FORM 10-K

Annual report pursuant to section 13 and 15(d)

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TREMONT CORPORATION

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SIC: **3330** Primary smelting & refining of nonferrous metals

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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, 1998

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-10126

Tremont Corporation
(Exact name of registrant as specified in its charter)

Delaware	76-0262791
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1999 Broadway, Suite 4300, Denver, Colorado	80202
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (303) 296-5652

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

Title of each class	Name of each exchange on which registered
Common Stock ($1.00 par value per share)	New York Stock Exchange Pacific Stock Exchange

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

None.

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

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.

As of March 1, 1999, 6,385,058 shares of common stock were outstanding. The aggregate market value of the 3.0 million shares of voting stock held by nonaffiliates of Tremont Corporation as of such date approximated $74 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.

Forward-Looking Information

The statements contained in this Annual Report on Form 10-K that are not historical facts, including, but not limited to, statements found (i) in Item 1 - Business, including those under the captions "Unconsolidated Affiliate - TIMET" and "Unconsolidated Affiliate - NL", (ii) in Item 3 - Legal Proceedings, and (iii) in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, 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 strategy 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. Actual future results could differ materially from those described in such forward-looking statements, and the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in this Annual Report, including those in the portions referenced above, and those described from time to time in the Company's other filings with the Securities and Exchange Commission, such as the cyclicality of TIMET's and NL's businesses, TIMET's dependence on the aerospace industry, the sensitivity of TIMET's and NL's businesses to global industry capacity, global economic conditions, changes in product pricing, the impact of TIMET's long-term contracts with customers on its ability to raise prices and of its long-term contracts with vendors on its ability to reduce or increase supply or achieve lower costs, the possibility of labor disruptions, control by certain stockholders and possible conflicts of interest, potential difficulties in integrating acquisitions, uncertainties associated with new product development and the supply of raw materials and services, and the possibilities of disruptions of normal business activities from "Year 2000" issues. 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.

PART I

ITEM 1: BUSINESS

GENERAL:

Tremont Corporation, headquartered in Denver, Colorado, is a holding company with operations conducted through 39%-owned Titanium Metals Corporation ("TIMET"), 20%-owned NL Industries, Inc. ("NL") and other joint ventures through 75%-owned TRECO L.L.C. At December 31, 1998, Valhi, Inc. and Tremont, each affiliates of Contran Corporation, held approximately 58% and 20%, respectively, of NL's outstanding common stock, and together they may be deemed to control NL. Tremont may be deemed to control TIMET. At December 31, 1998, Contran and its subsidiaries held approximately 92% of Valhi's outstanding common stock, and Valhi and other entities related to Harold C. Simmons held approximately 53% of Tremont'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 Mr. Simmons, of which Mr. Simmons is the sole trustee, or by Mr. Simmons directly. Mr. Simmons may be deemed to control each of Contran, Valhi, Tremont, NL and TIMET. Tremont and its consolidated subsidiaries are referred to herein collectively as the "Company." Operating segment information included in Note 3 to the Consolidated Financial Statements is incorporated herein by reference.

During 1998, Tremont (i) purchased additional shares of NL common stock, increasing its ownership from 18% to 20%, and (ii) purchased additional shares of TIMET common stock, increasing its ownership percentage from 30% to 33%. In February 1999, Tremont exercised an option to purchase an additional 2 million shares of TIMET stock from IMI plc, increasing its ownership to 39%. See Note 4 to the Consolidated Financial Statements.

UNCONSOLIDATED AFFILIATE - TIMET:

TIMET files periodic reports with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The following information with respect to TIMET (Commission file number 0-28538) has been summarized from such reports which contain more detailed information concerning the business, results of operations and financial condition of TIMET.

~ General.~~~TIMET is one of the world's leading integrated producers of titanium sponge, ingot, slab and mill products and has the largest sales volume 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 1998 it accounted for approximately 27% of worldwide industry shipments of mill products and approximately 12% of world 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 half of industry mill product shipments in 1998, the number of non-aerospace end-use markets for titanium has expanded substantially. Today, numerous industrial uses for titanium exist, including chemical and industrial power plants, desalination plants and pollution control equipment. Demand for titanium is also increasing in diverse new and emerging uses such as medical implants, sporting equipment, offshore oil and gas production installations, geothermal facilities, military armor and automotive uses.

TIMET's products include: titanium sponge, the basic form of titanium metal used in processed titanium products; titanium ingot and slab, the result of melting sponge and titanium scrap, either alone or with various other alloying elements; and forged products produced from ingot or slab, including billet, bar, flat products (plate, sheet, and strip), extrusions and wire. TIMET believes it is among the lowest cost producers of titanium sponge and melt products due in part to its economies of scale, manufacturing expertise and investment in technology. The titanium industry is comprised of several manufacturers which, like TIMET, produce a relatively complete range of titanium products and a significant number of producers worldwide that manufacture a limited range of titanium mill products. TIMET believes that at least 90% of the world's titanium sponge is produced by six companies.

TIMET intends to continue its focus on the following goals and objectives to change the traditional way business is conducted:

. Maximize the long-term value of its core aerospace business by focusing on its basic strengths of sponge production, melting and forging of various shapes of titanium products, and by entering into strategic agreements with major titanium users to help mitigate the cyclicality of TIMET's aerospace business.

. Invest in strategic alliances, including joint ventures, acquisitions and entrepreneurial arrangements, as well as new markets, applications and products, to help reduce traditional dependence on the aerospace sector.

. Invest in technology, capacity and innovative projects aimed at reducing costs and enhancing productivity, quality, customer service and production capabilities.

. Stabilize the cost and supply of raw materials.

. Maintain a strong balance sheet.

~Outlook~for~1999.~~~The business environment in which TIMET finds itself in 1999 is substantially different from the 1996-1998 market for titanium metal. Throughout 1996, 1997 and much of 1998, TIMET was producing titanium ingot and mill products for aerospace customers in contemplation of continuing record jet aircraft build rates that were expected to last through at least 2001. During the second half of 1998 it became evident that the anticipated record rates of aircraft production would not be reached, and that a decline in overall production rates would begin earlier than forecast, particularly in titanium-intensive widebody planes. As aerospace customers continue to reduce inventories during 1999 and adjust to decreases in overall production rates, TIMET faces a decrease in demand from 1997-98 levels.

Adding to the challenges in the aerospace sector, industrial demand for titanium has also declined due to the weakness in Asian and other economies. This has led to significant declines in volume and pricing. These declines in TIMET's key markets occurred earlier than had been anticipated and at a time when TIMET was in the midst of a large capital expenditure program to modernize operations and to provide lower-cost, more efficient capacity to meet peak demand for its products. TIMET was also in the process of installing enterprise-wide systems and software in order to standardize systems and information, improve efficiencies, reduce costs and also to help make its systems "Year 2000" ("Y2K") ready.

Assuming demand remains at currently expected levels and does not decrease or increase significantly in 1999, TIMET currently expects net losses in at least the first two quarters and a return to modest profitability in the third or fourth quarter. In both the aerospace and industrial sectors, reduced demand and lower prices (including prices under new long-term contracts referred to below) will cause lower sales and gross profit margins.

On the expense side, TIMET's costs related to the new enterprise-wide system and Y2K readiness program will continue to run at high levels throughout 1999. At the same time, the benefits of the new system will likely be modest in 1999, particularly with the reduction in capacity utilization.

In the fourth quarter of 1998, TIMET began implementing a plan of action designed to address current market conditions without abandoning key elements of its long-term strategy, which it believes remain sound. The action plan entails the following:

- TIMET has permanently closed manufacturing facilities in Verdi, NV, Milbury, MA and Pomona, CA. TIMET has also temporarily or permanently closed parts of facilities in Henderson, NV, Morgantown, PA and Witton, England.

- TIMET has planned workforce reductions of approximately 600 people in the United States and Europe. These reductions represent over 20% of its mid-1998 worldwide workforce and have occurred at all levels within TIMET. Approximately two-thirds of the reductions have been implemented as of February 1999.

- TIMET has merged all of its North American manufacturing operations into one operating unit to reduce costs and, at the same time, improve customer service.

- Reductions in plant overhead costs as well as in selling and administrative costs have been targeted.

- Supply contracts with key vendors have been renegotiated in order to reduce volumes and, to some extent, prices.

- Capital expenditures will be substantially cut back with exceptions of expenditures for environmental and safety purposes and funds needed to complete carryover projects begun in 1998, including the capital needed to complete implementation of TIMET's business enterprise-wide software system. Total capital expenditures are expected to be less than $40 million in 1999, compared to an aggregate of approximately $180 million in 1997 and 1998. For the year 2000, capital expenditures should decline further.

- Plans are already in place to reduce working capital, especially inventory and receivables, and TIMET believes it will see the benefits of this program beginning in the first quarter of 1999.

- TIMET has also obtained the agreement of Nippon Mining & Metals Co., Ltd. and Mitsui & Co., Ltd. to defer indefinitely TIMET's plan to purchase approximately 5% of the outstanding stock of Toho Titanium Company, Ltd. from Nippon Mining & Metals and Mitsui at a purchase price of approximately $13 million. TIMET plans to proceed with the other elements of the previously announced strategic alliance between Toho and TIMET, including study of the possible formation of a titanium hearth melting joint venture in Japan and an anticipated long-term agreement for the purchase of certain grades of titanium sponge by TIMET from Toho.

In addition to its short-term plan of actions as described above, 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. These agreements 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. These contracts are structured to provide incentives to both parties to lower TIMET's costs and share in the savings. These contracts and others represent the core of TIMET's long-term aerospace strategy and in 1999 and beyond are anticipated to account for more than 60% of aerospace revenues. These agreements should limit pricing volatility (both up and down), for the long term benefit of both parties, while providing TIMET with a solid base of aerospace volume.

As a complement to the long-term agreements entered into with TIMET's key customers, TIMET has also 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. When the order flow did not meet expectations in 1998, TIMET sought to restructure the terms of certain agreements. TIMET is continuing to work with suppliers and believes that the contracts can be amended or terminated without any material adverse effect to TIMET.

With the new enterprise-wide information system in place, and the assured minimum volume shares and prices of the aerospace contracts referred to above, TIMET can focus on cost reduction programs to increase TIMET's profitability to acceptable levels.

~ TIMET~acquisitions~and~capital~transactions~during~the~past~three~years.~At the beginning of 1996, TIMET was 75%-owned by Tremont and its operations were conducted primarily in the United States. During 1996, TIMET expanded both geographically and operationally as a result of the acquisition of the titanium business of IMI plc (the "IMI Titanium Acquisition") for stock, the acquisition of certain assets from Axel Johnson Metals, Inc. ("the "AJM Acquisition") for cash and certain smaller acquisitions in Europe for cash.

TIMET also significantly improved its liquidity and capital structure during 1996 through its initial public offering of common stock and the issuance of company-obligated manditorily redeemable preferred securities (the "Convertible Preferred Securities") through a subsidiary trust, TIMET Capital Trust I.

The IMI Titanium Acquisition and TIMET's IPO together reduced Tremont's ownership to 30% in 1996.

During 1997, TIMET entered into a welded tube joint venture ("ValTimet") and in 1998 a castings joint venture ("Wyman-Gordon Titanium Castings"), both intended to combine best manufacturing practices and market coverage in these smaller markets. In 1998, TIMET acquired Loterios S.p.A. to increase market share in industrial markets, particularly oil and gas, and provide increased geographic sales coverage in Europe.

TIMET's strategy for investing in new markets and uses for titanium also includes investing in emerging businesses. In this regard, during 1997 TIMET acquired equity interests in Ti.Pro, LLC, Titanium Memory Systems, Inc. ("TMS") and TiComp, Inc. Ti.Pro's focus is on developing the market for titanium in automobile racing and other specialty vehicle applications. TMS is continuing its development and production of a titanium substrate for use in computer hard disk drives. TiComp is working on the development and production of layered titanium and composite materials for a variety of potential applications.

~Recent~Titanium~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 the 1996-1998 period, TIMET reported aggregate net income of $176 million, which substantially more than offset the aggregate net losses of $93 million it reported during the difficult 1991-1995 period.

Worldwide industry mill product shipments of approximately 60,000 metric tons in 1997 were 65% above 1994 levels. In 1998, industry mill product shipments declined approximately 10%, to approximately 54,000 metric tons, with a further 15% decline, to approximately 46,000 metric tons, expected in 1999.

TIMET believes that the reduction in demand for aerospace products is attributable to a decline in the number of aircraft forecast to be produced, particularly in titanium-intensive wide body planes, compounded by reductions in inventories as customers adjust to the 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 1998 accounted for approximately 80% of total aerospace demand (40% of total titanium demand).

According to~The~Airline~Monitor~, a leading aerospace publication, the commercial airline industry reported operating income of over $11 billion (estimated) in 1998, compared to $16 billion in 1997 and $12 billion in 1996. TIMET understands commercial aircraft deliveries are expected to peak 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 their predecessors. 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.

Since titanium's initial applications in the aerospace sector, the number of end-use markets for titanium has expanded substantially. Existing industrial uses for titanium include chemical plants, industrial power plants, desalination plants, and pollution control equipment. Titanium is also experiencing increased customer demand in new and emerging uses such as medical implants, sporting equipment, offshore oil and gas production installations, geothermal facilities, military armor and automotive uses. Several of these emerging applications

represent potential growth opportunities that TIMET believes may reduce the industry's historical dependence on the aerospace market.

~   Products~and~Operations.~ TIMET is a vertically integrated titanium producer whose products include: titanium sponge, the basic form of titanium metal used in processed titanium products; titanium ingot and slab, the result of melting sponge and titanium scrap, either alone or with various other alloying elements; and forged and rolled products produced from ingot or slab, including billet, bar, flat products (plate, sheet, and strip) and extrusions. In 1998, approximately 97% of TIMET's sales were generated by TIMET's integrated titanium operations (its "Titanium melted and mill products" segment). The titanium product chain is described below.

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 Henderson, NV, 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 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 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 and extrusions. 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, and upon a single processor to perform certain finishing and conditioning steps with respect to its slab 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. TIMET expects to provide approximately 45% of its 1999 sponge needs from suppliers in Japan and the former Soviet Union ("FSU").

TIMET has a long-term agreement, concluded in 1997, for the purchase of titanium sponge produced in Kazakhstan to support demand for both aerospace and non-aerospace applications. This sponge purchase agreement is for ten years, with 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 have agreed in principle to a reduced minimum for 1999, and TIMET currently expects to do the same for 2000. TIMET also has agreed in principle to purchase on a long-term basis premium quality sponge produced in Japan primarily to support production of material for critical rotating jet engine applications.

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 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. TIMET has agreed in principle to enter into long-term agreements with certain suppliers for a substantial portion of its alloy requirements at fixed and/or formula-determined prices.

~TIMET~Facilities.~In addition to its U.S. sponge capacity discussed below, TIMET's 1999 worldwide melting capacity aggregates approximately 48,000 metric tons (26% of world capacity), and its mill products capacity aggregates approximately 20,000 metric tons (16% of world capacity). Approximately 63% of TIMET's worldwide melting capacity is represented by electron beam cold hearth melting ("EB") furnaces, 35% by vacuum arc remelting ("VAR") furnaces and 2% by a vacuum induction melting ("VIM") furnace. During much of the past three years, TIMET operated its major production facilities at high levels of practical capacity. Production levels and capacity utilization in 1999 will be lower than in 1998.

TIMET's VDP sponge facility in Henderson, NV is expected to operate at approximately 60% of its annual practical capacity of 9,100 metric tons during 1999, down from approximately 85% in 1998. VDP sponge is used principally as a raw material for TIMET's ingot melting facilities in the U.S., with some 1999 VDP production expected to be used in Europe. Due to changing market conditions for certain grades of sponge, TIMET reopened its original Kroll-leach process sponge plant in Nevada in 1996 and is temporarily idling this facility at the end of March 1999. TIMET's raw materials processing facilities in Morgantown, PA primarily process scrap used as melting feedstock, either in combination with sponge or separately.

TIMET's U.S. melting facilities in Henderson, NV, Morgantown, PA and Vallejo, CA 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 60% of aggregate capacity in 1999, with certain production facilities temporarily idled.

Titanium mill products are produced in the U.S. principally at a forging and rolling facility in Toronto, OH, which receives titanium ingots and slabs from TIMET's U.S. melting facilities and titanium slabs and hot bands purchased from outside vendors.

TIMET UK's melting facility in Witton, England produces VAR ingots sold to customers and used as raw material feedstock for its forging operations, also in Witton. The forging operation principally process the ingots into billet product for sale to customers and for further processing into bar and plate at TIMET's facility in Waunarlwydd, Wales. U.K. melting and mill products production in 1999 is expected to be approximately 70% and 65%, respectively, of capacity.

Capacity of 70%-owned TIMET Savoie in Ugine, France is provided under a long-term contract with Compagnie Europeenne du Zirconium - CEZUS, S.A. ("CEZUS"), which is the minority partner in TIMET Savoie. Such capacity is, to a certain extent, dependent upon the level of activity in CEZUS' zirconium business, which may from time to time provide TIMET Savoie with capacity in excess of that contractually required to be provided. During 1999, TIMET Savoie expects to operate at approximately 95% of the maximum capacity required to be provided by CEZUS.

Sponge for melting requirements in both the U.K. and France is purchased principally from suppliers in Japan and Kazakhstan, with a portion of 1999 U.K. requirements expected to be provided by TIMET's Henderson, NV VDP plant.

~Distribution.~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 nine TIMET-owned service centers (five in the U.S. and four in Europe), which sell TIMET's products on a just-in-time basis.

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.

~ Markets~and~Customer~Base.~ About 52% of TIMET's 1998 sales were to customers within North America, with about 40% to European customers and the balance to other regions. No single customer represents more than 10% of TIMET's direct sales. However, in 1998, about 75% of TIMET's mill product shipments sales were used by TIMET's customers to produce parts and other materials for the aerospace industry. TIMET expects that while a majority of its 1999 sales will be to the aerospace sector, other markets will continue to represent a significant portion of sales.

The commercial 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 unit of United Technologies Corporation), 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's order backlog was approximately $350 million at December 31, 1998, compared to $530 million at December 31, 1997. Approximately 95% of the 1998 year end backlog is expected to be delivered during 1999. 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, 1998, the estimated firm order backlog for Boeing and Airbus, as reported by~The~Airline~Monitor~, was 3,224 planes versus 2,753 planes at the end of 1997 and 2,370 planes at the end of 1996. 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 1998 was 820 (25% of total backlog) compared to 840 (30%) at the end of 1997.

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 FSU and China. TIMET is one of four 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 levels in 1999 than in 1998, increasing price competition.

TIMET's principal competitors in aerospace markets are Allegheny Teledyne Inc., RTI International Metals, Inc. (formerly RMI Titanium Company) 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. In recent years, the GSP program has been subject to annual review and renewal and is currently scheduled to expire in the second quarter of 1999.

In 1997, GSP benefits to these Russian 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 ("ITC") 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, with first hearings expected in the second quarter of 1999. Pending the appeal, 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 the business, financial condition, results of operations and cash flows of TIMET. 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 ameliorated 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. For example, one of TIMET's proprietary alloys, TIMETAL(R)21S, has been specified for a number of aerospace applications, including the Boeing 777. Additionally, TIMETAL LCB, a low-cost beta alloy, is being tested for new non-aerospace applications, and TIMETAL 15-3 has been introduced into the sporting goods markets. TIMET conducts the majority of its research and development activities at its Henderson, NV 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 the

Witton, England facility.

~ 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(R) and TIMETAL, which are protected by registration in the U.S. and other countries, are significant to its business.
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~ ~Employees.~ As of December 31, 1998, TIMET employed approximately 2,550 persons (1,650 in the U.S. and 900 in Europe), down approximately 16% from a total of 3,025 at the end of 1997. During 1999, TIMET expects to reduce employment by an additional 300 persons, the vast majority of which reduction should occur during the first quarter.

TIMET's production and maintenance workers in Henderson, NV and its production, maintenance, clerical and technical workers in Toronto, OH are represented by the United Steelworkers of America ("USWA") under contracts expiring in October 2000 and June 2002, respectively. Employees at TIMET's other U.S. facilities are not covered by collective bargaining agreements.

Over 80% of the salaried and hourly employees at TIMET's European facilities are members of various European labor unions, generally under annual agreements, certain of which are still under negotiation for 1999.

The USWA engaged in a nine month work stoppage at TIMET's Henderson facility in 1993 - 1994 and in a three month stoppage at the Toronto facility in 1994. While TIMET currently has long-term contracts with the USWA and 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.
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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, among others, 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 Henderson, NV 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. There can be no assurance that such foreign laws will not become more stringent.

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, but to date no material penalties have been incurred. TIMET incurred capital expenditures for health, safety and environmental protection and compliance of approximately $4 million in each of 1997 and 1998, and its capital budget provides for approximately $6 million of such expenditures in 1999. 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. See Note 11 to the Consolidated Financial Statements - "Commitments and Contingencies - Environmental Matters," which information is incorporated herein by reference.

UNCONSOLIDATED AFFILIATE - NL:

NL files periodic reports with the Commission pursuant to the Exchange Act, as amended. The following information with respect to NL (Commission file number 1-640) has been summarized from such reports, which contain more detailed information concerning the business, results of operations and financial condition of NL.

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~G~eneral~. NL conducts its continuing operations through its principal wholly-owned subsidiary, Kronos, Inc. In January 1998, the specialty chemicals business of Rheox, Inc., a wholly-owned subsidiary of NL, was sold for $465 million to Elementis plc, including $20 million attributable to a five-year agreement by NL not to compete in the rheological products business. See "Rheox - discontinued operations" for related discussion.

Kronos is the world's fourth largest producer of titanium dioxide pigments ("TiO2") with an estimated 11% share of worldwide TiO2 sales volume in 1998. Approximately one-half of Kronos' 1998 sales volume was in Europe, where Kronos is the second largest producer of TiO2.

NL's objective is to maximize total shareholder returns by focusing on (i) acquiring additional TiO2 production capacity, (ii) investing in certain cost effective debottlenecking projects to increase TiO2 production capacity and efficiency, (iii) controlling costs, (iv) enhancing its capital structure and (v) considering mergers or acquisitions within the chemical industry.

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

Pricing within the TiO2 industry is cyclical, and changes in industry economic conditions can significantly impact NL's earnings and operating cash flows. NL's average TiO2 selling prices increased during the first three quarters of 1998, continuing the upturn in prices that began in the second quarter of 1997. Industry-wide demand for TiO2 declined in 1998, with second-half 1998 demand lower than first-half 1998 demand. Kronos' 1998 sales volume decreased 4% from its record sales volume in 1997 reflecting lower sales volume in Asia and Latin America. Kronos' European sales volume in the second half of 1998 was lower than the first half of 1998. NL expects industry demand in 1999 will be relatively unchanged from 1998, but this will depend upon global economic conditions. Prices in the fourth quarter of 1998 were even with prices in the third quarter of 1998 and the outlook for prices in 1999 is uncertain.

NL's expectations as to the future prospects of the TiO2 industry and prices are based upon 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 and technological advances. If actual developments differ from NL's expectations, industry and NL performance could be unfavorably affected.

Kronos has an estimated 18% share of European TiO2 sales volume and an estimated 12% share of North American TiO2 sales volume. Per capita consumption of TiO2 in the United States and Western Europe far exceeds that in other areas of the world and these regions are expected to continue to be the largest consumers of TiO2. Significant TiO2 consumption could emerge in Eastern Europe, the Far East or China if the economies in these countries develop to the point where quality-of-life products, including TiO2, are in greater demand. NL believes that, due to its strong presence in Western Europe, it is well positioned to participate in 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 the utilization of higher-cost TiO2. The use of extenders has not significantly changed anticipated TiO2 consumption over the past decade because extenders generally have, to date, 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' major customers include domestic and international paint, plastics and paper manufacturers.

Kronos is one of the world's leading producers and marketers of TiO2. 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' international operations are conducted through Kronos International, Inc., a Germany-based holding company formed in 1989 to manage and coordinate NL's manufacturing operations in Germany, Canada, Belgium and Norway, and its sales and marketing activities in over 100 countries worldwide.

Kronos and its predecessors have produced and marketed TiO2 in North America and Europe for over 70 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' 1998 TiO2 sales was to Europe, with 37% to North America and the balance to export markets.

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 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.

~TiO2~manufacturing~process~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 chloride-process production facilities in 1998 represented almost 60% of industry capacity.

Kronos produced a record 434,000 metric tons of TiO2 in 1998, compared to the previous record of 408,000 metric tons produced in 1997 and 373,000 metric tons in 1996. Kronos maintained near full capacity production rates throughout 1997 and 1998 in response to strong demand in 1997 and early 1998. Kronos' $36 million debottlenecking expansion of its Leverkusen, Germany chloride-process plant increased annual production capacity by approximately 20,000 metric tons in 1997. Kronos believes its current annual attainable production capacity is approximately 440,000 metric tons, including its one-half interest in the joint venture-owned Louisiana plant (see "TiO2 manufacturing joint venture").

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 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) Limited (South Africa) under a long-term supply contract that expires at the end of 2000. Natural rutile ore, another chloride feedstock, is purchased primarily from RGC Mineral Sands Limited (Australia), a wholly-owned subsidiary of Westralian Sands Limited (Australia), under a long-term supply contract that also 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 rock ilmenite mine in Norway which provided all of Kronos' feedstock for its European sulfate-process pigment plants in 1998. For its Canadian plant, Kronos also purchases sulfate grade slag from Q.I.T.-Fer et Titane Inc. under a long-term supply contract which expires in 2002.

NL 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 experience any interruptions of its raw material supplies because of its long-term supply contracts. However, political and economic instability in certain countries from which NL purchases its raw material supplies could adversely affect the availability of such feedstock.

~TiO~2~~manufacturing~joint~venture~. Subsidiaries of Kronos and Tioxide Group, Ltd., a wholly-owned subsidiary of Imperial Chemicals Industries plc ("ICI"), each own a 50%-interest in a manufacturing joint venture, Louisiana Pigment Company ("LPC"). LPC owns and operates a chloride-process TiO2 plant located in Lake Charles, Louisiana. Production from the plant is shared equally by Kronos and Tioxide (the "Partners") 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 LPC 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 is intended to be operated on a break-even basis and, accordingly, Kronos' transfer price for its share of 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 cost of sales as the related TiO2 acquired from the joint venture is sold, and its share of the joint venture's interest expense is reported as a component of interest expense.

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~C~ompetition.~ The TiO2 industry is highly competitive. During the early 1990s, supply of TiO2 exceeded demand, primarily due to new chloride-process capacity coming on-stream. Relative supply/demand relationships, which had a favorable impact on industry-wide prices during the late 1980s, had a negative impact during the early-1990s. Prices improved in the mid-1990s with a mini-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. Sales volume in Europe remained strong in the first half of 1998, but moderated in the second half. Sales volume in 1998 in North America was even with 1997, while sales volume to export markets declined, especially in Asia. Average selling prices increased 16% in 1998 versus 1997, but fourth-quarter 1998 prices were even with the third quarter of 1998 as worldwide demand softened. NL expects industry demand in 1999 will be relatively unchanged from 1998, but this will depend upon global economic conditions. As a result, the outlook for prices in 1999 is uncertain. No assurance can be given that demand or price trends will conform to NL's expectations. See "TiO2 Products and Operations" for a description of certain risks and uncertainties within the TiO2 industry.

Capacity additions that are the result of construction of greenfield plants in the worldwide TiO2 market require significant capital expenditures and substantial lead time, typically three to five years in NL's experience. No greenfield plants have been announced, but industry capacity can be expected to increase as Kronos and its competitors debottleneck existing plants. Based on the factors described under the caption "TiO2 Products and Operations" 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.

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 1998 Kronos had an estimated 11% share of worldwide TiO2 sales volume, 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"); ICI (Tioxide); Millennium Chemicals, Inc. (Millennium Inorganic Chemicals, Inc.), Kerr-McGee Corporation; Kemira Oy; and Ishihara Sangyo Kaisha, Ltd. In 1998, Rhone-Poulenc sold its Thann et Mulhouse Ltd. French TiO2 operations to Millennium. Also in 1998, Bayer AG sold approximately 80% of its European TiO2 operations to Kerr-McGee and all of its Brazilian operations to Millennium. Kronos' six largest competitors have estimated individual shares of TiO2 production capacity ranging from 23% to 5%, and an estimated aggregate 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.

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~R~heox~-~discontinued~operations~. On January 30, 1998, the specialty chemicals business of Rheox was sold to Elementis plc for $465 million, including $20 million attributable to a five-year agreement by NL not to compete in the rheological products business. As a result of the sale, NL has reported its Rheox business as discontinued operations. Following the sale of its net assets, Rheox, Inc. was renamed NL Capital Corporation ("NLCC"). The majority of the $380 million after-tax proceeds has been used to reduce NL's outstanding indebtedness.

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~R~esearch~and~development~. NL's expenditures for research and development and certain technical support programs, excluding discontinued operations, have averaged approximately $7 million annually during the past three years. Research and development activities are conducted principally at the Leverkusen, Germany facility. Such activities are directed primarily toward 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.
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Foreign~operations.~NL's chemical businesses have operated in international markets since the 1920s. Most of Kronos' current production capacity is located in Europe and Canada. Approximately three-quarters of NL's 1998 consolidated sales, excluding discontinued operations, were to non-U.S. customers, including 10% to customers in areas other than Europe and Canada. Sales to customers in Asia accounted for 2% of 1998's consolidated net sales. Foreign operations are subject to, among other things, currency exchange rate fluctuations and NL's results of operations have in the past been both favorably and unfavorably affected by fluctuations in currency exchange rates. Effects of fluctuations in currency exchange rates on NL's results of operations are discussed in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A - "Quantitative and Qualitative Disclosures about Market Risk."

Political and economic uncertainties in certain of the countries in which NL operates may expose it to risk of loss. NL does not believe that there is currently any likelihood of material loss through political or economic instability, seizure, nationalization or similar event. NL cannot predict, however, whether events of this type in the future could have a material effect on its operations. NL's manufacturing and mining operations are also subject to extensive and diverse environmental regulation in each of the foreign countries in which they operate. See "Regulatory and Environmental Matters."
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~C~ustomer~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 the spring and summer painting season demand, TiO_2 sales are generally higher in the second and third calendar quarters than in the first and fourth calendar quarters.

~ Employees~. As of December 31, 1998, NL employed approximately 2,500 persons, excluding the joint venture employees and discontinued operations, with approximately 100 employees in the United States and approximately 2,400 at sites outside the United States. Hourly employees in production facilities worldwide, including the TiO_2 manufacturing joint venture, are represented by a variety of labor unions, with labor agreements having various expiration dates. NL believes its labor relations are good.
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~R~egulatory~and~environmental~matters~and~litigation~. 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. The policy of NL is to maintain compliance with applicable environmental laws and regulations at all 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 are governed by federal environmental and worker health and safety laws and regulations, principally the Resource Conservation and Recovery Act ("RCRA"), 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 the Louisiana plant owned and operated by the joint venture is in substantial compliance with applicable requirements of these laws or compliance orders issued thereunder. Following the sale of its specialty chemicals business, NL has no U.S. plants other than LPC. From time to time, NL's 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 that all its 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 (the "EU"). Germany and Belgium are members of the EU and follow its initiatives. Norway, although not a member, generally patterns its environmental regulatory actions after the EU. NL believes that Kronos is in substantial compliance with agreements reached with European environmental authorities and with an EU directive to control the effluents produced by TiO_2 production facilities.

NL has a contract with a third party to treat certain of its Leverkusen and Nordenham, Germany sulfate-process effluents. Either party may terminate the contract after giving four years advance 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. The manufacturing joint venture completed the installation of a $16 million off-gas desulfurization system at the Louisiana plant in 1996.

NL's capital expenditures related to its ongoing environmental protection and improvement programs are currently expected to be approximately $13 million in 1999 and $8 million in 2000.

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, or its subsidiaries, or their predecessors, certain of which are on the U.S. Environmental Protection Agency's ("U.S. EPA") 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 may also be jointly and severally liable.

The extent of CERCLA liability cannot accurately 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, 1998 NL had accrued $126 million for 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, remedial investigations, monitoring, studies, cleanup, 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 $160 million. NL's estimate of such liability has 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 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 presently is challenging portions of the U.S. EPA's selection of the remedy. In September 1997, the U.S. EPA informed NL that past and future cleanup costs are estimated to total approximately $63.5 million. There is currently no allocation among the PRPs for these costs. NL has been informed that the U.S. EPA has reached an agreement in principle with certain other PRPs settling their liabilities with respect to the site for approximately 50% of the site costs. NL is negotiating with the U.S. EPA to settle its liability.

At the Pedricktown, New Jersey lead smelter site 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 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 design phase of operable unit one. 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 $2.5 million, which represents approximately 50% of operable unit two costs. 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, NL reached an agreement in principle with certain PRPs with respect to NL's liability at the site to settle this matter within previously-accrued amounts.

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. Subsequent to the completion of the predesign studies, the U.S. EPA issued notices of potential liability to approximately 20 PRPs, including NL, directing them to perform the remedy, which was initially estimated to cost approximately $17 million, exclusive of administrative and overhead costs and any additional costs, for the disposition of recycled materials from the site. In January 1992 the U.S. EPA issued unilateral administrative orders to NL and six other PRPs directing the performance of the remedy. NL and the other PRPs commenced performance of the remedy. In August 1994, the U.S. EPA authorized NL and the other PRPs to cease performing most aspects of the selected remedy. 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 $10.5 million and $12 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 agreeing to pay a portion of future costs, which are estimated to be within previously-accrued amounts.

NL and other PRPs entered into an administrative consent order with the U.S. EPA requiring the performance of a RIFS at two sites in Cherokee County, Kansas, where NL and others formerly mined lead and zinc. A former subsidiary of NL 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 that the selected remedy will cost an aggregate of approximately $7.1 million for both subsites ($5.4 million for the Baxter Springs subsite). NL is negotiating with the U.S. EPA to resolve its liability at the Baxter Springs subsite. In addition, NL received a notice in March 1998 from the U.S. EPA that it may be a PRP in three additional subsites in Cherokee County.

In January 1989, the State of Illinois brought an action against NL and several other subsequent owners and operators of the former plant in Chicago, Illinois (People of the State of Illinois v. NL Industries, et al., No. 88-CH-11618, Circuit Court, Cook County). The complaint seeks recovery of $2.3 million of cleanup costs expended by the Illinois Environmental Protection Agency, plus penalties and treble damages. In August 1997, the trial court

dismissed the case. In June 1998, the Illinois appellate court affirmed. In October 1998, the Supreme Court of Illinois declined the State's petition to review decisions in favor of NL. The U.S. EPA has issued an order to NL to perform a removal action at NL's former facility involved in the State of Illinois case. NL is complying with the order.

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, Inc. 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 to the Pennsylvania Superior Court and in September 1996, the Superior Court affirmed the judgment in favor of NL. In December 1996, plaintiffs filed a petition for allowance of appeal to the Pennsylvania Supreme Court, which 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 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 50 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 $12.3 million. In September 1995, the U.S. EPA and certain PRPs 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 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 also has claimed it has incurred approximately $2.4 million in past costs from the PRPs. NL and the other PRPs have submitted to a nonbinding allocation process, as a result of which NL was assigned a 30% share of future site liability.

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~L~ead~pigment~litigation~. NL was formerly involved in the manufacture of lead pigments for use in paint and lead-based 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 and property damage allegedly associated with the use of lead pigments. NL is vigorously defending 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 (a) 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 (b) 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. While no legislation or regulations have been enacted to date that 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 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 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 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 remain 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. NL has answered the remaining portions of the complaint denying all allegations of wrongdoing. 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, and plaintiffs appealed. In June 1996, the Appellate Division reversed the trial court's dismissal of plaintiffs' restitution and indemnification claims, reinstating those claims. Defendants' motion for summary judgment on the fraud claim was denied in August 1995. In December 1995, defendants moved for summary judgment on the basis that the fraud claim was time-barred. In February 1996 the motion was denied. In July 1997, the denial of defendants' two summary judgment motions on the fraud claim were affirmed by the Appellate Division. In December 1998, plaintiffs moved for partial summary judgment on their claims of market share, alternative liability, enterprise liability, and concert of action. In February 1999, claims for plaintiffs New York City and New York City Health and Hospital Corporation dismissed with prejudice all their claims and were 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. Briefing on the December 1998 motion and limited discovery are proceeding.

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 identifies 18 other defendants who allegedly manufactured lead products or lead-based paint, and 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.

In October 1992, NL and the other defendants moved to dismiss the complaint with prejudice. In July 1993, the court dismissed the complaint. In December 1994, the Ohio Court of Appeals reversed the trial court dismissal and remanded the case to the trial court. In July 1996, the trial court granted defendants' motion to dismiss the property damage and enterprise liability claims, but denied the remainder of the motion. Discovery and briefing is proceeding with respect to class certification.

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 January 1994, NL answered

the complaint, denying 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. Discovery is proceeding.

In January 1996, NL was served with a complaint on behalf of individual intervenors in German, et. al. v. Federal Home Loan Mortgage Corp., et. al., (U.S. District Court, Southern District of New York, Civil Action No. 93 Civ. 6941 (RWS)). This alleged class action lawsuit had originally been brought against the City of New York and other landlord defendants. The intervenors' complaint alleges claims against NL and other former manufacturers of lead pigment for medical monitoring, property abatement, and other injunctive relief, based on various causes of action, including negligent product design, negligent failure to warn, strict liability, fraud and misrepresentation, concert of action, civil conspiracy, enterprise liability, market share liability, breach of express and implied warranties, and nuisance. The intervenors purport to represent a class of children and pregnant women who reside in New York City. In May 1996, NL and the other former manufacturers of lead pigments filed motions to dismiss the intervenors' complaint. In May 1997, plaintiffs moved for class certification and defendants moved for summary judgment. In June 1997, the Court stayed all further activity in the case pending reconsideration of its 1995 decision permitting filing of the complaint against the manufacturer defendants and joinder of the new complaint with the pre-existing complaint against New York City and other landlords. In November 1998, the court dismissed without prejudice all claims against NL and the other pigment manufacturer defendants, finding that such claims were improperly joined.

In April 1997, NL was served with a complaint in Parker v. NL Industries, 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 of negligence, strict liability and fraud, for plaintiff's alleged ingestion of lead paint as a child. In June 1997, NL answered the complaint denying liability. In February 1998, the Court dismissed the fraud claim. In July 1998, the Court granted NL's motion for summary judgment on all remaining claims. Plaintiffs have appealed.

