

# NL INDUSTRIES, INC.

2002 Annual Report

*Making the World Brighter*



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

NL, through its wholly owned subsidiary Kronos, is the world's fifth largest producer of titanium dioxide pigments ("TiO<sub>2</sub>") with an estimated 12% share of worldwide TiO<sub>2</sub> sales volume. TiO<sub>2</sub>, a ubiquitous quality-of-life product that can be manufactured as a white powder or wet slurry, is a key ingredient for end-use products in a wide variety of industries, including paints, plastics, paper, rubber, inks, man-made fibers and ceramics. TiO<sub>2</sub>, with its unique ability to reflect light, is used to impart whiteness, brightness and opacity to various end-use products. Kronos has six production sites located in Europe and North America with a combined annual capacity of 470,000 metric tons and sells to over 4,000 customers in 100 countries.

### FINANCIAL HIGHLIGHTS

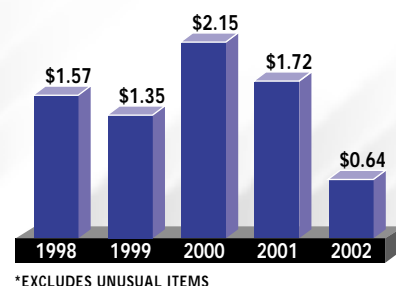
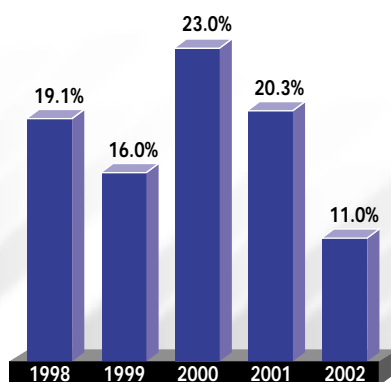
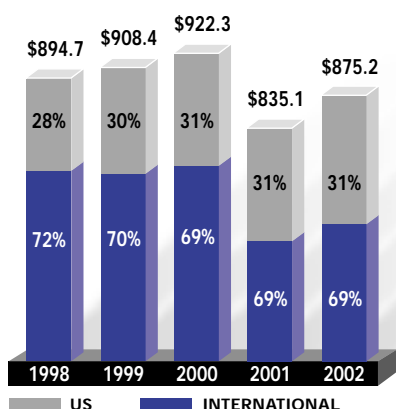
(\$ in millions, except per share and volume data)

	2002	2001	2000
Net sales	\$ 875.2	\$ 835.1	\$ 922.3
Operating income	96.5	169.2	212.5
Net income	36.8	121.4	154.6
Net income per diluted common share	\$ .76	\$ 2.44	\$ 3.05
Dividends per share	3.30	.80	.65
Cash flow from operating activities	\$ 98.3	\$ 129.7	\$ 139.7
Capital expenditures	32.6	53.7	31.1
Cash and cash equivalents <sup>(1)</sup>	\$ 130.4	\$ 199.0	\$ 207.6
Total debt	325.9	242.7	266.1
Net debt <sup>(2)</sup>	195.5	43.7	58.5
EBITDA <sup>(3)</sup>	\$ 107.4	\$ 206.7	\$ 286.3
Operating data (metric tons of TiO <sub>2</sub> , in thousands):			
Sales volume	455	402	436
Production volume	442	412	441

(1) Includes current and noncurrent restricted cash equivalents and current and noncurrent restricted marketable debt securities.

(2) 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.

(3) EBITDA, as presented, represents operating income less corporate expense, net, plus depreciation, depletion and amortization. EBITDA in 2002 includes \$5 million of net litigation settlement gains. 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:**



**HAROLD C. SIMMONS**  
CHAIRMAN OF THE BOARD

2002 was a year of accomplishments for NL that well positions the Company for the future. The Company achieved record sales and production volumes for its product, increased its annual production capacity by 3%, and reduced its cost of long-term capital by nearly 300 basis points. As anticipated, 2002 operating profits were down significantly from 2001 due to lower average TiO<sub>2</sub> selling prices.

