

TRONOX

Tronox Incorporated
Consolidated Financial Statements
December 31, 2011

TRONOX INCORPORATED MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the information contained in the audited annual Consolidated Financial Statements for Tronox Incorporated for the eleven months ended December 31, 2011, one month ended January 31, 2011 and years ended December 31, 2010 and 2009 and the related notes thereto. This discussion contains forward-looking statements that involve risks and uncertainties, and actual results could differ materially from those discussed in the forward-looking statements as a result of numerous factors. See "Cautionary Note Regarding Forward-Looking Statements."

This Tronox Incorporated Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain financial measures, in particular the presentation of Income (Loss) from Operations, which are not presented in accordance with GAAP. These non-GAAP financial measures are being presented because they provide Tronox Incorporated and readers of this proxy statement/prospectus with additional insight into Tronox Incorporated's operational performance relative to earlier periods and relative to its competitors. We do not intend for these non-GAAP financial measures to be a substitute for any GAAP financial information. Readers of this proxy statement/prospectus should use these non-GAAP financial measures only in conjunction with the comparable GAAP financial measures. Reconciliations of Income (Loss) from Operations to Income (Loss) from Continuing Operations, the most comparable GAAP measure, are provided in this proxy statement/prospectus.

General

Tronox Incorporated is one of the leading producers and marketers of TiO₂ by capacity, which is used in consumer products such as paint, plastic and certain specialty products. Tronox Incorporated is one of the few TiO₂ manufacturers with global operations having production facilities and sales and marketing presence in the Americas, Europe and the Asia-Pacific regions.

Tronox Incorporated operates chloride process TiO₂ production facilities in Hamilton, Mississippi; Botlek, the Netherlands; and Kwinana, Western Australia. The Hamilton, Mississippi facility is the third largest plant of its kind and the Kwinana Facility is a fully integrated facility that is part of the Tiwest Joint Venture. In connection with the Transaction, the Tiwest Joint Venture will become a wholly-owned business of Tronox Incorporated. The joint venture is an integral aspect of our operations due to its backward integration into titanium ore raw materials. See the discussion of the Tiwest Joint Venture below.

Tronox Incorporated's global presence enables it to sell its products to a diverse portfolio of customers with whom it has well-established relationships. Tronox Incorporated's customer base consists of more than 1,000 customers in approximately 90 countries and includes market leaders in each of the major end-use markets for TiO₂. Additionally, Tronox Incorporated has supplied each of its top ten customers with TiO₂ for more than ten years.

In addition to its pigment business, Tronox Incorporated has other operations that manufacture and market electrolytic and specialty chemical products. Tronox Incorporated's electrolytic and other chemical products businesses produce electrolytic manganese dioxide, sodium chlorate, boron-based and other specialty chemicals, and is focused on three end-use markets: advanced battery materials, sodium chlorate for pulp and paper manufacture and specialty boron products serving the semi-conductor, pharmaceutical and igniter industries.

The Tiwest Joint Venture. Historically, Tronox Incorporated and Exxaro have operated the Tiwest Joint Venture, which includes a chloride process TiO₂ plant located at the Kwinana Facility, a mining venture in Cooljarloo, Western Australia, and a mineral separation plant and synthetic rutile processing facility, both in Chandala, Western Australia. The Tiwest Joint Venture also includes operations related to heavy minerals production other than titanium bearing ores. The heavy minerals produced by the Tiwest Joint Venture are used by its own mining and separation facilities, and sold to Tronox Incorporated facilities and to third parties. These include natural rutile, leucoxene and the co-product zircon. Because of the terms of the joint ownership agreement governing the Tiwest Joint Venture, the joint venture is proportionately consolidated in Tronox Incorporated's financial statements. The assets in the Tiwest Joint Venture are jointly controlled by Tronox Incorporated and Exxaro, as each has an undivided interest in them. As a result, Tronox Incorporated's Consolidated Balance Sheets presented in this proxy statement/prospectus include Tronox Incorporated's share of the assets that are jointly controlled and Tronox Incorporated's share of the liabilities for which it is jointly responsible. Tronox Incorporated's Consolidated Statements of Operations include its share of the income and expenses of the Tiwest Joint Venture. Through a separate agreement, Tronox Incorporated is responsible for the marketing of Exxaro's share of the TiO₂ production in which capacity it acts as principal and bears the credit risk for such sales. As a result, the aggregate TiO₂ production allocated to Exxaro has been included in Tronox Incorporated's net sales, and the cost attributable to buying Exxaro's share of TiO₂ production at market price has been included in Tronox Incorporated's cost of goods sold. In connection with the Transaction, Tronox Limited will acquire Exxaro's 50.0% interest in the Tiwest Joint Venture and operate the business as a wholly-owned business, assuming the exchange of all the Exchangeable Shares.