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, a trade association, 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. Defendants filed motions to dismiss the nuisance and consumer protection act claims in the complaint in March 1999.

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 that 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 NL's reasonable defense costs in certain of the lead pigment cases. The trial court had made its decision applying New Jersey law; the appeals court concluded that New York 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 the 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 such 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 it 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 that 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.

In September 1998, the U.S. Court of Appeals for the Third Circuit issued an opinion regarding which states' laws applied to the various sites for which environmental coverage is sought, and remanded the case to the trial court. The Court has not made any final ruling on indemnity coverage in the lead pigment litigation. No trial dates have been set. Other than rulings 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.

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~O~ther~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. One such case, In re: Monongalia Mass II, (Circuit Court of Monongalia County, West Virginia, Nos. 93-C-362, et al.), involves the consolidated claims of approximately 3,100 plaintiffs. NL has reached an agreement to settle this case.

Rhodes, et al. v. ACF Industries, Inc., et al. (Circuit Court of Putnam County, West Virginia, No. 95-C-261). Twelve plaintiffs brought this action against NL and various other defendants in July 1995. Plaintiffs allege that they were employed by demolition and disposal contractors, and claim that as a result of the defendants' negligence they were exposed to asbestos during demolition and disposal of materials from defendants' premises in West Virginia. Plaintiffs allege personal injuries and seek compensatory damages totaling $18.5 million and punitive damages totaling $55.5 million. An agreement has been reached settling this matter, with NL being indemnified by another party.

In March 1997, NL was served with a complaint in Ernest Hughes, et al. v. Owens-Corning Fiberglass, Corporation, et al., No. 97-C-051, filed in the Fifth Judicial District Court of Cass County, Texas, 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 are refiling their cases in Ohio. NL is also a defendant in approximately 1,000 additional asbestos cases pending in Ohio, the first of which is scheduled for trial in the third quarter of 1998.

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 intends to file an answer denying the material allegations of the complaint.

NL is also involved in various other environmental, contractual, product liability and other claims and disputes incidental to its present and former businesses, and the disposition of past properties and former businesses.

OTHER ITEMS:

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~C~aptive~Insurance~Subsidiary.~ The Company's captive insurance subsidiary ("TRE Insurance") reinsured certain comprehensive general liability, auto liability, workers' compensation and employers' liability risks to the Company and related parties, and also participated on various third party reinsurance treaties. As described in Note 10 to the Consolidated Financial Statements, certain related parties have entered into insurance sharing agreements whereby they would, among other things, reimburse TRE Insurance for certain loss payments and reserves. TRE Insurance currently provides certain property and liability insurance coverage to Tremont, TIMET and NL. However, the risk associated with these policies are completely reinsured into the commercial reinsurance market. All of TRE Insurance's unrelated reinsurance business is in run-off.

~Other~Joint~Ventures.~Other joint ventures, held by TRECO, are principally comprised of (i) a 32% equity interest in Basic Investments, Inc. ("BII"), and (ii) a 12% interest in Victory Valley Land Company, L.P. ("VVLC"). BII has an additional 50% interest in VVLC. Through its subsidiaries, including Basic Management, Inc. ("BMI"), BII provides utility services to, and owns property (the "BMI Complex") adjacent to, TIMET's plant in Henderson, NV, a suburb of Las Vegas. BII, through VVLC, is actively engaged in efforts to develop certain land holdings surrounding the BMI Complex for commercial, industrial, and residential purposes.

REGULATORY AND ENVIRONMENTAL MATTERS:

Regulatory and environmental matters for TIMET and NL are discussed in their respective business sections contained elsewhere herein and in Item 3 - "Legal Proceedings." In addition, the information included in Note 11 to the Consolidated Financial Statements is incorporated herein by reference.

In 1993, the Company 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 the Company to undertake a remediation/reclamation program which was substantially completed at a total cost of approximately $2 million. Another of the sites is currently being evaluated by the U.S. EPA. Based upon its evaluation, the U.S. EPA could require the owners to take investigatory or remedial action at this site, however, the Company believes that to the extent it has any additional liability for remediation at this site, it is only one of a number of apparently solvent potentially responsible parties that would ultimately share in any such costs. As of December 31, 1998, the Company had accrued approximately $6.0 million related to these matters.

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 not discounted to their present value. It is not possible to estimate the range of costs for certain sites. The imposition of more stringent standards or requirements under environmental laws or regulations, the results of future testing and analysis undertaken by the Company at its non-operating facilities, 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 to be required for such matters. No assurance can be given that actual costs will not exceed accrued amounts or that costs will not be incurred with respect to sites as to which no problem is currently known or where no estimate can presently be made. Further, there can be no assurance that additional environmental matters will not arise in the future. However, the Company currently believes the disposition of all environmental matters, individually or in the aggregate, should not have a material adverse effect on the Company's business, results of operations, financial condition, or cash flow.

ITEM 2: PROPERTIES

The Company's principal executive offices, located at 1999 Broadway, Suite 4300, Denver, Colorado 80202, are leased by TIMET, which provides space to Tremont's executives through an intercorporate services agreement.

The principal properties used in the operations of TIMET and NL are described in their respective business sections of Item 1 - "Business." The Company believes, and understands that TIMET and NL believe, that their respective facilities are adequate and suitable for their respective uses.

ITEM 3: LEGAL PROCEEDINGS

The Company, TIMET and NL are involved in various legal proceedings. Information called for by this Item, except for information regarding certain of TIMET's and NL's legal proceedings that have been summarized, is included in Item 1 and Note 11 to the Company's Consolidated Financial Statements, which information is incorporated herein by reference. Information called for by this Item regarding TIMET's and NL's legal proceedings that have been summarized in Item 1 and Note 11 to the Company's Consolidated Financial Statements is included in Item 3 of TIMET's and NL's Annual Report on Form 10-K for the year ended December 31, 1998 as Exhibits 99.1 and 99.2, respectively, of this Annual Report on Form 10-K, and are incorporated herein by reference.

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, 1998.

PART II

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

Tremont's common stock is traded on the New York and Pacific Stock Exchanges (symbol: TRE). As of March 1, 1999, there were approximately 10,600 holders of record of Tremont common stock. On March 22, 1999, the closing price of the Company's common stock according to the New York Stock Exchange Composite Tape was $21.94 per share. The high and low sales prices for the Company's common stock, according to the NYSE Composite Tape, are set forth below.

<TABLE>
<CAPTION>

<S>	High	Low
~Year~ended~December~31,~1998:~	<C>	<C>
First quarter	$60.125	$51.688
Second quarter	60.313	52.625
Third quarter	56.500	42.250
Fourth quarter	41.125	31.625
~Year~ended~December~31,~1997:~		
First quarter	$36.875	$30.250
Second quarter	44.875	34.875
Third quarter	58.500	42.750
Fourth quarter	58.500	49.625

</TABLE>

In the second quarter of 1998, the Company instituted a regular quarterly dividend of $.07 per common share. Any payment of future dividends will be at the discretion of the Company's Board of Directors and will depend upon, among other things, the Company's earnings, financial condition, cash requirements, cash availability and contractual restrictions with respect to payment of dividends.

ITEM 6: SELECTED HISTORICAL FINANCIAL DATA

The following selected consolidated 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."

<TABLE>
<CAPTION>
<S>

	Years ended December 31,				
	1994	1995	1996 (In millions)	1997	1998
INCOME STATEMENT DATA:					
Equity in earnings (loss) of:	<C>	<C>	<C>	<C>	<C>
TIMET	$(31.6)	$ (3.2)	$ 16.0	$25.2	$14.0
NL Industries	(7.6)	11.4	(1.8	(5.1)	57.8
Other joint ventures	-	-	2.5	5.2	2.9
	$(39.2)	$ 8.2	$ 16.7	$25.3	$74.7
Gain on sale of TIMET stock	$ -	$ -	$ 27.6	$ -	$ -
Income (loss):					
Before extraordinary item	$(42.9)	$ 5.4	$ 30.0	$13.6	$75.7
Extraordinary item (a)	-	-	-	-	(1.9)
Cumulative effect of changes in Accounting principles (b)	(.8)	-	-	-	-
Net income (loss)	$(43.7)	$ 5.4	$ 30.0	$13.6	$73.8
Earnings per basic share:					
Before extraordinary item	$ (5.83)	$ .73	$ 4.05	$ 1.92	$11.55
Net income (loss)	(5.93)	.73	4.05	1.92	11.25
Earnings per diluted share:					
Before extraordinary item	$ (5.83)	$ .70	$ 3.90	$ 1.76	$11.18
Net income (loss)	(5.93)	.70	3.90	1.76	10.88
Cash dividends per share	$ -	$ -	$ -	$ -	$ .21
BALANCE SHEET DATA (at year end):					
Cash and cash equivalents	$ 3.8	$ 2.7	$ 68.0	$ 38.0	$ 3.1
Total assets	116.8	134.9	223.5	215.0	288.6
Indebtedness	-	6.0	-	-	5.9
Stockholders' equity	76.0	83.7	158.0	136.3	200.2

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<FN>
(a) Represents the Company's equity in NL's extraordinary item.
(b) Represents the Company's equity in a TIMET accounting change.

</TABLE>

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

RESULTS OF OPERATIONS

~TREMONT
~
Tremont is a holding company with operations conducted principally through TIMET (titanium metals) and NL (TiO2). The results of operations of TIMET and NL, and the Company's equity therein, are discussed below. Equity in earnings of other joint ventures consist principally of real estate development earnings of VVLC, which can fluctuate from period-to-period.

~Corporate~expenses,~net~and~other~items.~~Tremont's corporate expenses, net for 1998, include $1.4 million of interest earned on short-term investments and a $.9 million gain for cash received related to an investment that had previously been written off, offset primarily by expenses related to intercorporate service agreements and OPEB. Corporate expenses, net for 1997, include $2.7 million of interest earned on short-term investments and a $1.2 million gain on sale of a certain oil and gas production well interest while such expenses for 1996 include a $2 million special compensation accrual to an executive officer of the Company as approved by the Company's Board of Directors.~
~
In connection with TIMET's initial public stock offering in 1996, the Company sold 2.2 million shares of TIMET common stock with net proceeds of approximately $47 million, resulting in a pre-tax gain of $27.6 million.

~Income~taxes.~The Company's income tax rate in 1998 varied from the U.S. statutory rate principally because of a reduction in the deferred tax asset valuation allowance. Such reduction was principally due to a net decrease in the basis differences related to the Company's investment in NL. The variance in rates in 1997 was principally due to no tax benefit being recognizable on equity in losses from its investment in NL. The variance in rates in 1996 was principally due to a reduction in the deferred tax valuation allowance to reflect the current utilization of its U.S. NOLs. The Company expects its income tax rate in 1999 to approximate the U.S. statutory rate. See Note 7 to the Consolidated Financial Statements.

~Other.~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 that is other than temporary and would, therefore, require a writedown which would be accounted for as a realized loss. The Company's per share net carrying amount of its investment in NL at December 31, 1998 was $9.30 per share, compared to a per share market price of $14.19 at that date. The Company's per share net carrying value of its investment in TIMET at December 31, 1998 was $14.14 per share, compared to a per share market price of $8.50 at that date. As of March 22, 1999, the market price for TIMET common stock was $6.19 per share and for NL common stock was $9.31 per share. The Company believes stock market prices are not necessarily indicative of a company's enterprise value or the value that could be realized if the company were sold. After considering what it believes to be all relevant factors including, among other things, the relatively short period of time that the market price has been less than the Company's per share investment in TIMET, TIMET's operating results, financial position and prospects, the Company concluded that there has been no other than temporary decline in value of the Company's investment in TIMET below its net carrying value at December 31, 1998.

As discussed above, the Company's major assets are its interests in NL (TiO2) and TIMET (titanium metals). It is possible, should the TiO2 or titanium metals industries in general, or NL or TIMET specifically, encounter a prolonged downturn, or suffer other unforeseen adverse events, that the value of the Company's investment in NL, TIMET or both could decline to a level that could warrant a writedown. The Company will continue to monitor and evaluate its interests in NL and TIMET based upon, among other things, their respective results of operations, financial condition, liquidity and business outlook. In the event Tremont determines that any decline in value of its interests below their net carrying value has occurred which is other than temporary, it would report an appropriate writedown at that time.
~
~Y~ear~2000~("Y2K").~~~Year 2000 issues exist because many computer systems and applications currently use two-digit fields to designate a year. Date-sensitive systems may recognize the year 2000 as 1900, or not at all. This inability to treat the year 2000 properly could cause systems to process critical financial, manufacturing and operational information incorrectly.

Tremont, as a holding company, does not itself have numerous applications or systems. The Company (i) has completed an initial assessment of potential Y2K issues in its information systems, (ii) is in the process of determining, prioritizing and implementing remedial actions, including testing, and (iii) will develop contingency plans in the event internal or external Y2K issues are not resolved by the Company's June 30, 1999 target date for completion. The cost for Y2K readiness is not expected to be material to the Company. Although not anticipated, the most reasonably likely worst-case scenario of failure by

Tremont or its key service providers to become Y2K ready would be a short-term inability on the part of Tremont to process banking transactions. Y2K issues related to NL and TIMET are discussed below.

~TIMET
~

The Company's equity in TIMET's earnings differs from the amount that would be expected by applying Tremont's December 31, 1998 33%-ownership percentage to TIMET's separately-reported earnings because of changes in Tremont's level of ownership of TIMET in 1996 and 1998 and because of the effect of amortization of purchase accounting adjustments made by Tremont in conjunction with the acquisitions of its interest in TIMET. Amortization of such basis differences in TIMET generally increases earnings, and decreases losses, attributable to TIMET as reported by Tremont. The information included below relating to the financial position, results of operations and liquidity and capital resources of TIMET has been summarized from reports filed with the Commission by TIMET (File No. 0-28538), which reports contain more detailed information concerning TIMET, including complete financial statements.

~General.~~The aerospace industry in recent history has accounted for approximately two-thirds of U.S. and 40% to 50% of worldwide titanium mill products consumption, and has had a significant effect on the overall sales and profitability of the titanium industry. The aerospace industry, and consequently the titanium metals industry, is highly cyclical. Throughout 1996, 1997 and much of 1998, TIMET was producing titanium ingot and mill products for aerospace customers in contemplation of continuing record jet aircraft build rates then expected to last through at least 2001. During the second half of 1998, it became evident to TIMET that the anticipated record rates of aircraft production would not be reached and that a decline in overall production rates would begin earlier than forecast, particularly in titanium-intensive widebody planes. As aerospace customers reduce inventories during 1999 and adjust to decreases in overall production rates, TIMET faces a decrease in demand from 1997-1998 levels. Industrial demand for titanium has also declined due to weakness in Asian and other economies.

TIMET estimates that worldwide industry shipments of titanium mill products peaked in 1997 at approximately 60,000 metric tons and decreased 10% in 1998 to approximately 54,000 metric tons. TIMET also estimates industry mill product shipments will further decline in 1999 to approximately 46,000 metric tons.

TIMET's order backlog decreased to approximately $350 million at December 31, 1998 from approximately $530 million at December 31, 1997 and from $440 million at December 31, 1996. TIMET defines "order backlog" as firm purchase orders (which are generally subject to cancellation by the customer upon payment of specified charges).

TIMET expects that production levels, capacity utilization, sales volumes, sales prices, gross profit margins and operating income margins excluding special charges will all be lower in 1999 than they were in 1998. Assuming demand remains at currently expected levels and does not decrease or increase significantly in 1999, TIMET currently expects net losses in at least the first two quarters of 1999 and a return to modest profitability in the third or fourth quarter. In both the aerospace and industrial sectors, reduced demand and lower prices (including prices under new long-term contracts with key aerospace customers) will cause lower sales and gross profit margins. TIMET has implemented plans to address the current market conditions, as more fully described in Item 1 - "Business - Unconsolidated Affiliate - TIMET -- Outlook for 1999." Special restructuring charges in 1998 as a result of TIMET's action plans were $24 million, as discussed below. Expenses related to implementing and maintaining TIMET's business-enterprise system and to addressing Y2K issues are expected to remain high in 1999.

<TABLE>
<CAPTION>

	Years ended December 31,		
	1996	1997	1998
<S>		(In millions)	
Net sales:	<C>	<C>	<C>
Titanium melted and mill products	$ 459.7	$ 700.4	$ 686.7
Other	51.5	36.2	23.9
Eliminations	(4.1)	(3.0)	(2.9)
	$ 507.1	$ 733.6	$ 707.7

Operating income:			
Titanium melted and mill products	$ 55.6	$ 139.3	$ 87.4
Other	4.2	(6.3)	(4.7)
	59.8	133.0	82.7
General corporate income, net	1.0	4.2	6.1
Interest expense	9.0	2.0	2.9
Pretax income	51.8	135.2	85.9
Income taxes	2.3	41.0	29.2
Minority interest - Convertible Preferred Securities	.8	8.9	8.8
Other minority interest	1.1	2.3	2.1
Net income	$ 47.6	$ 83.0	$ 45.8
Tremont's equity in TIMET's income	$ 16.0	$ 25.2	$ 14.0
Mill product shipments:			
Volume (metric tons)	12,400	15,100	14,800
Average price ($ per Kilogram)	$ 32.00	$ 35.00	$ 35.25

</TABLE>

~

~TIMET operates in two segments (i) "Titanium melted and mill products", its principal segment, and (ii) "Other", which consists primarily of TIMET's titanium castings operations that were combined in a joint venture during 1998.

~

~ ~Sales~and~Operating~Income~-~1998~compared~with~1997.~Net sales of the "Titanium melted and mill products" segment in 1998 were 2% below 1997 levels primarily due to lower volumes due to reduced demand during the last half of the year in both aerospace and industrial markets, as described above. Mill product shipment volume for the year declined 2% to 14,800 metric tons. Selling prices on shipments were relatively flat, in large part due to prices on orders entered prior to the decline in demand. Average prices on 1999 shipments are expected to be 5% to 10% lower than in 1998, reflecting both provisions of long-term agreements effective in 1999 and increased price competition on non-contract business.

Net sales of the "Other" segment were down 34% primarily as a result of TIMET's ceasing to consolidate its castings business after July 1998.

Total cost of sales was 77% of sales in 1998, comparable to 76% of sales in 1997. Cost of sales is expected to be a higher percent of sales in 1999, as the effect of lower average selling prices, lower volumes and higher depreciation will more than offset the positive effect of TIMET's cost saving initiatives.

Selling, general, administrative and developmental expenses in 1998 were higher than in 1997, in both total dollar and percent of sales terms (8.5%, up from 6.2%), in large part due to information technology costs, including implementation of TIMET's enterprise-wide business information system and addressing Y2K issues.

Equity in earnings of joint ventures of the "Titanium melted and mill products" segment were $1.9 million in 1998 compared to a loss of $.5 million in 1997, principally due to improved earnings of ValTimet. Equity losses of the "Other" segment were $1.5 million in 1998, $1.0 million higher than in 1997, as certain ventures were held for the full year, compared to a part year in 1997.

Operating income of the "Titanium melted and mill products" segment in 1998 included special charges of $19.5 million and the "Other" segment included $4.5 million of charges. TIMET's restructuring plan included the permanent closure of three plants, the permanent or temporary closures of parts of three other plants, the merger of all North American manufacturing operations into one operating unit and the termination or layoff of 600 people, or approximately 20% of TIMET's worldwide workforce. Components of the 1998 restructuring charge are summarized below.

<TABLE>
<CAPTION> Segment

	Melted and Mill Products	Other	Total
	(in millions)		
<S>	<C>	<C>	<C>
Property and equipment	$ 7.1	$ 2.6	$ 9.7
Pension costs - SFAS No. 88	5.7	-	5.7
Personnel severance and benefits	5.3	.5	5.8
Other exit costs, principally related to leased facilities	1.4	1.4	2.8
	$ 19.5	$ 4.5	$ 24.0

</TABLE>

Substantially all of the property and equipment loss relates to items sold, scrapped or abandoned, with disposition already substantially complete. Depreciation of equipment not impaired and only temporarily idled was not suspended. The pension charge relates to the actuarial valuation of accelerated defined benefits of employees to be terminated.

At December 31, 1998, 50% of the personnel reductions had been accomplished with substantially all of the remainder to be accomplished in the first quarter of 1999. Other exit costs relate primarily to carrying costs on leased facilities, which leases have or will be terminated, assumed or expire by mid-year. Of the $8.6 million personnel and other exit costs accrued, $1.9 million had been paid at year-end. Most of the remaining accrued costs will be paid during the first half of 1999, although certain payments, for items such as benefit continuation for terminated employees, will be paid later.~
~ ~
~ ~Operating~Income~-~1997~compared~with~1996.~~~The significant improvement in sales, operating income and operating margins of the "Titanium melted and mill products" segment in 1997 over 1996 were driven by price and volume increases for titanium products in both commercial aerospace and other markets. Sales volume of titanium mill products increased 22% in 1997, to approximately 15,100 metric tons. Average selling prices in 1997 increased, reflecting both the pass-through of cost increases, particularly raw material costs, and real price improvement associated with increased market demand.

The "Other" segment results declined significantly in 1997 relative to 1996 in large part due to deterioration in the golf castings market.

Total cost of sales in 1997 was 76% of sales versus 83% of sales in 1996, reflecting the real price improvement in sales, higher volumes and generally higher operating levels at TIMET's plants.

Selling, general, administrative and development expenses as a percent of sales in 1997 (6.2%) were higher than in 1996 (5.9%) primarily due to higher information technology and market/product development costs.

Equity in earnings of joint ventures in 1996 was $6.2 million and consisted principally of TIMET's 50% interest in Titanium Hearth Technologies ("THT"), reported by the equity method prior to the AJM Acquisition in October 1996.

Operating income of the "Titanium melted and mill products" segment in 1996 included special charges of $5 million related to the IMI Acquisition, $3 million of which related to compensation for services in connection with the acquisition, with the remainder related principally to integration and consolidation of certain facilities.

~ European~Operations.~~~TIMET has substantial operations and assets located in Europe, principally the United Kingdom, with smaller operations in France, Italy and Germany. Titanium is a worldwide market and the factors influencing TIMET's U.S. and Europe operations are substantially the same. The relative changes in 1998 sales to customers in Europe (increased 5% compared to 1997) and in the U.S. (declined 12%) was impacted, respectively, by the acquisition of Loterios in April 1998 and deconsolidation of TIMET's castings operations in July 1998.

Sales of TIMET's European subsidiaries represented approximately 44% of

TIMET's consolidated net sales in 1998. Approximately one-half of these European sales are denominated in currencies other than the U.S. dollar, principally major European currencies. Certain purchases of raw materials, principally titanium sponge and alloys, for TIMET's European operations are denominated in U.S. dollars, while labor and other production costs are primarily denominated in local currencies. The functional currencies of TIMET's European subsidiaries are those of their respective countries; thus, the U.S. dollar value of these subsidiaries' sales and costs denominated in currencies

other than their functional currency, including sales and costs denominated in U.S. dollars, are subject to exchange rate fluctuations which may impact reported earnings and may affect the comparability of period-to-period operating results. Borrowings of TIMET's European operations may be in U.S. dollars or in functional currencies. TIMET's export sales from the United States are denominated in U.S. dollars and as such are not subject to currency exchange rate fluctuations.

The U. S. dollar sales and purchases of TIMET's European operations described above provide some natural hedge of non functional currencies, and TIMET does not use currency contracts to hedge its currency exposures. Net currency transaction/translation gains/losses included in income were less than $.5 million in each of the past three years. At December 31, 1998, TIMET's consolidated assets and liabilities denominated in currencies other than functional currencies were approximately $37 million and $40 million, respectively, consisting primarily of U.S. dollar cash, accounts receivable, accounts payable and borrowings. Exchange rates among 11 European currencies (including the French franc, Italian lira and German mark but excluding the UK pound Sterling) became fixed relative to each other as a result of the new European currency unit ("Euro") effective in 1999. Costs associated with modifications of systems to handle Euro-denominated transactions have not been significant.

~General~Corporate~Income.~General corporate income consists principally of earnings on corporate cash equivalents and varies with cash levels and interest rates. Such income in 1999 is expected to be lower than in 1998.

~ Interest~Expense.~~~Interest expense was lower in 1997 than 1996, principally due to lower average borrowing levels. While average borrowing levels increased in 1998 over 1997, interest rates declined and interest capitalized increased. Interest expense in 1999 is expected to be higher than

in 1998 due to higher average borrowing levels and lower levels of interest capitalization due to lower capital expenditures.

~ Minority~Interest.~~~Annual dividend expense related to the 6.625% Convertible Preferred Securities, issued in November 1996, approximates $13 million and is reported as minority interest net of allocable income taxes. Other minority interest relates primarily to the 30% interest in TIMET Savoie held by CEZUS.

~ Income~Taxes.~~~TIMET operates in several tax jurisdictions and is subject to varying income tax rates. As a result, the geographic mix of pretax income can impact TIMET's overall effective tax rate. In 1997 and 1996, TIMET's income tax rate also varied from the U.S. statutory rate due to reductions in the deferred tax valuation allowance related to current year utilization of tax attributes and a 1996 $10 million reduction in the deferred tax valuation allowance resulting from a change in estimate of the net operating loss carryforwards and alternative minimum tax carryforwards that would more likely than not be realized in the future. For financial reporting purposes, TIMET has recognized all of its net operating loss carryforwards.

~

~Y~ear~2000.~~~Year 2000 issues exist because many computer systems and applications currently use two-digit fields to designate a year. Date-sensitive systems may recognize the year 2000 as 1900, or not at all. This inability to treat the year 2000 properly could cause systems to process critical financial, manufacturing and operational information incorrectly. Most of TIMET's information systems have been replaced in connection with the implementation of TIMET's business-enterprise system, the initial implementation of which was substantially completed with the rollout of the system to the U.K. in February 1999. The cost of the new system, including related equipment and networks, aggregated approximately $50 million in 1997-98 ($41 million capital; $9 million expense) with an additional $4 million to $5 million expected to be incurred in 1999.

TIMET, with the help of outside specialists and consultants (i) has substantially completed an initial assessment of potential Y2K issues in its non-information systems (e.g., its manufacturing and communication systems), as well as in those information systems that were not replaced by the new business enterprise-wide system, (ii) is in the process of determining, prioritizing and implementing remedial actions, including testing, and (iii) will develop contingency plans in the event internal or external Y2K issues are not resolved by TIMET's June 30, 1999 target date for completion. TIMET's Y2K readiness varies by location. Some locations have completed their internal Y2K readiness plans while others are in the midst of remediation and testing. At this time, most sites anticipate completing their respective Y2K readiness plans by the June 1999 target date. However, remediation of some items at the Henderson, NV site, and possibly others, could be delayed beyond the June 1999 target date. TIMET expended approximately $2 million on these specific non-information system Y2K issues in 1998, principally embedded system technology, and expects to incur approximately $5 million on such issues in 1999. TIMET's evaluation of potential Y2K exposures related to key suppliers and customers is also in process and will continue throughout 1999.

Although TIMET believes its key information systems will be Y2K ready before the end of 1999, it cannot yet fully predict the outcome or success of the Y2K readiness programs related to certain of its embedded manufacturing systems or those comparable systems of its suppliers or customers. TIMET also cannot predict whether it will find additional problems that would result in unplanned upgrades of applications after June 1999 or even December 1999. As a result of these uncertainties, TIMET cannot predict the impact on its financial condition, results of operations or cash flows or operations resulting from Y2K failures in systems that TIMET directly or indirectly relies upon. Should TIMET's Y2K readiness plan not be successful or be delayed beyond December 1999, the consequences to TIMET could be far-reaching and material, including an inability to produce titanium metal products at its manufacturing facilities, which could lead to an indeterminate amount of lost revenue. Other potential negative consequences could include impeded communications or power supplies, slower transaction processing and financial reporting, and potential liability to third parties. Although not anticipated, the most reasonably likely worst-case scenario of failure by TIMET or its key suppliers or customers to become Y2K ready would be a short-term slowdown or cessation of manufacturing operations at one or more of TIMET's facilities and a short-term inability on the part of TIMET to process orders and billings in a timely manner, and to deliver product to customers.

~NL~Industries
~

The Company's 20% interest in NL is reported by the equity method. Valhi and Tremont together may be deemed to control NL. The information included below relating to the financial position, results of operations and liquidity and capital resources of NL has been summarized from reports filed with the Commission by NL (File No. 1-640), which reports contain more detailed information concerning NL, including complete financial statements on NL's historical basis of accounting.

Tremont's equity in earnings of NL differs from the amount that would be expected by applying Tremont's ownership percentage to NL's separately-reported earnings, because of changes in Tremont's level of ownership of NL in 1998 and the effect of amortization of purchase accounting adjustments made by Tremont in conjunction with the acquisitions of its interest in NL. Amortization of such basis differences generally reduces earnings, and increases losses, attributable to NL as reported by Tremont.

NL's continuing operations are conducted by Kronos in the TiO2 business segment. As discussed below, average TiO2 selling prices declined in 1997, but increased in 1998 compared to the prior year. Kronos' operating income and margins improved in both 1997 and 1998.

Many factors influence TiO2 pricing levels, including industry capacity, worldwide demand growth and customer inventory levels and purchasing decisions. Kronos believes that the TiO2 industry has long-term growth potential, as discussed in "Item 1. Unconsolidated Affiliate - NL: "TiO2 Products and Operations" and "Competition."

<TABLE><CAPTION>

	Years ended December 31,			Change	
	1996	1997	1998	1996-97	1997-98
	(In millions)				
<S>	<C>	<C>	<C>	<C>	<C>
Net sales - Kronos	$851.2	$837.2	$894.7	-2%	+7%
Operating income -	$ 71.6	$ 82.5	$171.2	+15%	+107%

Kronos					
General corporate items:					
Securities earnings	4.7	5.4	14.9		
Corporate expenses, net	(17.2)	(49.8)	(18.3)		
Interest expense	(69.3)	(65.8)	(58.1)		
Pretax income (loss)	(10.2)	(27.7)	109.7	$(17.5)	$137.4
Income taxes	1.5	2.2	19.8		
Discontinued operations - Rheox	22.5	20.4	287.4		
Extraordinary item	-	-	(10.6)		
Net income (loss)	$ 10.8	$ (9.5)	$366.7	$(20.3)	$376.2
Tremont's equity in Earnings (loss) of NL, Including amortization of Basis differences	$ (1.8)	$ (5.1)	$ 57.8	$ (3.3)	$ 62.9
Percent change in TiO2					
Sales volume				+10%	-4%
Average selling prices (in billing currencies)				-4%	+16%

</TABLE>

Operating income for 1998 more than doubled due to higher average TiO2 selling prices, partially offset by lower sales volume and $12.9 million of 1997 income from refunds of German trade capital taxes, discussed below. In billing currency terms, Kronos' 1998 average TiO2 selling prices were 16% higher than in 1997. Average 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. Selling prices at the end of 1998 were 10% higher than year-end 1997 levels. Operating income in 1997 was higher than 1996, primarily due to record production and sales volumes and the German trade capital tax income, partially offset by 4% lower average TiO2 selling prices.

The $12.9 million of German trade capital tax refunds received in 1997 relates to years prior to 1997 and includes interest. The German tax authorities were required to remit refunds based on (i) recent court decisions which reduced the trade capital tax base and (ii) prior agreements between NL and the German tax authorities regarding payment of disputed taxes.

Cost of sales in 1998 was lower than 1997 due to lower sales volume. Cost of sales in 1997 was lower than 1996 due to the favorable effects of foreign currency translation and lower unit costs, primarily due to higher production levels, partially offset by higher sales volumes. Cost of sales, as a percentage of net sales, decreased in 1998 primarily due to the impact on net sales of increased average selling prices and decreased in 1997 primarily due to lower unit costs.

Selling, general and administrative expenses declined in 1998 from the previous year due to lower distribution expenses related to lower sales volume and favorable effects of foreign currency translation, while 1997 expenses were lower than 1996 as a result of favorable effects of foreign currency translation and German trade capital tax refunds, partially offset by higher distribution expenses associated with higher 1997 sales volumes.

Sales volume of 408,000 metric tons of TiO2 in 1998 was 4% lower than the record sales volume in 1997 reflecting lower sales volume in Asia and Latin America. Approximately one-half of Kronos' 1998 TiO2 sales, by volume, was attributable to markets in Europe with approximately 37% attributable to North

America, approximately 2% to Asia and the balance to other regions.

Industry-wide demand was lower in the first half of 1996, NL believes, due to customer destocking inventories. Kronos reduced its production rates to manage its inventory levels, and its average capacity utilization was approximately 95% in 1996. Demand improved in the second half of 1996, and was strong throughout 1997 and the first half of 1998, before moderating in the second half of 1998. NL expects industry demand in 1999 will be relatively unchanged from 1998, but this will depend on global economic conditions. Kronos produced near full capacity in 1997 and 1998, but is curtailing production in 1999 to a level not to exceed Kronos' expected 1999 sales volume. NL's outlook for average TiO2 selling prices in 1999 is uncertain. Notwithstanding the uncertain outlook for TiO2 prices in 1999, NL anticipates its 1999 operating income will be lower than 1998 due to lower production levels.

NL has substantial operations and assets located outside the United States (principally Germany, Norway, Belgium and Canada). The U.S. dollar translated value of NL's foreign sales and operating costs is subject to currency exchange rate fluctuations which may impact reported earnings and may affect the comparability of period-to-period revenues and expenses. A significant amount of NL's sales are denominated in currencies other than the U.S. dollar (64% in 1998), principally major European currencies and the Canadian dollar. Certain purchases of raw materials, primarily titanium-containing feedstocks, are denominated in U.S. dollars, while labor and other production costs are primarily denominated in local currencies. Fluctuations in the value of the U.S. dollar relative to other currencies decreased sales by $58 million and $24 million during 1997 and 1998, respectively, compared to the year-earlier period.

Fluctuation in the value of the U.S. dollar relative to other currencies similarly impacted NL's operating expenses and the net impact of currency exchange rate fluctuations on operating income comparisons was not significant in 1997 or 1998.

Securities earnings fluctuate in part based upon the amount of funds invested and yields thereon. Average funds invested in 1998 was higher than 1997 primarily due to the net proceeds from the sale of Rheox in January 1998. NL expects security earnings in 1999 will be lower than 1998, due to lower average levels of funds available for investment due to the repayment of certain of NL's debt in 1998. Corporate expenses, net in 1998 were lower than 1997, primarily due to the $30 million noncash charge taken in 1997 related to NL's adoption of SOP 96-1, "Environmental Remediation Liabilities." Excluding this charge, 1998 corporate expenses, net were slightly lower than 1997 due to the recognition of $3.7 million of income in 1998 related to the straight-line, five-year amortization of $20 million of deferred income received in conjunction with the sale of Rheox, partially offset by $3.0 million of expenses in 1998 related to the unsuccessful acquisition of certain TiO2 businesses and assets of Tioxide. Corporate expenses, net in 1997 exceeded that of 1996, primarily due to the aforementioned $30 million noncash charge taken in 1997.

Interest expense in 1998 declined compared to 1997 principally due to prepayments of outstanding indebtedness, principally the Senior Secured Discount Notes, the joint venture term loan and a portion of Kronos' Deutsche mark-denominated debt. Interest expense declined in 1997 from 1996 due to lower levels of Kronos' DM-denominated debt, partially offset by higher variable interest rates on such debt. Assuming no significant increase in interest rates, interest expense in 1999 is expected to be lower compared to 1998 due to lower levels of outstanding indebtedness, including required payments on the DM term loan.

NL's operations are conducted on a worldwide basis and the geographic mix of income can significantly impact NL's effective income tax rate. In 1996 and 1997, the geographic mix of income, including losses in certain jurisdictions for which no current refund was available and recognition of a deferred tax asset was not considered appropriate, contributed to NL's effective tax rate varying from a normally-expected rate. In 1998, NL's effective tax rate varied from the normally-expected rate due predominantly to the recognition of certain deductible tax attributes which previously did not meet the "more-likely-than-not" recognition criteria and the one-time effect of a refund of German withholding taxes.

LIQUIDITY AND CAPITAL RESOURCES

~TREMONT
~

The Company had cash and equivalents of $3 million at December 31, 1998, down from $38 million at the end of 1997 and from $68 million at the end of 1996. The decrease in cash during the past two years was primarily the result of cash used in the stock repurchase program during 1997 and 1998 and to purchase additional NL and TIMET common stock in 1998. The Company's $65 million increase in cash and cash equivalents during 1996 was primarily the result of the Company's sale of TIMET common stock and TIMET's repayment of loans to the Company from proceeds of TIMET's initial public stock offering.

Tremont's 10.3 million shares of TIMET common stock and 10.2 million shares of NL common stock had a quoted market value of about $87 million and $145 million, respectively, at December 31,1998. In February 1999, the Company exercised an option to purchase an additional 2 million shares of TIMET stock from IMI for $16 million. See Note 4 to the Consolidated Financial Statements.

During 1998, the Company entered into an advance agreement with Contran and borrowed $5.9 million from Contran primarily to fund purchases of NL common stock. In February 1999, the Company borrowed an additional $6.3 million from Contran to partially fund the purchase of TIMET common stock from IMI. See Notes 4 and 10 to the Consolidated Financial Statements. The Contran advance agreement is currently Tremont's major source of liquidity. Absent additional purchases of NL, TIMET or Tremont securities, the Company does not currently believe it will need to borrow significant additional amounts from Contran.

During 1998, the Company collateralized with cash certain letters of credit backing insurance policies at its captive insurance subsidiary. In February 1999, NL collateralized a portion of the letters of credit as they related to its business with the captive, and the Company received $9.7 million in cash previously pledged to collateralize the letters of credit, which funds were primarily used in the purchase of TIMET common stock from IMI.

The settlement of the previously reported stockholder derivative litigation and Tremont's common stock repurchase program are described in Note 9 to the Consolidated Financial Statements.

The Company's equity in earnings of affiliates are primarily noncash. The Company received cash distributions from VVLC of $1 million in 1997 and $.6 million in 1998 primarily to cover taxes associated with VVLC's income from land sales. NL paid three quarterly cash dividends during 1996 at the rate of $.10 per NL share per quarter aggregating $2.7 million, paid no dividends in 1997 and paid three quarterly cash dividends during 1998 at the rate of $.03 per NL share per quarter aggregating $.8 million. TIMET did not pay any cash dividends during 1996 or 1997 and paid three quarterly cash dividends during 1998 at the rate of $.04 per TIMET share per quarter aggregating $1.2 million. Any future dividends from NL and TIMET will be at the discretion of the respective company's board of directors and will depend upon, among other things, earnings, financial condition, cash requirements, cash availability and contractual requirements. Relative changes in assets and liabilities did not materially impact the Company's cash flow from operating activities.

