The weighted average fair values of Valhi options granted during 1997, 1998 and 1999 were \$2.73, \$4.49 and \$5.96 per share, respectively. The fair values of such options were calculated

using the Black-Scholes stock option valuation model with the following weighted-average assumptions: stock price volatility of 40% to 43%, risk-free rates of return of 5.9% to 6.4%, dividend yields of 1.7% to 3.1%, and an expected term of 10 years. The Black-Scholes model was not developed for use in valuing employee stock options, but was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, it requires the use of subjective assumptions including expectations of future dividends and stock price volatility. Such assumptions are only used for making the required fair value estimate and should not be considered as indicators of future dividend policy or stock price appreciation. Because changes in the subjective assumptions can materially affect the fair value estimate, and because employee stock options have characteristics significantly different from those of traded options, the use of the Black-Scholes option-pricing model may not provide a reliable estimate of the fair value of employee stock options.

Had the Company, NL, CompX, Tremont and TIMET each elected to account for their respective stock-based employee compensation for all awards granted subsequent to January 1, 1995 in accordance with the fair value-based accounting method of SFAS No. 123, the Company's reported net income would have decreased by \$1.6 million, \$2.9 million and \$3.6 million in 1997, 1998 and 1999, respectively, or \$.01, \$.03 and \$.03 per basic share, respectively. For purposes of this pro forma disclosure, the estimated fair value of options is amortized to expense over the options' vesting period. Such pro forma impact on net income and basic earnings per share is not necessarily indicative of future effects on net income or earnings per share.

Note 14 - Financial instruments:

	December 31,			
	1998		1999	
	-----	-----	-----	-----
	Carrying	Fair	Carrying	Fair
	amount	value	amount	value
	(In millions)			
Cash and cash equivalents	\$ 224.6	\$ 224.6	\$ 175.0	\$ 175.0
Marketable securities (available-for-sale) .	\$ 265.6	\$ 265.6	\$ 266.4	\$ 282.5
Loan to Snake River Sugar Company	\$ 80.0	\$ 88.8	\$ 80.0	\$ 80.4
Notes payable and long-term debt (excluding capitalized leases):				
Publicly-traded fixed rate debt:				
Valhi LYONs	\$ 84.1	\$ 86.5	\$ 91.8	\$ 106.5
NL Senior Secured Notes	244.0	253.1	244.0	253.2
Valcor Senior Notes	2.4	2.5	2.4	2.4
Snake River Sugar Company loans	250.0	250.0	250.0	250.0
Other fixed-rate debt	--	--	7.0	7.0
Variable rate debt	150.0	150.0	98.6	98.6
Minority interest in:				
NL common stock	\$ 64.3	\$ 312.0	\$ 57.7	\$ 164.5
CompX common stock	46.8	153.3	53.5	106.1
Tremont common stock	--	--	81.5	47.7
Valhi common stockholders' equity	\$ 578.5	\$1,307.9	\$ 589.4	\$1,208.2

The fair value of the Company's publicly-traded marketable securities and debt, minority interest in NL Industries, CompX and Tremont and Valhi's common stockholders' equity are all based upon quoted market prices. The fair value of the Company's investment in The Amalgamated Sugar Company LLC is based upon the \$250 million redemption price of such investment, less the \$80 million outstanding balance of the Company's loan to Snake River Sugar Company. The fair value of the Company's fixed-rate loans to Snake River Sugar Company is based upon relative changes in market interest rates since the interest rates were

fixed. The fair value of Valhi's fixed-rate nonrecourse loans from Snake River Sugar Company is based upon the \$250 million redemption price of Valhi's investment in the Amalgamated Sugar Company LLC, which investment collateralizes such nonrecourse loans. Fair values of variable interest rate debt and other fixed-rate debt are deemed to approximate book value. See Notes 5 and 10.

The estimated fair values of CompX's currency forward contracts at December 31, 1998 and 1999 are insignificant. See Note 1.

Note 15 - Income taxes:

	Years ended December 31,		
	1997	1998	1999
	----	----	----
	(In millions)		
Components of pre-tax income:			
United States:			
Contran Tax Group	\$ 49.5	\$ 25.7	\$ (14.2)
NL tax group	16.8	400.2	22.9
CompX tax group	--	8.9	14.0
Equity in Tremont	--	7.4	(48.7)
	-----	-----	-----
Non-U.S. subsidiaries	66.3	442.2	(26.0)
	(11.6)	48.0	81.1
	-----	-----	-----
	\$ 54.7	\$490.2	\$ 55.1
	=====	=====	=====
Expected tax expense, at U.S. federal statutory income tax rate of 35%	\$ 19.2	\$171.6	\$ 19.3
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies	(5.1)	79.3	15.7
Change in NL's deferred income tax valuation allowance	8.7	(57.3)	(93.4)
Resolution of German income tax audits	--	--	(36.5)
Change in German income tax law	--	--	24.1
U.S. state income taxes, net	2.8	7.7	(.9)
No tax benefit for goodwill amortization	3.2	12.6	4.1
Excess of tax basis over book basis of the common stock of foreign subsidiaries sold	--	(14.5)	--
Refund of prior-year dividend withholding taxes ...	--	(8.2)	--
Non-U.S. tax rates	(.8)	.4	(.6)
Other, net	(.4)	.6	(3.1)
	-----	-----	-----
	\$ 27.6	\$192.2	\$ (71.3)
	=====	=====	=====
Components of income tax expense (benefit):			
Currently payable (refundable):			
U.S. federal and state	\$ 21.2	\$ 25.7	\$ (11.1)
Non-U.S.	25.2	23.4	32.6
	-----	-----	-----
	46.4	49.1	21.5
	-----	-----	-----
Deferred income taxes (benefit):			
U.S. federal and state	(7.5)	149.8	(48.7)
Non-U.S.	(11.3)	(6.7)	(44.1)
	-----	-----	-----
	(18.8)	143.1	(92.8)
	-----	-----	-----
	\$ 27.6	\$192.2	\$ (71.3)
	=====	=====	=====

Comprehensive provision for income taxes (benefit) allocable to:			
Continuing operations	\$ 27.6	\$192.2	\$ (71.3)
Discontinued operations	14.2	--	--
Extraordinary item	(2.3)	(6.4)	--
Other comprehensive income:			
Marketable securities	43.0	(3.0)	2.0
Currency translation	(9.8)	.6	(10.7)
Pension liabilities .....	.3	(.1)	(1.9)
	-----	-----	-----
	\$ 73.0	\$183.3	\$ (81.9)
	=====	=====	=====

The components of the net deferred tax liability at December 31, 1998 and 1999, and changes in the deferred income tax valuation allowance during the past three years, are summarized in the following tables. At December 31, 1999, 94% of the deferred tax valuation allowance relates to NL tax jurisdictions, principally Germany, and substantially all of the remainder relates to Tremont's U.S. tax jurisdictions (1998: 100% related to NL's tax jurisdictions).