Segment Evaluation. Tronox Incorporated's business has one reportable segment, pigment. The pigment segment primarily produces and markets TiO₂, and has production facilities in the United States, Australia and the Netherlands. Tronox Incorporated's other business line, electrolytic and other chemical products, is comprised of its electrolytic manufacturing and marketing operations.

Corporate and other is comprised of corporate activities and businesses that are no longer in operation. Although Tronox Incorporated's electrolytic and other chemical products business line and corporate and other do not constitute reportable segments under Accounting Standards Codification ("ASC") 280, *Segment Reporting* ("ASC 280"), they are discussed and disclosed separately in this proxy statement/prospectus as management believes that providing this information is useful to the readers.

Tronox Incorporated evaluates the pigment segment's performance separately based on segment income (loss) from operations, which represents the results of segment operations before unallocated costs, such as general corporate expenses not identified to a specific segment, environmental provisions related to sites no longer in operation, interest and debt expense, income tax expense or benefit, reorganization income (expense) and other income (expense). Total income (loss) from operations of Tronox Incorporated's segment and other business lines is a financial measure of its performance, which is not determined in accordance with GAAP, as it excludes the items listed above, all of which are components of "Income (Loss) from Continuing Operations," on the Consolidated Statements of Operations, the most comparable GAAP measure.

General Factors Affecting the Results of Continuing Operations

The following strategic and operational events during the eleven months ended December 31, 2011, one month ended January 31, 2011, and years ended December 31, 2010 and 2009, affected Tronox Incorporated's results of operations as follows:

RTI Hamilton Settlement - The outstanding legal disputes between Tronox Incorporated and RTI Hamilton, Inc dating back to 2008 have come to a close with the parties reaching an agreement in principle during August 2011. The settlement agreement reflects a compromise and settlement of disputed claims in complete accord and satisfaction thereof. RTI Hamilton paid Tronox Incorporated \$10.5 million on September 12, 2011, including \$0.7 million in payment for capital costs incurred by Tronox Incorporated in relation to the agreement, including interest.

Tiwest Joint Venture Expansion - The expansion of the Tiwest Joint Venture TiO₂ plant in Kwinana, Western Australia was completed and commissioned at the end of the second quarter of 2010. The expansion increased TiO₂ production capacity at the Kwinana Facility from 110,000 to 150,000 tonnes per annum. While Tronox Incorporated was in bankruptcy, Exxaro funded the majority of the expansion. Tronox Incorporated bought into its 50.0% share of the TiO₂ plant expansion as of June 30, 2011 for \$79.1 million. Going forward, Tronox Incorporated expects that the increase in tonnes per annum will increase profitability due to acquiring the incremental production at the cost of production versus purchasing the tonnes at market prices.

Financing Arrangement - In March 2011, the Tiwest Joint Venture acquired a steam and electricity gas fired co-generation plant adjacent to the Kwinana Facility, through a five year financing arrangement. Tronox Western Australia Pty Ltd, our wholly-owned subsidiary, owns a 50.0% undivided interest in the co-generation plant through the Tiwest Joint Venture. As a result, Tronox Incorporated incurred additional debt totaling \$8.0 million in order to finance its share of the asset purchase. Under the financing arrangement, monthly payments are required and interest accrues on the remaining balance owed at the rate of 6.5% per annum. During the eleven months ended December 31, 2011, Tronox Incorporated made scheduled repayments of \$1.5 million. In connection with the Transaction, the operations of the Tiwest Joint Venture will become wholly-owned by Tronox Limited, and we expect Tronox Limited will continue to experience increased profitability from the plant.