The Company 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, the Company has in the past and may in the future seek to raise additional capital, modify its dividend policy, restructure ownership interests of subsidiaries and affiliates, incur indebtedness, repurchase shares of capital 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 its liquidity and capital resources. In the normal course of business, the Company 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, the Company may consider using available cash, issuing equity securities or incurring indebtedness.

As previously reported, based upon the technical provisions of the Investment Company Act of 1940 (the "1940 Act") and Tremont's ceasing to own a majority of TIMET's common stock following the IMI Titanium Acquisition by TIMET in February 1996, Tremont might arguably be deemed to have become 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 Commission that Tremont is primarily engaged, through TIMET and NL, in a non-investment company business. The Company believes another exemption may be available to it under the 1940 Act should the Commission deny Tremont's application for an exemptive order.

See "Results of Operations" and Note 11 to the Consolidated Financial Statements for additional matters affecting the Company's liquidity and capital resources.

~
~T~IMET
~

Summarized balance sheet and cash flow information of TIMET is presented below.

<TABLE>
<CAPTION>

<S>	December 31, 1997	1998
	(In millions)	
Cash and cash equivalents	$ 69.0	$ 15.5
Other current assets	344.8	380.3
Goodwill and other intangible assets	77.7	79.4
Other noncurrent assets	39.2	126.8
Property and equipment, net	262.4	351.2
	$ 793.1	$ 953.2
Current liabilities	$ 123.8	$ 136.9
Long-term debt and capital lease obligations	11.5	110.0
Accrued OPEB cost	26.2	24.1
Other noncurrent liabilities	14.8	24.4
Minority interest - Convertible Preferred Securities	201.2	201.2
Other minority interest	6.7	8.2
Stockholders' equity	408.9	448.4
	$ 793.1	$ 953.2

</TABLE>

<TABLE>
<CAPTION>

<S>	Years ended December 31, 1996	1997	1998
	In millions)		
Net cash provided (used) by:			
Operating activities	$ (.7)	$ 72.6	$ 76.1
Investing activities:			
Capital expenditures	(21.7)	(66.3)	(115.2)
Business acquisitions and joint ventures	(109.9)	(13.5)	(27.4)
Purchase of preferred securities	-	-	(80.0)
Other, net	.2	-	(.6)
Financing activities:			
Net borrowings (repayments)	(108.2)	(5.8)	97.1
Issuance of common stock, net	131.5	-	-
Issuance of Convertible Preferred Securities, net	192.4	-	-
Other, net	(.6)	(4.0)	(4.9)
Cash acquired and currency translation	3.5	(.6)	1.4
	$ 86.5	$ (17.6)	$ (53.5)
Cash paid for:			
Interest expense	$ 9.0	$ 2.2	$ 2.2

Convertible Preferred Securities dividends	-	13.3	13.3
Income taxes	6.3	22.5	23.7

</TABLE>

At December 31, 1998, TIMET had $15 million of cash and equivalents and $133 million of borrowing availability under its U.S. and European bank credit lines. Available borrowings in the future could potentially be reduced due to the leverage and interest coverage ratios included in TIMET's U.S. credit agreement. Net debt at year-end 1998 was $90 million ($15 million of cash and equivalents and $105 million of notes payable and long-term debt, principally borrowings under TIMET's U.S. and U.K. long-term bank credit agreements). The Convertible Preferred Securities do not require principal amortization and TIMET has the right to defer interest payments for one or more periods of up to 20 consecutive quarters.

~Operating~Activities.~~~Cash provided by operating activities was approximately $76 million in 1998 and $73 million in 1997. Cash used by operating activities was approximately $1 million in 1996, as summarized below.

<TABLE>
<CAPTION>

	1996	1997	1998
		(in millions)	
<S>	<C>	<C>	<C>
Excluding changes in assets and liabilities	$ 53.0	$ 121.3	$108.7
Changes in assets and liabilities	(53.7)	(48.7)	(32.6)
	$ (.7)	$ 72.6	$ 76.1

</TABLE>

Cash provided by operating activities, excluding changes in assets and liabilities, during the past three years generally follows the trend in operating results. Changes in assets and liabilities reflect the timing of purchases, production and sales, and can vary significantly from period to period. Accounts receivable increased (used cash) in 1996 and 1997 primarily because sales levels were increasing, and provided cash in 1998 as sales levels were decreasing. TIMET currently expects net collections of receivables to be a source of cash in 1999, particularly in the early part of the year due to both lower sales levels and improved collection efforts.

Inventories increased in 1996, reflecting the higher activity levels, and decreased in 1997 as a result of very high shipment levels in the fourth quarter of that year. Inventories increased significantly in 1998, reflecting material purchases and build rates that were based on expected sales levels higher than the actual sales level turned out to be. TIMET expects to significantly reduce inventories during 1999 as excess raw materials are consumed and other reduction/control efforts are realized.

Changes in net current income taxes payable increased in 1996 and 1997 and decreased in 1998 in part due to the delayed timing of cash payments for taxes in Europe relative to earnings. Changes in accounts with related parties resulted primarily from payment of accrued interest in 1996 and relative changes in receivable levels with joint ventures in 1997 and 1998.

~Investing~Activities.~~~TIMET's capital expenditures were $115 million in 1998, up from $66 million in 1997 and $22 million in 1996. About one-half of capital expenditures during the two-year 1997-1998 period related to capacity expansion projects associated with long-term customer agreements, which projects are also expected to improve cycle times and yields and to increase efficiency. The majority of these significant projects in both the U.S. and Europe have come on line or will be complete by the end of the first quarter of 1999.

Approximately one-fourth of the two-year 1997-1998 period capital spending related to the major business enterprise-wide information systems and information technology project being implemented throughout TIMET. The new system was implemented in stages in the U.S. during 1998, with initial implementation substantially completed with the rollout to the U.K. in February 1999. Certain costs associated with the business enterprise information systems project, including training and reengineering, are expensed as incurred.

Capital spending for 1999 is currently expected to be below $40 million, which is less than expected depreciation and amortization expense of approximately $45 million.

Cash used for business acquisitions and joint ventures in 1998 related primarily to the Loterios and Wyman-Gordon transactions. In 1997, such investments consist primarily of cash contributions in connection with the formation of ValTimet and investments in companies developing new markets and uses for titanium. Acquisitions in 1996 consisted of the IMI Titanium Acquisition, the AJM Acquisition and other smaller European acquisitions.

In October 1998, TIMET purchased $80 million of Special Metals Corporation 6.625% convertible preferred stock (the "SMC Preferred Stock"), in connection with SMC's acquisition of the Inco Alloys International high performance nickel alloys business unit of Inco Limited. No dividends have been paid to date on the SMC Preferred Stock due to limitations imposed by SMC's bank credit agreement, and TIMET believes that these limitations may prevent SMC's payment of dividends for some time.

~Financing~Activities.~~~Net borrowings of $97 million in 1998 were primarily to fund capital expenditures and the Loterios acquisition. Net debt repayments of $6 million in 1997 relate primarily to reductions in European working capital borrowings, including amounts due to CEZUS, TIMET's minority partner in TIMET Savoie.

TIMET's net proceeds from the initial public offering in June 1996 approximated $131 million. TIMET used approximately $125 million of such net proceeds to repay existing indebtedness, including amounts due to Tremont and IMI. TIMET received net proceeds of approximately $192 million from the sale of the Convertible Preferred Securities by TIMET Capital Trust I in November 1996. TIMET used approximately $96 million of such net proceeds to repay indebtedness incurred in conjunction with the AJM Acquisition.

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, in light of its current outlook, may in the future seek to raise additional capital, modify its dividend policy, 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, specialty metal 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.
~
NL~Industries
~ Summarized balance sheet and cash flow information of NL is presented below.

<TABLE>
<CAPTION>

		December 31,	
		1997	1998
		(In millions)	
<S>	<C>	<C>	<C>
Cash and cash equivalents		$ 106.1	$ 163.1
Other current assets		348.4	383.0
Noncurrent securities		17.3	17.6
Investment in joint ventures		172.7	171.2
Other noncurrent assets		42.5	37.9
Property and equipment, net		411.2	382.2
		$1,098.2	$ 1,155.0

Current liabilities	$ 276.4	$ 310.0
Long-term debt	666.8	292.8
Deferred income taxes	132.8	196.2
Accrued OPEB cost	51.0	41.7
Environmental liabilities	125.5	81.5
Other noncurrent liabilities	67.7	79.9
Minority interest	.3	.6
Shareholders' equity (deficit)		
Capital and retained earnings	(92.8)	284.4
Other comprehensive income, principally foreign currency translation	(129.5)	(132.1)
	(222.3)	152.3
	$1,098.2	$ 1,155.0

	Years ended December 31,		
	1996	1997	1998
	(In millions)		
Net cash provided (used) by:			
Operating activities	$ 16.5	$ 89.2	$ 45.1
Investing activities:			
Capital expenditures	(64.2)	(28.2)	(22.4)
Other, net	(4.2)	17.1	439.7
Financing activities:			
Net borrowings (repayments)	65.1	(182.2)	(285.4)
Other, net	(38.5)	99.6	(110.8)
Currency translation and other	(2.7)	(2.3)	(7.6)
	$ (28.0)	$ (6.8)	$ 58.6
Cash paid for:			
Interest, net of amounts capitalized	$ 51.7	$ 55.9	$ 38.0
Income taxes, net	50.4	6.9	54.2

</TABLE>

The TiO2 industry is cyclical and changes in economic conditions within the industry significantly impact the earnings and operating cash flows of NL. Cash flow from operations, before changes in assets and liabilities and Rheox, net, in 1997 and 1998 improved from the prior year primarily due to higher operating income.

Changes in NL's inventories, receivables and payables (excluding the effect of currency translation) provided cash in 1996 and 1997 and used cash in 1998 primarily due to reductions in inventory levels in 1996 and 1997 and increases in inventory levels in 1998. Income tax payments in 1998 as a result of the gain on sale of Rheox and certain German income tax payments in 1996, discussed below, significantly decreased cash flows from operating activities for each respective year.

NL sold the net assets of its Rheox specialty chemicals business to Elementis plc in January 1998 for $465 million cash (before fees and expenses), including $20 million attributable to a five-year agreement by NL not to compete in the rheological products business. NL recognized an after-tax gain of approximately $286 million on the sale of this business segment.

NL used a majority of the $380 million after-tax net proceeds from the sale of Rheox to (i) prepay $118 million of the Rheox term loan, (ii) prepay $42 million of Kronos' tranche of the LPC joint venture term loan, (iii) make $65 million of open-market purchases of NL's 13% Senior Secured Discount Notes at prices ranging from $101.25 to $105.19 per $100 of their principal amounts, (iv) purchase $6 million of the Senior Secured Notes and $61 thousand of the Senior Secured Discount Notes at a price of $100 and $96.03 per $100 of their principal amounts, respectively, pursuant to a June 1998 pro rata tender offer to Note holders as required under the terms of the indenture, and (v) redeem the remaining $121 million 13% Senior Secured Discount Notes on October 15, 1998 at the redemption price of 106% of the principal amount, in accordance with the terms of the Senior Secured Discount Notes indenture.

Borrowings in 1998 included DM 35 million ($19 million when borrowed) under NL's short-term non-U.S. credit facilities and DM 20 million ($11 million when borrowed) under NL's DM revolving credit facility. Repayments in 1998 included DM 40 million ($23 million when paid) of the DM revolving credit facility and DM 81 million ($44 million when paid) of its DM term loan. In 1997, NL prepaid DM 207 million ($127 million when paid) of its DM term loan, repaid DM 43 million ($26 million when paid) of its DM revolving credit facility, repaid $15 million of its joint venture term loan and repaid DM 15 million ($9 million when paid) of its short-term DM-denominated notes payable. In 1996 NL borrowed DM 144 million ($96 million when borrowed) under its DM revolving credit facility. It used DM 49 million ($32 million) to fund the German tax settlement payments described below, and used the remainder of the proceeds primarily to fund operations. Repayments of indebtedness in 1996 included payments of $15 million on the joint venture term loan and DM 16 million ($10 million when repaid) in payments on DM-denominated notes payable.

NL's capital expenditures during the past three years include an aggregate of $38 million ($6 million in 1998) for NL's ongoing environmental protection and compliance programs, including German and Norwegian off-gas desulfurization systems. NL's estimated 1999 and 2000 capital expenditures are $38 million and $30 million, respectively, and include $13 million and $8 million, respectively, in the area of environmental protection and compliance.

In the last three years, NL spent $27 million ($2 million in 1998) in capital expenditures related to its debottlenecking project at its Leverkusen, Germany chloride-process TiO_2 facility. The debottlenecking project increased NL's annual attainable production by approximately 20,000 metric tons in 1997, and NL estimates its worldwide annual attainable capacity is 440,000 metric tons. Capital expenditures of the manufacturing joint venture and NL's discontinued operations are not included in NL's capital expenditures.

At December 31, 1998, NL had cash and cash equivalents aggregating $155 million (17% held by non-U.S. subsidiaries) and $12 million of restricted cash equivalents. At December 31, 1998, NL's subsidiaries had $104 million available for borrowing under non-U.S. credit facilities. At December 31, 1998, NL had complied with all financial covenants governing its debt agreements.

Dividends paid during 1998 totaled $4.6 million. No dividends were paid in 1997. Dividends paid during 1996 totaled $15.3 million. At December 31, 1998, NL had $47 million available for payment of dividends pursuant to the Senior Notes indenture. On February 10, 1999, NL's Board of Directors increased the regular quarterly dividend from $.03 per share to $.035 per share and declared a dividend to shareholders of record as of March 17, 1999 to be paid on March 31, 1999.

In June 1998, as a result of the settlement of a shareholder derivative lawsuit on behalf of NL, Valhi transferred $14.4 million in cash to NL, and NL paid plaintiffs' attorneys' fees and expenses of $3.2 million.

Based upon NL's expectations for the TiO_2 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.

Certain of NL's tax returns in various U.S. and non-U.S. jurisdictions are being examined and tax authorities have proposed or may propose tax deficiencies, including non-income tax related items and interest. NL previously reached an agreement with the German tax authorities and paid certain tax deficiencies of approximately DM 44 million ($28 million when paid), including interest, which resolved significant tax contingencies for years through 1990. In the third quarter of 1998, NL received a DM 14 million ($8.2 million when received) refund of 1990 German dividend withholding taxes. The German tax authorities were required to refund such amounts based on a 1998

German Supreme Court decision in favor of another taxpayer. The refund resulted in a reduction of the settlement amount from DM 44 million referred to above to DM 30 million for years through 1990. No further withholding tax refunds are expected.

Certain other significant German tax contingencies aggregating an estimated DM 172 million ($103 million at December 31, 1998) through 1997 remain outstanding and are in litigation. Of these, one primary issue represents disputed amounts aggregating DM 160 million ($96 million at December 31, 1998) for years through 1997. NL has received tax assessments for a substantial portion of these amounts. No payments of tax or interest deficiencies related to these assessments are expected until the litigation is resolved. During 1997, a German tax court proceeding involving a tax issue substantially the same as this issue was decided in favor of the taxpayer. The German tax authorities appealed that decision to the German Supreme Court which in February 1999 rendered its judgment in favor of the taxpayer. NL believes that the German Supreme Court's judgment should determine the outcome of NL's primary dispute with the German tax authorities. Based on this recent favorable judgment, NL will request that the tax assessments be withdrawn. NL has granted a DM 94 million ($57 million at December 31, 1998) lien on its Nordenham, Germany TiO2 plant in favor of the City of Leverkusen related to this tax contingency, and a DM 5 million ($3 million at December 31, 1998) lien in favor of the German federal tax authorities for other tax contingencies. If the German tax authorities withdraw their assessments based on the German Supreme Court's decision, NL expects to request the release of the DM 94 million lien in favor of the City of Leverkusen.

In addition, during 1997, NL reached an agreement with the German tax authorities regarding certain other issues not in litigation for the years 1991 through 1994, and agreed to pay additional tax deficiencies of DM 9 million ($5 million at December 31, 1998), most of which was paid in the third quarter of 1998.

During 1997, NL received a tax assessment from the Norwegian tax authorities proposing tax deficiencies of NOK 51 million ($7 million at December 31, 1998) relating to 1994. NL has appealed this assessment and has begun litigation proceedings. During 1998 NL was informed by the Norwegian tax authorities that additional tax deficiencies of NOK 39 million ($5 million at December 31, 1998) will likely be proposed for the year 1996. 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 Norway 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 NL's consolidated financial position, results of operations or liquidity.

At December 31, 1998, NL had net deferred tax liabilities of $195 million. NL 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 $134 million at December 31, 1998, principally related to the U.S. and 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 business conducted through Kronos, NL also has certain interests and associated liabilities relating to certain discontinued or divested businesses, and holdings of marketable equity securities including securities issued by Valhi and other Contran subsidiaries.

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. NL believes it has adequate accruals 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. NL is also a defendant in a number of legal proceedings seeking damages for personal injury and property damage arising out of the sale of lead pigments and lead-based paints. 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 paint litigation is without merit. NL has not accrued any amounts for such pending litigation. Liability that may result, if any, cannot reasonably be estimated. NL currently believes the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on NL's 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.

As discussed above, 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. The carrying value of NL's net investment in its German operations is a net liability due principally to its DM credit facility, while its net investment in its other non-U.S. operations are net assets.

As a result of certain computer programs being written using two digits rather than four to define the applicable year, certain of NL's computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result 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.

NL is in the process of evaluating and upgrading its computer systems (both information technology systems and non-IT systems involving embedded chip technology) and software applications (collectively referred to as "systems") to ensure that the systems function properly beginning January 1, 2000. To achieve its Y2K compliance plan, NL is utilizing internal and external resources to identify, correct or reprogram, and test its systems.

NL has conducted an inventory of its IT systems worldwide and is currently testing the systems and applications that have been corrected or reprogrammed for Y2K readiness. NL has completed a preliminary inventory of its non-IT systems and is in the process of validating the inventory and correcting or replacing date-deficient systems. The remediation effort is well under way on all critical IT and non-IT systems, and NL anticipates that remediation of such critical systems will be substantially complete by March 1999, and that remediation and testing of all remaining systems will be complete by September 1999. Once systems undergo remediation, they are tested for year 2000 readiness. For critical systems, the testing process usually involves subjecting the remediated system to a simulated change of date from the year 1999 to the year 2000 using, in many cases, computer resources. NL uses a number of packaged software products that have been upgraded to a Y2K ready version in the normal course of business. Excluding the cost of these software upgrades, NL's cost of becoming Y2K ready is expected to be approximately $2 million, of which about half has been spent through December 31, 1998.

NL has identified approximately 30 major computer systems and assessed them for year 2000 readiness. At December 31, 1998, approximately 80% of the systems are year 2000 ready. Each operating unit has responsibility for its own conversion, in line with overall guidance and oversight provided by a corporate-level coordinator, and the status of each of the remaining systems will be specifically tracked and monitored.

As part of its Y2K readiness plan, NL has requested confirmations from its major domestic and foreign software vendors, hardware vendors, primary suppliers and major customers, that they are developing and implementing plans to become, or are, Y2K ready. Confirmations received to date from NL's software vendors, hardware vendors, primary suppliers and major customers indicate that generally they are in the process of implementing remediation plans to ensure that their systems are ready by December 31, 1999. The major software vendors used by NL have already delivered Y2K ready software. Not withstanding these efforts, the ability of NL to affect Y2K readiness of such vendors, suppliers and customers is limited.

NL is developing a contingency plan to address potential Y2K related business interruptions that may occur on January 1, 2000, or thereafter. This plan is expected to be completed in the second quarter of 1999.

Although NL expects its systems to be Y2K ready before December 31, 1999, it cannot predict the outcome or success of the Y2K readiness programs of its vendors, suppliers, and customers. NL also cannot predict whether its major software vendors, who continue to test for Y2K readiness, will find additional problems that would result in unplanned upgrades of their applications after

December 31, 1999. As a result of these uncertainties, NL cannot predict the impact on its financial condition or results of nonready Y2K systems that NL directly or indirectly relies upon. Should NL's Y2K readiness plan not be successful or be delayed beyond January 2000, or should one or more vendors, suppliers or customers fail to adequately address their Y2K issues, the consequences to NL could be far-reaching and material, including an inability to produce TiO_2 at its manufacturing facilities, which could lead to an indeterminate amount of lost revenue. Other potential negative consequences could include plant malfunction, impeded communications or power supplies, or slower transaction processing and financial reporting. Although not anticipated, the most reasonably likely worst-case scenario of failure by NL or its key suppliers or customers to become Y2K ready would be a short-term slowdown or cessation of manufacturing operations at one or more of its facilities and a short-term inability on the part of NL to process orders and billings in a timely manner, and to deliver product to customers.

Beginning January 1, 1999, eleven of the fifteen members of the European Union, including Germany, Belgium, the Netherlands and France, adopted the Euro as their common legal currency. Following the introduction of the Euro, the participating countries' national currencies remain legal tender as denominations of the Euro from January 1, 1999 through January 1, 2002, and the exchange rates between the Euro and such national currency units are fixed.

NL conducts substantial operations in Europe. The functional currency of NL's German, Belgian, Dutch and French operations will convert to the Euro from their respective national currencies over a two-year period beginning 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 selling prices and purchasing costs and, consequently, favorably or unfavorably impact results of operations.

NL has a significant amount of outstanding DM-denominated indebtedness which, at NL's option, may be repaid in euros. Modifications of information systems to handle Euro-denominated transactions will be required, although the modifications are not expected to be extensive.

In 1998 NL assessed and evaluated the impact of the Euro conversion on its business and made the necessary system conversions. NL spent and charged to expense less than $1 million in evaluation and conversion costs. Because of the inherent uncertainty of the effect of the euro conversion, NL cannot accurately predict the impact on its results of operations, financial condition or liquidity.

NL periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, its debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, NL in the past has sought, and in the future may seek, to reduce, refinance, repurchase or restructure indebtedness, raise additional capital, issue additional securities, 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. In the event of any acquisition or joint venture transaction, NL may consider using available cash, issuing equity securities or increasing its indebtedness to the extent permitted by the agreements governing NL's existing debt.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

TREMONT

The Company is exposed to market risk from changes in interest rates and equity security prices, and through its equity investees, foreign exchange rates. The Company typically does not enter into interest rate swaps or other types of contracts in order to manage its interest rate market risk and typically does not enter into currency forward contracts to manage its foreign exchange market risk. The Company was not a party to any type of forward or derivative option contract at December 31, 1998.

~Interest~rates.~The Company is exposed to market risk from changes in interest rates related to indebtedness to Contran, a related party. See Note 10 to the Consolidated Financial Statements. At December 31, 1998, the Company's $5.9 million of such indebtedness was 100% variable rate, had a weighted average interest rate of 7.25% and, being payable on demand, is classified as a current liability.

~Marketable~equity~security~prices.~The Company is exposed to market risk due to changes in prices of marketable securities which are owned. The fair value of such equity securities at December 31, 1998 was $.5 million. The potential change in the aggregate fair value of these investments, assuming a 10% change in prices, would be $50,000.

TIMET

~ General.~TIMET is exposed to market risk from changes in foreign currency exchange rates and interest rates. TIMET typically does not enter into interest rate swaps or other types of contracts in order to manage its interest rate market risk and typically does not enter into currency forward contracts to manage its foreign exchange market risk associated with receivables, payables and indebtedness denominated in a currency other than the functional currency of the particular entity. TIMET was not a party to any type of forward or derivative option contract at December 31, 1998.

~Interest~rates.~TIMET is exposed to market risk from changes in interest rates related to indebtedness. At December 31, 1998, substantially all of TIMET's indebtedness was denominated in U.S. dollars and bore interest at variable rates, primarily related to spreads over LIBOR, as summarized below.

<TABLE>
<CAPTION> Contractual maturity date

	1999	2000	2001	2002	Interest Rate (1)
<S>		(In millions)			
Variable rate debt:	<C>	<C>	<C>	<C>	<C>
U. S. dollars	$ 3.5	$ -	$18.8	$80.0	5.64%
Italian lira (2)	1.6	-	-	-	6.88%
Fixed rate debt:					
German marks (2)	.1	-	-	-	8.25%
Italian lira (2)	.5	.5	.4	.2	5.90%

<FN>
(1) Weighted average.
(2) Non-U. S. dollar denominated amounts are translated at year-end rates of exchange.
</TABLE>

~Foreign~currency~exchange~rates.~TIMET is exposed to market risk arising from changes in foreign currency exchange rates as a result of its international operations. See Item 7 -- "Management's Discussion and Analysis of Financial Condition and Results of Operations --Results of Operations - TIMET European Operations," which information is incorporated herein by reference.

~Other.~TIMET holds $80 million of preferred securities that are not publicly-traded and are accounted for by the cost method. See Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - TIMET - Investing Activities."

NL Industries

NL is exposed to market risk from changes in foreign exchange rates, interest rates and equity security prices. In the past, NL has periodically entered into interest rate swaps or other types of contracts in order to manage a portion of its interest rate market risk. Otherwise, NL has not generally entered into forward or option contracts to manage such market risks, nor has NL entered into any such contract or other type of derivative instrument for trading purposes. NL was not a party to any forward or derivative option contracts related to currency exchange rates or equity security prices at December 31, 1998.

~ Interest~rates~. NL is exposed to market risk from changes in interest rates, primarily related to indebtedness.~
~
At December 31, 1998 NL's aggregate indebtedness was split between 62% of fixed-rate instruments and 38% of variable-rate borrowings. 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 NL's aggregate indebtedness. At December 31, 1998 all outstanding fixed-rate indebtedness was denominated in U.S. dollars, and all outstanding variable-rate indebtedness was denominated in Deutsche marks. Information shown below for such DM-denominated indebtedness is presented in its U.S. dollar equivalent at December 31, 1998 using that date's exchange rate of 1.66 DM per U.S. dollar.

	Contractual Maturity Date						Fair Value December 31, 1998
	1999	2000	2001	2002	2003	Total	
	(In millions)						
Fixed-rate debt (U.S. dollar-denominated):							
Principal amount	$-	$-	$-	$-	$244.0	$244.0	$253.1
Weighted-average interest rate	-	-	-	-	11.75%	11.75%	
Variable rate debt (DM denominated):							
Principal amount	$101.2	$48.4	$.2	$.2	$-	$150.0	$150.0
Weighted-average interest rate	5.4%	6.1%	9.3%	9.3%	-	5.6%	

~Currency~exchange~rates.~NL is exposed to market risk arising from changes in 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 Deutsche mark, Canadian dollar, Belgian franc, French franc, Norwegian krone and the United Kingdom pound sterling. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of risks and uncertainties related to the conversion of certain of these currencies to the Euro.

As described above, at December 31, 1998, NL had $150 million of indebtedness 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 would be approximately $15 million.

~Marketable~equity~security~prices.~NL is exposed to market risk due to changes in prices of the marketable securities which are owned. The fair value of such equity securities at December 31, 1998 was $18 million. The potential change in the aggregate fair value of these investments, assuming a 10% change in prices, would be $1.8 million.

~

~O~ther.~ 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 NL's results of operations and cash flows, such as demand for NL'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. Accordingly, the amounts presented above are not necessarily an accurate reflection of the potential losses NL 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 NL of future events 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" on page F.

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

Not applicable.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

ITEM 11: EXECUTIVE COMPENSATION

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

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the Tremont Proxy Statement. See also Note 10 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) are filed as part of this Annual Report.

~50~percent-or-less~owned~persons
~

Consolidated financial statements of Titanium Metals Corporation (33% owned at December 31, 1998), with independent auditors report thereon, pages F through F-29 inclusive of TIMET's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission File No. 0-28538) included herein as Exhibit 99.1, are filed as part of this Annual Report.

Consolidated financial statements of NL Industries, Inc. (20% owned at December 31, 1998), with independent auditors report thereon, pages F-1 through F-45 inclusive of NL's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission File No. 1-640) included herein as Exhibit 99.2, are filed as part of this Annual Report.

(b) Reports on Form 8-K

Reports on Form 8-K filed by the Registrant for the quarter ended December 31, 1998 and the months of January and February, 1999:

Filing Date		Items Reported
October 20, 1998	-	5 and 7
October 22, 1998	-	5 and 7
January 28, 1999	-	5 and 7
February 10, 1999	-	5 and 7
February 16, 1999	-	5 and 7

(c) Exhibits

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

Item No.	Exhibit Index
3.1	Restated Certificate of Incorporation of Tremont Corporation ("Tremont", formerly Baroid Corporation), incorporated by reference to Exhibit 3.1 of Tremont's Annual Report on Form 10-K for the year ended December 31, 1990.
3.2	By-Laws of Tremont, as amended May 14, 1991, incorporated by reference to Exhibit 3.2 of Tremont's Annual Report on Form 10-K for the year ended December 31, 1991.
3.3	Certificate of Amendment to Restated Certificate of Incorporation of Tremont, incorporated by reference to Exhibit 3.3 of Tremont's Annual Report on Form 10-K for the year ended December 31, 1991.
4.1	Plan of Restructuring between Baroid Corporation ("Baroid", formerly New Baroid Corporation) and Tremont, incorporated by reference to Exhibit 2.01 of Baroid's registration statement on Form 10 (File No. 1-10624), filed with the Commission on August 31, 1990.
4.2	Registration Rights Agreement, dated October 30, 1991, by and between NL Industries, Inc. and Tremont Corporation, 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.
4.3	Indenture dated October 20, 1993 governing NL's 11.75% Senior Secured Notes due 2003, including form of Senior 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.
4.4	Senior Mirror Notes dated October 20, 1993, incorporated by reference to Exhibit 4.3 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
4.5	Senior Note Subsidiary Pledge Agreement dated October 20, 1993 between NL and Kronos, Inc., incorporated by reference to Exhibit 4.4 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
4.6	Third Party Pledge and Intercreditor Agreement dated October 20, 1993 between NL, Chase Manhattan Bank (National Association) and Chemical Bank, incorporated by reference to Exhibit 4.5 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.
4.7	Certificate of Trust of TIMET Capital Trust I, dated November 13, 1996, incorporated by reference to Exhibit 4.1 of Titanium Metals Corporation's Current Report on Form 8-K (File No. 0-28538) filed with the Commission on December 5, 1996.
4.8	Amended and Restated Declaration of Trust of TIMET Capital Trust I, dated as of November 20, 1996, among Titanium Metals Corporation, as Sponsor, The Chase Manhattan Bank, as Property Trustee, Chase Manhattan Bank (Delaware), as Delaware Trustee and Joseph S. Compofelice, Robert E. Musgraves and Mark A. Wallace, as Regular Trustees, incorporated by reference to Exhibit 4.2 of Titanium Metals Corporation's Current Report on Form 8-K (File No. 0-28538) filed with the Commission on December 5, 1996.
4.9	Indenture for the 6 5/8% Convertible Subordinated Debentures, dated as of November 20, 1996, among Titanium Metals Corporation and The Chase Manhattan Bank, as Trustee, incorporated by reference to Exhibit 4.3 of Titanium Metals Corporation's Current Report on Form 8-K (File No. 0-28538) filed with the Commission on December 5, 1996.
4.10	Form of 6 5/8% Convertible Preferred Securities (included in Exhibit 4.5 above), incorporated by reference to Exhibit 4.5 of Titanium Metals Corporation's Current Report on Form 8-K (File No. 0-28538) filed with the Commission on December 5, 1996.

4.11 Form of 6 5/8% Convertible Subordinated Debentures (included in Exhibit 4.6 above), incorporated by reference to Exhibit 4.5 of Titanium Metals Corporation's Current Report on Form 8-K (File No. 0-28538) filed with the Commission on December 5, 1996.

4.12 Form of 6 5/8% Trust Common Securities (included in Exhibit 4.6 above), incorporated by reference to Exhibit 4.5 of Titanium Metals Corporation's Current Report on Form 8-K (File No. 0-28538) filed with the Commission on December 5, 1996.

4.13 Convertible Preferred Securities Guarantee, dated as of November 20, 1996, between Titanium Metals Corporation, as Guarantor, and The Chase Manhattan Bank, as Guarantee Trustee, incorporated by reference to Exhibit 4.6 of Titanium Metals Corporation's Current Report on Form 8-K (File No. 0-28538) filed with the Commission on December 5, 1996.

9.1 Shareholders' Agreement, dated February 15, 1996, among Titanium Metals Corporation, Tremont Corporation, IMI plc, IMI Kynoch Ltd., and IMI Americas, Inc., incorporated by reference to Exhibit 2.2 of the Registrant's Current Report on Form 8-K filed with the Commission on March 1, 1996.

9.2 Amendment to the Shareholders' Agreement, dated March 29, 1996, among Titanium Metals Corporation, Tremont Corporation, IMI plc, IMI Kynoch Ltd., and IMI Americas, Inc., incorporated by reference to Exhibit 10.30 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.

10.1 Amended and Restated 1988 Long Term Performance Incentive Plan of Tremont, incorporated by reference to Exhibit 10.1 of Tremont's Annual Report on Form 10-K for the year ended December 31, 1994.

10.2 Form of Insurance Sharing Agreement between NL Industries, Inc., NL Insurance, Ltd., Tremont and Baroid, incorporated by reference to Exhibit 10.6 of Baroid's registration statement on Form 10 (File No. 1-10624), filed with the Commission on August 31, 1990.

10.3 Form of Employee Benefit Plan Assumption Agreement between Baroid and Tremont, incorporated by reference to Exhibit 10.14 of Baroid's registration statement on Form 10 (No. 1-10624), filed with the Commission on August 31, 1990.

10.4 Indemnification Agreement between Baroid, Tremont and NL Insurance, Ltd., dated September 26, 1990, incorporated by reference to Exhibit 10.35 of Baroid's registration statement on Form 10 (No. 1-10624), filed with the Commission on August 31, 1990.

10.5 Intercorporate Services Agreement between Contran Corporation and Tremont effective as of January 1, 1998, incorporated by reference to Exhibit 10.6 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.

10.6 Intercorporate Services Agreement by and between Tremont and NL effective as of January 1, 1998, incorporated by reference to Exhibit 10.11 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1998.

10.7* 1992 Non-Employee Director Stock Option Plan of Tremont Corporation, incorporated by reference to Exhibit 10.21 of Tremont's Annual Report on Form 10-K for the year ended December 31, 1991.

10.8 Sponge Purchase Agreement, dated May 30, 1990, between Titanium Metals Corporation and Union Titanium Sponge Corporation and Amendments No. 1 and 2, incorporated by reference to Exhibit 10.25 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.

10.9 Amendment No. 3 to the Sponge Purchase Agreement, dated December 3, 1993, between Titanium Metals Corporation and Union Titanium Sponge Corporation, incorporated by reference to Exhibit 10.33 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993.

10.10 Amendment No. 4 to the Sponge Purchase Agreement, dated May 2, 1996, between Titanium Metals Corporation and Union Titanium Sponge Corporation, incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.

10.11 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 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.

10.12 Intercorporate Services Agreement between Titanium Metals Corporation and Tremont Corporation, effective as of January 1, 1998, incorporated by reference to Exhibit 10.1 of Titanium Metals Corporation's Quarterly Report on Form 10-Q (File No. 0-28538) for the quarter ended September 30, 1998.

10.13* 1996 Long Term Performance Incentive Plan of Titanium Metals Corporation, incorporated by reference to Exhibit 10.19 of Titanium Metals Corporation's Amendment No. 1 to Registration Statement on Form S-1 (No. 333-18829).

10.14* 1996 Amended and Restated Non-employee Director Compensation Plan of Titanium Metals Corporation incorporated by reference to Exhibit 10.7* of Titanium Metals Corporations's Annual Report on Form 10-K (File No. 0-28538) for the year ended December 31, 1998.

10.15* Employment Agreement between Andrew R. Dixey and Titanium Metals Corporation, dated February 13, 1996, incorporated by reference to Exhibit 10.21 of Titanium Metals Corporation's Registration Statement on Form S-1 (No. 333-2940).

10.16 Agreement, dated June 28, 1995, among Titanium Metals Corporation, Tremont Corporation and Union Titanium Sponge Corporation, incorporated by reference to Exhibit 10.24 of Titanium Metals Corporation's Registration Statement on Form S-1 (No. 333-2940).

10.17 Asset Purchase Agreement, dated October 1, 1996, by and between Titanium Metals Corporation and Axel Johnson Metals, Inc., incorporated by reference to Exhibit 2.1 of Titanium Metals Corporation's Current Report on Form 8-K (File No. 0-28538) filed with the Commission on October 16, 1996.

10.18 Purchase Agreement, dated November 20, 1996, between Titanium Metals Corporation, TIMET Capital Trust I, Salomon Brothers Inc, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated, as Initial Purchasers, incorporated by reference to Exhibit 99.1 of Titanium Metals Corporation's Current Report on Form 8-K (File No. 0-28538) filed with the Commission on December 5, 1996.

10.19 Registration Agreement, dated November 20, 1996, between TIMET Capital Trust I and Salomon Brothers Inc, as Representative of the Initial Purchasers, incorporated by reference to Exhibit 99.1 of Titanium Metals Corporation's Current Report on Form 8-K (File No. 0-28538) filed with the Commission on December 5, 1996.

10.20 $200,000,000 Credit Agreement among Titanium Metals Corporation and various lending institutions dated as of July 30,1997 incorporated by reference to Exhibit 10.1 of Titanium Metals Corporation's Current Report on Form 8-K (File No. 0-28538) dated July 30, 1997.

10.21 First Amendment to Credit Agreement and Waiver among Titanium Metals Corporation and various lending institutions dated as of May 15, 1998, incorporated by reference to Exhibit 10.2 of Titanium Metals Corporation's Quarterly Report on Form 10-Q (File No. 0-28538) for the quarter ended June 30, 1998.

10.22 Investment Agreement dated July 9, 1998, between Titanium Metals Corporation, TIMET Finance Management Company and Special Metals Corporation, incorporated by reference to Exhibit 10.1 of Titanium Metals Corporation's Current Report on Form 8-K (File No. 0-28538) dated July 9, 1998.

10.23 Form of Loan and Pledge Agreement by and between Titanium Metals Corporation and individual TIMET executives under Titanium Metals Corporation's Executive Stock Ownership Loan Program, incorporated by reference to Exhibit 10.3 of Titanium Metals Corporation's Quarterly Report on Form 10-Q (File No. 0-28538) for the quarter ended September 30, 1998.