	December 31,			
	1998		1999	
	Assets	Liabilities	Assets	Liabilities
	(In millions)			
Tax effect of temporary differences related to:				
Inventories	\$ 3.4	\$ (3.9)	\$ 4.2	\$ (2.7)
Marketable securities	--	(80.8)	--	(93.4)
Mining properties	--	(1.5)	--	(1.8)
Property and equipment	--	(157.5)	96.8	(106.2)
Accrued OPEB costs	16.6	--	22.7	--
Accrued environmental liabilities and other deductible differences	72.1	--	81.4	--
Other taxable differences	--	(160.5)	--	(134.3)
Investments in subsidiaries and affiliates not members of the Contran Tax Group	6.6	(48.3)	26.6	(48.3)
Tax loss and tax credit carryforwards	138.2	--	152.9	--
Valuation allowance	(134.5)	--	(248.0)	--
	-----	-----	-----	-----
Adjusted gross deferred tax assets (liabilities)	102.4	(452.5)	136.6	(386.7)
Netting of items by tax jurisdiction	(97.6)	97.6	(119.6)	119.6
	-----	-----	-----	-----
	4.8	(354.9)	17.0	(267.1)
Less net current deferred tax asset (liability)	4.8	(1.2)	14.3	(.3)
	-----	-----	-----	-----
Net noncurrent deferred tax asset (liability) ..	\$ --	\$ (353.7)	\$ 2.7	\$ (266.8)
	=====	=====	=====	=====

Years ended December 31,
1997 1998 1999
---- ---- ----
(In millions)

Increase (decrease) in valuation allowance:
Increase in certain deductible temporary differences which the Company believes do not meet the "more-likely-than-not"

recognition criteria	\$ 19.8	\$ 7.0	\$ 1.6
Recognition of certain deductible tax attributes for which the benefit had not			

previously been recognized under the "more-likely-than-not" recognition criteria	(11.1)	(64.3)	(95.0)
Change in German tax law	--	--	24.1
Foreign currency translation	(12.3)	6.9	(14.7)
Offset to the change in gross deferred income tax assets due principally to redeterminations of certain tax attributes and implementation of certain tax planning strategies	(14.9)	(3.7)	183.1
Consolidation of Tremont Corporation	--	--	13.6
Other	--	--	.8
	-----	-----	-----
	\$ (18.5)	\$ (54.1)	\$ 113.5
	=====	=====	=====

Certain of the Company's U.S. and non-U.S. income tax returns are being examined and tax authorities have or may propose tax deficiencies. The Company believes that it has adequately provided accruals for additional income taxes and related interest expense which may ultimately result from such examinations and believes that the ultimate disposition of all such examinations should not have a material adverse effect on its consolidated financial position, results of operations or liquidity.

In 1999, certain significant NL German tax contingencies aggregating an estimated DM 188 million (\$100 million) through 1998 were resolved in NL's favor. In 1999, NL recognized a \$90 million non-cash income tax benefit related to (i) a favorable resolution of NL's previously-reported tax contingency in Germany (\$36 million) and (ii) a net reduction in NL's deferred income tax valuation allowance due to a change in estimate of NL's ability to utilize certain income tax attributes under the "more-likely-than-not" recognition criteria (\$54 million). With respect to the favorable resolution of the German tax contingency, the German government has conceded substantially all of its income tax claims against NL, and the government has released a DM 94 million (\$50 million) lien on one of NL's German TiO2 plants that secured the government's claim. The \$54 million net reduction in NL's deferred income tax valuation allowance is comprised of (i) a \$78 million decrease in the valuation allowance to recognize the benefit of certain deductible income tax attributes which NL now believes meets the recognition criteria as a result of, among other things, a corporate restructuring of NL's German subsidiaries and (ii) a \$24 million increase in the valuation allowance to reduce the previously-recognized benefit of certain other deductible income tax attributes which NL now believes do not meet the recognition criteria due to a change in German tax law. The German tax law change, enacted on April 1, 1999, was effective retroactively to January 1, 1999 and resulted in an increase in NL's current income tax expense during 1999.

During 1997, NL received a tax assessment from the Norwegian tax authorities proposing tax deficiencies of NOK 51 million (\$6 million at December 31, 1999) relating to 1994. NL appealed this assessment, and in February 2000 the Norwegian local court ruled in favor of the Norwegian tax authorities on the primary issue, but asserted such tax authorities' assessment was overstated by NOK 34 million (\$4 million). The tax authorities' response to the court's assertion is expected by the end of March 2000. NL is considering its appeal options. During 1998, NL was informed by the Norwegian tax authorities that additional tax deficiencies of NOK 39 million (\$5 million) will likely be proposed for 1996 on an issue similar to the aforementioned 1994 case. The outcome of the 1996 issue is dependent upon the eventual outcome of the 1994 case. NL intends to vigorously contest this issue and litigate, if necessary. Although NL believes that it will ultimately prevail, NL has granted a lien for the 1994 tax assessment on its Norwegian TiO2 plant in favor of the Norwegian tax authorities and will be required to grant security on the 1996 assessment when received. No assurance can be given that these tax matters will be resolved in NL's favor in view of the inherent uncertainties involved in court proceedings. NL believes that it has adequately provided accruals for additional taxes and related interest expense which may ultimately result from all such examinations and believes that the ultimate disposition of such examinations should not have a material adverse effect on its consolidated financial position, results of operations or liquidity.

At December 31, 1999, (i) NL had approximately \$370 million of German income tax loss carryforwards with no expiration date, (ii) CompX had \$1.6 million of foreign tax credit carryforwards which expire in 2002, (iii) Tremont had \$8.4 million of U.S. net operating loss carryforwards expiring in 2018 and

2019, (iv) Tremont had \$700,000 of alternative minimum tax credit carryforwards with no expiration date and (v) CompX had \$8.4 million of U.S. net operating loss carryforwards expiring in 2007 through 2018 which may only be used to offset future taxable income of an acquired subsidiary and which are limited in utilization to approximately \$400,000 per year. During 1999, CompX utilized \$400,000 of such net operating loss carryforwards to reduce its current U.S. taxable income. In addition, NL utilized \$17 million of foreign tax credit carryforwards and \$20 million of U.S. net operating loss carryforwards in 1997, and utilized \$13 million of alternative minimum tax credit carryforwards in 1998, to reduce its current year U.S. federal income tax expense.

Note 16 - Employee benefit plans:

Defined benefit plans. The Company maintains various defined benefit pension plans. Variances from actuarially assumed rates will result in increases or decreases in accumulated pension obligations, pension expense and funding requirements in future periods.

The funded status of the Company's defined benefit pension plans, the components of net periodic defined benefit pension cost related to the Company's consolidated business segments and charged to continuing operations and the rates used in determining the actuarial present value of benefit obligations are presented in the tables below. The gain on disposal of NL's specialty chemicals business unit in 1998 includes a \$1.5 million curtailment gain. See Note 3.

