



2001 ANNUAL REPORT

N L INDUSTRIES, INC.

N L I N D U S T R I E S , I N C . - M A K I N G T H E W O R L D B R I G H T E R

NL, through its wholly owned subsidiary Kronos, is the world's fifth largest producer of titanium dioxide pigments ("TiO₂") with an estimated 11% share of worldwide TiO₂ sales volume. TiO₂, a ubiquitous quality-of-life product that can be manufactured as a white powder or wet slurry, is a key ingredient for end-use products in a wide variety of industries, including paints, plastics, paper, rubber, inks, man-made fibers and ceramics. TiO₂, with its unique ability to reflect light, is used to impart whiteness, brightness and opacity to various end-use products. Kronos has six production sites located in Europe and North America with a combined annual capacity of 455,000 metric tons and sells to over 4,000 customers in 100 countries.

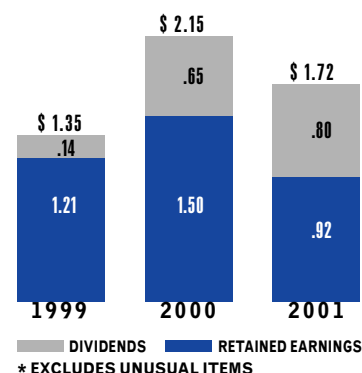
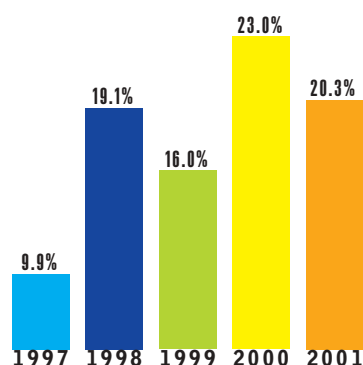
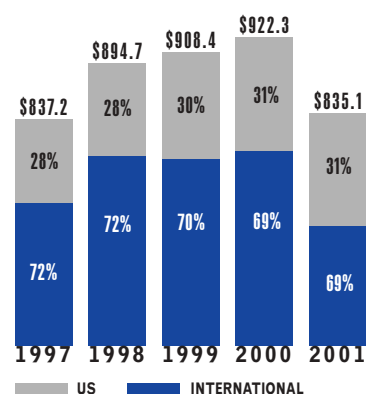
F I N A N C I A L H I G H L I G H T S

(S in millions, except per share and volume data)

	2001	2000	1999
Net sales	\$ 835.1	\$ 922.3	\$ 908.4
Operating income	169.2	212.5	145.7
Income before extraordinary item	121.4	155.3	159.8
Net income	121.4	154.6	159.8
Income before extraordinary item per diluted common share	\$ 2.44	\$ 3.06	\$ 3.08
Net income per diluted common share	2.44	3.05	3.08
Dividends per share	.80	.65	.14
Cash flow from operating activities	\$ 129.7	\$ 139.7	\$ 108.3
Capital expenditures	53.7	31.1	35.6
Cash, cash equivalents, current and noncurrent restricted cash equivalents and current and noncurrent restricted marketable debt securities	\$ 199.0	\$ 207.6	\$ 151.8
Total debt	242.7	266.1	301.6
Net debt (1)	43.7	58.5	149.8
EBITDA (2)	206.7	286.3	162.5
Operating data (metric tons of TiO ₂ , in thousands):			
Sales volume	402	436	427
Production volume	412	441	411

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

(2) EBITDA, as presented, represents operating income less corporate expense, net, plus depreciation, depletion and amortization. EBITDA in 2001 includes \$17 million of property damage gains and \$12 million of net litigation settlement gains. See Page 21 for a more detailed description of EBITDA.



NET SALES
U.S. DOLLARS IN MILLIONS

OPERATING MARGIN

DILUTED EARNINGS PER SHARE
FROM CONTINUING OPERATIONS*

DEAR VALUED SHAREHOLDER:

Solid financial results highlight another good year for NL, with the Company achieving its third highest operating income in the last 10 years. However, as the year ended, industry dynamics were difficult with operating rates the lowest since the early 1980's and selling prices in billing currencies at their lowest levels in about four years. In spite of this difficult business environment, we had success in a number of areas.

2001 HIGHLIGHTS INCLUDE:

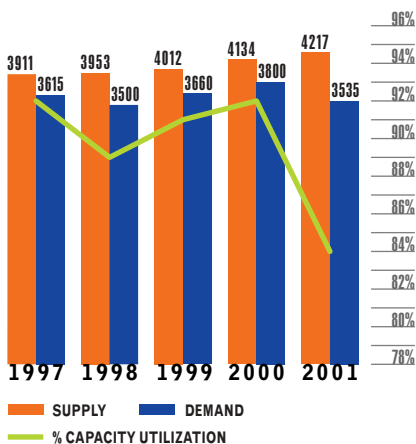
- Operating profits of \$169 million, including \$27 million of business interruption insurance proceeds.
- Outstanding performance from our ilmenite mining operations.
- Operating cash flow of \$130 million.
- Earnings per share of \$1.72, excluding unusual items.
- Net debt reduced by \$15 million.
- Return on equity of 33%.
- Repurchased 1.1 million shares of NL stock - 2% of NL's outstanding shares.
- Cash dividend payments totaling \$.80 per common share.