10.24 Amendment to Investment Agreement, dated October 28, 1998, among Titanium Metals Corporation, TIMET Finance Management Company and Special Metals Corporation, incorporated by reference to Exhibit 10.4

of Titanium Metals Corporation's Quarterly Report on Form 10-Q (File No. 0-28538) for the quarter ended September 30, 1998.

10.25 Registration Rights Agreement, dated October 28, 1998, between TIMET Finance Management Company and Special Metals Corporation, incorporated by reference to Exhibit 10.5 of Titanium Metals Corporation's Quarterly Report on Form 10-Q (File No. 0-28538) for the quarter ended September 30, 1998.

10.26 Certificate of Designations for the Special Metals Corporation Series A Preferred Stock, filed on October 28, 1998, with the Secretary of State of Delaware, incorporated by reference to Exhibit 4.5 of a Current Report on Form 8-K dated October 28, 1998, filed by Special Metals Corporation (File No. 000-22029).

10.27 Amended and Restated Loan Agreement dated as of October 15, 1993, among Kronos International, Inc., the Banks set forth therein, Hypobank International S.A., as Agent and Banque Paribas, as Co-Agent, incorporated by reference to Exhibit 10.17 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.

10.28 Second Amended and Restated Loan Agreement dated as of January 31, 1997 among Kronos International, Inc., Hypobank International S.A., as Agent, and the banks set forth therein, incorporated by reference to Exhibit 10.2 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1996.

10.29 Amended and Restated Liquidity Undertaking dated October 15, 1993 by NL, Kronos, Inc. and Kronos International, Inc. to Hypobank International S.A., as Agent, and the Banks set forth therein, incorporated by reference to Exhibit 10.18 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.

10.30 Second Amended and Restated Liquidity Undertaking dated January 31, 1997 by NL, Kronos, Inc. and Kronos International, Inc. to and in favor of Hypobank International S.A., as Agent, and the Banks set forth therein, incorporated by reference to Exhibit 10.4 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1996.

10.31 Guaranty dated as of January 31, 1997 made by NL in favor of Hypobank International S.A., as Agent, incorporated by reference to Exhibit 10.5 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1996.

10.32 Lease Contract dated June 21, 1952, between Farbenfabrieken Bayer Aktiengesellschaft and Titangesellschaft mit beschrankter 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.

10.33 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.

10.34 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 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1995.

10.35 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.

10.36 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.

10.37 Kronos Offtake Agreement dated as of October 18, 1993 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.

10.38 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.

10.39 Tioxide Americas Offtake Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Louisiana Pigment Company, L.P., incorporated by reference to Exhibit 10.5 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.

10.40 Amendment No. 1 to Tioxide Americas Offtake Agreement dated as of December 20, 1995 between Tioxide Americas Inc. and Louisiana Pigment Company, L.P., incorporated by reference to Exhibit 10.24 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1995.

10.41 TCI/KCI Output Purchase Agreement dated as of October 18, 1993 between Tioxide Canada Inc. and Kronos Canada, Inc., incorporated by reference to Exhibit 10.6 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.

10.42 TAI/KLA Output Purchase Agreement dated as of October 18, 1993 between Tioxide Americas Inc. and Kronos Louisiana, Inc., incorporated by reference to Exhibit 10.7 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.

10.43 Master Technology 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.

10.44 Parents' Undertaking dated as of October 18, 1993 between ICI American Holdings Inc. and Kronos, Inc., incorporated by reference to Exhibit 10.9 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.

10.45 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 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1993.

10.46* 1985 Long Term Performance Incentive Plan of NL Industries, Inc., as adopted by the Board of Directors on February 27, 1985, incorporated by reference to Exhibit A of NL's Proxy Statement on Schedule 14A (File No. 1-640) for the annual meeting of shareholders held on April 24, 1985.

10.47 Form of Director's Indemnity Agreement between NL and the independent members of the Board of Directors of NL, incorporated by reference to Exhibit 10.20 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1987.

10.48* 1989 Long Term Performance Incentive Plan of NL Industries, Inc., incorporated by reference to Exhibit B of NL's Proxy Statement on Schedule 14A (File No. 1-640) for the annual meeting of shareholders held on May 8, 1996.

10.49* NL Industries, Inc. Variable Compensation Plan, incorporated by reference to Exhibit A of NL's Proxy Statement on Schedule 14A (File No. 1-640) for the annual meeting of shareholders held on May 8, 1996.

10.50* NL Industries, Inc. Retirement Savings Plan, as amended and restated effective April 1, 1996, incorporated by reference to Exhibit 10.38 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1996.

10.51* NL Industries, Inc. 1992 Non-Employee Director Stock Option Plan, as adopted by the Board of Directors on February 13, 1992, incorporated by reference to Appendix A of NL's Proxy Statement on Schedule 14A (File No. 1-640) for the annual meeting of shareholders held on April 30, 1992.

10.52 Intercorporate Services Agreement by and between Valhi, Inc. and NL effective as of January 1, 1998, incorporated by reference to Exhibit 10.10 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1998.

10.53 Intercorporate Services Agreement by and between Contran Corporation and NL effective as of January 1, 1998, incorporated by reference to Exhibit 10.9 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1998.

10.54 Intercorporate Service Agreement by and between Titanium Metals Corporation and NL effective January 1, 1998, incorporated by reference to Exhibit 10.12 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1998.

10.55 Intercorporate Services Agreement by and between CompX International Inc. and NL effective as of January 1, 1998, incorporated by reference to Exhibit 10.13 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended September 30, 1998.

10.56 Insurance Sharing Agreement, effective January 1, 1990, by and between NL, NL Insurance, Ltd. (an indirect subsidiary of Tremont Corporation) and Baroid Corporation, incorporated by reference to Exhibit 10.20 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1991.

10.57* Executive severance agreement effective as of March 9, 1995 by and between NL and Lawrence A. Wigdor, 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, 1996.

10.58* Executive severance agreement effective as of July 24, 1996 by and between NL and J. Landis Martin, incorporated by reference to Exhibit 10.1 of NL's Quarterly Report on Form 10-Q (File No. 1-640) for the quarter ended March 31, 1997.

10.59* Supplemental Executive Retirement Plan for Executives and Officers of NL Industries, Inc. effective as of January 1, 1991, incorporated by reference to Exhibit 10.26 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1992.

10.60* Agreement to Defer Bonus Payment dated February 20, 1998 between NL and Lawrence A. Wigdor and related trust agreement, incorporated by reference to Exhibit 10.48* of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1997.

10.61* Agreement to Defer Bonus Payment dated February 20, 1998 between NL and J. Landis Martin and related trust agreement, incorporated by reference to Exhibit 10.49* of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1997.

10.62 Asset Purchase Agreement dated as of December 29, 1997 by and among NL Industries, Inc., Rheox, Inc., Rheox International, Inc., Harrisons and Crosfield plc, Harrisons and Crosfield (America) Inc. and Elementis Acquisition 98, Inc, incorporated by reference to Exhibit 10.50 of NL's Annual Report on Form 10-K (File No. 1-640) for the year ended December 31, 1997.

21.1 Subsidiaries of the Registrant.

23.1 Consent of PricewaterhouseCoopers LLP.

27.1 Financial Data Schedule for the year ended December 31, 1998.

99.1 Titanium Metals Corporation (File No. 0-28538) Annual Report on Form 10-K for the year ended December 31, 1998, Item 3 - "Legal Proceedings" and Item 8 - "Financial Statements and Supplementary Data" (pages F to F-29).

99.2 NL Industries, Inc. (File No. 1-640) Annual Report on Form 10-K for the year ended December 31, 1998, Item 3 - "Legal Proceedings" and Item 8 - "Financial Statements and Supplementary Data" (pages F-1 to F-45).

* Management contract, compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TREMONT CORPORATION
(Registrant)

By /s/ J. Landis Martin
J. Landis Martin, March 23, 1999
(Chairman of the Board, President
and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

/s/ Susan E. Alderton Susan E. Alderton, March 23, 1999 (Director)	/s/ Harold C. Simmons Harold C. Simmons, March 23, 1999 (Director)
/s/ Richard J. Boushka Richard J. Boushka, March 23, 1999 (Director)	/s/ Thomas P. Stafford Thomas P. Stafford, March 23, 1999 (Director)
/s/ J. Landis Martin J. Landis Martin, March 23, 1999 (Chairman of the Board, President and Chief Executive Officer)	/s/ Avy H. Stein Avy H. Stein, March 23, 1999 (Director)
/s/ Glenn R. Simmons Glenn R. Simmons, March 23, 1999 (Director)	/s/ J. Thomas Montgomery, Jr. J. Thomas Montgomery, Jr., March 23, 1999 (Vice President-Controller and Treasurer) (Principal Finance and Accounting Officer)

TREMONT CORPORATION

ANNUAL REPORT ON FORM 10-K

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

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FINANCIAL STATEMENT SCHEDULES

Report of Independent Accountants S-1

Schedule II - Valuation and Qualifying Accounts S-2

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

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of Tremont Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Tremont Corporation as of December 31, 1997 and 1998 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. 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 statements in accordance with generally accepted auditing standards 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 the opinion expressed above.

PricewaterhouseCoopers LLP

Denver, Colorado
January 28, 1999

TREMONT CORPORATION

CONSOLIDATED BALANCE SHEETS

December 31, 1997 and 1998

(In thousands, except per share data)

<TABLE>
<CAPTION>

ASSETS	1997	1998
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$37,959	$ 3,132
Accounts and notes receivable	5,544	3,255
Receivable from related parties	2,277	2,157
Refundable income taxes	-	1,087
Prepaid expenses	1,206	1,203
Total current assets	46,986	10,834
Other assets:		
Investment in TIMET	123,521	145,180
Investment in NL Industries	15,737	94,980
Investment in joint ventures	10,509	13,063
Receivable from related parties	4,019	2,212
Other	13,550	21,688

Total other assets	167,336	277,123
Property and equipment		
Land	330	330
Buildings	893	913
Equipment	172	172
	1,395	1,415
Less accumulated depreciation	721	782
Net property and equipment	674	633
	$214,996	$288,590

</TABLE>

TREMONT CORPORATION

CONSOLIDATED BALANCE SHEETS (CONTINUED)

December 31, 1997 and 1998

(In thousands, except per share data)

<TABLE>
<CAPTION>

LIABILITIES AND STOCKHOLDERS' EQUITY	1997	1998
<S>		
Current liabilities:	<C>	<C>
Accrued liabilities	$5,714	$3,821
Loan payable to related party	-	5,875
Other payables to related parties	62	167
Income taxes	212	-
Total current liabilities	5,988	9,863
Noncurrent liabilities:		
Insurance claims and claim expenses	17,000	15,812
Accrued postretirement benefit cost	21,730	21,888
Accrued environmental cost	4,978	5,910
Deferred income taxes	25,766	30,995
Total noncurrent liabilities	69,474	74,605
Minority interest	3,206	3,968
Stockholders' equity:		
Preferred stock, $1.00 par value; 1,000 shares authorized; none issued	-	-
Common stock, $1.00 par value; 14,000 shares authorized; 7,690 and 7,769 shares issued, respectively	7,690	7,769
Additional paid-in capital	274,736	290,118
Accumulated deficit	(103,277)	(30,906)
Accumulated other comprehensive income	(7,099)	(7,469)
	172,050	259,512
Less treasury stock, at cost (960 and 1,392 shares, respectively)	35,722	59,358
Total stockholders' equity	136,328	200,154

	$214,996	$288,590

<FN>
Commitments and contingencies (Notes 10 and 11).
</TABLE>

TREMONT CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 1996, 1997 and 1998

(In thousands, except per share data)

<TABLE>
<CAPTION>

<S>	1996	1997	1998
Equity in earnings (loss) of:	<C>	<C>	<C>
TIMET	$ 15,965	$25,137	$ 14,013
NL Industries	(1,778)	(5,085)	57,826
Other joint ventures	2,476	5,231	2,911
	16,663	25,283	74,750
Gain on sale of TIMET stock	27,599	-	-
Corporate income (expense), net	(4,052)	1,139	(228)
Interest expense	(274)	-	(97)
Income before income taxes and minority interest	39,936	26,422	74,425
Income tax expense (benefit)	9,335	11,545	(2,040)
Minority interest	639	1,320	762
Income before extraordinary item	29,962	13,557	75,703
Equity in extraordinary loss of NL- early extinguishment of debt	-	-	(1,964)
Net income	$ 29,962	$13,557	$ 73,739
Earnings per share:			
Before extraordinary item:			
Basic	$ 4.05	$ 1.92	$ 11.55
Diluted	$ 3.90	$ 1.76	$ 11.18
Net income:			
Basic	$ 4.05	$ 1.92	$ 11.25
Diluted	$ 3.90	$ 1.76	$ 10.88
Weighted average shares outstanding:			
Common shares	7,406	7,058	6,553
Diluted shares	7,665	7,246	6,690

</TABLE>

TREMONT CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 1996, 1997 and 1998

(In thousands)

	1996	1997	1998
Net income	$ 29,962	$ 13,557	$ 73,739
Other comprehensive income (loss), net of taxes:			
Currency translation adjustment	560	(5,067)	1,089
Unrealized gains (losses) on marketable securities	764	30	(142)
Pension liabilities adjustment	310	899	(1,317)
Comprehensive income	$ 31,596	$ 9,419	$ 73,369

TREMONT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1996, 1997 and 1998

(In thousands)

	1996	1997	1998
Cash flows from operating activities:			
Net income	$29,962	$13,557	$73,739
Earnings of affiliates:			
Before extraordinary item	(16,663)	(25,283)	(74,750)
Extraordinary item	-	-	1,964
Distributions	3,014	1,040	2,635
Gain on sale of TIMET stock	(27,599)	-	-
Deferred income taxes	7,811	11,707	(2,049)
Minority interest	639	1,320	762
Other, net	(3)	(1,529)	834
Change in assets and liabilities:			
Accounts and notes receivable	(462)	857	2,289
Accounts with related parties	(244)	(380)	778
Accrued liabilities	2,738	(1,586)	(779)
Income taxes	337	101	(411)
Other, net	(1,577)	225	(2,390)
Net cash provided (used) by operating activities	(2,047)	29	2,622
Cash flows from investing activities:			
Purchases of NL and TIMET common stock	-	-	(31,368)
Proceeds from disposition of:			
TIMET common stock, net	46,898	-	-
Property held for sale	3,000	-	-
Oil and gas production well interest	-	1,206	-
Collections on loan to TIMET	22,460	-	-
Other, net	(631)	(63)	(20)
Net cash provided (used) by investing activities	71,727	1,143	(31,388)

)))

Cash flows from financing activities:			
Repurchases of common stock	$ -	$(32,126)	$(23,636)
Litigation settlement, net	-	-	18,976
Letters of credit cash collateralized	-	-	(6,955)
Dividends paid	-	-	(1,368)
Borrowings from related parties	50	-	5,875
Related party loan repayments	(3,500)	-	-
Repayments of indebtedness	(2,500)	-	-
Other, net	1,655	878	1,047
Net cash used by financing activities	(4,295)	(31,248)	(6,061)
Net increase (decrease)	$65,385	$(30,076)	$(34,827)

</TABLE>

TREMONT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 1996, 1997 and 1998

(In thousands)

<TABLE>
<CAPTION>

<S>	1996 <C>	1997 <C>	1998 <C>
Cash and cash equivalents:			
Net increase (decrease)	$65,385	$(30,076)	$ (34,827)
Balance at beginning of year	2,650	68,035	37,959
Balance at end of year	$68,035	$ 37,959	$ 3,132
Supplemental disclosures - cash paid (received) for:			
Interest expense	$ 334	$ -	$ -
Income taxes	1,189	(263)	421

</TABLE>

TREMONT CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 1996, 1997, 1998
(In thousands)

<TABLE>
<CAPTION>

<S>	Common Stock Shares issued <C>	Treasury shares <C>	Common stock <C>	Additional paid-in capital <C>	Accumulated deficit <C>
Balance at December 31,	7,550	173	$7,550	$231,815	$(146,796)

1995					
Comprehensive income	-	-	-	-	29,962
Reduction of interest in TIMET, net (Note 4)	-	-	-	40,227	-
Common stock issued	90	-	90	1,562	-
Other	-	-	-	176	-
Balance at December 31, 1996	7,640	173	7,640	273,780	(116,834)
Comprehensive income	-	-	-	-	13,557
Repurchases of common stock	-	787	-	-	-
Common stock issued	50	-	50	828	-
Other	-	-	-	128	-
Balance at December 31, 1997	7,690	960	7,690	274,736	(103,277)
Comprehensive income	-	-	-	-	73,739
Litigation settlement, net (Note 9)	-	-	-	12,334	-
Dividends	-	-	-	-	(1,368)
Repurchases of common stock	-	432	-	-	-
Common stock issued	79	-	79	968	-
Other	-	-	-	2,080	-
Balance at December 31, 1998	7,769	1,392	$7,769	$290,118	$(30,906)

</TABLE>

<TABLE>
<CAPTION>

	Accumulated Other Comprehensive Income				
	Currency translation	Marketable securities	Pension liabilities	Treasury stock	Total Stockholders' equity
<S>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	$(3,145)	$(62)	$(2,107)	$(3,596)	$83,659
Comprehensive income	560	764	310	-	31,596
Reduction of interest in TIMET, net (Note 4)	(179)	-	898	-	40,946
Common stock issued	-	-	-	-	1,652
Other	-	-	-	-	176
Balance at December 31,	(2,764)	702	(899)	(3,596)	158,029

1996					
Comprehensive income	(5,067)	30	899	-	9,419
Repurchases of common stock	-	-	-	(32,126)	(32,126)
Common stock issued	-	-	-	-	878
Other	-	-	-	-	128
Balance at December 31, 1997	(7,831)	732	-	(35,722)	136,328
Comprehensive income	1,089	(142)	(1,317)	-	73,369
Litigation settlement, net (Note 9)	-	-	-	-	12,334
Dividends	-	-	-	-	(1,368)
Repurchases of common stock	-	-	-	(23,636)	(23,636)
Common stock issued	-	-	-	-	1,047
Other	-	-	-	-	2,080
Balance at December 31, 1998	$(6,742)	$ 590	$(1,317)	$(59,358)	$200,154

</TABLE>

TREMONT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization:

Tremont Corporation is principally a holding company with operations conducted through 33%-owned Titanium Metals Corporation ("TIMET"), 20%-owned NL Industries, Inc. ("NL") and other joint ventures through 75%-owned TRECO L.L.C. In February 1999, Tremont exercised an option to purchase an additional two million shares of TIMET common stock from IMI plc, increasing its ownership to 39%. See Note 4.

At December 31, 1998, Valhi, Inc. and Tremont, each affiliates of Contran Corporation, held approximately 58% and 20%, respectively, of NL's outstanding common stock, and together may be deemed to control NL. At December 31, 1998, Contran and its subsidiaries held approximately 92% of Valhi's outstanding common stock, and Valhi and other entities related to Harold C. Simmons held approximately 53% of Tremont'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 Mr. Simmons, of which Mr. Simmons is the sole trustee, or by Mr. Simmons directly. Mr. Simmons may be deemed to control each of Contran, Valhi, Tremont, NL and TIMET. See Note 10.

Note 2 - Summary of significant accounting policies:

~ Principles~of~consolidation.~~~The accompanying consolidated financial statements include the accounts of Tremont and its majority-owned subsidiaries (collectively, the "Company"). All material intercompany accounts and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation.

~ Use~of~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.

~   Cash~and~cash~equivalents.~~~Cash equivalents include highly liquid investments with original maturities of three months or less. At December 31, 1998, substantially all of the Company's cash and cash equivalents were held by one financial institution.
~
~   ~Marketable~and~other~securities~and~securities~transactions.~~~The Company's equity in unrealized gain and loss adjustments of investments held by less than majority-owned affiliates are accumulated in the marketable securities adjustment component of stockholders' equity, net of related deferred income taxes. Realized gains and losses on the Company's securities are based upon the specific identification of the securities sold.
~

Investments~in~TIMET,~NL~and~joint~ventures.~~~Investments in TIMET, NL and other more than 20%-owned but less than majority-owned entities are accounted for by the equity method. Differences between the cost of each such investment and the underlying equity in the historical carrying amounts of the entity's net assets are allocated among the respective assets and liabilities based upon estimated relative fair values. Such differences are charged or credited to income as the entities depreciate, amortize or dispose of the related net assets.

At December 31, 1998, the unamortized net difference relating to NL was approximately $65 million, of which $40 million is goodwill being amortized over 40 years, with substantially all of the remainder attributable to NL's property and equipment and being amortized over the weighted-average remaining lives of the assets, or approximately 11 years. At December 31, 1998, the unamortized net difference relating to TIMET was a credit of approximately $2 million being amortized over 15 years.

~   Property,~equipment~and~depreciation~. Property and equipment are stated at cost. Maintenance, repairs and minor renewals are expensed; major improvements are capitalized. Depreciation is computed on the straight-line method over estimated useful lives of 10-20 years.

~Employee~benefit~plans.~~~Accounting and funding policies for postretirement benefits other than pensions ("OPEB") are described in Note 8.

~Stock-based~compensation.~~~The Company, TIMET and NL have elected the disclosure alternative prescribed by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" and to account for stock-based employee compensation in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and its various interpretations. Under APB 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. See Note 9.~
~ ~

~I~ncome~taxes.~~~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 subsidiaries and unconsolidated affiliates not included in the consolidated tax group.

Note 3 - Operating segments:

Tremont is a holding company with operations conducted through its equity affiliates, principally TIMET and NL.

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. TIMET's production facilities are located in the U.S. and Europe, and its products are sold throughout the world. These worldwide integrated activities comprise TIMET's principal segment, "Titanium melted and mill products." TIMET's "Other" segment consists primarily of its titanium castings operations which were combined in a joint venture during 1998.

NL is a producer of titanium dioxide pigments ("TiO_2") and, during 1996 and 1997, rheological additives. TiO_2 is a chemical product used in a wide range of "quality-of-life" type products. NL's production facilities are located in Europe and North America and its products are sold throughout the world. NL sold its rheological additives business for $465 million in January 1998.

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

The Company's captive insurance subsidiary, referred to herein as "TRE Insurance", reinsured certain risks of the Company, NL and their respective subsidiaries and also participated in various third party reinsurance treaties. TRE Insurance currently provides certain property and liability insurance coverage to Tremont, TIMET and NL; however, the risk associated with these policies is reinsured into the commercial reinsurance market. All of the Company's unrelated reinsurance business is in run-off. Results of the Company's captive insurance operations, which are not significant, are included in corporate expenses, net. See Note 10.

Note 4 - Investment in TIMET and NL:

See Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") of this Annual Report on Form 10-K for summarized information relating to the results of operations, financial position and cash flows of TIMET and NL, which information is incorporated herein by reference.

~TIMET.~~In February 1996, TIMET acquired the titanium metals businesses (the "IMI Titanium Acquisition") of IMI plc and, in June 1996, completed an initial public offering of 6.2 million shares of its common stock (the "Stock Offering"), in which Tremont sold 2.2 million shares of TIMET common stock. These transactions reduced Tremont's ownership in TIMET from 75% at December 31, 1995 to 30%. Tremont accounted for its equity in TIMET's capital transactions as a reduction of ownership interest in an affiliate and, accordingly, recorded a $41 million net increase to stockholders' equity in 1996. The change in stockholders' equity resulted from the difference between the book values of Tremont's 30% interest in TIMET and its 75% interest in TIMET before the IMI Titanium Acquisition and Stock Offering.

In 1998, Tremont purchased additional shares of TIMET's outstanding common stock for $9.6 million and at December 31, 1998, held 10.3 million shares, or 33%, of TIMET's outstanding common stock. At December 31, 1998, the net carrying amount of the Company's investment in TIMET was approximately $14.14 per share while the market price per share of TIMET common stock on that date was $8.50. See Item 7 - "MD&A". In February 1999, Tremont exercised an option, received in connection with the IMI Titanium Acquisition, to purchase an additional 2.0 million shares of TIMET's common stock from IMI for $16 million ($7.95 per TIMET share).

In November 1996, TIMET issued $201 million of 6.625% TIMET-obligated mandatorily redeemable preferred securities (the "Convertible Preferred Securities"). The Convertible Preferred Securities pay cumulative preferred distributions of 6.625% per annum, compounded quarterly, and are convertible, at the option of the holder, into TIMET common stock at the rate of 1.339 shares of common stock per Convertible Preferred Security (an equivalent price of $37.34 per share), for an aggregate of 5.4 million common shares if fully converted. The Convertible Preferred Securities mature December 2026 and are redeemable at TIMET's option beginning December 1999. TIMET has the right to defer interest payments for up to 20 consecutive quarters ("Extension Period") on one or more occasions. In the event TIMET exercises this right, it would be unable during any Extension Period to, among other things, pay dividends on or reacquire its capital stock.

~NL~Industries.~~~In 1998, Tremont purchased additional shares of NL common stock for $21.8 million and at December 31, 1998 held 10.2 million shares, or 20%, of NL's outstanding common stock. At December 31, 1998, the net carrying amount of the Company's investment in NL was approximately $9.30 per share while the market price per share of NL common stock on that date was $14.19 per share. See Item 7 - "MD&A".
~
~Note 5 - Other noncurrent assets:

<TABLE>
<CAPTION>

	December 31,	
	1997	1998
	(In thousands)	
<S>	<C>	<C>
Restricted deposits	$6,302	$14,478
Other	7,248	7,210
	$13,550	$21,688

</TABLE>

Restricted deposits for both years consist of cash collateral on letters of credit backing insurance policies at TRE Insurance. Approximately $9.7 million of such deposits were refunded in February 1999. See Note 10.

Note 6 - Accrued liabilities:

<TABLE>

	December 31, 1997	December 31, 1998
	(In thousands)	
Postretirement benefit cost	$1,887	$1,503
Other employee benefits	242	324
Environmental cost	299	307
Legal costs	1,482	-
Miscellaneous taxes	134	135
Other	1,670	1,552
	$5,714	$3,821

</TABLE>

Note 7 - Income taxes:

Summarized below are (i) the difference between the income tax expense attributable to the income before income taxes and minority interest ("pretax income") and the amounts that would be expected using the U.S. federal statutory income tax rate of 35%, (ii) the components of the income tax expense attributable to the pretax income, and (iii) the components of the comprehensive tax expense.

<TABLE>

	Years ended December 31, 1996	1997	1998
	(In thousands)		
Expected income tax expense	$ 13,977	$ 9,247	$ 26,049
Adjustment of deferred tax asset valuation allowance	(3,495)	895	(26,876)
Incremental tax and rate differences on equity in income of companies not included in the consolidated tax group	(1,071)	961	(358)
U.S. state income taxes, net	78	41	(74)
Other, net	(154)	401	(781)
	$ 9,335	$ 11,545	$(2,040)
Income tax expense (benefit):			
Current income taxes:			
U.S. federal	$ 1,404	$ (225)	$ 124
U.S. state	120	63	(115)
Deferred income taxes	7,811	11,707	(2,049)
	$ 9,335	$ 11,545	$(2,040)

Comprehensive tax expense allocable to:			
Pretax income	$ 9,335	$ 11,545	$(2,040)
Stockholders' equity:			
Reduction of interest in TIMET	7,878	-	-
Litigation settlement	-	-	6,642
Other, principally other comprehensive income	880	(2,258)	(253)
	$ 18,093	$ 9,287	$ 4,349

</TABLE>

The components of deferred taxes are summarized below.

<TABLE>
<CAPTION>

	December 31,			
	1997		1998	
	Assets	Liabilities	ASSETS	LIABILITIES
	(In millions)			
<S>	<C>	<C>	<C>	<C>
Temporary differences relating to net assets:				
Property and equipment	$ .1	$ -	$ .1	$ -
Accrued OPEB cost	8.3	-	8.2	-
Accrued liabilities and other deductible differences	5.9	-	5.8	-
Other taxable differences	-	(4.2)	-	(5.5)
Investments in subsidiaries and affiliates including foreign currency translation adjustments	2.8	-	-	(26.2)
Tax loss and credit carryforwards	.1	-	1.2	-
Valuation allowance	(38.8)	-	(14.6)	-
Gross deferred tax assets (liabilities)	(21.6)	(4.2)	.7	(31.7)
Netting	21.6	(21.6)	(.7)	.7
Total deferred taxes	-	(25.8)	-	(31.0)
Less current deferred taxes	-	-	-	-
Net noncurrent deferred taxes	$ -	$(25.8)	$ -	$(31.0)

</TABLE>

The Company has a deferred tax valuation allowance of $ 14.6 million at December 31, 1998, offsetting deferred tax assets which the Company believes did not meet the "more-likely-than-not" recognition criterion at that date. In 1996, the valuation allowance decreased by $13 million due to utilization of net operating loss carryforwards and the Company's reduction of its ownership interest in TIMET. In 1997, the valuation allowance increased by $.9 million primarily due to the Company's equity in losses in NL as partially offset by adjustments to certain corporate items. In 1998, the valuation allowance decreased by $24.2 million primarily due to a net decrease in the basis differences of the Company's investment in NL, of which $7.4 million was related to revised estimates of future equity in earnings of NL and which the Company now believes meets the "more-likely-than-not" criterion.

At December 31, 1998, the Company had, for U.S. federal income tax purposes, NOL carryforwards of approximately $.3 million which expire in 2018 and AMT credit carryforwards of approximately $.7 million, which can be used to offset regular income taxes payable in future years. The AMT credit carryforwards have an indefinite carryforward period.

Note 8 - Postretirement benefits other than pensions ("OPEB"):

The Company retained the obligations for certain postretirement health care and life insurance benefits provided to eligible employees who retired prior to a separation of certain businesses from the Company in 1990. The Plan is unfunded and contributions to the Plan during the year equal benefits paid.

	December 31,	
	1997	1998
Actuarial present value of accumulated OPEB obligations		
Balance at beginning of year	$19,160	$20,479
Interest cost	1,441	1,310
Service cost	-	-
Actuarial (gain) loss	1,258	(297)
Benefits paid, net of participant contributions	(1,380)	(1,095)
Balance at end of year	20,479	20,397
Unrecognized prior service cost	5,533	5,091
Unrecognized net actuarial loss	(2,395)	(2,097)
Total accrued OPEB cost	23,617	23,391
Less current portion	1,887	1,503
Noncurrent accrued OPEB cost	$21,730	$21,888

	Years ended December 31,		
	1996	1997	1998
OPEB Expense:			
Interest cost	$1,463	$1,441	$ 1,310
Service cost	-	-	-
Amortization of prior service cost	(441)	(441)	(441)
Net OPEB expense	$1,022	$1,000	$ 869

	December 31,	
	1997	1998
Weighted average assumptions:		
Discount rate	7.00%	6.50%
Expected return on plan assets	n/a	N/A
Rate of compensation increase	n/a	N/A
Health care cost trend rate for the following period	9.83%	8.85%
Ultimate health care cost trend rate	5.25%	4.75%
Fiscal period ultimate health care cost	2016	2016

trend rate attained
</TABLE>

The health care cost trend rate grades gradually from the current level to the ultimate level, remaining constant thereafter.

<TABLE>
<CAPTION>

<S>	<C>	<C>
Effects of 1% changes in the health care cost trend rate:		
Effect of a 1% increase in health care cost trend rate on:		
OPEB obligation	$1,197	$1,130
Total of service and interest cost components	79	80
Effect of a 1% decrease in health care cost trend rate on:		
OPEB obligation	$(1,127)	$(1,064)
Total of service and interest cost components	(74)	(75)

</TABLE>

Note 9 - Stockholders' equity:

~Common~stock.~~~In 1997, the Company's Board of Directors authorized the repurchase of up to 2 million shares of its common stock in open market or privately negotiated transactions. Such shares represented approximately 27% of the Company's 7.5 million shares then outstanding. At December 31, 1998, the Company had repurchased 1,219,300 shares for $55.7 million pursuant to this program, including 432,200 shares repurchased during 1998 for $23.6 million. The repurchased shares will be added to the Company's treasury and could be used for future acquisitions or other corporate purposes.

The Company instituted a regular quarterly dividend of seven cents per share of common stock in June 1998. Cash dividends paid in 1998 aggregated $1.4 million.

~Litigation~settlement.~~~In June 1998, Tremont and Valhi completed the settlement of the previously reported shareholder derivative suit, ~Kahn~v.~Tremont~Corp.,~et.~al.~Under the final, court approved settlement, Valhi transferred to Tremont $24.3 million in cash. Tremont reimbursed plaintiffs for attorneys' fees and related costs totaling $5.3 million. The net proceeds of approximately $19 million ($12.3 million net of allocable income taxes) are reported as a direct increase in equity and consequently are not a component of net income.

~Stock~options.~~~Tremont has a long-term performance incentive plan that provides for discretionary grants of restricted stock, stock options and stock appreciation rights. Options generally vest ratably over a five year period and expire ten years from the date of grant.

Tremont's 1992 Non-Employee Director Stock Option Plan provides that options to purchase 1,000 shares of Tremont common stock are automatically granted once a year to each non-employee director. Options are granted at a price equal to the fair market value of such stock on the date of grant, generally vest in one year and expire five years from date of grant.

Changes in options outstanding under the Company's long-term performance incentive and non-employee Director plans are summarized in the table below. Fair values were estimated using the Black-Scholes model and the assumptions listed below. At December 31, 1998, options to purchase approximately 122,000 shares were exercisable at a weighted average exercise price per share of $11.77 and options to purchase an additional 33,800 shares become exercisable in 1999. Outstanding options at December 31, 1998 had a weighted average remaining life of 4.4 years (1997 - 5.4 years). At December 31, 1998, 484,681 shares were available for future grant under the Company's long-term performance incentive plan and 29,000 shares were available for future grant under the Company's Non-Employee Director plan.

<TABLE>

<CAPTION>

	Shares	Exercise Price per share	Amount payable Upon exercise	Weighted Average Exercise Price	Fair value at Grant Date
	(In thousands, except per share amounts)				
Outstanding at December 31, 1995	419	$4.69-$22.22	$ 4,407	$10.52	
Granted	3	22.75	68	22.75	$9.51
Exercised	(86)	4.69-18.75	(936)	10.88	
Outstanding at December 31, 1996	336	8.00-22.75	3,539	10.54	
Granted	3	30.88	93	30.88	13.30
Exercised	(50)	8.00-18.75	(544)	10.90	
Canceled	(52)	8.13-18.75	(531)	10.20	
Outstanding at December 31, 1997	237	8.00-30.88	2,557	10.80	
Granted	3	56.50	170	56.50	$24.01
Exercised	(79)	8.13-18.75	(813)	10.29	
Canceled	(3)	8.13	(19)	8.13	
Outstanding at December 31, 1998	158	$8.00-$56.50	$ 1,895	$ 11.96	

</TABLE>

Assumptions at date of grant:	1996	1997	1998
Expected life (years)	4.7	4.7	4.7
Risk free interest rate	5.22%	6.02%	5.60%
Volatility	40%	40%	40%
Dividend yield	0%	0%	0%

Had the Company elected to account for stock-based employee compensation for all awards granted in accordance with the fair value based accounting method of SFAS No. 123, the impact on the Company's pretax income, net income and diluted earnings per share was $.3 million, $.2 million and $.02 per share, respectively, in 1996, $.2 million, $.1 million and $.01 per share, respectively, in 1997 and $.1 million, $.1 million and $.01 per share, respectively, in 1998.

Note 10 - 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 (i) intercorporate transactions with related companies 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 (ii) 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, Valhi and other entities related to Mr. Simmons 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. In connection with these activities, the Company may consider issuing additional equity securities or incurring additional indebtedness. The Company's acquisition activities have in the past and may in the future include participation in the acquisition or restructuring activities conducted by companies that may be deemed to be controlled by Harold C. Simmons.

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

During October 1998, the Company entered into an advance agreement with Contran under which both parties may advance funds to each other, at the prime rate less 0.5%. At December 31, 1998, the interest rate was 7.25%. Obligations under this agreement are payable upon demand. At December 31, 1998, Tremont owed Contran $5.9 million pursuant to this agreement, which amount was borrowed primarily to purchase shares of NL common stock. In February 1999, the Company borrowed an additional $6.3 million from Contran to purchase TIMET common stock from IMI. See Note 4. During 1996, Tremont repaid $3.5 million of outstanding debt under a prior revolving credit agreement with Contran and terminated the agreement.

During 1998, the Company purchased, from officers of NL at market rates on the day of purchase, 169,461 shares of NL common stock for $3.5 million.

The Company is a party to intercorporate services agreements with Contran and Valhi pursuant to which Valhi and Contran provide certain services to Tremont on a fee basis. Fees for services provided under such agreements were $.2 million in 1996, $.5 million in 1997 and $1.1 million in 1998.

The Company is a party to an intercorporate services agreement with NL pursuant to which NL provides certain management and financial services to Tremont on a fee basis. Fees for services provided by NL were $.1 million in each of the last three years.

The Company has an intercorporate services agreement with TIMET whereby TIMET provides certain management, financial and other services to the Company on a fee basis. Fees for services provided by TIMET were approximately $.4 million in each of 1996 and 1997 and $.3 million in 1998.

NL and 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 TRE 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. A business separated from the Company in 1990 entered into an insurance sharing agreement with TRE Insurance containing, with respect to liabilities for which it may be responsible, substantially the same terms and conditions as the insurance sharing agreement between NL and TRE Insurance. During 1998, Tremont collateralized with cash letters of credit backing insurance policies at TRE Insurance formerly outstanding under a related party credit agreement. In February 1999, NL cash collateralized certain letters of credit, and Tremont was refunded $9.7 million cash.

TRE Insurance, Valmont (a Valhi subsidiary), and EWI RE, Inc. arrange for or broker certain of Tremont's, TIMET's and NL's insurance policies. 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. Consistent with insurance industry practices, TRE Insurance, Valmont and EWI receive commissions from the insurance and reinsurance underwriters for the policies that they arrange or broker. During 1998, Tremont, TIMET and NL paid approximately $0.1 million, $1.8 million and $3.0 million, respectively, for policies arranged or brokered by EWI and, in certain cases, also by either TRE Insurance or Valmont. These amounts principally included payments for reinsurance and insurance premiums paid to unrelated third parties, but also included commissions paid to TRE Insurance, Valmont and EWI. In Tremont's opinion, the amounts that Tremont paid for these insurance policies are reasonable and similar to those it could have obtained through an unrelated insurance broker and/or insurance company. Tremont understands that TIMET and NL take the same view with respect to the amounts paid by TIMET and NL. Tremont expects, and understands that TIMET and NL expect, that these relationships with TRE Insurance, Valmont, and EWI will continue in 1999.