Years ended December 31,
1998 1999
----- -----
(In thousands)

Change in projected benefit obligations ("PBO"):

Benefit obligations at beginning of the year	\$ 278,231	\$ 328,851
Service cost	4,008	4,316
Interest	17,701	18,329
Participant contributions	1,228	939
Business unit acquired	--	2,366
Curtailment gain	(1,513)	--
Actuarial losses (gains)	36,095	(18,640)
Change in foreign exchange rates	10,402	(26,578)
Benefits paid	(17,301)	(17,897)
	-----	-----

Benefit obligations at end of the year	\$ 328,851	\$ 291,686
	=====	=====

Change in plan assets:

Fair value of plan assets at beginning of the year .	\$ 225,167	\$ 246,947
Actual return on plan assets	22,611	21,670
Employer contributions	10,797	11,375
Participant contributions	1,228	997
Business unit acquired	--	977
Change in foreign exchange rates	4,445	(19,514)
Benefits paid	(17,301)	(17,897)
	-----	-----

Fair value of plan assets at end of year	\$ 246,947	\$ 244,555
	=====	=====

Funded status at year-end:

Plan assets less than PBO	\$ (81,904)	\$ (47,131)
Unrecognized actuarial loss	53,975	28,410
Unrecognized prior service cost	3,637	2,412
Unrecognized net transition obligations	1,220	518
	-----	-----

	\$ (23,072)	\$ (15,791)
	=====	=====

Amounts recognized in the balance sheet:

Prepaid pension costs	\$ 24,190	\$ 23,271
Accrued pension costs:		

Current	(8,011)	(9,079)
Noncurrent	(44,929)	(39,612)
Accumulated other comprehensive income	5,678	9,629
	-----	-----
	\$ (23,072)	\$ (15,791)
	=====	=====

	1997	December 31, 1998	1999
	----	----	----
Discount rate	6% - 8.5%	5.5% - 8.5%	4% - 7.5%
Rate of increase in future compensation levels	3% - 6%	2.5% - 6%	2.5% - 4.5%
Long-term rate of return on assets	6% - 10%	6% - 10%	4% - 10%

Years ended December 31,
1997 1998 1999
----- ----- -----

(In thousands)

Net periodic pension cost:

Service cost benefits	\$ 4,479	\$ 4,008	\$ 4,316
Interest cost on PBO	16,695	15,941	16,548
Expected return on plan assets	(16,693)	(15,467)	(15,910)
Amortization of prior service cost (credit)	(1,693)	352	287
Amortization of net transition obligations .	(153)	225	580
Recognized actuarial losses (gains)	1,551	334	1,144
	-----	-----	-----
	\$ 4,186	\$ 5,393	\$ 6,965
	=====	=====	=====

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for all defined benefit pension plans with accumulated benefit obligations in excess of fair value of plan assets were \$225.7 million, \$194.7 million and \$172 million, respectively, at December 31, 1999 (1998 - \$260 million, \$228.3 million and \$171.5 million, respectively). At December 31, 1999, approximately 65% of such unfunded amount relates to NL's non-U.S. plans, and substantially all of the remainder relates to certain of NL's U.S. plans.

Defined contribution plans. The Company maintains various defined contribution pension plans with Company contributions based on matching or other formulas. Defined contribution plan expense related to the Company's consolidated business segments and charged to continuing operations approximated \$2.4 million in 1997, \$2.5 million in 1998 and \$2.8 million in 1999.

Postretirement benefits other than pensions. Certain subsidiaries currently provide certain health care and life insurance benefits for eligible retired employees. At December 31, 1999, 64% of the Company's aggregate accrued OPEB costs relates to NL, and substantially all of the remainder relates to Tremont (1998: substantially all relates to NL). The gain on disposal of NL's specialty chemicals business unit in 1998 includes a \$3.2 million curtailment gain. See Note 3.

The components of the periodic OPEB cost and accumulated OPEB

obligations and the rates used in determining the actuarial present value of benefit obligations are presented in the tables below. Variances from actuarially-assumed rates will result in additional increases or decreases in accumulated OPEB obligations, net periodic OPEB cost and funding requirements in future periods. At December 31, 1999, the expected rate of increase in future health care costs is 9% in 2000, declining to rates between 5.5% and 6% in 2016 and thereafter. If the health care cost trend rate was increased (decreased) by one percentage point for each year, OPEB expense would have increased by \$.1 million (decreased by \$.1 million) in 1999, and the actuarial present value of accumulated OPEB obligations at December 31, 1999 would have increased by \$2.5 million (decreased by \$2.3 million).

	Years ended December 31,	
	1998	1999
	----	----
	(In thousands)	
Change in accumulated OPEB obligations:		
Obligations at beginning of the year	\$ 37,319	\$ 34,137
Service cost	43	40
Interest cost	2,393	2,069
Curtailement gain	(2,354)	--
Actuarial losses	2,117	5,714
Change in foreign exchange rates	(115)	113
Benefits paid	(5,266)	(4,394)
Consolidation of Tremont	--	16,731
	-----	-----
Obligations at end of the year	\$ 34,137	\$ 54,410
	=====	=====
Change in plan assets:		
Fair value of plan assets at beginning of the year	\$ 6,527	\$ 6,365
Actual return on plan assets	450	206
Employer contributions	4,654	3,791
Benefits paid	(5,266)	(4,394)
	-----	-----
Fair value of plan assets and end of the year	\$ 6,365	\$ 5,968
	=====	=====
Funded status at year-end:		
Plan assets less than benefit obligations	\$ (27,772)	\$ (48,442)
Unrecognized net actuarial gain	(7,444)	(2,055)
Unrecognized prior service credit	(12,008)	(14,583)
	-----	-----
	\$ (47,224)	\$ (65,080)
	=====	=====
Amounts recognized in the balance sheet - accrued OPEB costs:		
Current	\$ (5,243)	\$ (6,324)
Noncurrent	(41,981)	(58,756)
	-----	-----
	\$ (47,224)	\$ (65,080)
	=====	=====

	Years ended December 31,		
	1997	1998	1999
	----	----	----
	(In thousands)		

Net periodic OPEB cost (credit):

Service cost	\$ 105	\$ 43	\$ 40
Interest cost	3,166	2,393	2,069
Expected return on plan assets	(584)	(583)	(526)
Amortization of prior service credit	(2,075)	(2,075)	(2,075)
Recognized actuarial losses (gains)	(338)	(811)	(573)
	-----	-----	-----
	\$ 274	\$ (1,033)	\$ (1,065)
	=====	=====	=====

	1997	December 31, 1998	1999
	----	----	----
Discount rate	7%	6.5%	7.5%
Rate of increase in future compensation levels	6%	6%	nil - 6%
Long-term rate of return on assets	9%	9%	nil - 9%

Note 17 - Related party transactions:

The Company may be deemed to be controlled by Harold C. Simmons. See Note 1. Corporations that may be deemed to be controlled by or affiliated with Mr. Simmons sometimes engage in (a) intercorporate transactions such as guarantees, management and expense sharing arrangements, shared fee arrangements, joint ventures, partnerships, loans, options, advances of funds on open account, and sales, leases and exchanges of assets, including securities issued by both related and unrelated parties, and (b) common investment and acquisition strategies, business combinations, reorganizations, recapitalizations, securities repurchases, and purchases and sales (and other acquisitions and dispositions) of subsidiaries, divisions or other business units, which transactions have involved both related and unrelated parties and have included transactions which resulted in the acquisition by one related party of a publicly-held minority equity interest in another related party. The Company continuously considers, reviews and evaluates, and understands that Contran and related entities consider, review and evaluate such transactions. Depending upon the business, tax and other objectives then relevant, it is possible that the Company might be a party to one or more such transactions in the future.

It is the policy of the Company to engage in transactions with related parties on terms, in the opinion of the Company, no less favorable to the Company than could be obtained from unrelated parties.

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

	December 31, 1998	1999
	----	----
	(In thousands)	
Receivables from affiliates:		
Income taxes receivable from Contran	\$ 11,719	\$13,124
TIMET	--	907
Other	171	575
	-----	-----
	\$ 11,890	\$14,606
	=====	=====

Payables to affiliates:
Demand loan from Contran:

Valhi	\$ 9,500	\$ 2,282
Tremont Corporation	--	13,743
Tremont Corporation	3,053	--
Louisiana Pigment Company	8,264	8,381
Other, net	(680)	860
	-----	-----
	\$ 20,137	\$25,266
	=====	=====

Payables to Louisiana Pigment Company are primarily for the purchase of TiO2 (see Note 8), and the payable to Tremont Corporation at December 31, 1998 relates to NL's Insurance Sharing Agreement discussed below. NL's payable to Tremont at December 31, 1999 has been eliminated in consolidation. Purchases in the ordinary course of business from the unconsolidated TiO2 manufacturing joint venture are disclosed in Note 8.