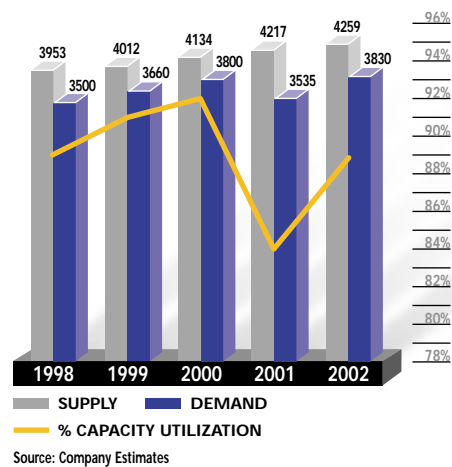
2002 was also a year in which our shareholders realized both stock price appreciation and excellent dividends, with a total return on investment of approximately 35%. Additionally, the Company repurchased 1.4 million shares of NL stock or 3% of our outstanding shares.

The most notable disappointment in 2002 was the decline in TiO<sub>2</sub> selling prices due to worldwide competitive pressures. Selling prices declined throughout 2001 and in early 2002 dropped to levels not experienced in about five years. Average selling prices in billing currencies in 2002 were down 9% from 2001, with the decrease experienced in all major markets. Selling prices began to improve in the summer of 2002 and have continued to trend upward in the first quarter of 2003. December 2002 prices were approximately 4% higher than the average price for the year. However, prices continue to remain well below levels necessary for reinvestment in greenfield plant capacity. While we believe TiO<sub>2</sub> prices in 2003 should continue to increase, pricing improvements are typically driven by demand, which depends on market and global economic conditions and may be negatively impacted by international conflict.

Record sales volume was a key positive in 2002, up 13% from 2001 levels. We maintained our market position and provided our customers with outstanding product quality and technical service. Our commitment to continue to enhance our performance in these areas is a major focus for the Company. Development of new and improved chloride and sulfate grades of TiO<sub>2</sub> remains a key strategy for growth.

Our production facilities are efficient, environmentally compliant and are managed by a highly skilled workforce. Our plants produced a Company record 442,000 metric tons of TiO<sub>2</sub> in 2002 and we currently estimate our annual production capacity to be 470,000 metric tons. We have increased our current production capacity 19% from 1997 with only moderate capital outlays and will continue to strive to increase our production capacity in the future. We expect to achieve 480,000 metric tons of capacity during 2005.

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



To optimize our capital structure and reduce our cost of capital, in June 2002 we refinanced our 11.75% \$194 million Senior Secured Notes with a euro bond offering of €285 million 8.875% Senior Secured Notes due 2009. The refinancing significantly reduced our cost of capital, extended our debt maturities and increased our financial flexibility. We also completed two, three-year revolving credit facilities: an €80 million revolving credit facility in Europe and a \$50 million revolving credit facility in the United States. These credit facilities provide working capital liquidity in a cyclical business climate and add a degree of financial security in potentially volatile and uncertain financial markets.

We continue to effectively manage our cash position, including improving our working capital management. In 2002 we decreased days outstanding in inventory by an average of 20%.

Financial forecasting has become increasingly challenging in these times of global economic uncertainty and estimating future profitability has been, and continues to be, difficult. However, from a trend perspective we generally expect 2003 operating profits to be higher than 2002, primarily due to anticipated higher average selling prices. We continue to remain focused on aggressively managing our cost structure and expect, exclusive of energy costs, that our overall 2003 operating costs will increase at rates below expected inflation. Since TiO<sub>2</sub> is considered a quality of life product, its industry fundamentals are directly influenced by the health of the worldwide economy and western economies in particular. These are turbulent times in which we live. As we write this letter, coalition forces are engaged in "Operation Iraqi Freedom". We hope for a successful resolution of the conflict and the speedy return home of coalition forces.

While 2002 was a year of accomplishment and we believe we are well positioned for worldwide economic growth, the men and women of NL Industries remain committed to operational excellence, fiscal responsibility and increasing shareholder value.