Current receivables from related parties at December 31, 1997 and 1998 principally include amounts due under insurance loss sharing agreements referred to above. Noncurrent receivables from related parties include amounts due from TIMET for exercises of Tremont stock options and amounts due under insurance loss sharing agreements. Current payables to related parties principally represent amounts due under the Contran advance agreement.

Note 11 - Commitments and contingencies:

~TIMET~long-term~agreements.~

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 will be the major supplier of titanium products to these customers. The Boeing agreement was effective in 1998, but was not expected to reach volume levels until 1999. The other agreements mentioned are effective in 1999. The agreements provide for minimum market shares of the customer's titanium requirements (generally at least 70%) for 9-10 year periods. The agreements generally provide for fixed or formula-determined prices, at least for the first five years. The contracts are structured to provide incentives to both parties to lower TIMET's costs and share in the savings. TIMET believes that these contracts and others will help mitigate the cyclicality of its aerospace business.

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 have agreed in principle to a reduced minimum for 1999, and TIMET currently expects to do the same for 2000.

TIMET may enter into other long-term agreements with other customers and suppliers.
~
Legal~proceedings~and~contingencies~

~Tremont~and~consolidated~subsidiaries~

In May 1998, the previously-reported settlement in the stockholder derivative case ~Kahn~v.~Tremont~Corp.,~et~al.,~~No. 12339 was approved by the Court. Pursuant to the settlement, in June 1998, Valhi transferred $24.3 million to the Company and the Company reimbursed plaintiffs' attorneys $5.3 million for fees and related costs. See Note 9.

The Company may, from time-to-time, be involved in various other environmental, contractual, and other claims and disputes incidental to its business. The Company currently believes the disposition of all claims and disputes individually or in the aggregate, should not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

~
~N~L~Industries~

Lead pigment litigation. Since 1987, NL, other past 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 and property damage allegedly caused by the use of lead-based paints. Certain of these actions have been filed by or on behalf of 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, strict liability, 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; some are on appeal.

NL believes that these actions are without merit, intends to continue to deny all allegations of wrongdoing and liability and to defend all actions vigorously. NL has not accrued any amounts for the pending lead pigment 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.

Other litigation. NL is also involved in various other environmental, contractual, product liability and other claims and disputes incidental to its present and former businesses.

NL currently believes the disposition of all claims and disputes individually or in the aggregate, should not have a material adverse effect on

NL's consolidated financial condition, results of operations or liquidity.
~
Environmental~matters~

~Tremont~and~consolidated~subsidiaries~

The Company's non-operating facilities are governed by various federal, state, local and foreign environmental laws and regulations. The Company's policy is to achieve compliance with environmental laws and regulations at all of its non-operating facilities and to continually strive to improve environmental performance. The Company believes that it is 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. Occasionally, resolution of these matters may result in the payment of penalties, but to date such penalties have not involved amounts having a material adverse effect on the Company.
~
~ ~Arkansas~Division~of~Pollution~Control~and~Ecology.~~~~~In 1993, the Company 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 the Company to undertake a remediation/reclamation program, which was substantially completed at a total cost of approximately $2 million. Another of the sites is currently being evaluated by the U.S. Environmental Protection Agency. Based upon its evaluation, the EPA could require the owners to take investigatory or remedial action at this site, however, the Company believes that to the extent it has any additional liability for remediation at this site, it is only one of a number of apparently solvent potentially responsible parties that would ultimately share in any such costs. As of December 31, 1998, the Company had accrued approximately $6 million related to these matters.

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 not discounted to their present value. It is not possible to estimate the range of costs for certain sites. The imposition of more stringent standards or requirements under environmental laws or regulations, the results of future testing and analysis undertaken by the Company at its non-operating facilities, 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 to be required for such matters. No assurance can be given that actual costs will not exceed accrued amounts or that costs will not be incurred with respect to sites as to which no problem is currently known or where no estimate can presently be made. Further there can be no assurance that additional environmental matters will not arise in the future. However, the Company currently believes the disposition of all environmental matters, individually or in the aggregate, should not have a material adverse effect on the Company's business, results of operations, financial condition, or cash flow.
~
TIMET~

~BMI~Companies.~TIMET and certain other companies, including Kerr-McGee Chemical Corporation, Chemstar Lime Company and Pioneer Chlor Alkali, Inc. (successor to Stauffer Chemical Company) operate facilities in a complex (the "BMI Complex") owned by BMI, adjacent to TIMET's Henderson, Nevada plant. In 1993, TIMET and each of such companies, along with certain other companies who previously operated facilities in the common areas of the BMI Complex (collectively the "BMI Companies") completed a Phase I environmental assessment of the common areas of the BMI Complex and each of the individual company sites pursuant to consent agreements with the Nevada Division of Environmental Protection ("NDEP"). In July 1996, TIMET signed a consent agreement with NDEP regarding implementation of the Phase II assessment of TIMET property within the BMI Complex. In July 1998, NDEP approved TIMET's Phase II assessment report with certain conditions that required additional investigation. TIMET submitted its supplemental work plan in October 1998, which NDEP approved in December 1998. Field work to assess the sites is continuing. Based upon the work to date, TIMET believes its likely share of remediation costs would be in the range of $2 million to $3 million.

~Pomona~facility.~TIMET has conducted an additional study and assessment work as required by the California Regional Water Quality Control Board--Los Angeles Region (the "Water Quality Board") related to soil and possible groundwater contamination at a Pomona, California facility formerly owned by TIMET. The site is near an area that has been designated as a U.S. Environmental Protection Agency "Superfund" site. In December 1998, TIMET received a letter from the Water Quality Board stating that, after review of the information provided pertaining to environmental site assessment the case was eligible for a "no further work requirement letter".

~Henderson~facility.~In April 1998, the U. S. Environmental Protection Agency ("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 Henderson, 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). In December 1998, TIMET and the EPA agreed in principle to settle the matter for $.3 million payable in installments, plus TIMET's agreement to carry out a supplemental environment project at an estimated cost of $.2 million.

At December 31, 1998, TIMET had accrued an aggregate of approximately $2.3 million for the environmental matters discussed above under BMI Companies, Pomona facility and Henderson facility. TIMET 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 not discounted to their present value. It is not possible to estimate the range of costs for certain sites. The imposition of more stringent standards or requirements under environmental laws or regulations, the results of future testing and analysis undertaken by TIMET at its operating facilities, or a determination that TIMET is potentially responsible for the release of hazardous substances at other sites, could result in expenditures in excess of amounts currently estimated to be required for such matters. No assurance can be given that actual costs will not exceed accrued amounts or that costs will not be incurred with respect to sites as to which no problem is currently known or where no estimate can presently be made. Further, there can be no assurance that additional environmental matters will not arise in the future.

~Other.~TIMET is involved in various other environmental, contractual, product liability and other claims and disputes incidental to its business.

TIMET currently believes the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on TIMET's financial condition, results of operations or liquidity.

In addition to litigation referred to above, certain information relating to regulatory and environmental matters pertaining to TIMET is included in Item I - "Business - Unconsolidated Affiliate - TIMET" of this Annual Report on Form 10-K.

~NL~Industries~

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 potential responsible party ("PRP") pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA") in approximately 75 governmental and private actions associated with hazardous waste sites and former mining locations, certain of which are on the U.S. Environmental Protection Agency'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, 1998 NL had accrued $126 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 the range of reasonably possible costs to NL for sites for which it is possible to estimate costs is approximately $160 million. NL's estimates of such liabilities have not been discounted to present value, and NL has not recognized any potential insurance recoveries. 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. 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.

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.
~
Concentration~of~credit~and~other~risks.~

Substantially all of TIMET's sales and operating income are derived from operations based in the U.S., U.K. and France. Sales to customers in the U.S. accounted for 50% of TIMET's sales in 1998 (1997 - 55%; 1996 - 62%) while sales

to customers in Europe accounted for 41% (1997 - 38%; 1996 - 31%). The majority of TIMET's sales are to customers in the aerospace industry (including airframe and engine construction). Such concentration of customers may impact TIMET's overall exposure to credit and other risks, either positively or negatively, in that such customers may be similarly affected by economic or other conditions. TIMET's ten largest customers accounted for about 40% of its net sales in 1998 and about one-third of its net sales in each of 1997 and 1996.

Sales of TiO_2 accounted for more than 90% of NL's net sales from continuing operations during each of the past three years. The remaining sales result from the mining and sale of ilmenite ore (a raw material used in the sulfate pigment production process), and the manufacture and sale of iron-based water treatment chemicals (derived from co-products of the TiO_2 production processes). TiO_2 is sold to the paint, plastics and paper industries. Such markets are generally considered "quality-of-life" markets whose demand for TiO_2 is influenced by the relative economic well-being of the various geographic regions. TiO_2 is sold to over 4,000 customers, none of which represents a significant portion of net sales. In each of the past three years, approximately one-half of NL's TiO_2 sales by volume were to Europe and approximately 37% in 1996, 36% in 1997 and 37% in 1998 of sales were attributable to North America.

NL's consolidated cash, cash equivalents and restricted cash equivalents includes $53 million and $136 million invested in U.S. Treasury securities purchased under short-term agreements to resell at December 31, 1997 and 1998, respectively, of which $45 million and $126 million, respectively, of such securities are held in trust for NL by a single U.S. bank.

Note 12 - Earnings per share:

A reconciliation of the numerator and denominator used in the calculation of basic and diluted earnings per share is presented below. The effect of conversion of TIMET's Convertible Preferred Securities would be a net reduction

of the Company's equity in earnings of TIMET. The reduction results from dilution of the Company's ownership percentage offset in part by increased TIMET net income resulting from elimination of dividends on the Convertible Preferred Securities. TIMET's Convertible Preferred Securities were issued in November 1996. Stock options omitted from the denominator because they were antidilutive were not material.

<TABLE>

<CAPTION>	1996	1997	1998
<S>		(in thousands)	
Numerator:	<C>	<C>	<C>
Net income	$ 29,962	$ 13,557	$ 73,739
Effect of dilutive securities of equity investees	(36)	(875)	(955)
Diluted net income	$ 29,926	$ 12,682	$ 72,784
Denominator:			

Average common shares outstanding	7,406	7,058	6,553
Average dilutive stock options	259	188	137
Diluted shares	7,665	7,246	6,690

</TABLE>

Note 13 - New accounting principles not yet adopted:

The Company, NL and TIMET will adopt Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, no later than the first quarter of 2000. SFAS No. 133 establishes accounting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. 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 Company, NL and TIMET are currently studying this newly-issued accounting rule, and the impact of adopting SFAS No. 133, if any, will be dependent upon the extent to which they are then a party to derivative contracts or engaged in hedging activities. At December 31, 1998, the Company and TIMET are not parties to any derivative contracts or engaged in any hedging activities covered by SFAS No. 133.

The Company, NL and TIMET are required to adopt in 1999 the requirements of AICPA Statement of Position ("SOP") 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". The Company, NL and TIMET believe adoption of the pronouncement will have no material effect on their respective financial position, results of operations or liquidity.

Note 14 - Quarterly results of operations (unaudited):

<TABLE>
<CAPTION>

	Quarters ended			
	March 31	June 30	Sept. 30	Dec. 31
	(In millions, except per share data)			
<S>	<C>	<C>	<C>	<C>
~Year~ended~December~31,~1998 :~				
Equity in earnings (loss) of:				
TIMET	$ 5.6	$ 4.2	$ 5.0	$ (0.8)
NL	46.8	3.4	4.8	2.8
Income before extraordinary item	51.1	5.9	7.9	10.8
Net income	50.7	5.9	7.5	9.7
Earnings per share:				
Before extraordinary item:				
Basic	$ 7.57	$ .88	$ 1.23	$ 1.69
Diluted	7.28	.86	1.19	1.66
Net income:				
Basic	$ 7.51	$ .88	$ 1.17	$ 1.52
Diluted	7.22	.86	1.12	1.49
~Year~ended~December~31,~1997 :~				
Equity in earnings (loss) of:				
TIMET	$ 4.8	$ 6.1	$ 6.5	$ 7.8
NL	(7.2)	(0.4)	0.9	1.6
Net income (loss)	(2.4)	4.4	5.1	6.5
Net income (loss) per share:				
Basic	$(.32) (.32)	$ .62	$ .74	$ .96

Diluted	(.33)	.58	.68	.89

</TABLE>

REPORT OF INDEPENDENT ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE

To the Stockholders and Board of Directors of Tremont Corporation:

Our audits of the consolidated financial statements referred to in our report dated January 28, 1999 appearing on page F-1 of this Annual Report on Form 10-K also included an audit of the financial statement schedule listed in the index on page F of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

Denver, Colorado
January 28, 1999

TREMONT CORPORATION AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

<TABLE>
<CAPTION>

Description	Balance at beginning of year of year	Additions charged (credited) to costs and expenses	Deductions	Other	Balance at end of year
Year ended December 31, 1998:					
<S>	<C>	<C>	<C>	<C>	<C>
Allowance for doubtful accounts	$2,663	$ -	$ -	$ -	$2,663
Valuation allowance for deferred income taxes	$38,794	$(26,876)	$ -	$ 2,650 (a)	$14,568
Year ended December 31, 1997:					
Allowance for doubtful accounts	$2,663	$ -	$ -	$ -	$ 2,663
Valuation allowance for deferred income taxes	$37,899	$ 895	$ -	$ -	$38,794
Year ended December 31, 1996:					
Allowance for doubtful accounts	$2,663	$ -	$ -	$ -	$ 2,663

Valuation allowance for deferred income taxes	$50,923	$ (3,495)	$ -	$(9,529) (b)	$37,899

<FN>
(a) Represents increase in valuation allowance principally attributable to the redetermination of the deferred tax asset related to the Company's investment in NL.

(b) Represents reduction in valuation allowance principally attributable to the Company's reduction of its ownership interest in TIMET.
</TABLE>

EXHIBIT 21.1 SUBSIDIARIES OF THE REGISTRANT

Name of Corporation	Jurisdiction of Incorporation or Organization	% of Voting Securities Held at December 31, 1998~
~		
TRECO L.L.C.	Nevada	75
Basic Investments, Inc.	Nevada	28
Victory Valley Land Company L.P.	Nevada	50
Victory Valley Land Company L.P.	Nevada	12
TRE Holding Corporation	Delaware	100
TRE Management Company	Delaware	100
Titanium Metals Corporation	Delaware	33
NL Insurance Limited of Vermont	Vermont	100
NL Industries, Inc.	New Jersey	20

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Tremont Corporation on Form S-8 (File No. 33-25914 and File No. 33-48147) of our reports dated January 28, 1999, on our audits of the consolidated financial statements and the financial statement schedule of Tremont Corporation as of December 31, 1998 and 1997, and for the years ended December 31, 1998, 1997, and 1996, which reports are included in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Denver, Colorado
March 26, 1999

<TABLE> <S> <C>

<ARTICLE> 5
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This schedule contains summary financial information extracted from Tremont Corporation's financial statements for the twelve months ended December 31, 1998 and is qualified in its entirety by reference to such consolidated financial statements.
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</TABLE>

ITEM 3: LEGAL PROCEEDINGS

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. See Note 15 of the Consolidated Financial Statements, which information is incorporated herein by reference.

TITANIUM METALS CORPORATION

ANNUAL REPORT ON FORM 10-K
ITEMS 8, 14(a) and 14(d)

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

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of Titanium Metals Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Titanium Metals Corporation as of December 31, 1997 and 1998 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. 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 statements in accordance with generally accepted auditing standards 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 the opinion expressed above.

PricewaterhouseCoopers LLP

Denver, Colorado
January 25, 1999

TITANIUM METALS CORPORATION

CONSOLIDATED BALANCE SHEETS

December 31, 1997 and 1998
(In thousands, except per share data)

<TABLE>
<CAPTION>

ASSETS	1997	1998
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$68,957	$15,464

Accounts and other receivables, less allowance of $2,218 and $1,932	155,678	126,988
Receivable from related parties	15,844	8,119
Refundable income taxes	-	6,819
Inventories	153,818	225,880
Prepaid expenses and other	13,253	10,650
Deferred income taxes	6,219	1,900
Total current assets	413,769	395,820
Other assets:		
Investment in joint ventures	23,270	32,633
Preferred securities	-	80,000
Goodwill	59,771	59,547
Other intangible assets	17,889	19,894
Other	15,341	14,129
Deferred income taxes	593	-
Total other assets	116,864	206,203
Property and equipment:		
Land	6,545	5,974
Buildings	26,823	25,610
Information technology systems and equipment	24,031	56,089
Manufacturing and other equipment	213,926	278,669
Construction in progress	43,628	52,651
	314,953	418,993
Less accumulated depreciation	52,527	67,770
Net property and equipment	262,426	351,223
	$793,059	$953,246

</TABLE>

TITANIUM METALS CORPORATION

CONSOLIDATED BALANCE SHEETS (CONTINUED)

December 31, 1997 and 1998

(In thousands, except per share data)

<TABLE>
<CAPTION>

LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY	1997	1998
<S>	<C>	<C>
Current liabilities:		
Notes payable	$ 3,372	$5,134
Current maturities of long-term debt and capital lease obligations	1,354	771
Accounts payable	59,501	69,302
Accrued liabilities	46,809	50,628
Payable to related parties	1,298	3,223
Income taxes	11,482	5,391
Deferred income taxes	-	2,500
Total current liabilities	123,816	136,949
Noncurrent liabilities:		
Long-term debt	451	99,950
Capital lease obligations	10,996	10,069
Payable to related parties	847	1,395
Accrued OPEB cost	26,192	24,065
Accrued pension cost	836	8,754
Other	1,441	-
Deferred income taxes	11,620	14,200
Total noncurrent liabilities	52,383	158,433
Minority interest - Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debt securities ("Convertible Preferred Securities")	201,250	201,250
Other minority interest	6,663	8,237
Stockholders' equity:		
Preferred stock $.01 par value; 1 million shares authorized, none outstanding	-	-
Common stock, $.01 par value; 99 million		

shares authorized, 31.4 million shares issued and outstanding	315	315
Additional paid-in capital	346,723	347,972
Retained earnings	58,001	99,981
Accumulated other comprehensive income	3,908	1,317
Treasury stock at cost - 90,000 shares	-	(1,208)
Total stockholders' equity	408,947	448,377
	$793,059	$953,246

<FN>
Commitments and contingencies (Note 15)
</TABLE>

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

Years ended December 31, 1996, 1997 and 1998
(In thousands, except per share data)

<TABLE>
<CAPTION>

	1996	1997	1998
<S>	<C>	<C>	<C>
Revenues and other income:			
Net sales	$507,074	$733,577	$707,677
Equity in earnings of joint ventures	6,237	(1,013)	351
Other, net	1,049	4,530	6,859
	514,360	737,094	714,887
Costs and expenses:			
Cost of sales	418,775	554,546	542,285
Selling, general, administrative and development	29,917	45,319	59,837
Special charges	4,824	-	24,000
Interest	8,953	2,066	2,916

	462,469	601,931	629,038
Income before income taxes and minority interest	51,891	135,163	85,849
Income tax expense	2,336	41,004	29,197
Minority interest - Convertible Preferred Securities	826	8,840	8,840
Other minority interest	1,085	2,309	2,060
Net income	$ 47,644	$83,010	$45,752
Diluted net income	$ 48,470	$91,850	$54,592
Earnings per share:			
Basic	$ 1.72	$ 2.64	$ 1.46
Diluted	1.72	2.49	*
Weighted average shares outstanding:			
Basic	27,623	31,457	31,435
Diluted	28,142	36,955	36,846

<FN>
* Antidilutive.
</TABLE>

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 1996, 1997 and 1998

(In thousands)

	1996	1997	1998
Net income	$ 47,644	$ 83,010	$ 45,752
Other comprehensive income:			
Currency translation adjustment	5,352	(1,727)	1,692
Pension liabilities adjustment, net of deferred taxes	1,521	858	(4,283)
Comprehensive income	$ 54,517	$ 82,141	$ 43,161

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1996, 1997 and 1998
(In thousands)

	1996	1997	1998
Cash flows from operating activities:			
Net income	$ 47,644	$ 83,010	$ 45,752
Depreciation and amortization	18,974	28,384	32,514
Special charges - non cash portion	-	-	15,425
Earnings of joint ventures, net of distributions	(5,992)	1,013	170
Deferred income taxes	(10,416)	6,578	13,172
Other minority interest	1,085	2,309	2,060
Other, net	1,753	(36)	(433)
Change in assets and liabilities, net of acquisitions:			
Receivables	(29,998)	(41,781)	36,564

Inventories	(13,309)	294	(62,990)
Prepaid expenses	(6,207)	1,600	2,539
Accounts payable and accrued liabilities	(106)	1,231	(9,497)
Accrued restructuring charges	-	-	6,727
Income taxes	4,521	5,526	(12,213)
Accounts with related parties, net	(8,412)	(13,292)	9,650
Other, net	(269)	(2,266)	(3,323)
Net cash provided (used) by operating activities	(732)	72,570	76,117
Cash flows from investing activities:			
Capital expenditures	(21,679)	(66,295)	(115,155)
Business acquisitions and joint ventures	(109,934)	(13,496)	(27,413)
Purchase of preferred securities	-	-	(80,000)
Other, net	213	-	(647)
Net cash used by investing activities	(131,400)	(79,791)	(223,215)
Cash flows from financing activities:			
Indebtedness:			
Borrowings	113,793	-	153,765
Repayments	(179,480)	(4,833)	(56,670)
Deferred financing costs	(579)	(2,230)	-
Repayment of related parties loans	(42,521)	(930)	-
Proceeds from issuance of:			
Common stock, net	131,488	-	-
Convertible Preferred Securities, net	192,409	-	-
Dividends paid	-	-	(3,772)
Treasury stock purchased	-	-	(1,208)
Other, net	-	(1,830)	117
Net cash provided (used) by financing activities	215,110	(9,823)	92,232

	$ 82,978	$(17,044)	$(54,866)

</TABLE>

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 1996, 1997 and 1998
(In thousands)

<TABLE>
<CAPTION>

	1996	1997	1998
<S>	<C>	<C>	<C>
Cash and cash equivalents:			
Net increase (decrease) from:			
Operating, investing and financing activities	$82,978	$(17,044)	$(54,866)
Cash acquired	3,053	-	1,187
Currency translation	471	(525)	186
	86,502	(17,569)	(53,493)
Balance at beginning of year	24	86,526	68,957
Balance at end of year	$86,526	$68,957	$15,464
Supplemental disclosures:			
Cash paid for:			
Interest, net of amounts capitalized	$ 8,958	$ 2,159	$ 2,215
Convertible Preferred Securities dividends	-	13,332	13,332
Income taxes	6,348	22,483	23,737
Business acquisitions and joint ventures:			

	3,053	-	1,187
Receivables	45,067	736	6,574
Inventories	62,415	769	15,352
Property, equipment and other	73,365	1,998	21,765
Investments in joint ventures	-	24,307	8,460
Goodwill and other intangibles	85,158	577	8,566
Liabilities assumed	(89,124)	(3,604)	(18,117)
	179,934	24,783	43,787
Less noncash consideration:			
Common stock issued	(70,000)	-	-
Other, principally property and equipment	-	(11,287)	(16,374)
Cash paid	$109,934	$13,496	$ 27,413

</TABLE>

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 1996, 1997 and 1998
(In thousands)

<TABLE>
<CAPTION>

	Common shares	Common stock	Additionaal paid-in capital	Retained Earnings (deficit)
<S> >	<C>	<C>	<C>	<C>
Balance at December 31, 1995	15,693	$ 157	$142,720	$(72,653)
Comprehensive income	-	-	-	47,644
Common stock issued:				
IMI Titanium Acquisition (Note 3)	9,561	96	69,904	-
Stock Offering (Note 10)	6,200	62	132,926	-

Other	1	-	28	-
Other, net	-	-	555	-
Balance at December 31, 1996	31,455	315	346,133	(25,009)
Comprehensive income	-	-	-	83,010
Other, net	3	-	590	-
Balance at December 31, 1997	31,458	315	346,723	58,001
Comprehensive income	-	-	-	45,752
Dividends paid ($.12 per share)	-	-	-	(3,772)
Treasury stock purchases	(90)	-	-	-
Other, net	1	-	1,249	-
Balance at December 31, 1998	31,369	$ 315	$347,972	$ 99,981

</TABLE>

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 1996, 1997 and 1998
(In thousands)

<TABLE>
<CAPTION>

	Accumulated Other Comprehensive Income			
	Currency translation	Pension liabilities	Treasury Stock	Total

<S>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	$ 283	$(2,379)	$ -	$68,128
Comprehensive income	5,352	1,521	-	54,517
Common stock issued:			-	
IMI Titanium Acquisition (Note 3)	-	-	-	70,000
Stock Offering (Note 10)	-	-	-	132,988
Other	-	-	-	28
Other, net	-	-	-	555
Balance at December 31, 1996	5,635	(858)	-	326,216
Comprehensive income	(1,727)	858	-	82,141
Other, net	-	-	-	590
Balance at December 31, 1997	3,908	-	-	408,947
Comprehensive income	1,692	(4,283)	-	43,161
Dividends paid ($.12 per share)	-	-	-	(3,772)
Treasury stock purchases	-	-	(1,208)	(1,208)
Other, net	-	-	-	1,249
Balance at December 31, 1998	$5,600	$(4,283)	$(1,208)	$448,377

</TABLE>

TITANIUM METALS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of significant accounting policies:

~ Principles~of~consolidation.~~~~~The accompanying consolidated financial statements include the accounts of Titanium Metals Corporation ("TIMET") and its majority-owned subsidiaries (collectively, the "Company"). All material intercompany accounts and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation.

~Use~of~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.

~Translation~of~foreign~currencies.~~~~~Assets and liabilities of subsidiaries whose functional currency is deemed to be 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 the currency translation adjustments component of stockholders' equity, net of related deferred income taxes. Currency transaction gains and losses are recognized in income currently, and were a net gain of $421,000 in 1998 and nominal in 1997 and 1996.

~Net~sales.~~~ Sales are recognized when products are shipped.

~Inventories~and~cost~of~sales.~~~~~Inventories are stated at the lower of cost or market. Approximately one-half of inventories are costed using the last-in, first-out ("LIFO") method with the remainder costed using an average or first-in, first-out ("FIFO") method.

~Cash~and~cash~equivalents.~~~ Cash equivalents include highly liquid investments with original maturities of three months or less.

~Other~investments.~~~~~Investments in 20% to 50%-owned joint ventures are accounted for by the equity method. Differences between the Company's investment in joint ventures and its proportionate share of the joint ventures' reported equity are amortized over not more than 15 years.

Nonmarketable preferred securities are accounted for by the cost method.
~
~ ~Intangible~assets~and~amortization.~~~~~Goodwill, representing the excess of cost over the fair value of individual net assets acquired in business combinations accounted for by the purchase method, is amortized by the straight line method over 15 years and is stated net of accumulated amortization of $10.5 million at December 31, 1998 (1997 - $6.0 million). Patents and other intangible assets, except intangible pension assets, are amortized by the straight-line method over the periods expected to be benefited, generally nine years.

~ Property,~equipment~and~depreciation.~~~~~Property and equipment are stated at cost. Maintenance, repairs and minor renewals are expensed; major improvements are capitalized. Interest costs related to major, long-term capital projects are capitalized as a component of construction costs and were

$2.6 million in 1998, $1.0 million in 1997 and nil in 1996. Software development costs are capitalized; training, reengineering and similar costs are expensed as incurred.

Depreciation is computed principally on the straight-line method over the estimated useful lives of 15 to 40 years for buildings and three to 25 years for machinery and equipment. Software costs are amortized over the software's estimated useful life, generally three to five years.

S~tock-based~compensation.~~~~~The Company has elected the disclosure alternative prescribed by Standard of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," and to account for the Company's stock-based employee compensation in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and its various interpretations. Under APB No. 25, no compensation cost is generally recognized for fixed stock options for which the exercise price is not less than the market price of the Company's common stock on the grant date. See Note 11.

~Employee~benefit~plans.~~~ Accounting and funding policies for retirement plans and postretirement benefits other than pensions ("OPEB") are described in Note 13. The Company retroactively adopted SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits" in 1998.

~Research~and~development.~~~~~Research and development expense approximated $3.4 million in 1998 ($3.6 million in 1997 and $2 million in 1996).

~Advertising~costs.~~~ Advertising costs, which are not significant, are expensed as incurred.

~Income~taxes.~~~ 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 subsidiaries not included in TIMET's consolidated U.S. tax group. See Note 12.

~Stock~split~and~earnings~per~share.~~~~~Common shares outstanding for all periods presented have been adjusted to reflect the 65-for-1 split (the "Stock Split") of the Company's common stock effected in connection with TIMET's June 1996 initial public offering of common stock (the "Stock Offering").

Diluted earnings per share reflects the assumed conversion of the Convertible Preferred Securities and the dilutive effect of common stock options. See Note 18.

~Comprehensive~income.~The Company retroactively adopted SFAS No. 130, "Reporting Comprehensive Income" in 1998.

~Fair~value~of~financial~instruments.~~~The fair value of the nonmarketable preferred securities, issued in October 1998, held by the Company is deemed by the Company to approximate net carrying value.

The Company's bank debt reprices with changes in market interest rates and, accordingly, the carrying amount of such debt is believed to approximate market value. The fair value of the Convertible Preferred Securities based on quoted market prices approximated $102 million at December 31, 1998 and $200 million at December 31, 1997 (book value at both dates - $201 million).

At December 31, 1998, the fair value of the Company's common equity, based on the quoted market closing price at that date of $8.50 per share, was approximately $267 million (book value - $448 million).

Note 2 - Segment information:

In 1998, the Company retroactively adopted SFAS No. 131 "Disclosure about Segments of an Enterprise and Related Information". The Company is a vertically integrated producer of titanium sponge, melted products (ingot and slab) and a variety of mill products for aerospace, industrial and other applications. The Company's production facilities are located principally in the United States, United Kingdom and France, and its products are sold throughout the world. These worldwide integrated activities compose the Company's principal segment, "Titanium melted and mill products".

The "Other" segment consists primarily of the Company's titanium castings operations, which were combined in a joint venture during 1998. See Note 4.

Operating income, inventory and receivables are the key management measures used to evaluate segment performance. Operating income of the "Titanium melted and mill products" segment includes special charges of $4.8 million in 1996 and $19.5 million in 1998. Operating income of the "Other" segment includes special charges of $4.5 million in 1998. These charges are more fully described in Note 5.

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1996	1997	1998
<S>		(In thousands)	
~Operating~Segments:~	<C>	<C>	<C>
Net sales:			
Titanium melted and mill products	$459,693	$700,427	$ 686,677
Other	51,501	36,217	23,936
Eliminations	(4,120)	(3,067)	(2,936)
	$507,074	$733,577	$ 707,677

Mill product shipments:			
Volume (metric tons)	12,400	15,100	14,800
Average price ($ per Kilogram)	$ 32.0	$ 35.00	$ 35.25
Operating income:			
Titanium melted and mill products	$55,644	$139,252	$ 87,411
Other	4,205	(6,290)	(4,706)
	59,849	132,962	82,705
General corporate income	995	4,267	6,060
Interest expense	(8,953)	(2,066)	(2,916)
Income before income taxes and minority interest	$51,891	$135,163	$ 85,849
Depreciation and amortization:			
Titanium melted and mill products	$ 17,332	$26,463	$ 31,599
Other	1,642	1,921	915
	$ 18,974	$28,384	$ 32,514
Capital expenditures:			
Titanium melted and mill products	$20,561	$62,869	$ 115,103
Other	1,118	3,426	52
	$21,679	$66,295	$ 115,155

	Years Ended December 31,		
	1996	1997	1998
	(In thousands)		
Inventories:			
Titanium melted and mill products	$146,230	$146,782	$ 225,073
Other	9,432	7,165	871
Eliminations	(174)	(129)	(64)
	$155,488	$153,818	$ 225,880
Accounts receivable:			
Titanium melted and mill products	$105,231	$149,293	$ 124,900
Other	8,869	6,385	2,088
	$114,100	$155,678	$ 126,988
Investment in joint ventures:			
Titanium melted and mill Products	$ 270	$20,114	$ 22,044
Other	-	3,156	10,589
	$ 270	$23,270	$ 32,633
Equity in earnings of joint ventures:			
Titanium melted and mill products	$ 6,237	$ (517)	$ 1,869
Other	-	(496)	(1,518)
	$ 6,237	$(1,013)	$ 351

Geographic segments:			
Net sales - point of origin:			
United States	$354,651	$534,440	$ 465,519
United Kingdom	177,717	223,573	217,709
Other Europe	8,346	96,659	109,347
Eliminations	(33,640)	(121,095)	(84,898)
	$507,074	$733,577	$ 707,677
Net sales - point of destination:			
United States	$312,640	$401,217	$ 354,001
Europe	155,364	276,419	290,988
Other	39,070	55,941	62,688
	$507,074	$733,577	$ 707,677
Operating income:			
United States	$39,014	$76,434	$45,760
Europe	20,835	56,528	36,945
	$59,849	$132,962	$82,705
Long-lived assets - property and equipment:			
United States	$165,096	$188,564	$ 264,856
United Kingdom	52,173	69,470	78,731
Other Europe	2,300	4,392	7,636
	$219,569	$262,426	$ 351,223

</TABLE>

Export sales from U.S. based operations approximated $58 million in 1996, $97 million in 1997 and $81 million in 1998.

Geographic segment operating income in 1998 includes special restructuring charges of $14.5 million in the U.S. and $9.5 million in Europe.

Note 3 - Business combinations:

~IMI~Titanium~Acquisition.~~~~~In February 1996, the Company acquired the titanium metals businesses of IMI plc and affiliates (the "IMI Titanium Acquisition"). IMI previously conducted its titanium business principally through its wholly owned United Kingdom subsidiary, IMI Titanium Ltd. (now known as TIMET UK), and its U.S. subsidiary, IMI Titanium, Inc. IMI conveyed all of its titanium-related businesses to the Company in exchange for 9.6 million newly issued shares of common stock valued at $70 million, and the Company issued $20 million of the Company's subordinated debt to IMI in exchange for a like amount of debt previously owed to IMI by its U.K. subsidiary.

The Company accounted for the IMI Titanium Acquisition by the purchase method of accounting (purchase price approximately $72 million, including transaction costs). The Company has included the results of operations of the IMI titanium business in its consolidated results of operations effective at the beginning of 1996 with preacquisition earnings of approximately $.4 million deducted in determining net income for 1996. Preacquisition sales of the IMI titanium business included in consolidated sales for 1996 approximated $11.7 million.

~Axel~Johnson~Metals~Acquisition.~~~~~In October 1996, the Company acquired substantially all of the assets and assumed substantially all of the liabilities of Axel Johnson Metals, Inc. ("AJM") for approximately $97 million cash (the "AJM Acquisition"). The AJM Acquisition was completed through a newly formed subsidiary, Titanium Hearth Technologies, Inc. ("THT"), and included the acquisition of the 50% partnership interest in Titanium Hearth Technologies that TIMET did not previously own. THT, now part of the Company's manufacturing operations in North America, operates titanium scrap processing facilities and titanium melting furnaces.

The Company accounted for the AJM Acquisition by the purchase method and consolidated THT's results effective October 1, 1996; revenues for the fourth quarter of 1996 approximated $21 million. Prior to the AJM Acquisition, the Company accounted for its 50% interest in the THT partnership by the equity method.

~Other~European~acquisitions.~~~~~During the last half of 1996 and January 1997, the Company completed three acquisitions in Europe for an aggregate cash cost of approximately $12 million which were accounted for by the purchase method. In August 1996, TIMET and Compagnie Europeenne du Zirconium - CEZUS, S.A. ("CEZUS") completed an agreement to form a new jointly-owned French company ("TIMET Savoie") to manufacture and sell titanium products. TIMET Savoie is 70%-owned by TIMET and 30%-owned by CEZUS. TIMET Savoie manufactures products inside CEZUS' production facility in Ugine, France both directly, utilizing its own personnel and equipment, and, for melting and forging and certain other operations, indirectly by subcontracting to CEZUS under a long-term manufacturing agreement. In July 1996, TIMET purchased the 74% equity interest in TISTO, a German distributor of titanium products, that it did not already own. In January 1997, the Company purchased LASAB Laser Applikations- und Bearbeitungs GmbH ("LASAB'), which is in the titanium and stainless steel laser-welded tube and pipe and laser cutting business.

In April 1998, the Company acquired Loterios S.p.A., a producer and distributor of titanium pipe and fittings to the offshore oil and gas drilling and production markets, based in Italy. The cost of the Loterios acquisition, accounted for by the purchase method, was approximately $19 million in cash.

Additional consideration of up to approximately $7 million is contingent upon Loterios' achieving certain operating targets. The results of Loterios' operations have been reflected in the consolidated financial statements from the date of acquisition; net sales in 1998 subsequent to acquisition approximated $23 million.

Note 4 - Joint ventures and preferred securities:

<TABLE>
<CAPTION>

	December 31,	
	1997	1998
<S>	(in thousands)	
Joint ventures:	<C>	<C>
ValTimet	$ 19,845	$21,658
Wyman-Gordon Titanium Castings	-	6,158
Other	3,425	4,817
	$ 23,270	$32,633
Preferred securities	$ -	$80,000

</TABLE>

~Joint~ventures.~~~In July 1997, TIMET combined its Tennessee-based welded tubing operations with those of Valinox Welded, a French manufacturer of welded tubing, principally stainless steel and titanium, with operations in France and China. The joint venture, "ValTimet", is 46% owned by TIMET and 54% owned by Valinox Welded. The Company's initial investment in ValTimet aggregated $19.8 million, consisting of $11.3 million of noncash consideration contributed at net carrying value (principally property and equipment) plus cash of $8.5 million to fund working capital. For the six months ended December 31, 1997, and the year ended December 31, 1998, ValTimet reported sales of $56.6 million and $119.3 million and net income of $.1 million and $4.1 million, respectively. At December 31, 1997 and 1998, ValTimet reported total assets of $80.1 million and $69.1 million and equity of $28.7 million and $31.8 million, respectively.