Tiwest Joint Venture Outages - During the fourth quarter of 2010, the Tiwest Joint Venture was impacted by outages experienced by the Kwinana Facility's industrial gas supplier, Air Liquide WA. The Kwinana Facility lost 13 days of production with approximately another 12 days of production at significantly reduced rates. As a result of these outages and the lost production, Tronox Incorporated recorded idle facility charges of \$3.3 million during the fourth quarter. Tronox Incorporated is reviewing both contractual and insurance remedies to mitigate the business interruption loss, but does not yet have an estimate for any potential recovery.

Savannah Facility - In December 2009, Tronox Incorporated completed the idling of the Savannah TiO₂ operations. On July 21, 2009, Tronox Incorporated announced its decision to idle the production at its Savannah facility. Tronox Incorporated subsequently removed all proprietary technology related to the TiO₂ operations, wrote down certain inventories to net realizable value and recognized a restructuring charge for severance payments to employees of the Savannah TiO₂ operations. Pursuant to the Plan, the Savannah site was transferred to an environmental response trust upon Tronox Incorporated's emergence from bankruptcy on February 14, 2011. Tronox Incorporated has determined that the Savannah TiO₂ operations do not meet the criteria for discontinued operations treatment. Therefore, the financial results of the Savannah TiO₂ operations are included in the pigment segment. The sulfuric acid operations and other residual costs related to the former sulfate operations are included in corporate and other. Historical revenues attributable to our Savannah facility for the eleven months ended December 31, 2011, one month ended January 31, 2011 and years ended December 31, 2010 and 2009 were \$0.1 million, \$2.4 million, \$37.4 million, and \$107.4 million, respectively.

Emergence from Chapter 11

On the Petition Date, the Debtors, including Tronox Incorporated, filed voluntary petitions in the United States Bankruptcy Court seeking reorganization relief under the Bankruptcy Code. The Chapter 11 cases were consolidated for procedural purposes and were jointly administered under the caption *In re Tronox Incorporated*, et al., Case No. 09-10156 (ALG), and the Debtors operated their businesses and managed their properties as "debtors in possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

Material conditions to the Plan, most notably the settlement of the claims related to the Debtor's legacy environmental liabilities (the "Legacy Environmental Liabilities") and tort liabilities (the "Legacy Tort Liabilities" and collectively, with the Legacy Environmental Liabilities, the "KM Legacy Liabilities"), were resolved during the period from the Confirmation Date until January 26, 2011. Subsequently, on February 14, 2011 (the "Effective Date"), Tronox Incorporated emerged from bankruptcy and continued operations as reorganized Tronox Incorporated.

Following its emergence from the Chapter 11 proceedings, reorganized Tronox Incorporated was free from the significant KM Legacy Liabilities and was sufficiently capitalized. With respect to claims related to the Legacy Environmental Liabilities, the claimants received a settlement that was allocated to certain environmental response trusts and environmental agencies in accordance with the terms of a settlement agreement (the "Environmental Claims Settlement Agreement"), which consideration constitutes a fair and equitable settlement of the potential numerous claims and varying priorities of the Legacy Environmental Liabilities claims.

In exchange, those claimants provided the Debtors and the reorganized Tronox Incorporated with discharges and/or covenants not to sue with respect to the Debtors liability for the Legacy Environmental Liabilities subsequent to the Effective Date. Similarly, the Plan provided for the creation and funding of a torts claim trust (the "Tort Claims Trust"), which became the sole source of distributions to holders of Legacy Tort Liabilities claims, who were paid in accordance with the terms of such trust's governing documentation.

In conjunction with the transfer of liabilities achieved through allocating funds to the applicable trusts and/or responsible agencies, the Plan preserved Tronox Incorporated, which was reorganized around its existing operating locations, including: (a) its headquarters and technical facility at Oklahoma City, Oklahoma; (b) the titanium dioxide facilities at Hamilton, Mississippi and Botlek, Netherlands; (c) the electrolytic chemical businesses at Hamilton, Mississippi and Henderson, Nevada (except that the real property and buildings associated with such business was transferred to an environmental response trust and reorganized Tronox Incorporated is not responsible for environmental remediation related to historic contamination at such site); and (d) its interest in the Tiwest Joint Venture in Australia.