In February 1998, Valhi entered into a \$120 million revolving credit facility with Contran. Borrowings by Contran were collateralized by substantially all of Contran's assets and bore interest at the prime rate. In June 1998, Contran repaid in full all outstanding borrowings and the facility was canceled.

Other loans are made between the Company and related parties, including Contran, pursuant to term and demand notes, principally for cash management purposes. Related party loans generally bear interest at rates related to credit agreements with unrelated parties. Interest income on loans to related parties was \$1.4 million in 1997, \$3.3 million in 1998 and nil in 1999. Related party interest expense was nominal in 1997, \$.1 million in 1998 and \$.5 million in 1999.

Under the terms of intercorporate services agreements ("ISAs") with Contran, Contran provides certain management, administrative and aircraft maintenance services to the Company, and the Company provides various administrative and other services to Contran, on a fee basis. The net ISA fees charged by Contran to the Company (including amounts charged to NL and the Company's proportional share of amounts charged to Tremont subsequent to June 30, 1998) were approximately \$500,000 in 1997, \$1 million in 1998 and \$1.5 million in 1999. Such charges are principally pass-through in nature and, in the Company's opinion, are not materially different from those that would have been incurred on a stand-alone basis. Certain subsidiaries and affiliates of the Company are also parties to similar ISA agreements among themselves.

NL and a wholly-owned insurance subsidiary of Tremont ("TRE Insurance") are parties to an Insurance Sharing Agreement with respect to certain loss payments and reserves established by TRE Insurance that (i) arise out of claims against other entities for which NL is responsible and (ii) are subject to payment by NLI Insurance under certain reinsurance contracts. Also, TRE Insurance will credit NL with respect to certain underwriting profits or credit recoveries that TRE Insurance receives from independent reinsurers that relate to retained liabilities. In 1999, NL collateralized certain letters of credit issued on behalf of TRE Insurance with \$9.7 million of NL's cash.

All of the Company's insurance coverages that were reinsured in 1997, 1998 and 1999 were arranged for and brokered by EWI Re, Inc. Parties related to Contran own 90% of the outstanding common stock of EWI, and a son-in-law of Harold C. Simmons manages the operations of EWI. The Company generally does not compensate EWI directly for insurance, but understands that, consistent with insurance industry practice, EWI receives a commission for its services from the insurance underwriters.

During 1998, Valhi purchased (i) 136,780 shares of NL common stock from officers of NL for an aggregate of \$2.8 million and (ii) 12,200 shares of Tremont common stock from a former officer of Tremont for an aggregate of \$610,000. Such purchases were at market prices on the respective dates of purchase.

COAM Company is a partnership, formed prior to 1993, which has sponsored research agreements with the University of Texas Southwestern Medical Center at Dallas (the "University") to develop and commercially market a safe and effective treatment for arthritis (the "Arthritis Research Agreement") and to develop and commercially market patents and technology resulting from a cancer research program (the "Cancer Research Agreement"). At December 31, 1999, COAM partners are Contran, Valhi and another Contran subsidiary. Harold C. Simmons is

the manager of COAM. The Arthritis Research Agreement, as amended, provides for payments by COAM of up to \$3.6 million over the next five years and the Cancer Research Agreement, as amended, provides for funds of up to \$12.8 million over the next 11 years. Funding requirements pursuant to the Arthritis and Cancer Research Agreements are without recourse to the COAM partners and the partnership agreement provides that no partner shall be required to make capital contributions. Capital contributions are expensed as paid. The Company's contributions to COAM were nil in each of 1997 and 1999 and were \$1.3 million in 1998. The Company does not currently expect it will make any capital contributions to COAM in 2000.

Amalgamated Research, Inc., a wholly-owned subsidiary of the Company, has agreed to provide certain research, laboratory and quality control services to The Amalgamated Sugar Company LLC. The agreement also grants The Amalgamated Sugar Company LLC a non-exclusive, perpetual royalty-free license to use all currently existing or hereafter developed technology which is applicable to sugar operations and provides for certain royalties to The Amalgamated Sugar Company from future sales or licenses of the subsidiary's technology. Research and development services charged to The Amalgamated Sugar Company LLC were \$810,000 in 1997, \$824,000 in 1998 and \$779,000 in 1999. The Amalgamated Sugar Company LLC has also agreed to provide certain administrative services to the subsidiary, and the cost of such services is netted against the agreed-upon research and development services fee.

Note 18 - Commitments and contingencies:

Legal proceedings

Lead pigment litigation. Since 1987, NL, other former manufacturers of lead pigments for use in paint and lead-based paint and the Lead Industries Association have been named as defendants in various legal proceedings seeking damages for personal injury, property damage and government expenditures allegedly caused by the use of lead-based paints. Certain of these actions have been filed by or on behalf of states or large United States cities or their public housing authorities and certain others have been asserted as class actions. These legal proceedings seek recovery under a variety of theories, including negligent product design, failure to warn, breach of warranty, conspiracy/concert of action, enterprise liability, market share liability, intentional tort, and fraud and misrepresentation.

The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and asserted health concerns associated with the use of lead-based paints, including damages for personal injury, contribution and/or indemnification for medical expenses, medical monitoring expenses and costs for educational programs. Most of these legal proceedings are in various pre-trial stages; several are on appeal.

NL believes these actions are without merit, intends to continue to deny all allegations of wrongdoing and liability and to defend against all actions vigorously. NL has not accrued any amounts for the pending lead pigment and lead-based paint litigation. Considering NL's previous involvement in the lead and lead pigment businesses, there can be no assurance that additional litigation similar to that currently pending will not be filed.

Environmental matters and litigation. The Company's operations are governed by various federal, state, local and foreign environmental laws and regulations. The Company's policy is to comply with environmental laws and regulations at all of its plants and to continually strive to improve environmental performance in association with applicable industry initiatives. The Company believes that its operations are in substantial compliance with applicable requirements of environmental laws. From time to time, the Company may be subject to environmental regulatory enforcement under various statutes, resolution of which typically involves the establishment of compliance programs.

Some of NL's current and former facilities, including several divested secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws. Additionally, in connection with past disposal practices, NL has been named a potentially responsible party ("PRP") pursuant to CERCLA in approximately 75 governmental and private actions associated with hazardous waste sites and former mining locations, some of which are on the U.S. EPA's Superfund National Priorities List. These actions seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. While NL may be jointly and severally liable for such costs, in most cases, it is only one of a number of PRPs who are also jointly and

severally liable. In addition, NL is a party to a number of lawsuits filed in various jurisdictions alleging CERCLA or other environmental claims. At December 31, 1999, NL had accrued \$112 million for those environmental matters which are reasonably estimable. It is not possible to estimate the range of costs for certain sites. The upper end of range of reasonably possible costs to NL for sites for which it is possible to estimate costs is approximately \$150 million.

At December 31, 1999, Tremont had accrued approximately \$6 million for environmental cleanup matters, principally related to one site in Arkansas. Tremont believes it is only one of a number of apparently solvent PRPs that would ultimately share in any cleanup costs for this site.

At December 31, 1999, TIMET had accrued approximately \$1 million for environmental cleanup matters, principally related to TIMET's facility in Nevada and a former TIMET facility in California.