In August 1998, the Company completed a series of strategic transactions with Wyman-Gordon Company. The principal components were: (i) the Company exchanged certain of its titanium castings assets and $5 million in cash for Wyman-Gordon's Millbury, MA vacuum arc remelting facility, which produced titanium ingot; (ii) Wyman-Gordon and the Company combined their respective titanium castings business into a new joint venture, Wyman-Gordon Titanium Castings LLC, 80% owned by Wyman-Gordon and 20% by the Company; and (iii) the Company and Wyman-Gordon entered into a contract pursuant to which the Company will be the principal supplier of titanium material to Wyman-Gordon through 2007. The Company accounts for its interest in the castings joint venture by the equity method. The Company accounted for the castings business/melting facility transaction at fair value, which approximated the $18 million net carrying value of the assets exchanged, and, accordingly, recognized nil gain on the transaction. For the five months ended December 31, 1998, Wyman-Gordon Titanium Castings reported sales of $16.6 million and a net loss of $.4 million. At December 31, 1998, Wyman-Gordon Titanium Castings reported total assets of $29.2 million and equity of $25.3 million.

TIMET's strategy for developing new markets and uses for titanium includes providing funds to third parties to prove out a new use or uses of titanium. Other joint ventures consist principally of such investments.
~
Preferred~securities.~In October 1998, the Company purchased for cash $80 million of non-voting preferred securities of Special Metals Corporation, a U.S. manufacturer of wrought nickel-based superalloys and special alloy long products. The investment was made in conjunction with, and concurrent with, the acquisition by SMC of the Inco Alloys International unit of Inco, Ltd. The preferred securities accrue dividends at the annual rate of 6.625%, are mandatorily redeemable in April 2006 and are convertible into SMC common stock at $16.50 per share.

Note 5 - Special charges:

In 1998, TIMET implemented a plan of action designed to address current market conditions, which resulted in recognizing $24 million of restructuring charges. The plan included the permanent closure of three plants, permanent or temporary closures of parts of three other plants, the merger of all North American manufacturing operations into one operating unit and termination of 600 people, or approximately 20% of TIMET's worldwide work force. See also Item 1 - "Business - Outlook for 1999" of this Annual Report. Components of the restructuring charge are summarized below.

	Segment		
	Melted and Mill Products	Other	Total
	(in millions)		
Property and equipment	$ 7.1	$ 2.6	$ 9.7
Pension costs - SFAS No. 88	5.7	-	5.7
Personnel severance and benefits	5.3	.5	5.8
Other exit costs, principally related to leased facilities	1.4	1.4	2.8
	$ 19.5	$ 4.5	$ 24.0

Substantially all of the property and equipment loss relates to items sold, scrapped or abandoned, with disposition already substantially complete. Depreciation of equipment not impaired and only temporarily idled was not suspended. The pension charge relates to the actuarial valuation of accelerated defined benefits of employees to be terminated.

At December 31, 1998, 50% of the personnel reductions had been accomplished with substantially all of the remainder to be accomplished in the first quarter of 1999. Other exit costs relate primarily to carrying costs on leased facilities, which leases have or will be terminated, assumed or expire by mid-year. Of the $8.6 million personnel and other exit costs accrued, $1.9 million had been paid at year-end. Most of the remaining accrued costs will be paid during the first half of 1999, although certain payments, for items such as benefit continuation for terminated employees, will be paid later.

In 1996, TIMET's "Titanium melted and mill products" segment incurred $4.8 million of special charges related to the IMI Titanium Acquisition, $3 million of which related to compensation for services in connection with the acquisition, with the remainder related principally to integration and consolidation of certain facilities.

Note 6 - Inventories:

<TABLE>
<CAPTION>

	December 31, 1997	December 31, 1998
	(In thousands)	
Raw materials	$28,514	$56,109
Work-in-process	85,278	97,947
Finished products	32,904	61,213
Supplies	7,122	10,611
	$153,818	$225,880

</TABLE>

The average cost of LIFO inventories exceeded the net carrying amount of such inventories by approximately $32 million and $28 million at December 31, 1997 and 1998, respectively.

Note 7 - Intangible and other noncurrent assets:

<TABLE>
<CAPTION>

	December 31, 1997	December 31, 1998
	(In thousands)	
Intangible assets:		
Patents	$ 14,333	$14,381
Covenants not to compete	5,000	8,759
Intangible pension assets	1,997	2,783
	21,330	25,923
Less accumulated amortization	3,441	6,029

	$ 17,889	$19,894

Other noncurrent assets:		
Deferred financing costs	$ 8,482	$ 9,911
Prepaid pension costs	2,228	-
Notes receivable from officers	-	580
Other	4,631	3,638
	$ 15,341	$14,129

</TABLE>

Note 8 - Accrued liabilities:

<TABLE>
<CAPTION>

	December 31,	
	1997	1998
	(In thousands)	
<S>	<C>	<C>
OPEB cost	$2,102	$2,371
Pension cost	1,072	1,482
Other employee benefits	25,869	20,881
Environmental costs	1,762	2,273
Restructuring costs	-	6,727
Taxes, other than income	3,062	1,292
Accrued dividends - Convertible Preferred Securities	1,103	1,111
Other	11,839	14,491
	$ 46,809	$ 50,628

</TABLE>

Note 9 - Notes payable, long-term debt and capital lease obligations:

<TABLE>
<CAPTION>

	December 31, 1997	December 31, 1998
	(In thousands)	
<S>	<C>	<C>
Notes payable - European credit agreements	$3,372	$ 5,134
Long-term debt:		
Bank credit agreement - U.S.	$ -	$80,000
Bank credit agreement - U.K.	-	18,781
Other	1,612	1,740
	1,612	100,521
Less current maturities	1,161	571
	$ 451	$99,950
Capital lease obligations	$ 11,189	$ 10,269
Less current maturities	193	200
	$ 10,996	$ 10,069

</TABLE>

~European~credit~agreements.~At December 31, 1998, aggregate unused borrowing availability under short-term bank credit agreements in France and Italy approximated $8 million.

~Long-term~bank~credit~agreements.~~~TIMET has a $200 million revolving bank credit facility expiring in July 2002. Borrowings generally bear interest at LIBOR plus 0.50% (5.56% at December 31, 1998) and are collateralized by substantially all of TIMET's assets. The credit agreement generally limits dividends on TIMET's common stock to 25% of net income, limits additional indebtedness and transactions with affiliates, requires the maintenance of certain financial ratios and contains other covenants customary in transactions of this type.

TIMET UK has a Pounds15 million ($25 million) overdraft/revolving bank credit facility maturing in April 2001. Borrowings may be in sterling or dollars, are collateralized by TIMET UK's inventories and receivables, and generally bear interest at LIBOR plus 0.75% (5.75% at December 31, 1998).

At December 31, 1998, the Company had approximately $125 million of unused borrowing availability under its long-term U.S. and U.K. bank credit agreements. Available borrowings in the future could potentially be reduced due to the leverage and interest coverage ratios included in the U.S. credit agreement.

~Capital~lease~obligations.~In connection with the IMI Titanium Acquisition, TIMET UK entered into long-term leases with IMI principally covering production facilities within England. In connection with the TIMET Savoie transaction, TIMET Savoie entered into long-term leases with CEZUS covering machinery and equipment. The terms of these capital leases range from 10-30 years. The UK rentals are subject to adjustment every five years based on changes in certain published price indexes. TIMET has guaranteed TIMET UK's obligations under its leases. Assets held under capital leases included in buildings and in equipment at December 31, 1998 were $9.7 million and $.9 million, respectively, with related aggregate accumulated depreciation of $1.2 million.

Aggregate maturities of long-term debt and capital lease obligations:

<TABLE>
<CAPTION>

	Capital Leases	Long-term Debt
	(In thousands)	
<S>	<C>	<C>
Years ending December 31,		
1999	$ 1,110	$ 571
2000	1,110	508
2001	1,110	19,216
2002	1,110	80,226
2003	1,110	-
2004 and thereafter	22,073	-
Less amounts representing interest	(17,354)	-
	$ 10,269	$ 100,521

</TABLE>

Note 10 - Minority interest:

~Convertible~Preferred~Securities.~In November 1996, TIMET Capital Trust I (the "Trust"), a wholly-owned subsidiary of TIMET, issued $201 million of 6.625% Company-obligated mandatorily redeemable preferred securities and $6 million of common securities. TIMET holds all of the outstanding common securities of the Trust. The Trust used the proceeds from such issuance to purchase from the Company $207 million principal amount of TIMET's 6.625% convertible junior subordinated debentures due 2026 (the "Subordinated Debentures"). TIMET's guarantee of payment of the Convertible Preferred Securities (in accordance with the terms thereof) and its obligations under the Trust documents constitute, in the aggregate, a full and unconditional guarantee by the Company of the Trust's obligations under the Convertible Preferred Securities. The sole assets of the Trust are the Subordinated Debentures. The Convertible Preferred Securities represent undivided beneficial ownership interests in the Trust, are entitled to cumulative preferred distributions from the Trust of 6.625% per annum, compounded quarterly, and are convertible, at the option of the holder, into TIMET common stock at the rate of 1.339 shares of common stock per Convertible Preferred Security (an equivalent price of $37.34 per share), for an aggregate of approximately 5.4 million common shares if fully converted.

The Convertible Preferred Securities mature December 2026 and are redeemable at the Company's option beginning December 1999, initially at approximately 104.6% of principal amount declining to 100% from December 2006. The Company has the right to defer dividend payments for up to 20 consecutive quarters ("Extension Period") on one or more occasions. In the event the Company exercises this right, it would be unable during any Extension Period to, among other things, pay dividends on or reacquire its capital stock.

Dividends on the Convertible Preferred Securities are reported in the Consolidated Statement of Operations as minority interest, net of allocable income tax benefit.

~Other.~~~~~~Other minority interest relates principally to TIMET Savoie. The Company has the right to purchase CEZUS' 30% interest in TIMET Savoie for 30% of TIMET Savoie's equity determined under French accounting principles ($7.5 million at December 31, 1998), which amount is recorded as minority interest. CEZUS has the right to sell its interest in TIMET Savoie to the Company for 30% of TIMET Savoie's registered capital ($2.9 million at December 31, 1998).

Note 11 - Stockholders' equity:

~Common~stock.~~~~~In June 1996, the Company completed the sale of 6.2 million shares of its common stock in the Stock Offering at an initial price to the public of $23 per share. In connection with the Stock Offering, the Company effected the Stock Split, increased its authorized common shares to 99 million shares, increased its authorized preferred stock to 1 million shares, and reserved up to 3.1 million shares to be issued under the 1996 Long Term Incentive Plan (the "TIMET Incentive Plan"). The Company's net proceeds from the Stock Offering approximated $131 million. The Company used approximately $42.5 million of the net proceeds to repay existing indebtedness to stockholders ($22.5 million to Tremont and $20 million to IMI) and $82 million to repay bank indebtedness.

Certain key executive officers of the Company received shares (the "Management Shares") of the Company's Class B common stock and cash payments with a combined value of approximately $3 million in consideration for their services in connection with the IMI Titanium Acquisition, which cost was expensed as incurred. The Management Shares were converted into 93,000 shares of the Company's common stock in connection with the Stock Offering, and no Class B shares are currently outstanding or authorized.

~Preferred~stock.~~~~~The Company is authorized to issue 1 million shares of preferred stock. The rights of preferred stock as to, among other things, dividends, liquidation, redemption, conversions, and voting rights are determined by the Board of Directors.

~Common~stock~options.~The TIMET Incentive Plan provides for the discretionary grant of restricted common stock, stock options, stock appreciation rights and other incentive compensation to officers and other key employees of the Company. Options generally vest over five years and expire ten years from date of grant.

Additionally, a plan for TIMET's nonemployee directors provides for eligible directors to annually be granted options to purchase 1,500 shares of the Company's common stock (5,000 beginning in 1999) at a price equal to the market price on the date of grant and to receive, as partial payment of director fees, annual grants of 500 shares of common stock. Options granted to nonemployee directors vest in one year and expire ten years from date of grant (five year expiration for grants prior to 1998).

The weighted average remaining life of options outstanding at December 31, 1998 was 8.2 years (1997 - 8.7 years). At December 31, 1998, options to purchase approximately 199,000 shares were exercisable at an average exercise price of $25.89 per share and approximately 242,000 options become exercisable in 1999.

At December 31, 1998, approximately 1.9 million shares and 50,350 shares were available for future grant under the TIMET Incentive Plan and the nonemployee director plan, respectively.

The following table summarizes information about the Company's stock options.

<TABLE>
<CAPTION>

	Shares	Exercise Exercise price per share	Amount Payable Upon Exercise (thousands)	Weighted Average Exercies price	Weighted average fair value at grant date
<S>	<C>	<C>	<C>	<C>	<C>
Outstanding at December 31, 1995	-	$ -	$ -	$ -	
Granted:					
At market	370,275	23.00-31.25	9,110	24.60	$ 12.46
Above market	167,000	26.00-29.00	4,592	27.50	10.22
Canceled	(1,000)	23.00	(23)	23.00	
Outstanding at December 31, 1996	536,275	23.00-31.25	13,679	25.51	
Granted:					
At market	230,075	25.94-29.50	6,414	27.88	12.72
Above market	134,000	31.00-34.00	4,355	32.50	11.29
Exercised	(1,250)	23.00-29.50	(33)	26.25	
Canceled	(79,100)	23.00-34.00	(2,045)	25.86	
Outstanding at December 31, 1997	820,000	23.00-34.00	22,370	27.28	
Granted:					
At market	320,900	26.13-29.31	9,392	29.27	14.08
Above market	142,000	32.31-35.31	4,802	33.81	12.79

Canceled	(65,200)	23.00-35.31	(1,878)	28.80
Outstanding at December 31, 1998	1,217,700	$23.00-$35.31	$34,686	$28.48

</TABLE>

Weighted average fair values of options at grant date were estimated using the Black-Scholes model and assumptions listed below.

Assumptions at date of grant:	1996	1997	1998
Expected life (years)	6	6	6
Risk-free interest rate	6.67%	6.00%	5.56%
Volatility	40%	35%	40%
Dividend yield	0%	0%	0%

Had stock-based compensation cost been determined based on the estimated fair values of options granted and recognized as compensation expense over the vesting period of the grants in accordance with SFAS No. 123, the Company's pretax income, net income and earnings per share for 1998 would have been reduced by $5.4 million, $3.5 million and $.11 per share, respectively, for 1997 would have been reduced by $3.7 million, $2.4 million and $.06 per share, respectively, and for 1996 would have been reduced by $1.1 million, $.7 million and $.02 per share, respectively.

Note 12 - Income taxes:

Summarized below are (i) the components of income before income taxes and minority interest ("pretax income"), (ii) the difference between the income tax expense attributable to pretax income and the amounts that would be expected using the U.S. federal statutory income tax rate of 35%, (iii) the components of the income tax expense attributable to pretax income, and (iv) the components of the comprehensive tax provision.

<TABLE>

<CAPTION>

<S>	<C>	<C>	<C>
	Years Ended December 31,		
	1996	1997	1998
		(In thousands)	
Pretax income:			
U.S.	$33,941	$ 81,766	$ 51,090
Non-U.S.	17,950	53,397	34,759
	$51,891	$135,163	$ 85,849
Expected income tax expense, at 35%	$18,161	$ 47,307	$30,047
Non-U.S. tax rates	37	(464)	41
U.S. state income taxes, net	848	126	472
Export sales credit	-	(361)	(979)
Adjustment of deferred tax valuation allowance	(16,519)	(5,785)	-
Other, net	(191)	181	(384)
	$2,336	$ 41,004	$ 29,197
Income tax expense:			
Current income taxes:			
U.S.	$6,516	$ 17,146	$ 4,617
Non-U.S.	6,236	17,280	11,408
	12,752	34,426	16,025
Deferred income taxes (benefit):			
U.S.	(10,809)	5,998	12,374
Non-U.S.	393	580	798
	(10,416)	6,578	13,172

	$ 2,336	$ 41,004	$ 29,197

Comprehensive tax provision allocable to:			
Pretax income	$ 2,336	$ 41,004	$ 29,197
Minority interest - Convertible Preferred Securities	(444)	(4,760)	(4,703)
Stockholders' equity, including amounts allocated to other comprehensive income	2,500	(533)	(3,520)
	$4,392	$ 35,711	$ 20,974

	December 31,			
	1997		1998	
	Assets	Liabilities	ASSETS	LIABILITIES
	(In millions)			
Temporary differences relating to net assets:				
Inventories	$ .1	$ (5.5)	$ .1	$(5.1)
Property and equipment, including software	.2	(17.8)	1.4	(30.5)
Accrued OPEB cost	11.7	-	11.0	-
Accrued liabilities and other deductible differences	8.7	-	11.1	-
Other taxable differences	-	(7.7)	-	(7.7)
Tax loss and credit carryforwards	5.9	-	4.9	-
Valuation allowance	(.4)	-	-	-
Gross deferred tax assets	26.2	(31.0)	28.5	(43.3)

(liabilities)				
Netting	(19.4)	19.4	(26.6)	26.6
Total deferred taxes	6.8	(11.6)	1.9	(16.7)
Less current deferred taxes	6.2	-	1.9	(2.5)
Net noncurrent deferred taxes	$ .6	$ (11.6)	$ -	$(14.2)

</TABLE>

The Company's valuation allowance (nominal at December 31, 1997 and nil in 1998) decreased in the aggregate (including amounts allocated to items other than pretax income) by $16.5 million in 1996, $5.8 million in 1997 and $.4 million in 1998. The 1996 reduction included $10 million due to a change in estimate of the future tax benefits of certain tax net operating loss carryforwards ("NOLs") and alternative minimum tax credit ("AMT") carryforwards that will more likely than not be realized.

At December 31, 1998, the Company had, for U.S. federal income tax purposes, NOLs of approximately $2.5 million expiring in 2010. At December 31, 1998, the Company had an AMT credit carryforward of approximately $4 million, which can be utilized to offset regular income taxes payable in future years. The AMT credit carryforward has an indefinite carryforward period.

Note 13 - Employee benefit plans:

~Variable~compensation~plans.~~~~~Substantially all of the Company's total worldwide employees, including a significant portion of its domestic hourly employees, participate in compensation programs which provide for variable compensation based upon the financial performance of the Company and, in certain circumstances, the individual performance of the employee. The cost of these plans was $12 million in 1996, $11 million in 1997 and $6 million in 1998.

~Defined~contribution~plans.~~All of the Company's domestic hourly and salaried employees (65% of total worldwide employees at December 31, 1998) are eligible to participate in contributory savings plans with partial matching employer contributions. Company matching contributions are based on Company profitability for approximately 80% of eligible employees. Approximately 35% of the Company's total employees at December 31, 1998 also participate in a defined contribution pension plan with contributions based upon a fixed percentage of the employee's eligible earnings. The cost of these pension and savings plans approximated $3 million in each of 1996, 1997 and 1998.

~Defined~benefit~pension~plans.~~~~~The Company maintains contributory and noncontributory defined benefit pension plans covering substantially all European employees and a minority of its domestic workforce. Defined pension benefits are generally based on years of service and compensation, and the related expense is based upon independent actuarial valuations. The Company's funding policy for U.S. plans is to contribute annually amounts satisfying the funding requirements of the Employee Retirement Income Security Act of 1974, as amended. Non-U.S. defined benefit pension plans are funded in accordance with applicable statutory requirements. The U.S. defined benefit pension plans were closed to new participants prior to 1996 and, in some cases, benefit levels have been frozen.

The rates used in determining the actuarial present value of benefit obligations at December 31, 1998 were: (i) discount rates -- 6% to 6.5% (1997 - 7% to 7.25%), and (ii) rates of increase in future compensation levels - 3% (1997 - 3% to 5%). The expected long-term rates of return on assets used was 7.5% to 9% (1997 - 7% to 9%). The benefit obligations are sensitive to changes in these estimated rates and actual results may differ from the obligations noted below. At December 31, 1998, the assets of the plans are primarily comprised of government obligations, corporate stocks and bonds.

<TABLE>
<CAPTION>

	Years ended December 31,	
	1997	1998
<S>	(in thousands)	
Change in projected benefit obligations:	<C>	<C>
Balance at beginning of year	$114,525	$136,367
Service cost	3,906	5,462
Interest cost	9,201	9,519
Adjustments - SFAS No. 88	-	5,725
Actuarial loss (gain)	13,828	553
Benefits paid	(5,093)	(5,334)
Balance at end of year	$136,367	$152,292
Change in plan assets:		
Fair value at beginning of year	$113,743	$136,827

Actual return on plan assets	20,555	(2,999)
Contributions	7,623	4,606
Benefits paid	(5,093)	(5,334)
Fair value at end of year	$136,827	$133,100

Funded status:		
Plan assets over (under) projected benefit obligations	$ 460	$(19,192)
Unrecognized:		
Actuarial loss	9	16,154
Prior service cost	3,077	2,783
Transaction obligation	(1,229)	(615)
Total prepaid (accrued) pension cost	$ 2,317	$ (870)

Amounts recognized in balance sheet:		
Noncurrent prepaid pension cost	$ 2,228	$ -
Intangible pension asset	1,997	2,783
Current pension liability	(1,072)	(1,482)
Noncurrent pension liability	(836)	(8,754)
Accumulated other comprehensive income	-	6,583
	$ 2,317	$ (870)

</TABLE>

<TABLE>
<CAPTION> Years Ended December 31,

	1996	1997	1998
		(In thousands)	
<S>	<C>	<C>	<C>
Service cost benefits earned	$ 3,260	$ 3,906	$ 5,462
Interest cost on projected benefit obligations	7,696	9,201	9,519
Expected return on plan assets	(7,256)	(20,555)	(12,247)
Net amortization	(1,951)	9,724	(2,030)
Net pension expense	$ 1,749	$2,276	$ 704

</TABLE>

~Postretirement~benefits~other~than~pensions.~~~~~The Company provides certain postretirement health care and life insurance benefits to certain of its domestic retired employees. The Company funds such benefits as they are incurred, net of any contributions by the retirees. Under plans currently in effect, a majority of TIMET's active domestic employees would become eligible for these benefits if they reach normal retirement age while working for TIMET. These plans have been revised to discontinue employer-paid health care coverage for future retirees once they become Medicare-eligible.

The components of the periodic OPEB cost and change in the accumulated OPEB obligations are set forth below. The plan is unfunded and contributions to the plan during the year equal benefits paid. The rates used in determining the actuarial present value of the accumulated OPEB obligations at December 31, 1998 were: (i) discount rate--6.5% (1997 - 7%), (ii) rate of increase in health care costs for the following period--8.9% (1997 - 9.9%) (iii) ultimate health care trend rate (achieved in 2016) - 4.75% (1997 - 5.25%). If the health care cost trend rate was increased by one percentage point for each year, OPEB expense would have increased approximately $.2 million in 1998, and the actuarial present value of accumulated OPEB obligations at December 31, 1998 would have increased approximately $2.3 million. A one percentage point decrease would have a similar, but opposite, effect. The accrued OPEB cost is sensitive to changes in these estimated rates and actual results may differ from the obligations noted below.

<TABLE>
<CAPTION>

	December 31,	
	1997	1998
	(In thousands)	

<S> <C> <C>

Actuarial present value of accumulated OPEB obligations:		
Balance at beginning of year	$21,252	$22,297
Service cost	357	326
Interest cost	1,613	1,553
Actuarial loss	1,654	1,648
Benefits paid, net of participant contributions	(2,579)	(3,187)
Balance at end of year	22,297	22,637
Unrecognized net actuarial gain	2,673	900
Unrecognized prior service credits	3,324	2,899
Total accrued OPEB cost	28,294	26,436
Less current portion	2,102	2,371
Noncurrent accrued OPEB cost	$26,192	$24,065

</TABLE>

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1996	1997	1998
	(In thousands)		
<S>	<C>	<C>	<C>
Service cost benefits earned	$ 407	$ 357	$ 326
Interest cost on accumulated OPEB obligations	1,567	1,613	1,553
Net amortization and deferrals	(653)	(635)	(550)
Net OPEB expense	$1,321	$ 1,335	$1,329

</TABLE>

Note 14 - Related party transactions:

TIMET was a 75%-owned subsidiary of Tremont Corporation at December 31, 1995 with the remaining 25% held by Union Titanium Sponge Corporation ("UTSC"), a consortium of Japanese companies. In February 1996, TIMET acquired the titanium businesses of IMI for stock and in June 1996 completed the Stock Offering which together reduced Tremont's ownership in TIMET to 30% and UTSC's ownership to 10%. In 1997, UTSC reduced its ownership to less than 5% and is no longer required to publicly report its ownership. In 1998, Tremont purchased additional TIMET common stock in market transactions. In connection with the IMI Titanium Acquisition, Tremont held an option, exercised in February 1999, to purchase approximately 2.0 million shares of the Company's common stock from IMI for approximately $16 million ($7.95 per share). At March 1, 1999, Tremont held approximately 39% of TIMET's outstanding common stock.

Valhi, Inc. (a majority-owned subsidiary of Contran Corporation) and other entities related to Harold C. Simmons hold an aggregate of approximately 53% of Tremont's outstanding common stock. Mr. Simmons may be deemed to control each of Contran, Valhi, Tremont and TIMET. Corporations that may be deemed to be controlled by or affiliated with Mr. Simmons sometimes engage in (i) intercorporate transactions with related companies 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 (ii) 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, Tremont 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 which are, in the opinion of the Company, no less favorable to the Company than could be obtained from unrelated parties.

TIMET supplies titanium strip product to ValTimet under a long-term contract as the preferred supplier and supplies castings ingot to Wyman-Gordon Titanium Castings. Sales to these joint ventures were $22 million in 1997 and $40 million in 1998. Receivables from related parties at December 31, 1997 and 1998 relate principally to sales to these joint ventures.

In connection with the construction and financing of TIMET's vacuum distillation process ("VDP") titanium sponge plant, UTSC licensed certain technology to TIMET in exchange for the right to acquire up to 20% of TIMET's annual production capacity of VDP sponge at agreed-upon prices through early 1997 and higher formula-determined prices thereafter through 2008. A discount from market value represents TIMET's consideration to UTSC for the licensed technology. Sales to UTSC approximated $12 million in 1996, $17 million in 1997 and $7 million in 1998.

The Company has an intercorporate services agreement with Tremont whereby the Company provides certain management, financial and other services to Tremont for approximately $.4 million in each of 1996, 1997 and 1998, subject to renewal for future years.

The Company has guidelines for its officers regarding ownership level of TIMET stock. In order to facilitate compliance with these guidelines, the Company extended loans in 1998 to certain officers pursuant to a Board-approved loan program. The loans are payable in five annual installments beginning six years from date of loan and bear interest at a rate tied to the Company's borrowing rate, payable quarterly. At December 31, 1998, the outstanding balance of officer notes receivable was $580,000.

EWI RE, Inc. arranges for and brokers certain of the Company's insurance policies. 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. Consistent with insurance industry practices, EWI receives a commission from the insurance underwriters for the policies that it arranges or brokers. The Company paid an aggregate of approximately $1.8 million for such policies in 1998, which amount principally included premiums for the insurance policies paid to third parties, but also included commissions paid to EWI. In the Company's opinion, the premiums paid for these insurance policies are reasonable and similar to those the Company could have obtained through an unrelated insurance broker. The Company expects that these relationships with EWI will continue in 1999.

Interest expense on related party indebtedness approximated $2 million in 1996 and was nil in 1997 and 1998. The subordinated debt to both IMI and Tremont accrued interest at 10.4% and was repaid in 1996 with proceeds from the Stock Offering. During 1997, TIMET Savoie repaid amounts outstanding under a revolving line of credit provided by CEZUS and terminated the facility.

TIMET's purchases from THT approximated $9 million in 1996 prior to the AJM Acquisition.

Note 15 - Commitments and contingencies:

~Long-term~agreements.~~~The Company 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 the Company will be the major supplier of titanium products to these customers. The Boeing agreement was effective in 1998 but was not expected to reach volume levels until 1999. The other agreements mentioned are effective in 1999. The agreements 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. The contracts are structured to provide incentives to both parties to lower TIMET's costs and share in the savings. TIMET believes that these contracts and others will help mitigate the cyclicality of its aerospace business.

The Company 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 the Company of 6,000 to 10,000 metric tons. The parties have agreed in principle to a reduced minimum for 1999, and the Company currently expects to do the same for 2000.

The Company may enter into other long-term agreements with other customers and suppliers.
~
Concentration~of~credit~and~other~risks.~~~~~Substantially all of the Company's sales and operating income are derived from operations based in the U.S., the U.K. and France. The majority of the Company's sales are to customers in the aerospace industry (including airframe and engine construction). Such concentration of customers may impact the Company's overall exposure to credit and other risks, either positively or negatively, in that such customers may be similarly affected by economic or other conditions. The Company's ten largest customers accounted for about 40% of net sales in 1998 and about one-third of net sales in each of 1997 and 1996.

~Operating~leases.~~~~~The Company leases certain manufacturing and office facilities and various equipment. Most of the leases contain purchase and/or various term renewal options at fair market and fair rental values, respectively. In most cases management expects that, in the normal course of business, leases will be renewed or replaced by other leases. Net rent expense was approximately $2.7 million in 1996, $3.6 million in 1997 and $5.0 million in 1998.

At December 31, 1998, future minimum payments under noncancellable operating leases having an initial or remaining term in excess of one year were as follows:

<TABLE>
<CAPTION>

	Amount (In thousands)
<S>	<C>

Years ending December 31,	
1999	$ 3,784
2000	2,301
2001	1,728
2002	942
2003	805
2004 and thereafter	-
	$ 9,560

</TABLE>

~Environmental~matters.~

~ BMI~Companies.~TIMET and certain other companies, including Kerr-McGee Chemical Corporation, Chemstar Lime Company and Pioneer Chlor Alkali, Inc. (successor to Stauffer Chemical Company) operate facilities in a complex (the "BMI Complex") owned by BMI, adjacent to TIMET's Henderson, Nevada plant. In 1993, TIMET and each of such companies, along with certain other companies who previously operated facilities in the common areas of the BMI Complex (collectively the "BMI Companies") completed a Phase I environmental assessment of the common areas of the BMI Complex and each of the individual company sites pursuant to consent agreements with the Nevada Division of Environmental Protection ("NDEP"). In July 1996, the Company signed a consent agreement with NDEP regarding implementation of the Phase II assessment of the Company property within the BMI Complex. In July 1998, NDEP approved TIMET's Phase II assessment report with certain conditions that required additional investigation. TIMET submitted its supplemental work plan in October 1998, which NDEP approved in December 1998. Field work to assess the sites is continuing. Based upon the work to date, the Company believes its likely share of remediation costs would be in the range of $2 million to $3 million.

~ Pomona~facility.~The Company has conducted an additional study and assessment work as required by the California Regional Water Quality Control Board--Los Angeles Region (the "Water Quality Board") related to soil and possible groundwater contamination at a Pomona, California facility formerly owned by the Company. The site is near an area that has been designated as a U.S. Environmental Protection Agency "Superfund" site. In December 1998, the Company received a letter from the Water Quality Board stating that, after review of the information provided pertaining to environmental site assessment the case was eligible for a "no further work requirement letter".

~Henderson~facility.~In April 1998, the U. S. Environmental Protection Agency ("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 Henderson, 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). In December 1998, TIMET and the EPA agreed in principle to settle the matter for $.3 million payable in installments, plus TIMET's agreement to carry out a supplemental environment project at an estimated cost of $.2 million.

At December 31, 1998, the Company had accrued an aggregate of approximately $2.3 million for the environmental matters discussed above under ~BMI~Companies,~Pomona~facility~and~Henderson~facility~. 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 not discounted to their present value. It is not possible to estimate the range of costs for certain sites. The imposition of more stringent standards or requirements under environmental laws or regulations, the results of future testing and analysis undertaken by the Company at its operating facilities, 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 to be required for such matters. No assurance can be given that actual costs will not exceed accrued amounts or that costs will not be incurred with respect to sites as to which no problem is currently known or where no estimate can presently be made. Further, there can be no assurance that additional environmental matters will not arise in the future.

~Other.~~~~~The Company is involved in various other environmental, contractual, product liability and other claims and disputes incidental to its business.

The Company currently believes the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

Note 16 - New accounting principles not yet adopted:

The Company is required to adopt in 1999 the requirements of AICPA Statement of Position ("SOP") 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". The Company's existing accounting policies with respect to costs of internal-use software are substantially equivalent to those required by SOP 98-1, thus the Company believes adoption of the pronouncement will have no significant effect on its financial position or results of operations.

The Company will adopt SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," no later than the first quarter of 2000. SFAS No. 133 establishes accounting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. 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 Company is currently studying this newly-issued accounting rule, and the impact of adopting SFAS No. 133, if any, will be dependent upon the extent to which the Company is then a party to derivative contracts or engaged in hedging activities. At December 31, 1998, the Company is not a party to any derivative contracts or engaged in any hedging activities covered by SFAS No. 133.

Note 17 - Quarterly results of operations (unaudited):

	Quarters ended			
	March 31	June 30	Sept. 30	Dec. 31
	(In millions, except per share data)			
~Year~ended~December~31,~1998 :~				
Net sales	$ 187.1	$ 190.8	$ 173.5	$ 156.3
Operating income	31.6	23.9	27.3	(.2)
Net income	18.3	13.8	16.1	(2.5)
Net income per share:				
Basic	$ .58	$ .44	$ .51	$ (0.8)
Diluted	.56	.44	.50	*
~Year~ended~December~31,~1997 :~				
Net sales	$ 167.1	$ 181.4	$ 177.2	$ 207.9
Operating income	26.5	32.8	33.3	40.4
Net income	15.8	20.3	21.3	25.6
Net income per share:				
Basic	$ .50	$ .65	$ .68	$ .81
Diluted	.49	.61	.64	.75

<FN>
* Antidilutive.

Due to the timing of the issuance and repurchase of common stock and rounding in calculations, the sum of quarterly earnings per share may be different than earnings per share for the full year.

Note 18 - Earnings per share:

A reconciliation of the numerator and denominator used in the calculation of basic and diluted earnings per share is presented below. The Convertible Preferred Securities were issued in November 1996. In 1998, the effect of the assumed conversion of the Convertible Preferred Securities was antidilutive. Stock options omitted from the calculation because they were antidilutive approximated: 1.2 million in 1998 and were not material in 1996 and 1997.

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1996	1997	1998
<S>	(in thousands)		
Numerator:	<C>	<C>	<C>
Net income	$ 47,644	$ 83,010	$ 45,752
Minority interest - Convertible Preferred Securities	826	8,840	8,840
Diluted net income	$ 48,470	$ 91,850	$ 54,592
Denominator:			
Average common shares outstanding	27,623	31,457	31,435
Convertible Preferred Securities	491	5,389	5,389
Average dilutive stock options	28	109	22
Diluted shares	28,142	36,955	36,846

</TABLE>

ITEM 3. LEGAL PROCEEDINGS

Lead pigment litigation

The Company was formerly involved in the manufacture of lead pigments for use in paint and lead-based paint. The Company has been named as a defendant or third party defendant in various legal proceedings alleging that the Company and other manufacturers are responsible for personal injury and property damage allegedly associated with the use of lead pigments. The Company is vigorously defending such litigation. Considering the Company'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 (a) 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 (b) effectively overturn court decisions in which the Company 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. While no legislation or regulations have been enacted to date which are expected to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity, the imposition of market share liability could have such an effect. The Company

has not accrued any amounts for the pending lead pigment and lead-based paint litigation. There is no assurance that the Company 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, the Company 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 the Company, other alleged manufacturers of lead pigment (together with the Company, 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 remain 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. The Company has answered the remaining portions of the complaint denying all allegations of wrongdoing. 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, and plaintiffs appealed. In June 1996 the Appellate Division reversed the trial court's dismissal of plaintiffs' restitution and indemnification claims, reinstating those claims. Defendants' motion for summary judgment on the fraud claim was denied in August 1995. In December 1995 defendants moved for summary judgment on the basis that the fraud claim was time-barred. In February 1996 the motion was denied. In July 1997 the denial of defendants' two summary judgment motions on the fraud claim were affirmed by the Appellate Division. In December 1998 plaintiffs moved for partial summary judgment on their claims of market share, alternative liability, enterprise liability, and concert of action. In February 1999 claims for plaintiffs New York City and New York City Health and Hospital Corporation dismissed with prejudice all their claims and were 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. Briefing on the December 1998 motion and limited discovery are proceeding.

In August 1992 the Company 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 identifies 18 other defendants who allegedly manufactured lead products or lead-based paint, and 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. In October 1992 the Company and the other defendants moved to dismiss the complaint with prejudice. In July 1993 the court dismissed the complaint. In December 1994 the Ohio Court of Appeals reversed the trial court dismissal and remanded the case to the trial court. In July 1996 the trial court granted defendants' motion to dismiss the property damage and enterprise liability claims, but denied the remainder of the motion. Discovery and briefing is proceeding with respect to class certification.

In November 1993 the Company 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 January 1994 the Company answered the complaint, denying 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. Discovery is proceeding.

In January 1996 the Company was served with a complaint on behalf of individual intervenors in German, et. al. v. Federal Home Loan Mortgage Corp., et. al., (U.S. District Court, Southern District of New York, Civil Action No. 93 Civ. 6941 (RWS)). This alleged class action lawsuit had originally been brought against the City of New York and other landlord defendants. The

intervenors' complaint alleges claims against the Company and other former manufacturers of lead pigment for medical monitoring, property abatement, and other injunctive relief, based on various causes of action, including negligent product design, negligent failure to warn, strict liability, fraud and misrepresentation, concert of action, civil conspiracy, enterprise liability, market share liability, breach of express and implied warranties, and nuisance. The intervenors purport to represent a class of children and pregnant women who reside in New York City. In May 1996 the Company and the other former manufacturers of lead pigments filed motions to dismiss the intervenors' complaint. In May 1997 plaintiffs moved for class certification and defendants moved for summary judgment. In June 1997 the Court stayed all further activity in the case pending reconsideration of its 1995 decision permitting filing of the complaint against the manufacturer defendants and joinder of the new complaint with the pre-existing complaint against New York City and other landlords. In November 1998 the court dismissed without prejudice all claims against the Company and the other pigment manufacturer defendants, finding that such claims were improperly joined.

In April 1997 the Company was served with a complaint in Parker v. NL Industries, et al. (Circuit Court, Baltimore City, Maryland, No. 97085060

CC915). Plaintiff, now an adult, and his wife, seek compensatory and punitive damages from the Company, another former manufacturer of lead paint and a local paint retailer, based on claims of negligence, strict liability and fraud, for plaintiff's alleged ingestion of lead paint as a child. In June 1997 the Company answered the complaint denying liability. In February 1998 the Court dismissed the fraud claim. In July 1998 the Court granted the Company's motion for summary judgment on all remaining claims. Plaintiffs have appealed.

In December 1998 the Company 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 the Company, a trade association, 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. Defendants filed motions to dismiss the nuisance and consumer protection act claims in the complaint in March 1999.

The Company 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.