As part of the emergence from the Chapter 11 proceedings, Tronox Incorporated relied on a combination of debt financing and money from new equity issued to certain existing creditors. Specifically, such funding included: (i) total funded exit financing of no more than \$470 million; (ii) the proceeds of a \$185 million rights offering (the "Rights Offering") open to substantially all unsecured creditors and backstopped by certain groups; (iii) settlement of government claims related to the Legacy Environmental Liabilities through the creation of certain environmental response trusts and a litigation trust; (iv) settlement of claims related to the Legacy Tort Liabilities through the establishment of a torts claim trust; (v) issuance of new common stock (the "New Common Stock") whereby holders of the allowed general unsecured claims received their pro rata share of 50.9% of the New Common Stock on the Effective Date, and the opportunity to participate in the Rights Offering for an aggregate of 49.1% of the New Common Stock, also issued on the Effective Date; and (vi) issuance of warrants, on the Effective Date, to the holders of equity prior to the Debtors' emergence from bankruptcy, consisting of two tranches: the new series A warrants (the "Series A Warrants") and the new series B warrants (the "Series B Warrants"), to purchase their pro rata share of a combined total of 7.5% of the New Common Stock, after and including the issuance of any New Common Stock upon exercise of the Series A Warrants and the Series B Warrants.

The consummation of the Plan resulted in a substantial realignment of the interests in Tronox Incorporated between existing prepetition creditors and stockholders. As a result, Tronox Incorporated was required to adopt fresh-start accounting. Having resolved the material contingencies related to implementing the Plan, most notably the approval under U.S. federal and applicable state environmental law of the settlement of the Legacy Environmental Liabilities, on January 26, 2011, and due to the proximity to Tronox Incorporated's end of the month accounting period, which closed on January 31, 2011, it applied fresh-start accounting as of January 31, 2011. Tronox Incorporated evaluated the activity between January 26, 2011 and January 31, 2011 and, based upon the immateriality of such activity, concluded that the use of January 31, 2011 to reflect the fresh-start accounting adjustments was appropriate for financial reporting purposes. The use of the January 31, 2011 date is for financial reporting purposes only and does not affect the Effective Date of the Plan. Accordingly, the financial information set forth in this report, unless otherwise expressly set forth or as the context otherwise indicates, reflects the consolidated results of operations and financial condition of Tronox Incorporated and its subsidiaries on a fresh-start basis for the period following January 31, 2011 ("Successor"), and of Tronox Incorporated and its subsidiaries on a historical basis for the periods through January 31, 2011 ("Predecessor"). Fresh-start accounting and reporting provisions were applied pursuant to ASC 852 and the financial statements as of February 1, 2011 and for subsequent periods report the results of Tronox Incorporated with no beginning retained earnings or accumulated deficit.

The primary impacts of Tronox Incorporated's reorganization pursuant to the Plan and the adoption of fresh-start accounting on its results of operations were as follows:

Depreciation and amortization expense

Depreciation and amortization expense was higher in 2011 compared to 2010 as a result of the revaluation of assets for fresh-start accounting. Revaluation increased depreciation and amortization by \$26.8 million in 2011. For additional information on the revaluation of assets, see Note 4 to the Consolidated Financial Statements. Depreciation and amortization as reported for both periods presented is as follows:

	<u>Successor</u>	<u>Predecessor</u>		
	Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Year Ended December 31, 2010 2009	
		(Millions of dollars)		
Cost of goods sold:				
Depreciation	\$54.0	\$ 3.6	\$44.1	\$45.9
Amortization.....	1.4	0.3	3.2	3.3
Selling, general and administrative expenses:				
Depreciation	2.1	0.2	2.8	3.9
Amortization.....	21.6	—	—	—
Total	<u>\$79.1</u>	<u>\$ 4.1</u>	<u>\$50.1</u>	<u>\$53.1</u>

Interest expense

Lower interest expense in 2011 compared to 2010 was largely driven by lower interest rates and lower amortization of debt issuance costs on our debtor-in possession (“DIP”) facilities. In October 2010, Tronox Incorporated refinanced its second DIP facility into a final DIP facility, lowering the interest rate from 9% to 7%. On February 14, 2011, the final DIP facility converted into a \$425.0 million exit facility (the “Exit Financing Facility”) which bears interest at the same rate. In addition, in conjunction with the refinancing and the application of fresh-start accounting, the debt issuance costs related to the second DIP facility and the final DIP facility were written off as of October 21, 2010 and February 1, 2011, respectively. See the discussion in Capital Resources for additional information on the DIP facilities.