The Company has also accrued approximately \$4 million at December 31, 1999 in respect of other environmental cleanup matters, principally related to one Superfund site in Indiana where the Company, as a result of former operations, has been named as a PRP and certain former sites of the disposed building products segment. Such accrual is near the upper end of the range of the Company's estimate of reasonably possible costs for such matters.

The imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes with respect to site cleanup costs or allocation of such costs among PRPs, or a determination that the Company is potentially responsible for the release of hazardous substances at other sites, could result in expenditures in excess of amounts currently estimated by the Company to be required for such matters. No assurance can be given that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. Further, there can be no assurance that additional environmental matters will not arise in the future.

Other litigation. NL has been named as a defendant in various lawsuits in a variety of jurisdictions alleging personal injuries as a result of occupational exposure to asbestos, silica and/or mixed dust in connection with formerly-owned operations. Various of these actions remain pending.

In March 1997, NL was served with a complaint filed in the Fifth Judicial District Court of Cass County, Texas (Ernest Hughes, et al. v. Owens-Corning Fiberglass Corporation, et al., No. 97-C-051) on behalf of approximately 4,000 plaintiffs and their spouses alleging injury due to exposure to asbestos, and seeking compensatory and punitive damages. NL has filed an answer denying the material allegations. The case has been stayed, and the plaintiffs have refiled their case in Ohio. NL is a defendant in various other asbestos cases pending in Ohio on behalf of approximately 2,000 personal injury claimants.

In December 1997, a complaint was filed in the United States District Court for the Northern District of Illinois against the Company (Finnsugar Bioproducts, Inc. v. The Amalgamated Sugar Company LLC, et al., No. 97 C 8746). The complaint, as amended, alleges certain technology used by The Amalgamated Sugar Company LLC in its manufacturing processes infringes a certain patent of Finnsugar and seeks, among other things, unspecified damages. The technology is owned by Amalgamated Research and licensed to, among others, the LLC. Both Amalgamated Research and the LLC are defendants in the action. Defendants have answered the complaint denying infringement, and have filed a counterclaim seeking to have Finnsugar's patent declared invalid and unenforceable. Discovery on the liability portion of both plaintiff's and defendants' claims has been completed. Plaintiff and defendants have each filed summary judgment motions which are pending before the court. The Company believes, and understands the LLC believes, that the complaint is without merit and that the Company's technology does not violate Finnsugar's patent. The Company intends, and understands that the LLC intends, to defend against this action vigorously.

In 1998, a complaint was filed by a former employee of Waste Control Specialists in the 295th Judicial District Court for the State of Texas against Waste Control Specialists (Kenneth F. Jackson v. Waste Control Specialists LLC, et al., No. 98-00364) seeking, among other things, damages not in excess of \$3 million for the defendants' alleged breach of plaintiff's employment contract. Waste Control Specialists believed the complaint was without merit and answered the complaint, denying liability. A trial was held, and in May 1999 a jury awarded a judgment of approximately \$800,000 plus attorney fees in favor of the

plaintiff. In October 1999, Waste Control Specialists was denied a judgment notwithstanding the verdict, and Waste Control Specialists' motion for a new trial was denied. In December 1999, the parties settled this matter and the judgment has been vacated by the court.

In February 1999, NL was served with a complaint in Cosey, et al. v. Bullard, et al., No. 95-0069, filed in the Circuit Court of Jefferson County, Mississippi, on behalf of approximately 1,600 plaintiffs alleging injury due to exposure to asbestos and silica and seeking compensatory and punitive damages. NL has filed an answer denying the material allegations of the complaint.

In addition to the litigation described above, the Company and its affiliates are also involved in various other environmental, contractual, product liability, patent (or intellectual property) and other claims and disputes incidental to its present and former businesses. The Company currently believes that the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on its consolidated financial position, results of operations or liquidity.

Concentrations of credit risk. Sales of TiO₂ accounted for approximately substantially all of NL's sales during the past three years. TiO₂ is sold to the paint, plastics and paper industries, which are generally considered "quality-of-life" markets whose demand for TiO₂ is influenced by the relative economic well-being of the various geographic regions. TiO₂ is sold to over 4,000 customers, none of which individually represents a significant portion of NL's sales. In each of the past three years, approximately one-half of NL's TiO₂ sales volume were to Europe with about 37% attributable to North America.

Component products are sold primarily to original equipment manufacturers in North America and Europe. In 1999, the ten largest customers accounted for approximately 33% of component products sales (1997 - approximately one-third; 1998 - approximately 40%).

At December 31, 1999, consolidated cash and cash equivalents includes \$78 million invested in U.S. Treasury securities purchased under short-term agreements to resell (1998 - \$136 million), of which \$58 million are held in trust for the Company by a single U.S. bank (1998 - \$126 million). In addition, at December 31, 1998, consolidated cash and cash equivalents included approximately \$40 million invested in A1 or P1-grade commercial paper issued by various third parties having a maturity of three months or less.

Capital expenditures. At December 31, 1999 the estimated cost to complete capital projects in process approximated \$15 million, of which \$11 million relates to NL's TiO₂ facilities and the remainder relates to CompX's facilities.

Royalties. Royalty expense, which relates principally to the volume of certain Canadian-produced component products sold in the United States, was \$849,000 in 1997 and \$1.1 million in each of 1998 and 1999.

Long-term contracts. NL has long-term supply contracts that provide for NL's chloride-process TiO₂ feedstock requirements through 2003. The agreements require NL to purchase certain minimum quantities of feedstock with average minimum annual purchase commitments aggregating approximately \$114 million.

TIMET has long-term agreements with certain major aerospace customers, including The Boeing Company, Rolls-Royce plc, United Technologies Corporation (and related companies) and Wyman-Gordon Company, pursuant to which TIMET is intended to be the major supplier of titanium products to these customers. The agreements are intended to provide for minimum market shares of the customer's titanium requirements (generally at least 70%) for 10-year periods. The agreements generally provide for fixed or formula-determined prices, at least for the first five years. With respect to TIMET's contract with Boeing, TIMET believes its orders in 1999 were significantly below contractual volume requirements. TIMET has received virtually no Boeing-related orders under the contract for 2000. Boeing has informed TIMET that they will either order the required contractual volume under the contract for 2000 or pay the liquidated damages provided for in the agreement. Beyond 2000, Boeing is unwilling to commit to the contract at this time. On March 21, 2000, TIMET filed a lawsuit against Boeing in Colorado state court seeking damages for Boeing's repudiation and breach of the Boeing contract. TIMET's complaint seeks damages from Boeing that TIMET believes are in excess of \$600 million and a declaration from the court of TIMET's rights under the contract.

TIMET also has long-term arrangements with certain suppliers for the

purchase of certain raw materials, including titanium sponge and various alloying elements, at fixed and/or formula determined prices. TIMET believes these arrangements will help stabilize the cost and supply of raw materials. The sponge contract provides for annual purchases by TIMET of 6,000 to 10,000 metric tons. The parties agreed to a reduced minimum for 1999 and 2000.

Waste Control Specialists has agreed to pay two independent consultants up to an aggregate of \$28.4 million for performing certain specified services. Such fees are based on specified percentages of Waste Control Specialist's qualifying revenues. One of the agreements provides for a security interest in Waste Control Specialists' facility in West Texas to collateralize Waste Control Specialists' obligation under that agreement. Expense related to these agreements aggregated nil in each of 1997 and 1998 and \$17,000 in 1999.