The Company 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 the Company's favor. In July 1991 the court granted the Company's motion for summary judgment and ordered Commercial Union to pay the Company's reasonable defense costs for such cases. In June 1992 the Company 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 the Company's favor. In August 1993 the court granted the Company'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 Company 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 had made its decision applying New Jersey law; the appeals court concluded that New York 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 the Company's motion for summary judgment, finding that Commercial Union had a duty to defend the Company in the four lead paint cases which were the subject of the Company'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 the Company and two other insurance carriers in connection with the three lead paint actions on which the court had granted the Company summary judgment in 1991. The court ruled that Commercial Union is entitled to receive such contribution from the Company and the two carriers, but reserved ruling with respect to the relative contributions to be made by each of the parties, including contributions by the Company that may be required with respect to periods in which it was self-insured and contributions from one carrier which were reinsured by a former subsidiary of the Company, the reinsurance costs of which the Company may ultimately be required to bear. In June 1997 the Company 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 that their policies contained absolute pollution exclusion language, and certain summary judgment motions regarding policy periods and ruling regarding choice of law issues, the Court has not made any final rulings on defense costs or indemnity coverage with respect to the Company's pending environmental litigation. Nor has the Court made any final ruling on indemnity coverage in the lead pigment litigation. No trial dates have been set. Other than rulings 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. The Company has not considered any potential insurance recoveries for lead pigment or environmental litigation in determining related accruals.

Environmental matters and litigation

The Company 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 the Company, or its subsidiaries, or their predecessors, certain of which are on the U.S. EPA'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 the Company may be jointly and severally liable for such costs, in most cases it is only one of a number of PRPs who may also be jointly and severally liable.

The extent of CERCLA liability cannot accurately 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. The Company believes it has provided adequate accruals for reasonably estimable costs for CERCLA matters and other environmental liabilities. At December 31, 1998 the Company had accrued $126 million for those environmental matters which are reasonably estimable. The Company determines the amount of accrual on a quarterly basis by analyzing and estimating the range of possible costs to the Company. Such costs include, among other things, remedial investigations, monitoring, studies, cleanup, removal and remediation. It is not possible to estimate the range of costs for certain sites. The Company has estimated that the upper end of the range of reasonably possible costs to the Company for sites for which it is possible to estimate costs is approximately $160 million. The Company's estimate of such liability has not been discounted to present value and the Company has not recognized any potential insurance recoveries. 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 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 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 the Company 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 the Company. 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. The Company 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 the Company 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. The Company presently is challenging portions of the U.S. EPA's selection of the remedy. In September 1997 the U.S. EPA informed the Company that past and future cleanup costs are estimated to total approximately $63.5 million. There is currently no allocation among the PRPs for these costs. The Company has been informed that the U.S. EPA has reached an agreement in principle with certain other PRPs settling their liabilities with respect to the site for approximately 50% of the site costs. The Company is negotiating with the U.S. EPA to settle its liability.

At the Pedricktown, New Jersey lead smelter site formerly owned by the Company 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 operable unit one is $18.7 million. In May 1996 certain PRPs, but not the Company, entered into an administrative consent order with the U.S. EPA to perform the remedial design phase of operable unit one. The U.S. EPA issued an order with respect to operable unit two in March 1992 to the Company and 30 other PRPs directing immediate removal activities including the cleanup of waste, surface water and building surfaces. The Company has complied with the order, and the work with respect to operable unit two is completed. The Company has paid $2.5 million, which represents approximately 50% of operable unit two costs. In June 1998 the Company 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, the Company reached an agreement in principle with certain PRPs with respect to the Company's liability at the site to settle this matter within previously-accrued amounts.

Having completed the RIFS at the Company's former Portland, Oregon lead smelter site, the Company 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. Subsequent to the completion of the predesign studies, the U.S. EPA issued notices of potential liability to approximately 20 PRPs, including the Company, directing them to perform the remedy, which was initially estimated to cost approximately $17 million, exclusive of administrative and overhead costs and any additional costs, for the disposition of recycled materials from the site. In January 1992 the U.S. EPA issued unilateral administrative orders to the Company and six other PRPs directing the performance of the remedy. The Company and the other PRPs commenced performance of the remedy. In August 1994, the U.S. EPA authorized the Company and the other PRPs to cease performing most aspects of the selected remedy. 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 $10.5 million and $12 million, including capital costs and operating and maintenance costs. The Company 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 the Company 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 the Company and the other defendants reached an agreement settling the litigation by agreeing to pay a portion of future costs, which are estimated to be within previously-accrued amounts.

The Company and other PRPs entered into an administrative consent order with the U.S. EPA requiring the performance of a RIFS at two sites in Cherokee County, Kansas, where the Company and others formerly mined lead and zinc. A former subsidiary of the Company 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 that the selected remedy will cost an aggregate of approximately $7.1 million for both subsites ($5.4 million for the Baxter Springs subsite). The Company is negotiating with the U.S. EPA to resolve its liability at the Baxter Springs subsite. In addition, the Company received a notice in March 1998 from the U.S. EPA that it may be a PRP in three additional subsites in Cherokee County.

In January 1989 the State of Illinois brought an action against the Company and several other subsequent owners and operators of the former plant in Chicago, Illinois (People of the State of Illinois v. NL Industries, et al., No. 88-CH- 11618, Circuit Court, Cook County). The complaint seeks recovery of $2.3 million of cleanup costs expended by the Illinois Environmental Protection Agency, plus penalties and treble damages. In August 1997 the trial court dismissed the case. In June 1998 the Illinois appellate court affirmed. In October 1998 the Supreme Court of Illinois declined the State's petition to review the decisions in favor of the Company. The U.S. EPA has issued an order to the Company to perform a removal action at the Company's former facility involved in the State of Illinois case. The Company is complying with the order.

Residents in the vicinity of the Company'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, Inc. and NL Industries, Inc., No. 87-4420, Court of Common Pleas, Philadelphia County. The complaint sought compensatory and punitive damages from the Company 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. The Company answered the complaint, denying liability. In December 1994 the jury returned a verdict in favor of the Company. Plaintiffs appealed to the Pennsylvania Superior Court and in September 1996 the Superior Court affirmed the

judgment in favor of the Company. In December 1996 plaintiffs filed a petition for allowance of appeal to the Pennsylvania Supreme Court, which 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 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 the Company 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, the Company and approximately 50 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, the Company conducted a RIFS for operable unit one, the closure of the industrial waste disposal section of the landfill. The Company'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 $12.3 million. In September 1995 the U.S. EPA and certain PRPs 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. The Company and other PRPs entered into an interim cost sharing arrangement for this phase of work. The Company 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 also has claimed it has incurred approximately $2.4 million in past costs from the PRPs. The Company and the other PRPs have submitted to a nonbinding allocation process, as a result of which the Company was assigned a 30% share of future site liability.

See Item 1. "Business - Regulatory and Environmental Matters."

Other litigation

The Company 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. One such case, In re: Monongalia Mass II, (Circuit Court of Monongalia County, West Virginia, Nos. 93-C-362, et al.), involves the consolidated claims of approximately 3,100 plaintiffs. The Company has reached an agreement to settle this case.

Rhodes, et al. v. ACF Industries, Inc., et al. (Circuit Court of Putnam County, West Virginia, No. 95-C-261). Twelve plaintiffs brought this action against the Company and various other defendants in July 1995. Plaintiffs allege that they were employed by demolition and disposal contractors, and claim that as a result of the defendants' negligence they were exposed to asbestos during demolition and disposal of materials from defendants' premises in West Virginia.

Plaintiffs allege personal injuries and seek compensatory damages totaling $18.5 million and punitive damages totaling $55.5 million. An agreement has been reached settling this matter, with the Company being indemnified by another party.

In March 1997 the Company was served with a complaint in Ernest Hughes, et al. v. Owens-Corning Fiberglass, Corporation, et al., No. 97-C-051, filed in the

Fifth Judicial District Court of Cass County, Texas, on behalf of approximately 4,000 plaintiffs and their spouses alleging injury due to exposure to asbestos and seeking compensatory and punitive damages. The Company has filed an answer denying the material allegations. The case has been stayed, and the plaintiffs have refiled their cases in Ohio. The Company is a defendant in various asbestos cases pending in Ohio on behalf of approximately 8,800 personal injury claimants. Plaintiffs have agreed to voluntarily dismiss the Company without prejudice from approximately 7,500 of such claims.

In February 1999 the Company 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. The Company intends to file an answer denying the material allegations of the complaint.

The Company is also involved in various other environmental, contractual, product liability and other claims and disputes incidental to its present and former businesses, and the disposition of past properties and former businesses.

NL INDUSTRIES, INC.

ANNUAL REPORT ON FORM 10-K

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

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Consolidated Statements of Income - Years ended December 31, 1996, 1997 and 1998	F-5 / F-6
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Consolidated Statements of Shareholders' Equity - Years ended December 31, 1996, 1997 and 1998	F-8
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REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of NL Industries, Inc.:

In our opinion, the accompanying consolidated balance sheets of NL Industries, Inc. and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the consolidated financial position of NL Industries, Inc. at December 31, 1997 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. 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 statements in accordance with generally accepted auditing standards, 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 the opinion expressed above.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for environmental remediation costs in 1997 in accordance with Statement of Position No. 96-1.

PricewaterhouseCoopers LLP

Houston, Texas
February 10, 1999

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 1997 and 1998

(In thousands, except per share data)

<TABLE>
<CAPTION>

ASSETS	1997	1998
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 96,394	$ 154,953
Restricted cash equivalents	9,751	8,164
Accounts and notes receivable, less allowance of $2,828 and $2,377	148,676	133,769
Refundable income taxes	1,941	15,919
Inventories	192,780	228,611
Prepaid expenses	3,348	2,724
Deferred income taxes	1,642	1,955
Total current assets	454,532	546,095
Other assets:		
Marketable securities	17,270	17,580
Investment in joint ventures	172,721	171,202
Prepaid pension cost	23,848	23,990
Deferred income taxes	110	--
Other	18,482	13,927
Total other assets	232,431	226,699
Property and equipment:		

Land	19,479	19,626
Buildings	150,090	144,228
Machinery and equipment	616,309	586,400
Mining properties	88,617	84,015
Construction in progress	2,577	4,385
	877,072	838,654
Less accumulated depreciation and depletion	465,843	456,495
Net property and equipment	411,229	382,159
	$1,098,192	$1,154,953

</TABLE>

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

December 31, 1997 and 1998

(In thousands, except per share data)

<TABLE>
<CAPTION>

LIABILITIES AND SHAREHOLDERS' EQUITY	1997	1998
<S>	<C>	<C>
Current liabilities:		
Notes payable	$ 13,968	$ 36,391
Current maturities of long-term debt	77,374	64,826
Accounts payable and accrued liabilities	161,730	187,661
Payable to affiliates	11,512	10,625
Income taxes	10,910	9,224
Deferred income taxes	891	1,236
Total current liabilities	276,385	309,963
Noncurrent liabilities:		
Long-term debt	666,779	292,803
Deferred income taxes	132,797	196,180
Accrued pension cost	44,389	44,649
Accrued postretirement benefits cost	50,951	41,659
Other	148,903	116,732
Total noncurrent liabilities	1,043,819	692,023
Minority interest	257	633
Shareholders' equity:		
Preferred stock - 5,000 shares authorized, no shares issued or outstanding	--	--
Common stock - $.125 par value; 150,000 shares authorized; 66,839 shares issued	8,355	8,355
Additional paid-in capital	759,281	774,288
Accumulated deficit	(495,421)	(133,379)
Accumulated other comprehensive income (loss):		
Currency translation	(133,810)	(133,440)
Marketable securities	4,297	4,498
Pension liabilities	--	(3,187)
Treasury stock, at cost (15,572 and 15,028 shares)	(364,971)	(364,801)

Total shareholders' equity (deficit)	(222,269)	152,334
	$ 1,098,192	$ 1,154,953

</TABLE>

Commitments and contingencies (Notes 13 and 17)

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 1996, 1997 and 1998

(In thousands, except per share data)

<TABLE>
<CAPTION>

<S>	1996 <C>	1997 <C>	1998 <C>
Revenues and other income:			
Net sales	$ 851,179	$ 837,240	$ 894,724
Other, net	27,669	19,367	25,453
	878,848	856,607	920,177
Costs and expenses:			
Cost of sales	668,605	649,945	618,447
Selling, general and administrative ...	151,144	168,592	133,970
Interest	69,333	65,759	58,070
	889,082	884,296	810,487
Income (loss) from continuing operations before income taxes and minority interest	(10,234)	(27,689)	109,690
Income tax expense	1,496	2,244	19,788
Income (loss) from continuing operations before minority interest	(11,730)	(29,933)	89,902
Minority interest	5	(58)	40
Income (loss) from continuing operations	(11,735)	(29,875)	89,862
Discontinued operations	22,552	20,402	287,396
Extraordinary item - early retirement of debt, net of tax benefit of $5,698 ..	--	--	(10,580)
Net income (loss)	$ 10,817	$ (9,473)	$ 366,678

</TABLE>

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

Years ended December 31, 1996, 1997 and 1998

(In thousands, except per share data)

<TABLE>
<CAPTION>

<S>	1996 <C>	1997 <C>	1998 <C>
Basic earnings per share:			
Continuing operations	$ (.23)	$ (.58)	$ 1.75
Discontinued operations	.44	.39	5.59
Extraordinary item	--	--	(.21)
Net income (loss)	$ .21	$ (.19)	$ 7.13
Diluted earnings per share:			
Continuing operations	$ (.23)	$ (.58)	$ 1.73
Discontinued operations	.44	.39	5.52
Extraordinary item	--	--	(.20)
Net income (loss)	$ .21	$ (.19)	$ 7.05
Shares used in the calculation of earnings per share:			
Basic	51,103	51,152	51,460
Dilutive impact of stock options	--	--	540
Diluted	51,103	51,152	52,000

</TABLE>

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 1996, 1997 and 1998

(In thousands)

<TABLE>
<CAPTION>

<S>	1996 <C>	1997 <C>	1998 <C>
Net income (loss)	$10,817	$ (9,473)	$ 366,678
Other comprehensive income (loss), net of tax:			
Marketable securities adjustment	1,803	3,019	201
Minimum pension liabilities adjustment	86	1,822	(3,187)
Currency translation adjustment	8,305	(15,181)	370
Other comprehensive income (loss)	10,194	(10,340)	(2,616)

Comprehensive income (loss)	$21,011	$(19,813)	$ 364,062
	=======	========	=========

</TABLE>

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 1996, 1997 and 1998

(In thousands)

<TABLE>
<CAPTION>

				Accumulated other comprehensive income (loss)				
	Common stock	Additional paid-in capital	Accumulated deficit	Currency translation	Pension liabilities	Marketable securities	Treasury stock	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	$8,355	$759,281	$(481,432)	$(126,934)	$(1,908)	$ (525)	$(366,258)	$(209,421)
Net income	--	--	10,817	--	--	--	--	10,817
Other comprehensive income, net of tax	--	--	--	8,305	86	1,803	--	10,194
Common dividends declared - $.30 per share	--	--	(15,333)	--	--	--	--	(15,333)
Treasury stock reissued	--	--	--	--	--	--	262	262
Balance at December 31, 1996	8,355	759,281	(485,948)	(118,629)	(1,822)	1,278	(365,996)	(203,481)
Net loss	--	--	(9,473)	--	--	--	--	(9,473)
Other comprehensive income (loss), net of tax	--	--	--	(15,181)	1,822	3,019	--	(10,340)
Treasury stock reissued	--	--	--	--	--	--	1,025	1,025
Balance at December 31, 1997	8,355	759,281	(495,421)	(133,810)	--	4,297	(364,971)	(222,269)
Net income	--	--	366,678	--	--	--	--	366,678
Other comprehensive income (loss), net of tax	--	--	--	370	(3,187)	201	--	(2,616)
Common dividends declared - $.09 per share	--	--	(4,636)	--	--	--	--	(4,636)
Cash received upon settlement of shareholder derivative lawsuit, net of $3,198 in legal fees and expenses	--	11,211	--	--	--	--	--	11,211
Tax benefit of stock options exercised	--	3,796	--	--	--	--	--	3,796
Treasury stock reissued	--	--	--	--	--	--	170	170
Balance at December 31, 1998	$8,355	$774,288	$(133,379)	$(133,440)	$(3,187)	$ 4,498	$(364,801)	$ 152,334

</TABLE>

See accompanying notes to consolidated financial statements.

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1996, 1997 and 1998

(In thousands)

<TABLE>
<CAPTION>

<S>	1996 <C>	1997 <C>	1998 <C>
Cash flows from operating activities:			
Net income (loss)	$ 10,817	$ (9,473)	$ 366,678
Depreciation, depletion and amortization	36,285	34,887	34,545
Noncash interest expense	20,442	23,092	18,393
Deferred income taxes	297	(5,627)	4,988
Minority interest	5	(58)	40
Net (gains) losses from:			
Securities transactions	--	(2,657)	--
Disposition of property and equipment	2,236	(1,735)	768
Pension cost, net	(8,018)	(5,112)	(5,566)
Other postretirement benefits, net	(4,962)	(4,799)	(6,299)
Change in accounting for environmental remediation costs	--	30,000	--
Discontinued operations:			
Net gain from sale of Rheox	--	--	(286,071)
Income from operations of Rheox	(22,552)	(20,402)	(1,325)
Extraordinary item	--	--	10,580
Other, net	(67)	--	317
	34,483	38,116	137,048
Rheox, net	20,705	31,506	(30,587)
Change in assets and liabilities:			
Accounts and notes receivable	3,083	(14,925)	(2,012)
Inventories	7,192	22,872	(49,839)
Prepaid expenses	(1,355)	96	436
Accounts payable and accrued liabilities	(1,949)	9,347	(2,741)
Income taxes	(36,414)	12,978	(12,976)
Accounts with affiliates	3,408	(3,915)	2,286
Other noncurrent assets	236	(269)	(178)
Other noncurrent liabilities	(12,851)	(6,640)	3,650
Net cash provided by operating activities	16,538	89,166	45,087

</TABLE>

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 1996, 1997 and 1998

(In thousands)

<TABLE>
<CAPTION>

<S>	1996 <C>	1997 <C>	1998 <C>
Cash flows from investing activities:			
Proceeds from sale of Rheox	$ --	$ --	$ 435,080
Capital expenditures	(64,241)	(28,220)	(22,392)
Proceeds from disposition of marketable securities	--	6,875	6,875
Change in restricted cash equivalents, net	(791)	1,144	(2,638)
Investment in joint venture, net	3,934	8,364	(372)
Proceeds from disposition of			

	1996	1997	1998
property and equipment	76	3,049	769
Rheox, net	(7,376)	(2,314)	(26)
Net cash provided (used) by investing activities	(68,398)	(11,102)	417,296
Cash flows from financing activities:			
Indebtedness:			
Borrowings	97,503	--	30,491
Principal payments	(32,362)	(182,215)	(315,892)
Deferred financing costs	--	(2,343)	--
Settlement of shareholder derivative lawsuit, net	--	--	11,211
Dividends paid	(15,333)	--	(4,636)
Rheox, net	(23,492)	100,940	(117,500)
Other, net	249	1,023	168
Net cash provided (used) by financing activities	26,565	(82,595)	(396,158)
Net change during the year from operating, investing and financing activities	$(25,295)	$ (4,531)	$ 66,225

</TABLE>

NL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 1996, 1997 and 1998

(In thousands)

<TABLE>
<CAPTION>

<S>	1996 <C>	1997 <C>	1998 <C>
Cash and cash equivalents:			
Net change during the year from:			
Operating, investing and financing activities	$ (25,295)	$ (4,531)	$ 66,225
Currency translation	(2,714)	(2,295)	(36)
Sale of Rheox	--	--	(7,630)
	(28,009)	(6,826)	58,559
Balance at beginning of year	131,229	103,220	96,394
Balance at end of year	$ 103,220	$ 96,394	$ 154,953
Supplemental disclosures:			
Cash paid for:			
Interest, net of amounts capitalized	$ 51,678	$ 55,908	$ 37,965
Income taxes	50,400	6,875	54,230
Noncash investing activities - marketable securities exchanged for a note receivable	$ --	$ 6,875	$ --

</TABLE>

See accompanying notes to consolidated financial statements.

Note 1 - Organization and basis of presentation:

NL Industries, Inc. conducts its titanium dioxide pigments ("TiO2") operations through its wholly-owned subsidiary, Kronos, Inc. In January 1998 the specialty chemicals business of Rheox, Inc., a wholly-owned subsidiary of NL, was sold. See Note 20.

At December 31, 1998 Valhi, Inc. and Tremont Corporation, each affiliates of Contran Corporation, held approximately 58% and 20%, respectively, of NL's outstanding common stock, and together they may be deemed to control NL. At December 31, 1998 Contran and its subsidiaries held approximately 92% of Valhi's outstanding common stock, and Valhi and other entities related to Harold C. Simmons held approximately 53% of Tremont'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 Mr. Simmons, of which Mr. Simmons is the sole trustee, or by Mr. Simmons directly. Mr. Simmons, the Chairman of the Board of NL and the Chairman of the Board and Chief Executive Officer of Contran and Valhi and a director of Tremont, may be deemed to control each of such companies.

Note 2 - Summary of significant accounting policies:

Principles of consolidation and management's estimates

The accompanying consolidated financial statements include the accounts of NL and its majority-owned subsidiaries (collectively, the "Company"). All material intercompany accounts and balances have been eliminated. Certain prior-year amounts have been reclassified to conform to the current year presentation. 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.

Translation of foreign currencies

Assets and liabilities of subsidiaries whose functional currency is deemed to be other than the U.S. dollar are translated at year-end rates of exchange and revenues and expenses are translated at weighted average exchange rates prevailing during the year. Resulting translation adjustments are included in other comprehensive income (loss), net of related deferred income taxes. Currency transaction gains and losses are recognized in income currently.

Cash equivalents

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

Restricted cash equivalents

At December 31, 1998 restricted cash equivalents of approximately $5 million collateralize undrawn letters of credit, and restricted cash equivalents of approximately $7 million collateralize certain environmental remediation obligations of the Company, of which $4 million has been classified as a noncurrent asset. At December 31, 1997 restricted cash equivalents of approximately $5 million collateralized undrawn letters of credit and cash equivalents of approximately $5 million were restricted under an indebtedness agreement, which was repaid in 1998.

Marketable securities and securities transactions

Marketable securities are classified as "available-for-sale" and are carried at market based on quoted market prices. Unrealized gains and losses on available-for-sale securities are included in other comprehensive income (loss), net of related deferred income taxes. See Note 4. Gains and losses on available-for-sale securities are recognized in income upon realization and are computed based on specific identification of the securities sold.

Inventories

Inventories are stated at the lower of cost (principally average cost) or market. Amounts are removed from inventories at average cost.

Investment in joint ventures

Investment in a 50%-owned joint venture is accounted for by the equity method.

Property, equipment, depreciation and depletion

Property and equipment are stated at cost. Interest costs related to major, long-term capital projects are capitalized as a component of construction costs. Maintenance, repairs and minor renewals are expensed; major improvements are capitalized.

Depreciation is computed principally by the straight-line method over the estimated useful lives of ten to forty years for buildings and three to twenty years for machinery and equipment. Depletion of mining properties is computed by the unit-of-production and straight-line methods.

Long-term debt

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

Employee benefit plans

Accounting and funding policies for retirement plans and postretirement benefits other than pensions ("OPEB") are described in Note 11.

The Company accounts for stock-based employee compensation in accordance with Accounting Principles Board Opinion ("APBO") 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 was nil in each of the past three years.

Environmental remediation costs

Environmental remediation costs are accrued when estimated future expenditures are probable and reasonably estimable. The estimated future expenditures are not discounted to present value. Recoveries of remediation costs from other parties, if any, are reported as receivables when their receipt is deemed probable. At December 31, 1997 and 1998 no receivables for recoveries have been recognized.

The Company adopted a new method of accounting as required by the AICPA's Statement of Position ("SOP") No. 96-1, "Environmental Remediation Liabilities," in 1997. The SOP, among other things, expands the types of costs which must be considered in determining environmental remediation accruals. As a result of adopting the SOP, the Company recognized a noncash cumulative charge of $30 million in 1997. The charge did not impact the Company's 1997 income tax expense because the Company believes the resulting deferred income tax asset does not currently satisfy the more-likely-than-not recognition criteria and, accordingly, the Company established an offsetting valuation allowance. The $30 million noncash charge is comprised primarily of estimated future expenditures associated with managing and monitoring existing environmental remediation sites, and the expenditures have not been discounted to present value. The expenditures consist principally of legal and professional fees, but exclude litigation defense costs for matters in which the Company asserts that no liability exists. Previously, all such expenditures were expensed as incurred.

Net sales

Sales are recognized as products are shipped.

Income taxes

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 subsidiaries and unconsolidated affiliates not included in the Company's U.S. tax group (the "NL Tax Group"). The Company periodically evaluates its deferred tax assets and adjusts any related valuation allowance. The Company's valuation allowance is equal to the amount of deferred tax assets which the Company believes do not meet the "more-likely-than-not" recognition criteria.

Interest rate swaps and contracts

The Company periodically uses interest rate swaps and contracts (such as caps and floors) to manage interest rate risk with respect to financial assets or liabilities. The Company has not entered into these contracts for speculative purposes in the past, nor does it currently anticipate doing so in the future. Any cost associated with the swap or contract designated as a hedge of assets or liabilities is deferred and amortized over the life 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 held no derivative financial instruments at December 31, 1998.

Earnings per share

Basic earnings per share is based on the weighted average number of common shares outstanding during each period. Diluted earnings per share is based on the weighted average common shares outstanding and the dilutive impact of outstanding stock options. The weighted average number of shares resulting from outstanding stock options which were excluded from the calculation of diluted earnings per share because their impact would have been antidilutive aggregated 2,483,000, 2,709,000 and 1,942,000 in 1996, 1997 and 1998, respectively. There were no adjustments to income (loss) from continuing operations or net income (loss) in the computation of earnings per share.

New accounting principles not yet adopted

The Company will adopt Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, no later than the first quarter of 2000. SFAS No. 133 establishes accounting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. 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 Company is currently studying this newly-issued accounting rule, and the impact of adopting SFAS No. 133, if any, will be

dependent upon the extent to which the Company is then a party to derivative contracts or engaged in hedging activities.

Note 3 - Business and geographic segments:

The Company's operations are conducted by Kronos in one operating business segment - TiO2. Titanium dioxide pigments are used to impart whiteness, brightness and opacity to a wide variety of products, including paints, plastics, paper, fibers and ceramics. Discontinued operations consists of the Company's specialty chemicals business owned by Rheox which was sold in January 1998. See Note 20. At December 31, 1997 and 1998 the net assets of non-U.S. subsidiaries included in consolidated net assets approximated $287 million and $310 million, respectively.

The Company evaluates segment performance based on segment operating income, which is defined as income before income taxes and interest expense, exclusive of certain nonrecurring items and certain general corporate income and expense items (including securities transactions gains and interest and dividend income) which are not attributable to the operations of the reportable operating segment. The accounting policies of the reportable operating segment are the same as those described in Note 1. Interest income included in the calculation of segment operating income is disclosed in Note 14.

Segment assets are comprised of all assets attributable to the reportable operating segment. The Company's investment in the TiO2 manufacturing joint venture (see Note 6) is included in TiO2 business segment assets. Corporate assets are not attributable to the reportable operating segment and consist principally of cash, cash equivalents, restricted cash equivalents and marketable securities. 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 are attributed to their physical location.

	Years ended December 31,		
	1996	1997	1998
	(In thousands)		
Business segment - TiO2			
Net sales	$ 851,179	$ 837,240	$ 894,724
Other income, excluding corporate	18,388	12,339	6,110
	869,567	849,579	900,834
Cost of sales	668,605	649,945	618,447
Selling, general and administrative, excluding corporate	129,356	117,133	111,206
Operating income	71,606	82,501	171,181
General corporate income (expense):			
Securities earnings, net	4,708	5,393	14,921
Expenses, net	(17,215)	(49,824)	(18,342)
Interest expense	(69,333)	(65,759)	(58,070)
	$ (10,234)	$ (27,689)	$ 109,690
Capital expenditures:			
Kronos	$ 64,201	$ 28,193	$ 22,310
General corporate	40	27	82
	$ 64,241	$ 28,220	$ 22,392
Depreciation, depletion and amortization:			
Kronos	$ 36,091	$ 34,684	$ 34,341
General corporate	194	203	204
	$ 36,285	$ 34,887	$ 34,545
Geographic areas			
Net sales - point of origin:			
Germany	$ 424,861	$ 439,926	$ 451,061
United States	245,424	250,798	289,701
Canada	134,199	145,160	158,967
Belgium	133,708	122,784	159,558
Norway	109,947	96,448	91,112
Other	89,466	88,030	96,912
Eliminations	(286,426)	(305,906)	(352,587)
	$ 851,179	$ 837,240	$ 894,724
Net sales - point of destination:			
Europe	$ 471,948	$ 442,043	$ 493,942
United States	222,710	230,923	246,209
Canada	51,292	58,231	66,843
Latin America	41,140	43,078	35,281
Asia	43,842	41,328	21,042
Other	20,247	21,637	31,407

	$ 851,179	$ 837,240	$ 894,724

	December 31,		
	1996	1997	1998
	(In thousands)		
Identifiable assets			
Net property and equipment:			
Germany	$ 238,372	$ 213,762	$ 223,605
Canada	73,616	67,247	60,574
Belgium	62,615	50,783	51,683
Norway	55,367	44,841	42,336
Other	4,640	4,289	3,961
Discontinued operations	31,436	30,307	--
	$ 466,046	$ 411,229	$ 382,159
Total assets:			
Kronos	$1,064,285	$ 961,635	$ 997,893
General corporate	66,978	47,922	157,060
Discontinued operations	90,095	88,635	--
	$1,221,358	$1,098,192	$1,154,953

Note 4 - Marketable securities and securities transactions:

	December 31,	
	1997	1998
	(In thousands)	
Available-for-sale securities - noncurrent marketable equity securities:		
Unrealized gains	$ 6,939	$ 8,512
Unrealized losses	(328)	(1,591)
Cost	10,659	10,659
Aggregate market	$ 17,270	$ 17,580

In 1997 securities transactions gains of $2.7 million were realized on sales of available-for-sale securities.

Note 5 - Inventories:

	December 31,	
	1997	1998
	(In thousands)	
Raw materials	$ 45,844	$ 46,114
Work in process	8,018	11,530
Finished products	107,427	136,225
Supplies	31,491	34,742

	$192,780	$228,611
	========	========

</TABLE>

Note 6 - Investment in joint ventures:

	December 31, 1997	December 31, 1998
	(In thousands)	
TiO2 manufacturing joint venture	$170,830	$171,202
Other	1,891	--
	$172,721	$171,202

Kronos Louisiana, Inc. ("KLA"), a wholly-owned subsidiary of Kronos, owns a 50% interest in Louisiana Pigment Company, L.P. ("LPC"). LPC is a manufacturing joint venture that is also 50%-owned by Tioxide Group, Ltd. ("Tioxide"), a wholly-owned subsidiary of Imperial Chemicals Industries plc ("ICI"). LPC owns and operates a chloride-process TiO2 plant in Lake Charles, Louisiana.

LPC had two tranches of long-term debt, one of which was guaranteed by KLA. LPC prepaid the KLA tranche in 1998 with cash provided by the Company. KLA's tranche of LPC's debt was reflected as outstanding indebtedness of the Company because Kronos had guaranteed the purchase obligation relative to the debt service of its tranche. See Note 10.

KLA is required to purchase one-half of the TiO2 produced by LPC. LPC is intended to be operated on a break-even basis and, accordingly, Kronos' cost for its share of the TiO2 produced is equal to its share of LPC's production costs and interest expense. Kronos' share of the production costs are reported as cost of sales as the related TiO2 acquired from LPC is sold, and its share of the interest expense, if any, is reported as a component of interest expense.

Summary balance sheets of LPC are shown below.

	December 31, 1997	December 31, 1998
	(In thousands)	
ASSETS		
Current assets	$ 41,602	$ 60,686
Other assets	764	--
Property and equipment, net	309,989	294,906
	$352,355	$355,592
LIABILITIES AND PARTNERS' EQUITY		
Long-term debt, including current portion:		
Kronos tranche	$ 42,429	$ --
Tioxide tranche	7,200	--
Note payable to Tioxide	9,000	--
Other liabilities, primarily current	8,466	10,960
	67,095	10,960
Partners' equity	285,260	344,632
	$352,355	$355,592

</TABLE>

Summary income statements of LPC are shown below.

	Years ended December 31, 1996	1997	1998
	(In thousands)		
Revenues and other income:			
Kronos	$ 74,916	$ 82,171	$ 90,392
Tioxide	73,774	80,512	89,879
Interest income	518	636	753
	149,208	163,319	181,024
Cost and expenses:			
Cost of sales	140,361	156,811	178,803
General and administrative	377	355	348
Interest	8,470	6,153	1,873
	149,208	163,319	181,024
Net income	$ --	$ --	$ --

Note 7 - Other noncurrent assets:

	December 31, 1997	1998
	(In thousands)	
Deferred financing costs, net	$ 9,973	$ 4,124
Restricted cash equivalents	--	4,225
Intangible assets, net of accumulated amortization of $22,366 and $23,704	4,228	1,985
Other	4,281	3,593
	$18,482	$13,927

Note 8 - Accounts payable and accrued liabilities:

	December 31, 1997	1998
	(In thousands)	
Accounts payable	$ 64,698	$ 55,270
Accrued liabilities:		
Employee benefits	40,110	37,399
Environmental costs	9,000	44,122
Interest	6,966	7,346
Other	40,956	43,524
	97,032	132,391
	$161,730	$187,661

Note 9 - Other noncurrent liabilities:

	December 31, 1997	December 31, 1998
	(In thousands)	
Environmental costs	$125,502	$ 81,454
Insurance claims expense	11,436	10,872
Employee benefits	10,835	9,778
Deferred income	--	12,333
Other	1,130	2,295
	$148,903	$116,732

Note 10 - Notes payable and long-term debt:

	December 31, 1997	December 31, 1998
	(In thousands)	
Notes payable (DM 25,000 and DM 60,500, respectively)	$ 13,968	$ 36,391
Long-term debt:		
NL Industries:		
11.75% Senior Secured Notes	$250,000	$244,000
13% Senior Secured Discount Notes	169,857	--
	419,857	244,000
Kronos:		
DM bank credit facility (DM 288,322 and DM 187,322, respectively)	161,085	112,674
LPC term loan	42,429	--
Other	3,282	955
	206,796	113,629
Rheox - bank term loan	117,500	--
	744,153	357,629
Less current maturities	77,374	64,826
	$666,779	$292,803

The Company's $244 million of 11.75% Senior Secured Notes due 2003 (the "Notes") are collateralized by a series of intercompany notes from Kronos International, Inc. ("KII"), a wholly-owned subsidiary of Kronos, to NL, the interest rate and payment terms of which mirror those of the respective Notes (the "Mirror Notes"). The 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 subsidiary of the Company.

In the event of foreclosure, the holders of the Notes would have access to the consolidated assets, earnings and equity of the Company. The Company believes the collateralization of the Notes, as described above, is the functional economic equivalent of a full, unconditional and joint and several guarantee of the Notes by Kronos and the other subsidiary, whose net assets amount to $308 million at December 31, 1998.

The Notes are redeemable, at the Company's option, starting in October 2000 at a redemption price of 101.5% of the principal amount and declining to 100% after October 2001. In the event of a Change of Control as defined in the indenture, the Company would be required to make an offer to purchase the Notes at 101% of the principal amount of the Notes. The Notes are issued pursuant to an indenture which contains a number of covenants and restrictions which, among other things, restrict the ability of the Company 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. At December 31, 1998 $47 million was available for payment of dividends pursuant to the terms of the indenture. The quoted market price of the Senior Secured Notes per $100 principal amount was $111.17 and $103.73 at December 31, 1997 and 1998, respectively.

At December 31, 1998 the DM credit facility consisted of a DM 107 million term loan and a DM 230 million revolving credit facility, of which DM 80 million was outstanding. Borrowings bear interest at DM LIBOR plus 2.75% (6.28% and 6.00% at December 31, 1997 and 1998, respectively), and are collateralized by the stock of certain KII subsidiaries, pledges of certain Canadian and German assets, and NL has guaranteed the facility. The term loan has scheduled payments of DM 38 million ($23 million at December 31, 1998) due in March 1999 and DM 69 million ($41 million at December 31, 1998) due in September 1999. In accordance with the provisions of the DM credit agreement and as a result of the level of operating income in 1998 for KII, the Company prepaid the term loan in full in March 1999, principally by drawing on its DM revolving credit facility. The revolver's balance is scheduled to be reduced to DM 105 million in March 2000, with the remaining balance to be repaid in September 2000.

Unused lines of credit available for borrowing under the Company's non-U.S. credit facilities, including the DM facility, approximated $104 million at December 31, 1998.

Notes payable at December 31, 1997 and 1998 consists of DM 25 million and DM 61 million, respectively, of short-term borrowings due within one year from non-U.S. banks with interest rates ranging from 3.75% to 3.875% at December 31, 1997 and from 3.75% to 4.60% at December 31, 1998.

The Company used a portion of the net proceeds from the January 1998 sale of Rheox's net assets to (i) prepay $118 million of the Rheox term loan, (ii) prepay $42 million of Kronos' tranche of the LPC joint venture term loan, (iii) make $65 million of open-market purchases of the Company's 13% Senior Secured Discount Notes at prices ranging from $101.25 to $105.19 per $100 of their principal amounts, (iv) purchase $6 million of the Senior Secured Notes and $61 thousand of the Senior Secured Discount Notes at a price of $100 and $96.03 per $100 of their principal amounts, respectively, pursuant to a June 1998 pro rata tender offer to Note holders as required by the indentures, and (v) redeem the remaining 13% Senior Secured Discount Notes on October 15, 1998 at the redemption

price of 106% of the principal amount, in accordance with the terms of the indenture.

The aggregate maturities of long-term debt at December 31, 1998 are shown in the table below.

<TABLE>
<CAPTION>

Years ending December 31,	Amount (In thousands)
<S>	<C>
1999	$ 64,826
2000	48,406
2001	199
2002	198
2003	244,000

$357,629
========

</TABLE>

Note 11 - Employee benefit plans:

Company-sponsored pension plans

The Company maintains various defined benefit and defined contribution pension plans covering substantially all employees. Personnel employed by non-U.S. subsidiaries are covered by separate plans in their respective countries and U.S. employees are covered by various plans including the Retirement Programs of NL Industries, Inc. (the "NL Pension Plan").