	<u>Successor</u>	<u>Predecessor</u>		
	Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Year Ended December 31, 2010 2009	
		(Millions of dollars)		
Interest Expense	\$30.0	\$2.9	\$49.9	\$35.9

Anadarko Litigation

In May 2009, Tronox Incorporated and certain of its affiliates filed a lawsuit against Anadarko Petroleum and Kerr-McGee (a predecessor to Anadarko) asserting the Anadarko Claim. In connection with the Chapter 11 proceedings of Tronox Incorporated, Tronox Incorporated assigned all of the Anadarko Claim to a litigation trust on behalf of the holders of environmental claims and tort claims against Tronox Incorporated, pursuant to a full satisfaction of such claims. Tronox Incorporated has no economic interest in the litigation trust. However, pursuant to the terms of the litigation trust, Tronox Incorporated could continue to be treated as the owner of the Anadarko Claim solely for purposes of federal and state income taxes. Depending on the outcome of the Anadarko Claim, it is possible that Tronox Incorporated will receive the benefit of certain tax deductions that would result if the Anadarko Claim is resolved successfully and the proceeds of such Claim are used as contemplated under the terms of the litigation trust.

Business Environment

The following discussion includes trends and factors that may affect future operating results.

Supply and Demand

The majority of Tronox Incorporated's revenue comes from the sale of TiO₂ (85.5% in 2011, 82.3% in 2010 and 81.2% in 2009). TiO₂ is a chemical used in many "quality of life" products, such as paints, plastics, paper, inks and rubber as well as in various specialty applications. Demand for TiO₂ decreased in 2008 and 2009 due to the worldwide financial crisis, following several years of increasing growth, resulting in lower prices and temporary and permanent reductions in production by the major producers. The increase in demand during 2010 and 2011 has resulted in increasing prices of TiO₂, which were further bolstered by the reduced availability of titanium feedstock. Over the long-term, management expects the demand for TiO₂ to grow in tandem with its expectations for the long-term growth in global GDP.

Pricing

Throughout 2010 and 2011, due to supply and demand dynamics, TiO₂ prices, along with titanium feedstock prices, have risen substantially. The increase in TiO₂ prices is more transparent in the current year results of operations as the prices continued to rise steadily throughout 2011, while the increase in titanium feedstock prices, although occurring throughout the year, experienced the greatest increase during the fourth quarter. As a result, Tronox Incorporated's margins have expanded significantly during 2011. Changes in demand for TiO₂ in any interim or annual period may affect pricing upward or downward.

Raw Materials

In 2011 and 2010, raw materials used in the production of TiO₂ constituted approximately 34.9% and 33.8%, respectively, of our TiO₂ production costs. The primary raw material used in the production of TiO₂, titanium feedstock ore, experienced significant increases in price during 2011. Tronox Incorporated's price for raw material increased 19%. As the cost of titanium feedstock continues to rise, Tronox Incorporated's operating expenses will continue to increase and, it may be unable to pass price increases through to its customers. Due to the constraints of adding significant new production capacity for titanium feedstock, Tronox Incorporated expects titanium feedstock production to remain constrained thereby putting upward pressure on its raw material costs.

Seasonality

The demand for TiO₂ during a given year is subject to seasonal fluctuations. TiO₂ sales are generally higher in the second and third quarters of the year primarily due to the increase in paint production to meet demand resulting from the spring and summer painting season in North America and Europe.

Currency Exchange Rates

The financial condition and results of operations of Tronox Incorporated operating entities in the Netherlands and Australia are reported in various foreign currencies and then converted into U.S. dollars at the applicable exchange rate for inclusion in its consolidated financial statements. As a result, any volatility of the U.S. dollar against these foreign currencies creates uncertainty for and may have a positive or negative impact on reported sales and operating margins. During 2011, Tronox Incorporated experienced unfavorable foreign currency effects. Foreign currency effects appear in the financial statements in several ways. First, they impact reported amounts of revenues and expenses and are embedded in each line item of the financials. Second, for changes in reported asset and liability amounts in either income and expense or in cumulative translation adjustments in "Accumulated other comprehensive income (loss)" on the Consolidated Balance Sheets. Foreign currency losses recognized in "Other income (expense)" on the Consolidated Statements of Operations were \$7.8 million for the eleven months ended December 31, 2011, while foreign currency gains recognized were \$1.5 million for the one month ended January 31, 2011.