Operating leases. Kronos' principal German operating subsidiary leases the land under its Leverkusen TiO2 production facility pursuant to a lease expiring in 2050. The Leverkusen facility, with approximately one-third of Kronos' current TiO2 production capacity, is located within the lessor's extensive manufacturing complex, and Kronos is the only unrelated party so situated. Under a separate supplies and services agreement expiring in 2011, the lessor provides some raw materials, auxiliary and operating materials and utilities services necessary to operate the Leverkusen facility. Both the lease and the supplies and services agreements restrict NL's ability to transfer ownership or use of the Leverkusen facility.

The Company also leases various other manufacturing facilities and equipment. Most of the leases contain purchase and/or various term renewal options at fair market and fair rental values, respectively. In most cases the Company expects that, in the normal course of business, such leases will be renewed or replaced by other leases.

Rent expense related to the Company's consolidated business segments charged to continuing operations approximated \$13 million in 1997, \$8 million in 1998 and \$10 million in 1999. At December 31, 1999, future minimum payments under noncancellable operating leases having an initial or remaining term of more than one year were as follows:

Years ending December 31,	Amount (In thousands)
2000	\$ 5,092
2001	4,112
2002	3,384
2003	2,723
2004	1,882
2005 and thereafter	20,972

	\$38,165
	=====

Note 19 - Discontinued operations:

Discontinued operations (representing operations formerly conducted by subsidiaries of Valcor) are comprised of the following:

	Years ended December 31,		
	1997	1998	1999
	----	----	----
	(In thousands)		
Medite Corporation (building products)	\$13,804	\$ --	\$ --
Sybra, Inc. (fast food)	19,746	--	2,000
	-----	-----	-----
	\$33,550	\$ --	\$2,000
	=====	=====	=====

In late 1996 and early 1997, Medite Corporation sold substantially all of its net assets for approximately \$215.5 million cash consideration plus the

assumption of approximately \$24.7 million of indebtedness. Approximately \$53 million of the net proceeds were used to pay off and terminate certain bank credit facilities. Accordingly, the accompanying financial statements present the results of operations of Medite's building products business segment as discontinued operations for all periods presented.

In 1997, the Company disposed of its fast food operations conducted by Sybra. The disposition was accomplished in two separate, simultaneous transactions. The first transaction involved the sale of certain restaurant real estate owned by Sybra for \$45 million cash consideration. Substantially all of the net-of-tax proceeds from this transaction were distributed to Valcor. The second transaction involved Valcor's sale of 100% of the common stock of Sybra for \$14 million cash consideration plus the repayment by the purchaser of approximately \$23.8 million of Sybra's intercompany indebtedness owed to Valcor. In 1999, the Company received an additional \$2 million of consideration from the purchaser of Sybra's common stock. Accordingly, the accompanying financial statements present the results of operations of Sybra's fast food operations as discontinued operations for all periods presented.

Condensed income statement and cash flow data for Medite and Sybra for 1997 are presented below. Interest expense included in discontinued operations represents interest on the respective indebtedness of Medite and Sybra and their subsidiaries. The gain on disposal of Sybra includes both Sybra's sale of its restaurant real estate and Valcor's sale of Sybra's common stock. The provision for income taxes applicable to the pre-tax gain on disposal of Sybra (including the \$2 million of consideration received in 1999) varies from the 35% federal statutory rate due principally to the excess of tax basis over book basis of the common stock of Sybra sold for which no deferred income tax benefit was previously recognized.

	Medite	Sybra
	(In millions)	
Income statement data		
Operations:		
Net sales	\$24.1	\$37.9
	=====	=====
Operating income	\$ 1.5	\$ 1.7
Interest expense and other, net	(.4)	(.6)
	-----	-----
Pre-tax income	1.1	1.1
Income tax expense .....	.5	.5
	-----	-----
	.6	.6
	-----	-----
Net gain on disposal:		
Pre-tax gain	22.3	23.2
Income tax expense	9.1	4.1
	-----	-----
	13.2	19.1
	-----	-----
	\$13.8	\$19.7
	=====	=====
Cash flow data		
Cash flows from operating activities	\$(42.1)	\$(1.1)
	-----	-----
Cash flows from investing activities:		
Proceeds from disposal of assets	38.3	55.3
Other, net	(.4)	(1.4)
	-----	-----
	37.9	53.9
	-----	-----
Cash flows from financing activities -		
indebtedness, net	--	22.4
	-----	-----

\$ (4.2) \$75.2
===== =====

Note 20 - Quarterly results of operations (unaudited):

	Quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
(In millions, except per share data)				
Year ended December 31, 1998				
Net sales	\$ 267.4	\$ 281.3	\$ 260.2	\$ 250.5
Operating income	41.7	51.1	49.0	44.7
Income (loss) from continuing operations	\$ 204.7	\$ (2.1)	\$ 13.1	\$ 10.1
Extraordinary item	(1.3)	--	(1.4)	(3.5)
	-----	-----	-----	-----
Net income (loss)	\$ 203.4	\$ (2.1)	\$ 11.7	\$ 6.6
	=====	=====	=====	=====
Basic earnings per common share:				
Continuing operations	\$ 1.78	\$ (.02)	\$.11	\$.09
Extraordinary item	(.01)	--	(.01)	(.03)
	-----	-----	-----	-----
Net income (loss)	\$ 1.77	\$ (.02)	\$.10	\$.06
	=====	=====	=====	=====
Year ended December 31, 1999				
Net sales	\$ 256.8	\$ 287.5	\$ 303.3	\$ 297.6
Operating income	35.5	48.9	38.3	41.9
Income (loss) from continuing operations	\$ 2.4	\$ 61.8	\$ 8.2	\$ (25.0)
Discontinued operations	--	2.0	--	--
	-----	-----	-----	-----
Net income (loss)	\$ 2.4	\$ 63.8	\$ 8.2	\$ (25.0)
	=====	=====	=====	=====
Basic earnings per common share:				
Continuing operations	\$.02	\$.54	\$.07	\$ (.22)
Discontinued operations	--	.02	--	--
	-----	-----	-----	-----
Net income (loss)	\$.02	\$.56	\$.07	\$ (.22)
	=====	=====	=====	=====

The sum of the quarterly per share amounts may not equal the annual per share amounts due to relative changes in the weighted average number of shares used in the per share computations.

To the Stockholders and Board of Directors of Valhi, Inc.:

Our audits of the consolidated financial statements of Valhi, Inc. and Subsidiaries referred to in our report dated March 16, 2000 appearing in this Annual Report on Form 10-K also included an audit of the financial statement schedules listed in the index on page F-1 of this Annual Report on Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information required to be included therein when read in conjunction with the related consolidated financial statements. As discussed in Note 1 to the consolidated financial statements, in 1997 the Company changed its method of accounting for environmental remediation costs in accordance with Statement of Position No. 96-1.