*Harold C. Simmons*  
Harold C. Simmons

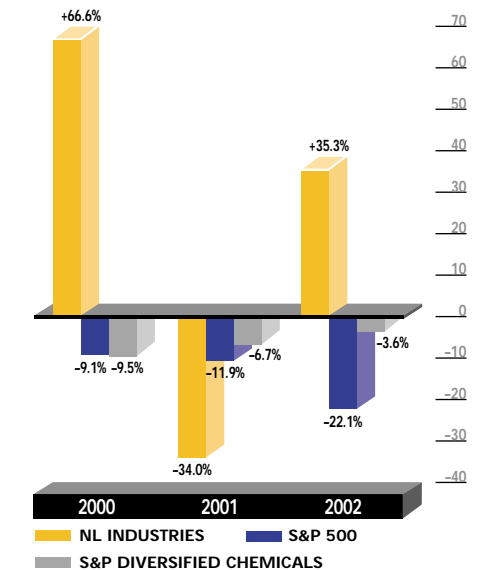
*J. Landis Martin*  
J. Landis Martin

April 1, 2003



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

**TOTAL RETURNS**  
% CHANGE OF STOCK PRICE AND DIVIDENDS REINVESTED



## BOARD OF DIRECTORS

**Harold C. Simmons**  
*Chairman of the Board*  
– NL Industries, Inc.  
– Valhi, Inc.

**Ann Manix**  
*Managing Partner*  
– Ducker Research Corporation

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

**George E. Poston**  
*President*  
– Poston Real Estate Co.  
– Poston Capital Co.

**Glenn R. Simmons**  
*Vice Chairman of the Board*  
– Valhi, Inc.

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

**Steven L. Watson**  
*Chief Executive Officer and President*  
– Valhi, Inc.

## BOARD COMMITTEES

### **Audit Committee**

**George E. Poston**  
**Ann Manix, Chairperson**  
**General Thomas P. Stafford** *(retired)*

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

**General Thomas P. Stafford**  
*(retired), Chairman*  
**Ann Manix**  
**George E. Poston**

### **Nominations Committee**

**Steven L. Watson, Chairman**  
**Ann Manix**  
**George E. Poston**

### **Pension and Benefits Committee**

**Glenn R. Simmons, Chairman**  
**Ann Manix**  
**George E. Poston**

## 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 and Controller*

**John A. St. Wrba**  
*Vice President and Treasurer*

## SHAREHOLDER INFORMATION

### **Annual Meeting**

The Annual Meeting of Shareholders will be held at 10:00 a.m. (C.D.T.) on Tuesday, May 20, 2003 at 5430 LBJ Freeway, Suite 1700, Dallas, Texas. Shareholders of record as of March 24, 2003 will be entitled to vote at this meeting.

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

### **Registrar and Transfer Agent**

EquiServe Trust Co., N.A.  
P.O. Box 43069  
Providence, Rhode Island 02940-3069  
Telephone: (781) 575-2725  
Internet address:  
<http://www.equiserve.com>  
E-mail address:  
[equiserve@equiserve.com](mailto:equiserve@equiserve.com)

### **Form 10-K**

Shareholders may obtain a free copy of the Company's Form 10-K as filed with the Securities and Exchange Commission for the year ended December 31, 2002.

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 and Bond 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."

NL's subsidiary, Kronos International, Inc.'s 8.875% Senior Secured Notes due 2009 are listed on the Luxembourg Stock Exchange and are quoted in the over-the-counter market in the United States.

**Visit us on the Web**  
<http://www.nl-ind.com>

## PRODUCT INFORMATION

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

## FORWARD-LOOKING INFORMATION

The statements contained in this Annual Report to Shareholders that are not historical facts, including, without limitation, statements found in the Letter to Shareholders, are forward-looking statements that involve a number of risks and uncertainties, and actual results could differ materially from those stated in such forward-looking statements. The factors that could cause actual results to differ include future global economic and political conditions, global titanium dioxide pigment productive capacity and the amount and timing of capacity changes, competitive products and prices, the resolution of lead pigment litigation and legislative developments related thereto, and the risks and uncertainties discussed in the enclosed Annual Report on Form 10-K for the year ended December 31, 2002 and in the Company's other filings with the Securities and Exchange Commission.



NL Industries, Inc.  
16825 Northchase Drive  
Suite 1200  
Houston, TX 77060  
(281) 423-3300  
[www.nl-ind.com](http://www.nl-ind.com)



## KRONOS

NL Industries, Inc. was organized as a corporation in 1891 and predecessor companies of its wholly owned subsidiary, Kronos, Inc., have been producing titanium dioxide pigments since 1916.

### On the Cover:

Titanium dioxide pigments are an essential ingredient in paints, adding whiteness, brightness and opacity.