Competition

Each of the markets in which Tronox Incorporated competes is highly competitive. Competition is based on a number of factors such as price, product quality and service. Tronox Incorporated faces significant competition from major international and smaller regional competitors. The most significant competitors include major chemical and materials manufacturers and diversified companies, a number of which have substantially larger financial resources and a greater number of personnel than Tronox Incorporated.

Within the end-use markets in which Tronox Incorporated competes, competition between products is intense. Tronox Incorporated faces substantial risk that certain events, such as new product development by competitors, changing customer needs, production advances for competing products or price changes in raw materials, could cause its customers to switch to its competitors' products.

Government Regulations and Environmental Matters

Tronox Incorporated is subject to extensive regulation by federal, state, local and foreign governments. Governmental authorities regulate the generation and treatment of waste and air emissions at its operations and facilities. At many of its operations, Tronox Incorporated also complies with worldwide, voluntary standards developed by the International Organization for Standardization (“ISO”), a nongovernmental organization that promotes the development of standards and serves as a bridging organization for quality and environmental standards, such as ISO 9002 for quality management and ISO 14001 for environmental management.

Tronox Incorporated is in compliance with applicable environmental rules and regulations. Currently, Tronox Incorporated does not have any outstanding notices of violations or orders from regulatory agencies.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions regarding matters that are inherently uncertain and that ultimately affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. The estimates and assumptions are based on management’s experience and understanding of current facts and circumstances. These estimates may differ from actual results. Certain of Tronox Incorporated’s accounting policies are considered critical as they are both important to reflect Tronox Incorporated’s financial position and results of operations and require significant or complex judgment on the part of management. The following is a summary of certain accounting policies considered critical by the management of Tronox Incorporated.

Long-Lived Assets

Key estimates related to long-lived assets include useful lives, recoverability of carrying values and the existence of any retirement obligations. As a result of future decisions, such estimates could be significantly modified. The estimated useful lives of property, plant and equipment range from three to forty years, and depreciation is recognized on a straight-line basis. Useful lives are estimated based upon Tronox Incorporated’s historical experience, engineering estimates and industry information. These estimates include an assumption regarding periodic maintenance and an appropriate level of annual capital expenditures to maintain the assets.

Long-lived assets are evaluated for potential impairment whenever events or changes in circumstances indicate that carrying value may be greater than future net cash flows. Such evaluations involve a significant amount of judgment since the results are based on estimated future events, such as sales prices, costs to produce the products, the economic and regulatory climates and other factors. Tronox Incorporated evaluates impairments by asset group for which the lowest level of independent cash flows can be identified. If the sum of these estimated future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized for the excess of the carrying amount of the asset over its estimated fair value.

Intangible Assets

Intangible assets with finite useful lives are amortized on the straight-line basis over their estimated useful lives. The amortization methods and remaining useful lives are reviewed annually. The carrying amounts are reviewed at each financial year-end to determine whether there is any indication of impairment.

Asset Retirement Obligations

To the extent a legal obligation exists, an asset retirement obligation is recorded at its estimated fair value and accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value. Fair value is measured using expected future cash outflows discounted at Tronox Incorporated’s credit-adjusted risk-free interest rate. No market-risk premium has been included in the calculation of asset retirement obligation balances since no reliable estimate can be made by management.

Tronox Incorporated’s most significant asset retirement obligation at December 31, 2011 and 2010 was its share of mine closure and rehabilitation costs associated with the Tiwest Joint Venture. Significant judgment is applied in estimating the ultimate cost that will be required to rehabilitate the mines. Management used the following assumptions in determining asset retirement obligations associated with mine closure and rehabilitation costs associated with the Tiwest Joint Venture:

- Inflation of 2.5% per year during 2011 and 2.5% per year during 2010;
- Credit adjusted risk-free rate of 6.1% per year during 2011 and 13.6% per year during 2010;
- Life of mine over 15 years in 2011 and 13 years in 2010; and
- Life of mine rehabilitation over 18 years in 2011 and 19 years in 2010.

A primary factor resulting in the 2010 credit adjusted risk-free rate of 13.6% was Tronox Incorporated’s bankruptcy status.