PricewaterhouseCoopers LLP

Dallas, Texas
March 16, 2000

VALHI, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Condensed Balance Sheets

December 31, 1998 and 1999

(In thousands)

	1998	1999
	----	----
Current assets:		
Cash and cash equivalents	\$ 5,957	\$ 2,944
Accounts and notes receivable	14,912	15,563
Receivables from subsidiaries and affiliates:		
Income taxes, net	10,387	12,373
Dividends	--	1,324
Other	3,195	1,735
Deferred income taxes	1,316	719
Other	71	454
	-----	-----
Total current assets	35,838	35,112
	-----	-----
Other assets:		
Marketable securities	261,480	263,762
Investment in and advances to subsidiaries and affiliates	635,621	651,982
Loans receivable	80,000	81,808
Other assets	2,459	1,992
Property and equipment, net	3,030	3,001
	-----	-----
Total other assets	982,590	1,002,545
	-----	-----

	\$1,018,428	\$1,037,657
	=====	=====
Current liabilities:		
Current maturities of long-term debt	\$ --	\$ 21,000
Demand loan from affiliate	9,500	2,282
Other payables to subsidiaries and affiliates	12	10
Accounts payable and accrued liabilities	5,561	5,005
Income taxes	1,302	1,301
	-----	-----
Total current liabilities	16,375	29,598
	-----	-----
Noncurrent liabilities:		
Long-term debt	334,104	341,825
Deferred income taxes	78,867	67,727
Other	10,560	9,093
	-----	-----
Total noncurrent liabilities	423,531	418,645
	-----	-----
Stockholders' equity	578,522	589,414
	-----	-----
	\$1,018,428	\$1,037,657
	=====	=====

VALHI, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

Condensed Statements of Income

Years ended December 31, 1997, 1998 and 1999

(In thousands)

	1997	1998	1999
	----	----	----
Revenues and other income:			
Interest and dividend income	\$ 49,711	\$ 37,054	\$ 36,671
Securities transaction gains	46,263	8,006	757
Other, net	2,062	5,689	7,804
	-----	-----	-----
	98,036	50,749	45,232
	-----	-----	-----
Costs and expenses:			
General and administrative	9,115	45,195	14,942
Interest	36,057	31,457	33,097
Other, net	(379)	274	--
	-----	-----	-----
	44,793	76,926	48,039
	-----	-----	-----
	53,243	(26,177)	(2,807)
Equity in earnings of subsidiaries and affiliates	(20,540)	308,922	32,870
	-----	-----	-----
Income before income taxes	32,703	282,745	30,063

Provision for income taxes (benefit)	5,602	56,928	(17,359)
	-----	-----	-----
Income from continuing operations	27,101	225,817	47,422
Discontinued operations	33,550	--	2,000
Extraordinary item	(4,291)	(6,195)	--
	-----	-----	-----
Net income	\$ 56,360	\$ 219,622	\$ 49,422
	=====	=====	=====

VALHI, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

Condensed Statements of Cash Flows

Years ended December 31, 1997, 1998 and 1999

(In thousands)

	1997	1998	1999
	----	----	----
Cash flows from operating activities:			
Net income	\$ 56,360	\$ 219,622	\$ 49,422
Securities transaction gains	(46,263)	(8,006)	(757)
Noncash interest expense	12,407	7,710	8,058
Deferred income taxes	(6,818)	70,312	(4,182)
Equity in earnings of subsidiaries and affiliates:			
Continuing operations	20,540	(308,922)	(32,870)
Discontinued operations	(33,550)	--	(2,000)
Extraordinary item	4,291	6,195	--
Dividends from subsidiaries and affiliates	--	158,130	3,819
Other, net	535	(5,715)	610
	-----	-----	-----
	7,502	139,326	22,100
Net change in assets and liabilities ...	13,792	(31,487)	(6,766)
	-----	-----	-----
Net cash provided by operating activities	21,294	107,839	15,334
	-----	-----	-----
Cash flows from investing activities:			
Purchase of:			
Tremont common stock	--	(172,918)	(1,945)
NL common stock	(14,222)	(13,890)	--
CompX common stock	--	(5,670)	(816)
Marketable securities	(6,000)	(3,766)	--
Investment in Waste Control Specialists	(13,000)	(10,000)	(10,000)
Proceeds from disposal of marketable securities	--	--	6,588
Loans to subsidiaries and affiliates:			
Loans	(67,625)	(129,250)	(11,833)
Collections	63,625	120,250	8,717
Other loans and notes receivable:			
Loans	(200,600)	--	--
Collections	119,100	--	--
Pre-close dividend from Amalgamated ...	11,518	--	--
Other, net	455	(198)	(350)

	-----	-----	-----
Net cash used by investing activities	(106,749)	(215,442)	(9,639)
	-----	-----	-----

VALHI, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

Condensed Statements of Cash Flows (Continued)

Years ended December 31, 1997, 1998 and 1999

(In thousands)

	1997	1998	1999
	----	----	----
Cash flows from financing activities:			
Indebtedness:			
Borrowings	\$ 250,000	\$ --	\$ 21,000
Principal payments	(13,000)	--	--
Loans from affiliates:			
Loans	--	15,500	45,000
Repayments	(7,244)	(6,000)	(52,218)
Dividends	(23,149)	(23,131)	(23,146)
Common stock reacquired	--	(3,692)	--
Other, net	3,024	1,197	656
	-----	-----	-----
Net cash provided (used) by financing activities	209,631	(16,126)	(8,708)
	-----	-----	-----
Cash and cash equivalents:			
Net increase (decrease)	124,176	(123,729)	(3,013)
Balance at beginning of year	5,510	129,686	5,957
	-----	-----	-----
Balance at end of year	\$ 129,686	\$ 5,957	\$ 2,944
	=====	=====	=====
Supplemental disclosures-cash paid for:			
Interest	\$ 23,650	\$ 23,747	\$ 24,900
Income taxes (received), net	(6,532)	15,093	(11,191)

VALHI, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

Notes to Condensed Financial Information

Note 1 - Basis of presentation:

The Consolidated Financial Statements of Valhi, Inc. and Subsidiaries are incorporated herein by reference.

Note 2 - Marketable securities:

	December 31,	
	1998	1999
	----	----
	(In thousands)	
Noncurrent assets (available-for-sale):		
The Amalgamated Sugar Company LLC	\$170,000	\$170,000
Halliburton Company common stock (NYSE: HAL)	79,710	91,825
Other	11,770	1,937
	-----	-----
	\$261,480	\$263,762
	=====	=====

Note 3 - Investment in and advances to subsidiaries and affiliates:

	December 31,	
	1998	1999
	----	----
	(In thousands)	
Investment in:		
NL Industries (NYSE: NL)	\$384,955	\$435,621
Tremont Corporation (NYSE: TRE)	179,452	128,426
Valcor and subsidiaries	51,214	64,512
Waste Control Specialists LLC	10,000	8,811
	-----	-----
	625,621	637,370
Loan to Waste Control Specialists LLC	10,000	14,612
	-----	-----
	\$635,621	\$651,982
	=====	=====

Tremont is a holding company whose principal assets at December 31, 1999 are a 39% interest in Titanium Metals Corporation (NYSE: TIE) and a 20% interest in NL. Valcor's principal asset is a 62% interest in CompX International, Inc. (NYSE: CIX). Valhi owns an additional 2% of CompX directly, and Valhi's direct investment in CompX is considered part of its investment in Valcor.