A majority of U.S. employees are eligible to participate in a contributory savings plan. The Company contributes to each employee's account an amount equal to approximately 3% of the employee's annual eligible earnings and partially matches employee contributions to the Plan. The Company also has an unfunded, nonqualified defined contribution plan covering certain executives, and contributions are based on a formula involving eligible earnings. The Company's expense related to these plans included in continuing operations was $.8 million in 1996, $.7 million in 1997 and $.8 million in 1998. Expense related to these plans included in discontinued operations was $.5 million in each of 1996 and 1997 and nil in 1998.

Certain actuarial assumptions used in measuring the defined benefit pension assets, liabilities and expenses are presented below.

<TABLE>
<CAPTION>

	Years ended December 31,		
	1996	1997	1998
	(Percentages)		
<S>	<C>	<C>	<C>
Discount rate	6.5 to 8.5	6.0 to 8.5	5.5 to 8.5
Rate of increase in future compensation levels	3.5 to 6.0	3.0 to 6.0	2.5 to 6.0
Long-term rate of return on plan assets	7.0 to 9.0	6.0 to 9.0	6.0 to 9.0

</TABLE>

During 1996 and 1998 the Company curtailed certain U.S. employee pension benefits and recognized gains of $4.6 million and $1.5 million, respectively, of which $2.7 million and $1.5 million, respectively, are included in discontinued

operations. Plan assets are comprised primarily of investments in U.S. and non-U.S. corporate equity and debt securities, short-term investments, mutual funds and group annuity contracts.

SFAS No. 87, "Employers' Accounting for Pension Costs" requires that an additional pension liability be recognized when the unfunded accumulated pension benefit obligation exceeds the unfunded accrued pension liability. Variances from actuarially-assumed rates, including the rate of return on pension plan assets, will result in additional increases or decreases in accrued pension liabilities, pension expense and funding requirements in future periods.

The components of the net periodic defined benefit pension cost, excluding curtailment gain and discontinued operations, are set forth below. The net periodic defined benefit pension cost included in discontinued operations was $.3 million in 1996 and nil in each of 1997 and 1998.

<TABLE>
<CAPTION>

	Years ended December 31,		
	1996	1997	1998
	(In thousands)		
<S>	<C>	<C>	<C>
Net periodic pension cost:			
Service cost benefits	$ 3,131	$ 4,067	$ 3,835
Interest cost on projected benefit			

obligation ("PBO")	15,439	15,335	15,669
Expected return on plan assets	(15,079)	(13,271)	(15,172)
Amortization of prior service cost	415	344	332
Amortization of net transition obligation	319	255	173
Recognized actuarial losses (gains)	(719)	(2,653)	385
	$ 3,506	$ 4,077	$ 5,222

</TABLE>

The funded status of the Company's defined benefit pension plans is set forth below.

<TABLE>
<CAPTION>

	December 31,	
	1997	1998
	(In thousands)	
<S>	<C>	<C>
Change in PBO:		
Beginning of year	$ 263,244	$ 251,372
Service cost	4,067	3,835
Interest	15,335	15,669
Participant contributions	1,276	1,228
Plan amendments	161	--
Actuarial losses	4,035	30,768
Curtailment gain	--	(1,513)
Discontinued operations:		
Service cost	207	--
Interest cost on PBO	1,129	--
Benefits paid	(11,811)	(15,748)
Change in currency exchange rates	(26,271)	10,402
End of year	251,372	296,013

</TABLE>

<TABLE>
<CAPTION>

	December 31,	
	1997	1998
	(In thousands)	
<S>	<C>	<C>
Change in fair value of plan assets:		
Beginning of year	$ 205,091	$ 199,371
Actual return on plan assets	18,327	20,951
Employer contributions	9,691	10,788
Participant contributions	1,276	1,228
Benefits paid	(11,811)	(15,748)
Change in currency exchange rates	(23,203)	4,445
End of year	199,371	221,035
Funded status at year end:		
Plan assets less than PBO	(52,001)	(74,978)
Unrecognized actuarial loss	18,153	44,945
Unrecognized prior service cost	4,198	3,341
Unrecognized net transition obligation	1,003	1,215
	$ (28,647)	$ (25,477)
Amounts recognized in the balance sheet:		
Prepaid pension cost	$ 23,848	$ 23,990
Accrued pension cost:		
Current	(8,106)	(8,005)
Noncurrent	(44,389)	(44,649)
Accumulated other comprehensive income	--	3,187

	$ (28,647)	$ (25,477)

</TABLE>

Selected information related to the Company's defined benefit pension plans that have accumulated benefit obligations in excess of fair value of plan assets is presented below. At December 31, 1998, 83% of the projected benefit obligations of such plans relate to non-U.S. plans (1997 - 77%).

<TABLE>
<CAPTION>

	December 31,	
	1997	1998
	(In thousands)	
<S>	<C>	<C>
Projected benefit obligation	$188,724	$231,860
Accumulated benefit obligation	165,998	200,269
Fair value of plan assets	125,925	148,682

</TABLE>

Incentive bonus programs

The Company has incentive bonus programs for certain employees providing for annual payments, which may be in the form of NL common stock, based on formulas involving the profitability of Kronos in relation to the annual operating plan and, for most of these employees, individual performance.

Postretirement benefits other than pensions

In addition to providing pension benefits, the Company currently provides certain health care and life insurance benefits for eligible retired employees. Certain of the Company's U.S. and Canadian employees may become eligible for such postretirement health care and life insurance benefits if they reach retirement age while working for the Company. In 1989 the Company began phasing out such benefits for currently active U.S. employees over a ten-year period and employees retiring after 1998 will not be entitled to any such benefits. The majority of all retirees are required to contribute a portion of the cost of their benefits and certain current and future retirees are eligible for reduced health care benefits at age 65. The Company's policy is to fund medical claims as they are incurred, net of any contributions by the retirees.

For measuring the OPEB liability at December 31, 1998, the expected rate of increase in health care costs is 6% in 1999 and 5% in 2000 and years thereafter. Other weighted average assumptions used to measure the liability and expense are presented below.

<TABLE>
<CAPTION>

	Years ended December 31,		
	1996	1997	1998
	(Percentages)		
<S>	<C>	<C>	<C>
Discount rate	7.5	7.0	6.5
Long-term rate for compensation increases	6.0	6.0	6.0
Long-term rate of return on plan assets	9.0	9.0	9.0

</TABLE>

Variances from actuarially-assumed rates will result in additional increases or decreases in accrued OPEB liabilities, net periodic OPEB expense and funding requirements in future periods. If the health care cost trend rate was increased (decreased) by one percentage point for each year, postretirement benefit expense would have increased approximately $.1 million (decreased by $.1 million) in 1998, and the projected benefit obligation at December 31, 1998 would have increased by approximately $.9 million (decreased by $.8 million). During 1996 the Company curtailed certain Canadian employee OPEB benefits and recognized a $1.3 million gain. During 1998, as a result of the sale of Rheox, the Company settled certain U.S. employee OPEB benefits and recognized a $3.2 million gain, all of which is included in discontinued operations.

The components of the Company's net periodic postretirement benefit cost, excluding curtailment and settlement gains and discontinued operations, are set forth below. The net periodic postretirement benefit costs included in discontinued operations excluding the settlement gain was $.3 million in 1996, $.2 million in 1997 and nil in 1998.

	Years ended December 31,		
	1996	1997	1998
	(In thousands)		
Net periodic OPEB cost:			
Service cost benefits	$ 52	$ 39	$ 43
Interest cost on PBO	3,777	2,972	2,393
Expected return on plan assets	(596)	(584)	(583)
Amortization of prior service cost	(2,075)	(2,075)	(2,075)
Recognized actuarial losses (gains)	615	(305)	(811)
	$ 1,773	$ 47	$(1,033)

	December 31,	
	1997	1998
	(In thousands)	
Change in PBO:		
Beginning of year	$ 44,760	$ 36,994
Service cost	39	43
Interest cost	2,972	2,393
Actuarial losses (gains)	(5,696)	2,117
Discontinued operations:		
Service cost	66	--
Interest cost on PBO	194	--
Settlement gain	--	(2,354)
Benefits paid from:		
Company funds	(4,183)	(4,179)
Plan assets	(1,087)	(1,087)
Change in currency exchange rates	(71)	(115)
End of year	36,994	33,812
Change in fair value of plan assets:		
Beginning of year	6,689	6,527
Actual return on plan assets	450	450
Employer contributions	475	475
Benefits paid	(1,087)	(1,087)
End of year	6,527	6,365
Funded status at year end:		
Plan assets less than PBO	(30,467)	(27,447)
Unrecognized actuarial loss	(11,722)	(7,447)
Unrecognized prior service cost	(14,171)	(12,008)
	$(56,360)	$(46,902)
Amounts recognized in the balance sheet:		
Current	$ (5,409)	$ (5,243)
Noncurrent	(50,951)	(41,659)
	$(56,360)	$(46,902)

Note 12 - Shareholders' equity:

Common stock

<TABLE>
<CAPTION>

	Shares of common stock		
	Issued	Treasury stock	Outstanding
		(In thousands)	
<S>	<C>	<C>	<C>
Balance at December 31, 1995	66,839	15,748	51,091
Treasury shares reissued	--	(27)	27
Balance at December 31, 1996	66,839	15,721	51,118
Treasury shares reissued	--	(149)	149
Balance at December 31, 1997	66,839	15,572	51,267
Treasury shares reissued	--	(544)	544
Balance at December 31, 1998	66,839	15,028	51,811

</TABLE>

The Company reinstated a regular quarterly dividend in June 1998 and subsequently paid three quarterly $.03 per share cash dividends in 1998. On February 10, 1999, the Company's Board of Directors increased the regular quarterly dividend to $.035 per share and declared a dividend to shareholders of record as of March 17, 1999 to be paid on March 31, 1999.

Common stock options

The NL Industries, Inc. 1998 Long-Term Incentive Plan (the "NL Option Plan") provides for the discretionary grant of restricted common stock, stock options, stock appreciation rights ("SARs") and other incentive compensation to officers and other key employees of the Company. Although certain stock options granted pursuant to a similar plan which preceded the NL Option Plan ("the Predecessor Option Plan") remain outstanding at December 31, 1998, no additional options may be granted under the Predecessor Option Plan.

Up to five million shares of NL common stock may be issued pursuant to the NL Option Plan and, at December 31, 1998, 4,990,000 shares were available for future grants. The NL Option Plan provides for the grant of options that qualify as incentive options and for options which are not so qualified. Generally, stock options and SARs (collectively, "options") are granted at a price equal to or greater than 100% of the market price at the date of grant, vest over a five year period and expire ten years from the date of grant. Restricted stock, forfeitable unless certain periods of employment are completed, is held in escrow in the name of the grantee until the restriction period expires. No SARs have been granted under the NL Option Plan.

In addition to the NL Option Plan, the Company had a stock option plan for its nonemployee directors that expired in 1998. At December 31, 1998 there were options to acquire 8,000 shares of common stock outstanding under this plan, all of which were fully vested. Future grants to directors are expected to be granted from the NL Option Plan.

Changes in outstanding options granted pursuant to the NL Option Plan, the Predecessor Option Plan and the nonemployee director plan are summarized in the table below.

<TABLE>
<CAPTION>

		Exercise price per share		Amount payable upon exercise
	Shares	Low	High	
		(In thousands, except per share amounts)		
<S>	<C>	<C>	<C>	<C>

Outstanding at December 31, 1995	2,393	$ 4.81	$ 24.19	$ 27,321
Granted	218	14.25	17.25	3,316
Exercised	(27)	5.00	10.78	(262)
Forfeited	(10)	5.00	14.25	(91)
Expired	(1)	10.78	10.78	(6)
Outstanding at December 31, 1996	2,573	4.81	24.19	30,278
Granted	442	11.88	14.88	5,792
Exercised	(149)	4.81	11.81	(1,025)
Forfeited	(21)	5.00	22.29	(284)
Outstanding at December 31, 1997	2,845	4.81	24.19	34,761
Granted	474	17.97	21.97	9,334
Exercised	(960)	4.81	17.25	(8,740)
Forfeited	(240)	5.00	19.97	(4,336)
Outstanding at December 31, 1998	2,119	$ 5.00	$ 24.19	$ 31,019

</TABLE>

At December 31, 1996, 1997 and 1998 options to purchase 1,660,068, 1,801,955 and 957,861 shares, respectively, were exercisable and options to purchase 358,220 shares become exercisable in 1999. Of the exercisable options at December 31, 1998, options to purchase 641,621 shares had exercise prices less than the Company's December 31, 1998 quoted market price of $14.19 per share. Outstanding options at December 31, 1998 expire at various dates through 2008, with a weighted-average remaining life of six years.

The 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 options granted during 1996, 1997 and 1998 were $8.38, $6.35 and $9.78 per share, respectively. The fair values of employee stock options were calculated using the Black-Scholes stock option valuation model with the following weighted average assumptions for grants in 1996, 1997 and 1998: stock price volatility of 42%, 37% and 51% in 1996, 1997 and 1998, respectively; risk-free rate of return of 5% in 1996 and 1997 and 4% in 1998; no dividend yield in 1996 and 1997, and a dividend yield of .9% in 1998; and an expected term of 10 years in 1996, 9 years in 1997 and 8 years in 1998. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

The Company's pro forma net income (loss) and basic net income (loss) per common share were as follows. The pro forma impact on earnings per common share for 1996, 1997 and 1998 is not necessarily indicative of future effects on earnings per share.

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1996	1997	1998
	(In thousands except per share amounts)		
Net income (loss)- as reported	$ 10,817	$ (9,473)	$ 366,678
Net income (loss)- pro forma	$ 10,085	$ (11,057)	$ 363,843
Net income (loss) per basic common share - as reported	$ .21	$ (.19)	$ 7.13
Net income (loss) per basic common share - pro forma	$ .20	$ (.22)	$ 7.07

</TABLE>

Preferred stock

The Company is authorized to issue a total of five million shares of preferred stock. The rights of preferred stock as to dividends, redemption, liquidation and conversion are determined upon issuance.

Note 13 - Income taxes:

The components of (i) income (loss) from continuing operations before income taxes and minority interest ("pretax income (loss)"), (ii) the difference between the provision for income taxes attributable to pretax income (loss) and the amounts that would be expected using the U.S. federal statutory income tax rate of 35%, (iii) the provision for income taxes and (iv) the comprehensive tax provision are presented below.
<TABLE>
<CAPTION>

	Years ended December 31,		
	1996	1997	1998
	(In thousands)		
<S>	<C>	<C>	<C>
Pretax income (loss):			
U.S	$ 20,481	$ (9,308)	$ 57,638
Non-U.S	(30,715)	(18,381)	52,052
	$(10,234)	$ (27,689)	$ 109,690
Expected tax expense (benefit)	$ (3,581)	$ (9,692)	$ 38,391
Non-U.S. tax rates	(6)	(784)	339
German solidarity income taxes	--	3,597	2,168
Valuation allowance	3,013	5,107	(19,143)
Incremental tax on income of companies not included in the NL Tax Group	3,423	3,886	4,277
Refund of prior-year German dividend withholding taxes	--	--	(8,219)
U.S. state income taxes	(569)	231	307
Other, net	(784)	(101)	1,668
	$ 1,496	$ 2,244	$ 19,788

</TABLE>

<TABLE>
<CAPTION>

	Years ended December 31,		
	1996	1997	1998
	(In thousands)		
<S>	<C>	<C>	<C>
Provision for income taxes:			
Current income tax expense (benefit):			
U.S. federal	$ (3,539)	$ (6,881)	$ 850
U.S. state	(460)	681	307
Non-U.S	5,198	14,071	13,643
	1,199	7,871	14,800
Deferred income tax expense (benefit):			
U.S. federal	(6,493)	1,224	2,112
U.S. state	(668)	(450)	--
Non-U.S	7,458	(6,401)	2,876
	297	(5,627)	4,988
	$ 1,496	$ 2,244	$ 19,788
Comprehensive provision (benefit) for income taxes allocable to:			
Pretax income (loss)	$ 1,496	$ 2,244	$ 19,788
Discontinued operations	13,337	12,475	87,000
Extraordinary item	--	--	(5,698)
Additional paid-in capital	--	--	(3,796)

Other comprehensive income:			
Marketable securities	971	1,626	108
Currency translation	(642)	410	--
	$ 15,162	$ 16,755	$ 97,402

</TABLE>

The components of the net deferred tax liability are summarized below:

<TABLE>
<CAPTION>

	December 31,			
	1997		1998	
	Deferred tax		Deferred tax	
	Assets	Liabilities	Assets	Liabilities
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Tax effect of temporary differences relating to:				
Inventories	$ 4,223	$ (2,674)	$ 3,359	$ (3,858)
Property and equipment ...	--	(105,806)	--	(110,189)
Accrued postretirement benefits cost	19,682	--	16,434	--
Accrued (prepaid) pension cost	5,296	(16,697)	5,341	(18,921)
Accrued environmental costs	45,242	--	42,666	--
Noncompete agreement	--	--	5,717	--
Other accrued liabilities and deductible differences	42,393	--	17,094	--
Other taxable differences	--	(85,139)	--	(135,487)
Tax on unremitted earnings of non-U.S. subsidiaries	--	(17,551)	--	(21,351)
Tax loss and tax credit carryforwards	167,680	--	138,211	--
Valuation allowance	(188,585)	--	(134,477)	--
Gross deferred tax assets (liabilities)	95,931	(227,867)	94,345	(289,806)
Reclassification, principally netting by tax jurisdiction	(94,179)	94,179	(92,390)	92,390
Net total deferred tax assets (liabilities)	1,752	(133,688)	1,955	(197,416)
Net current deferred tax assets (liabilities)	1,642	(891)	1,955	(1,236)
Net noncurrent deferred tax assets (liabilities)	$ 110	$(132,797)	$ --	$(196,180)

</TABLE>

Changes in the Company's deferred income tax valuation allowance during the past three years are summarized below. The decrease in deductible temporary differences in 1998 includes items that have been reported as discontinued operations.

	Years ended December 31,		
	1996	1997	1998
	(In thousands)		
Balance at the beginning of year	$ 195,569	$ 207,117	$ 188,585
Recognition of certain deductible tax attributes which previously did not meet the "more-likely-than-not" recognition criteria	(10,766)	(11,106)	(64,274)
Increase in certain deductible temporary differences which the Company believes do not meet the "more-likely-than-not" recognition criteria	13,779	16,213	6,964
Offset to the change in gross deferred income tax assets due to dual residency status of a Company subsidiary and redetermination of certain U.S. tax attributes	14,472	(11,300)	(3,734)
Foreign currency translation	(5,937)	(12,339)	6,936
Balance at the end of year	$ 207,117	$ 188,585	$ 134,477

Certain of the Company's tax returns in various U.S. and non-U.S. jurisdictions are being examined and tax authorities have proposed or may propose tax deficiencies, including non-income tax related items and interest. The Company previously reached an agreement with the German tax authorities and paid certain tax deficiencies of approximately DM 44 million ($28 million when paid), including interest, which resolved significant tax contingencies for years through 1990. In the third quarter of 1998, the Company received a DM 14 million ($8.2 million when received) refund of 1990 German dividend withholding taxes. The German tax authorities were required to refund such amounts based on a 1998 German Supreme Court decision in favor of another taxpayer. The refund resulted in a reduction of the settlement amount from DM 44 million referred to above to DM 30 million for years through 1990. No further withholding tax refunds are expected.

Certain other significant German tax contingencies aggregating an estimated DM 172 million ($103 million at December 31, 1998) through 1997 remain outstanding and are in litigation. Of these, one primary issue represents disputed amounts aggregating DM 160 million ($96 million at December 31, 1998) for years through 1997. The Company has received tax assessments for a substantial portion of these amounts. No payments of tax or interest deficiencies related to these assessments are expected until the litigation is resolved. During 1997 a German tax court proceeding involving a tax issue substantially the same as this issue was decided in favor of the taxpayer. The German tax authorities appealed that decision to the German Supreme Court which in February 1999 rendered its judgment in favor of the taxpayer. The Company

believes that the German Supreme Court's judgment should determine the outcome of the Company's primary dispute with the German tax authorities. Based on this recent favorable judgment, the Company will request that the tax assessments be withdrawn. The Company has granted a DM 94 million ($57 million at December 31, 1998) lien on its Nordenham, Germany TiO_2 plant in favor of the City of Leverkusen related to this tax contingency, and a DM 5 million ($3 million at December 31, 1998) lien in favor of the German federal tax authorities for other tax contingencies. If the German tax authorities withdraw their assessments based on the German Supreme Court's decision, the Company expects to request the release of the DM 94 million lien in favor of the City of Leverkusen.

In addition, during 1997 the Company reached an agreement with the German tax authorities regarding certain other issues not in litigation for the years 1991 through 1994, and agreed to pay additional tax deficiencies of DM 9 million ($5 million at December 31, 1998), most of which was paid in the third quarter of 1998.

During 1997 the Company received a tax assessment from the Norwegian tax authorities proposing tax deficiencies of NOK 51 million ($7 million at December 31, 1998) relating to 1994. The Company has appealed this assessment and has begun litigation proceedings. During 1998 the Company was informed by the Norwegian tax authorities that additional tax deficiencies of NOK 39 million ($5 million at December 31, 1998) will likely be proposed for the year 1996. The Company intends to vigorously contest this issue and litigate, if necessary. Although the Company believes that it will ultimately prevail, the Company has granted a lien for the 1994 tax assessment on its Fredrikstad, Norway TiO_2 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 the Company's favor in view of the inherent uncertainties involved in court proceedings. The Company 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 the Company's consolidated financial position, results of operations or liquidity.

The Company utilized foreign tax credit carryforwards of $2 million in 1996 and $17 million in 1997, and utilized U.S. net operating loss carryforwards of $20 million in 1997 to reduce U.S. federal income tax expense. In 1998 the Company utilized $13 million of alternative minimum tax credit carryforwards (the benefit of which was recognized in discontinued operations) to reduce U.S. federal income tax expense and $6 million of foreign tax credit carryovers expired unutilized. At December 31, 1998 for U.S. federal income tax purposes, the Company has approximately $2 million of unutilized foreign tax credit carryforwards which expire in 1999. The Company also has approximately $360 million of income tax loss carryforwards in Germany with no expiration date.

Note 14 - Other income, net:

<TABLE>
<CAPTION>

	Years ended December 31,		
	1996	1997	1998
	(In thousands)		
<S>	<C>	<C>	<C>
Securities earnings:			
Interest and dividends	$ 4,708	$ 2,736	$ 14,921
Securities transactions	--	2,657	--
	4,708	5,393	14,921
Currency transaction gains, net	5,890	5,919	4,157
Noncompete agreement income	--	--	3,667
Trade interest income	1,613	2,983	2,115
Disposition of property and equipment	(2,236)	1,735	(768)
Technology fee income	8,743	--	--
Pension and OPEB curtailment gains	3,240	--	--
Litigation settlement gains	2,756	--	--
Other, net	2,955	3,337	1,361
	$ 27,669	$19,367	$ 25,453

</TABLE>

The Company received a $20 million fee as part of the sale of Rheox in January 1998 in payment for entering into a five-year covenant not to compete in the rheological products business. The Company is amortizing the fee to income using the straight-line method over the five-year noncompete period beginning January 30, 1998. Technology fee income was amortized by the straight-line method over a three-year period ending October 1996.

Note 15 - Other items:

Advertising costs included in continuing operations, expensed as incurred, were $1 million in each of 1996, 1997 and 1998.

Research, development and certain sales technical support costs included in continuing operations is expensed as incurred and approximated $8 million in 1996 and $7 million in each of 1997 and 1998.

Interest capitalized related to continuing operations in connection with long-term capital projects was $2 million in each of 1996 and 1997 and $1 million in 1998.

Note 16 - Related party transactions:

The Company may be deemed to be controlled by Harold C. Simmons. 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. While no transactions of the type described above are planned or proposed with respect to the Company other than as set forth in this Annual Report on Form 10-K, the Company from time to time considers, reviews and evaluates and understands that Contran, Valhi and related entities consider, review and evaluate, such transactions. Depending upon the business, tax and other objectives then relevant, and restrictions under the indentures and other agreements, 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.

The Company is a party to an intercorporate services agreement with Contran (the "Contran ISA") whereby Contran provides certain management services to the Company on a fee basis. Management services fee expense related to the Contran ISA was $.4 million in 1996, $.5 million in 1997 and $1.0 million in 1998.

The Company is a party to an intercorporate services agreement with Valhi (the "Valhi ISA") whereby Valhi and the Company provide certain management, financial and administrative services to each other on a fee basis. Net management services fee expense (income) related to the Valhi ISA was $.1 million in 1996, $(.1) million in 1997 and nil in 1998.

The Company is party to an intercorporate services agreement with Tremont (the "Tremont ISA"). Under the terms of the contract, the Company provides certain management and financial services to Tremont on a fee basis. Management services fee income related to the Tremont ISA was $.1 million in 1996, $.2 million in 1997 and $.1 million in 1998.

The Company is party to an intercorporate services agreement (the "Timet ISA") with Titanium Metals Corporation ("Timet"), approximately 39% of the outstanding common stock of which is currently held by Tremont. Under the terms of the contract, the Company provides certain management and financial services to Timet on a fee basis. Management services fee income related to the Timet ISA was $.3 million in each of 1997 and 1998.

The Company is party to an intercorporate services agreement (the "CompX ISA") with CompX International, Inc. ("CompX"). Under the terms of the contract, the Company provides certain management and administrative services to CompX on a fee basis. Management services fee income related to the CompX ISA was $.1 million in 1998.

Purchases of TiO2 from LPC were $69.8 million in 1996, $78.1 million in 1997 and $89.0 million in 1998.

An employee of the Company has been granted options to purchase Valhi common stock under the terms of Valhi's stock option plans. Prior to March 1998,

the Company paid Valhi the aggregate difference between the option price and the market value of Valhi's common stock on the exercise date of such options. For financial reporting purposes, the Company accounts for the related expense of $1,000 in 1996, $68,000 in 1997 and nil in 1998 in a manner similar to accounting for SARs. Subsequent to March 1998, the Company no longer will pay Valhi upon the exercise of such options.

The Company and NL Insurance, Ltd. of Vermont ("NLIV"), a wholly-owned subsidiary of Tremont, are parties to an Insurance Sharing Agreement ("ISA") with respect to certain loss payments and reserves established by NLIV that (i) arise out of claims against other entities for which the Company is responsible and (ii) are subject to payment by NLIV under certain reinsurance contracts. Also, NLIV will credit the Company with respect to certain underwriting profits or credit recoveries that NLIV receives from independent reinsurers that relate to retained liabilities. In the first quarter of 1999 the Company collateralized letters of credit issued and outstanding on behalf of NLIV pursuant to the ISA with $9.7 million of the Company's cash, and expects to classify such amount as current restricted cash equivalents in the first quarter of 1999.

EWI RE, Inc. ("EWI") arranges for and brokers certain of the Company's insurance policies and those of the Company's 50%-owned joint venture. 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. Consistent with insurance industry practices, EWI receives a commission from the insurance underwriters for the policies that it arranges or brokers. The Company and its joint venture paid an aggregate of approximately $3.0 million for such policies in 1998, which amount principally included payments for reinsurance premiums paid to third parties, but also included commissions paid to EWI.

Net amounts payable to affiliates are summarized in the following table.

<TABLE>
<CAPTION>

	December 31, 1997	December 31, 1998
	(In thousands)	
<S>	<C>	<C>
Tremont Corporation	$ 3,354	$ 3,053
LPC	8,513	8,264
Other, net	(355)	(692)
	$ 11,512	$ 10,625

</TABLE>

Amounts payable to LPC are generally for the purchase of TiO2 (see Note 6), and amounts payable to Tremont principally relate to the Company's Insurance Sharing Agreement described above.

Note 17 - Commitments and contingencies:

Leases

The Company leases, pursuant to operating leases, various manufacturing and office space and transportation equipment. Most of the leases contain purchase and/or various term renewal options at fair market and fair rental values,

respectively. In most cases management expects that, in the normal course of business, leases will be renewed or replaced by other 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 the Company's ability to transfer ownership or use of the Leverkusen facility.

Net rent expense included in continuing operations aggregated $8 million in 1996, $7 million in 1997 and $6 million in 1998. At December 31, 1998 minimum rental commitments under the terms of noncancellable operating leases, excluding discontinued operations, were as follows:
<TABLE>
<CAPTION>

Years ending December 31,	Real Estate	Equipment

(In thousands)		
<S>	<C>	<C>
1999	$ 2,151	$1,130
2000	1,135	722
2001	1,093	300
2002	1,093	105
2003	916	32
2004 and thereafter	19,996	5
	-------	------
	$26,384	$2,294
	=======	======

</TABLE>

Capital expenditures

At December 31, 1998 the estimated cost to complete capital projects in process approximated $14 million, including $7 million to complete a landfill expansion for the Company's Belgian facility.

Purchase commitments

The Company has long-term supply contracts that provide for the Company's chloride feedstock requirements through 2000. The agreements require the Company to purchase certain minimum quantities of feedstock with average minimum annual purchase commitments aggregating approximately $98 million.

Legal proceedings

Lead pigment litigation. Since 1987, the Company, 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 and property damage allegedly caused by the use of lead-based paints. Certain of these actions have been filed by or on behalf of 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, strict liability, 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; some are on appeal.

The Company believes that these actions are without merit, intends to continue to deny all allegations of wrongdoing and liability and to defend all actions vigorously. The Company has not accrued any amounts for the pending lead pigment litigation. Considering the Company'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. Some of the Company'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, the Company has been named a potential responsible party ("PRP") pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA") in approximately 75 governmental and private actions associated with hazardous waste sites and former mining locations, certain of which are on the U.S. Environmental Protection Agency'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 the Company 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, the Company is a party to a number of lawsuits filed in various jurisdictions alleging CERCLA or other environmental claims. At December 31, 1998 the Company had accrued $126 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 the range of reasonably possible costs to the Company for sites which it is possible to estimate costs is approximately $160 million. The Company's estimates of such liabilities have not been discounted to present value, and the Company has not recognized any potential insurance recoveries. 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. 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.

Certain of the Company'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 the Company have the potential to cause environmental or other damage. The Company has implemented and continues to implement various policies and programs in an effort to minimize these risks. The policy of the Company 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 the Company's production, handling, use, storage, transportation, sale or disposal of such substances as well as the Company's consolidated financial position, results of operations or liquidity.

Other litigation. The Company is also involved in various other environmental, contractual, product liability and other claims and disputes incidental to its present and former businesses.

The Company currently believes the disposition of all claims and disputes individually or in the aggregate, should not have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

Concentrations of credit risk

Sales of TiO_2 accounted for more than 90% of net sales from continuing operations during each of the past three years. The remaining sales result from the mining and sale of ilmenite ore (a raw material used in the sulfate pigment production process), and the manufacture and sale of iron-based water treatment chemicals (derived from co-products of the TiO_2 production processes). TiO_2 is sold to the paint, plastics and paper industries. Such markets are generally considered "quality-of-life" markets whose demand for TiO_2 is influenced by the relative economic well-being of the various geographic regions. TiO_2 is sold to over 4,000 customers, none of which represents a significant portion of net sales. In each of the past three years, approximately one-half of the Company's TiO_2 sales by volume were to Europe and approximately 37% in 1996, 36% in 1997 and 37% in 1998 of sales were attributable to North America.

Consolidated cash, cash equivalents and restricted cash equivalents includes $53 million and $136 million invested in U.S. Treasury securities purchased under short-term agreements to resell at December 31, 1997 and 1998, respectively, of which $45 million and $126 million, respectively, of such securities are held in trust for the Company by a single U.S. bank.

Note 18 - Financial instruments:

Summarized below is the estimated fair value and related net carrying value of the Company's financial instruments.

<TABLE>
<CAPTION>

	December 31, 1997		December 31, 1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value

	(In millions)			
<S>	<C>	<C>	<C>	<C>
Cash, cash equivalents and current restricted cash equivalents	$ 106.1	$106.1	$163.1	$163.1
Marketable securities - classified as available-for-sale	17.3	17.3	17.6	17.6
Notes payable and long-term debt:				
Fixed rate with market quotes:				
Senior Secured Notes	$ 250.0	$277.9	$244.0	$253.1
Senior Secured Discount Notes	169.9	186.7	-	-
Variable rate debt	338.3	338.3	150.0	150.0
Common shareholders' equity (deficit)	$(222.3)	$698.5	$152.3	$735.1

</TABLE>

Fair value of the Company's marketable securities and Notes are based upon quoted market prices and the fair value of the Company's common shareholder's equity (deficit) is based upon quoted market prices for NL's common stock at the end of the year.

In connection with its credit facility, Rheox entered into interest rate collar agreements in 1997 which effectively set minimum and maximum U.S. LIBOR interest rates of 5.25% and 8%, respectively, on $50 million principal amount of its variable-rate bank term loan through May 2001. The margin on such borrowings ranged from .75% to 1.75%, depending upon the level of a certain Rheox financial ratio. The Company was exposed to interest rate risk in the event of nonperformance by the other parties to the agreements. At December 31, 1997 the estimated fair value of such agreements was estimated to be a $.1 million payable. Such fair value represented the amount the Company would pay if it terminated the collar agreements at that date, and is based upon quotes obtained from the counter party financial institutions. The Company terminated these agreements in the first quarter of 1998 concurrently with the prepayment and termination of the underlying credit facility. See Note 20. The Company held no derivative financial instruments at December 31, 1998.

Note 19 - Quarterly financial data (unaudited):

<TABLE>
<CAPTION>

	Quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
	(In thousands, except per share amounts)			
<S>	<C>	<C>	<C>	<C>
Year ended December 31, 1997:				
Net sales	$ 204,389	$ 214,354	$210,343	$208,154
Cost of sales	167,175	172,679	162,499	147,592
Operating income	8,689	16,815	24,908	32,089
Income (loss) from continuing operations	(40,180)	(3,428)	3,984	9,749
Net income (loss)	$ (35,721)	$ 2,255	$ 9,761	$ 14,232
Basic and diluted earnings per share:				
Income (loss) from continuing operations	$ (.79)	$ (.07)	$ .08	$ .19
Net income (loss)	$ (.70)	$ .04	$ .19	$ .28
Weighted average common shares and potential common shares outstanding:				
Basic	51,140	51,144	51,146	51,175
Diluted	51,140	51,144	51,585	51,717
Year ended December 31, 1998:				
Net sales	$ 222,629	$ 241,645	$221,520	$208,930
Cost of sales	156,915	167,329	151,782	142,421
Operating income	39,399	46,725	45,024	40,033
Income from continuing				

operations	16,300	23,414	31,359	18,789
Net income	$ 301,015	$ 23,729	$ 28,959	$ 12,975
Earnings per share:				
Basic:				
Income from continuing operations	$ .32	$ .46	$ .61	$ .36
Net income	$ 5.87	$ .46	$ .56	$ .25
Diluted:				
Income from continuing operations	$ .31	$ .45	$ .60	$ .36
Net income	$ 5.80	$ .46	$ .55	$ .25
Weighted average common shares and potential common shares outstanding:				
Basic	51,282	51,341	51,444	51,805
Diluted	51,852	52,030	52,194	52,014

</TABLE>

Note 20 - Discontinued operations:

The Company sold the net assets of its Rheox specialty chemical business to Elementis plc for $465 million cash (before fees and expenses) in January 1998, including $20 million attributable to a five-year agreement by the Company not to compete in the rheological products business. The Company recognized an after-tax gain of approximately $286 million on the sale of this business segment. As a result of the sale, the Company has presented the results of this business segment as discontinued operations for all periods presented. Following the sale of its assets, Rheox, Inc. was renamed NL Capital Corporation.

Condensed income statements related to discontinued operations for the years ended December 31, 1996 and 1997 and the month ended January 31, 1998 are as follows. Interest expense has been allocated to discontinued operations based on the amount of debt specifically attributed to Rheox's operations.

<TABLE>
<CAPTION>

	Years ended December 31,		Month ended January 31,
	1996	1997	1998
	(In thousands)		
<S>	<C>	<C>	<C>
Net sales	$ 134,895	$ 147,199	$ 12,630
Other income (expense), net	2,811	(200)	(50)
	137,706	146,999	12,580
Cost of sales	69,843	73,583	6,969
Selling, general and administrative	26,310	29,231	2,737
Interest expense	5,706	11,207	771
	101,859	114,021	10,477
Income before income taxes and minority interest	35,847	32,978	2,103
Income tax expense	13,337	12,475	778
Minority interest	(42)	101	--
	22,552	20,402	1,325
Gain from sale of Rheox, net of tax expense of $86,222	--	--	286,071

	$ 22,552	$ 20,402	$ 287,396
	=========	=========	=========

</TABLE>

A condensed balance sheet related to discontinued operations included in the Company's consolidated balance sheet at December 31, 1997 is as follows.

<TABLE>
<CAPTION>

ASSETS	December 31, 1997 (In thousands)
<S>	<C>
Current assets:	
Cash and cash equivalents	$ 9,137
Accounts and notes receivable	15,415
Inventories	19,921
Other current assets	6,443
Total current assets	50,916
Other assets:	
Property, plant and equipment, net	30,308
Other assets	7,411
	$ 88,635
LIABILITIES AND STOCKHOLDER'S DEFICIT	
Current liabilities:	
Current maturities of long-term debt	$ 15,000
Other current liabilities	19,129
Total current liabilities	34,129
Noncurrent liabilities:	
Long-term debt	102,500
Deferred income taxes	2,485
Other noncurrent liabilities	4,489
Total noncurrent liabilities	109,474
Stockholder's deficit	(54,968)
	$ 88,635

</TABLE>

Condensed cash flow data for Rheox (excluding dividends paid to, contributions received from and intercompany loans with NL) is presented below.

<TABLE>
<CAPTION>

	Years ended December 31, 1996	Years ended December 31, 1997	Month ended January 31, 1998

(In thousands)

<S>

Cash flows from operating activities	$ 20,705	$ 31,506	$ (30,587)
Cash flows from investing activities:			
Capital expenditures	(2,665)	(2,330)	(26)
Purchase of minority interests	(5,168)	--	--
Other, net	457	16	--
	(7,376)	(2,314)	(26)
Cash flows from financing activities:			
Indebtedness, net	(23,041)	100,940	(117,500)
Other, net	(451)	--	--
	(23,492)	100,940	(117,500)
Net change from operating, investing and financing activities	$ (10,163)	$ 130,132	$(148,113)

</TABLE>