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

The key to our strategy is continuous improvement of our operations. This focus has enabled us to improve our cost structure in recent years both through greater throughput at our plants and lower labor costs. We continue to improve our chloride plants' on-stream efficiency and we anticipate further maintenance cost reductions by extending the time the plants' chlorinators are in use.

As we evaluate the performance of our TiO₂ business in 2001, the key variables that drive our operating income - selling price and sales and production volumes - all decreased from 2000. TiO₂ prices eroded at an increasing rate in 2001, with December 2001 prices 8% lower than the average price for the year. As a result, TiO₂ operating income for 2001 decreased 20% from 2000. Prices continued to trend downward in the first quarter of 2002, but sales volume has improved significantly which could lead to a reversal of the downward pricing trend.



WORLDWIDE TiO₂ SUPPLY & DEMAND
METRIC TONS IN THOUSANDS; SOURCE: COMPANY ESTIMATES

NL, along with other major producers, has announced price increases which range from 5% to 8% in all markets around the world. We hope to realize some price improvement beginning in the second quarter of 2002. Nonetheless, we believe 2002 operating income will be significantly below the levels we achieved in 2001. For 2002 to be an acceptable year, we believe selling prices must begin to improve substantially.

Increasing our production capacity with only moderate capital outlays continues to be a major goal. Our plants are in excellent condition and are managed by a highly-skilled workforce. We estimate our annual production capacity to be 455,000 metric tons and believe capacity can increase to 480,000 metric tons by 2005. Maintaining market share and providing our customers with the highest level of product quality, technical service and customer satisfaction continues to be a high priority. To meet the needs of our customers and better serve the industry, we have enhanced our product consistency and added new grades such as 2233, 2430 and 2500 for plastics applications and grade 4311 for the coatings industry.

Cash flow continues to be a major focus for delivering value to our shareholders. To optimize our capital structure and reduce our cost of capital, without compromising financial flexibility, we are reviewing refinancing options regarding our outstanding 11.75% Senior Secured Notes due October 2003.

Longer term, we remain optimistic about the industry's dynamics and NL. TiO₂ is a quality of life product that is an essential ingredient in many products manufactured throughout the world. TiO₂ industry fundamentals are directly influenced by the health of the worldwide economy. As the global economy recovers, demand for our product will continue to improve, thereby leading to higher producer operating rates. TiO₂ prices are still well below levels necessary for reinvestment in greenfield plant capacity, and 25% below historical peak average selling prices. Our future is bright.



HAROLD C. SIMMONS



J. LANDIS MARTIN



J. LANDIS MARTIN
PRESIDENT & CHIEF EXECUTIVE OFFICER

BOARD OF DIRECTORS

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

Ann Manix
Managing Partner
Ducker Research Corporation

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

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

Glenn R. Simmons
Vice Chairman — Valhi, Inc.

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

Steven L. Watson
President — Valhi, Inc.

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

BOARD COMMITTEES

Audit Committee

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

Management Development and Compensation Committee

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

Nominations Committee

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

CORPORATE OFFICERS

Harold C. Simmons
Chairman of the Board

J. Landis Martin
President and Chief Executive Officer

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

David B. Garten
Vice President, General Counsel and Secretary

Robert D. Hardy
Vice President, Chief Financial Officer, Controller, Treasurer and Assistant Secretary

SHAREHOLDER INFORMATION

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. (C.D.T.) on Wednesday, May 8, 2002 at 5430 LBJ Freeway, Suite 1700, Dallas, Texas. Shareholders of record as of March 18, 2002 will be entitled to vote at this meeting.

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

Registrar and Transfer Agent

EquiServe Trust Co., N.A.
P.O. Box 2500
Jersey City,
New Jersey 07303-2500
Telephone: (201) 324-1225
Internet address:
<http://www.equiserve.com>
E-mail address:
equiserve@equiserve.com

Form 10-K

Shareholders may obtain a free copy of the Company's Form 10-K as filed with the Securities and Exchange Commission for the year ended December 31, 2001.

Requests for copies can be mailed to:
NL Industries, Inc.
Attn: Investor Relations Department
P.O. Box 4272
Houston, Texas 77210-4272
or call (281) 423-3332.

Stock Exchanges

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

Visit us on the Web

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

PRODUCT INFORMATION

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

FORWARD-LOOKING INFORMATION

The statements contained in this Annual Report to Shareholders that are not historical facts, including, without limitation, statements found in the Letter to Shareholders, are forward-looking statements that involve a number of risks and uncertainties, and actual results could differ materially from those stated in such forward-looking statements. The factors that could cause actual results to differ include future global economic and political conditions, global titanium dioxide pigment productive capacity and the amount and timing of capacity changes, competitive products and prices and the risks and uncertainties discussed in the enclosed Annual Report on Form 10-K for the year ended December 31, 2001 and in the Company's other filings with the Securities and Exchange Commission.



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