Note 4 - Equity in earnings of subsidiaries and affiliates:

	Years ended December 31,		
	1997	1998	1999
	----	----	----
	(In thousands)		
Continuing operations:			
NL Industries	\$ (25,726)	\$ 260,715	\$ 77,950
Tremont Corporation	--	7,385	(48,652)
Valcor	17,886	56,340	14,761

Waste Control Specialists LLC	(12,700)	(15,518)	(11,189)
	-----	-----	-----
	\$ (20,540)	\$ 308,922	\$ 32,870
	=====	=====	=====
Discontinued operations - Valcor	\$ 33,550	\$ --	\$ 2,000
	=====	=====	=====
Extraordinary item:			
NL Industries	\$ --	\$ (6,195)	\$ --
Valcor	(4,291)	--	--
	-----	-----	-----
	\$ (4,291)	\$ (6,195)	\$ --
	=====	=====	=====

Note 5 - Dividends from subsidiaries and affiliates:

	Years ended December 31,		
	1997	1998	1999
	----	----	----
	(In thousands)		
Declared:			
NL Industries	\$ --	\$ 2,699	\$ 4,219
Tremont Corporation	--	431	877
Valcor	--	155,000	47
Waste Control Specialists LLC	--	--	--
	-----	-----	-----
	--	158,130	5,143
Net change in dividends receivable	--	--	(1,324)
	-----	-----	-----
Cash dividends received	\$ --	\$158,130	\$ 3,819
	=====	=====	=====

Note 6 - Loans receivable:

	December 31,	
	1998	1999
	----	----
	(In thousands)	
Snake River Sugar Company	\$80,000	\$80,000
Other	1,500	1,808
	-----	-----
	81,500	81,808
Less current portion	1,500	--
	-----	-----
Noncurrent portion	\$80,000	\$81,808
	=====	=====

Note 7 - Long-term debt:

	December 31,	
	1998	1999
	----	----
	(In thousands)	
Snake River Sugar Company	\$250,000	\$250,000

LYONS	84,104	91,825
Bank credit facility	--	21,000
	-----	-----
	334,104	362,825
Less current portion	--	21,000
	-----	-----
	\$334,104	\$341,825
	=====	=====

Valhi's \$250 million in loans from Snake River bear interest at a weighted average fixed interest rate of 9.4%, are collateralized by the Company's interest in The Amalgamated Sugar Company LLC and are due in January 2027. Currently, these loans are nonrecourse to Valhi. Under certain conditions, up to \$37.5 million of such loans may become recourse to Valhi. Under certain conditions, Snake River has the ability to accelerate the maturity of these loans.

The zero coupon Senior Secured LYONS, \$185.9 million principal amount at maturity in October 2007 outstanding at December 31, 1999, were issued with significant OID to represent a yield to maturity of 9.25%. No periodic interest payments are required. Each \$1,000 in principal amount at maturity of the LYONS is exchangeable, at any time, for 14.4308 shares of Halliburton common stock held by Valhi. The LYONS are secured by such Halliburton shares held by Valhi, which shares are held in escrow for the benefit of holders of the LYONS. Valhi receives the regular quarterly dividend on the escrowed Halliburton shares. During 1997, 1998 and 1999, holders representing \$165.3 million, \$26.7 million and \$483,000 principal amount at maturity, respectively, of LYONS exchanged such LYONS for Halliburton shares or Halliburton's predecessor, Dresser Industries, Inc. The LYONS are redeemable, at the option of the holder, in October 2002, at \$636.27 per \$1,000 principal amount (the issue price plus accrued OID through such purchase dates), or an aggregate of \$118.3 million based on the number of LYONS outstanding at December 31, 1999. Such redemptions may be paid, at Valhi's option, in cash, Halliburton common stock, or a combination thereof. The LYONS are redeemable, at any time, at Valhi's option, for cash equal to the issue price plus accrued OID through the redemption date.

Valhi has a \$50 million revolving bank credit facility which matures in November 2000, generally bears interest at LIBOR plus 1.5% (7.7% at December 31, 1999) and is collateralized by 30 million shares of NL common stock held by Valhi. The agreement limits dividends and additional indebtedness of Valhi and contains other provisions customary in lending transactions of this type. At December 31, 1999, \$28.5 million was available for borrowing under this facility.

Note 8 - Income taxes:

	Years ended December 31,		
	1997	1998	1999
	----	----	----
	(In thousands)		

Income tax provision (benefit) attributable to continuing operations:

Currently payable (refundable)	\$ 12,420	\$ (13,384)	\$ (13,177)
Deferred income taxes (benefit)	(6,818)	70,312	(4,182)
	-----	-----	-----
	\$ 5,602	\$ 56,928	\$ (17,359)
	=====	=====	=====
Cash paid (received) for income taxes, net:			
Paid to (received from) subsidiaries	\$ (42,467)	\$ (1,933)	\$ 1,121
Paid to (received from) Contran	35,620	16,917	(12,395)
Paid to tax authorities, net	315	109	83
	-----	-----	-----
	\$ (6,532)	\$ 15,093	\$ (11,191)
	=====	=====	=====

VALHI, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS (CONTINUED)

(In thousands)

Description	Balance at beginning of year	Additions charged to costs and expenses	Net deductions	Currency translation	Other (a)	Balance at end of year
Year ended December 31, 1999:						
Allowance for doubtful accounts	\$ 2,687	\$ 787	\$ (269)	\$ (262)	\$ 3,270	\$ 6,213
Amortization of intangibles:						
Goodwill	\$33,241	\$ 11,753	\$ --	\$ --	\$ --	\$44,994
Other	10,601	2,445	(37)	(1,576)	--	11,433
	\$43,842	\$ 14,198	\$ (37)	\$ (1,576)	\$ --	\$56,427

- (a) 1997 - Elimination of amounts attributable to operations sold in 1997.
1998 - Elimination of amounts attributable to operations sold in 1998.
1999 - Consolidation of Waste Control Specialists LLC and Tremont Corporation.

EXHIBIT 21.1 SUBSIDIARIES OF THE REGISTRANT

Name of Corporation	Jurisdiction of Incorporation or Organization	% of Voting Securities Held at December 31, 1999 (1)
Amcorp, Inc.	Delaware	100%
ASC Holdings, Inc.	Utah	100
Amalgamated Research, Inc.	Idaho	100
Andrews County Holdings, Inc.	Delaware	100
Waste Control Specialists LLC	Delaware	69
Greenhill Technologies LLC	Delaware	50
Tecsaf LLC	Delaware	50
NL Industries, Inc. (2)	New Jersey	59
Tremont Corporation (3)	Delaware	50
Valcor, Inc.	Delaware	100
Medite Corporation	Delaware	100
CompX International Inc. (4), (5)	Delaware	62
Other wholly-owned		
Valmont Insurance Company	Vermont	100
Impex Realty Holding, Inc.	Delaware	100

(1) Held by the Registrant or the indicated subsidiary of the Registrant.

(2) Subsidiaries of NL are incorporated by reference to Exhibit 21.1 of NL's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-640).

(3) Subsidiaries of Tremont are incorporated by reference to Exhibit 21.1 of Tremont's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-10126).

(4) Subsidiaries of CompX are incorporated by reference to Exhibit 21.1 of CompX's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-13905).

(5) Valhi owns an additional 2% of CompX directly.

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in Valhi, Inc.'s (i) Registration Statement (Form S-8 Nos. 33-53633, 33-48146, 33-41507 and 33-21758) and related Prospectus pertaining to the Valhi, Inc. 1987 Incentive Stock Option - Stock Appreciation Rights Plan and (ii) Registration Statement (Form S-8 No. 333-48391) and related Prospectus pertaining to the Valhi, Inc. 1997 Long-Term Incentive Plan, of our reports dated March 16, 2000, on our audits of the consolidated financial statements and financial statement schedules of Valhi, Inc. and Subsidiaries included in this Annual Report on Form 10-K for the year ended December 31, 1999.

PricewaterhouseCoopers LLP

Dallas, Texas
March 24, 2000

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM VALHI, INC.'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999, AND IS QUALIFIED IN ITS ENTIRTY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.

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