Restructuring and Exit Activities

Tronox Incorporated's restructuring activities in the past have included closing of facilities and work force reduction programs. With the exception of asset retirement obligations, these charges are recorded when management commits to a plan and incurs a liability related to the plan. Estimates for plant closing include the write-down of inventory, write-down of property, plant and equipment, any necessary environmental or regulatory costs, contract termination and severance costs. Asset retirement obligations are recorded in accordance with ASC 410, *Asset Retirement and Environmental Obligations* ("ASC 410"). Estimates for work force reductions are recorded based on estimates of the number of positions to be terminated, termination benefits to be provided, estimates of any enhanced benefits provided under pension and postretirement plans and the period over which future service will continue, if any. Tronox Incorporated evaluates the estimates on a quarterly basis and adjust the reserves when information indicates that the estimates are above or below the initial estimates. Tronox Incorporated cannot predict when or if future restructuring or exit reserves will be required.

Environmental Costs and Other Contingency Reserves

In accordance with ASC 450, *Contingencies*, and ASC 410, management makes judgments and estimates in accordance with applicable accounting rules when it establishes reserves for environmental costs, litigation and other contingent matters. Provisions for such matters are charged to expense when it is probable that a liability has been incurred and reasonable estimates of the liability can be made. Estimates of environmental liabilities, which include the cost of investigation and remediation, are based on a variety of matters, including, but not limited to, the stage of investigation; the stage of the remedial design; the availability of existing remediation technologies; presently enacted laws and regulations; and the state of any related legal or administrative investigation or proceedings.

Income Taxes

Tronox Incorporated has operations in several countries around the world and is subject to income and similar taxes in these countries. The estimation of the amounts of income tax involves the interpretation of complex tax laws and regulations and how foreign taxes affect domestic taxes, as well as the analysis of the realizability of deferred tax assets, tax audit findings and uncertain tax positions. Although Tronox Incorporated believes its tax accruals are adequate, differences may occur in the future, depending on the resolution of pending and new tax matters.

Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided against a deferred tax asset when it is more likely than not that all or some portion of the deferred tax asset will not be realized. Tronox Incorporated periodically assesses the likelihood that it will be able to recover its deferred tax assets, and reflects any changes in its estimates in the valuation allowance, with a corresponding adjustment to earnings or other comprehensive income (loss) as appropriate. ASC 740, *Income Taxes*, requires that all available positive and negative evidence be weighted to determine whether a valuation allowance should be recorded.

The amount of income taxes Tronox Incorporated pays is subject to ongoing audits by federal, state and foreign tax authorities, which may result in proposed assessments. Tronox Incorporated's estimate for the potential outcome for any uncertain tax issue is highly judgmental. Tronox Incorporated assesses its income tax positions and records tax benefits for all years subject to examination based upon its evaluation of the facts, circumstances and information available at the reporting date. For those tax positions for which it is more likely than not that a tax benefit will be sustained, Tronox Incorporated records the amount that has a greater than 50.0% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. Interest and penalties are accrued as part of tax expense, where applicable. If Tronox Incorporated does not believe that it is more likely than not that a tax benefit will be sustained, no tax benefit is recognized.

Pension and Postretirement Accounting

Tronox Incorporated provides pension and postretirement benefits for qualifying employees worldwide. However, Tronox Incorporated froze its U.S. nonqualified and qualified pension benefit plans in 2008 and 2009, respectively. These plans are accounted for and disclosed in accordance with ASC 715, *Compensation—Retirement Benefits*.

U.S. Plans

The following are considered significant assumptions related to Tronox Incorporated's retirement and postretirement plans, with a brief description of the methodology used by management to develop the significant assumptions included below:

Discount Rate. The discount rate selected for all U.S. plans was 4.50% as of December 31, 2011 and 5.00% at both January 31, 2011 and December 31, 2010. The rate was selected based on the results of a cash flow matching analysis, which projected the expected cash flows of the plans using a yield curves model developed from a universe of Aa-graded U.S. currency corporate bonds (obtained from Bloomberg) with at least \$50.0 million outstanding. Bonds with features that imply unreliable pricing, a less than

certain cash flow, or other indicators of optionality are filtered out of the universe. The remaining universe is categorized into maturity groups, and within each of the maturity groups yields are ranked into percentiles.

Expected Long-term Rate of Return. The estimated long-term rate of return assumption used in the determination of net periodic cost for the years ended December 31, 2011 and 2010, was 7.50%. This rate was developed after reviewing both a capital asset pricing model using historical data and a forecasted earnings model. An expected return analysis is performed which incorporates the current portfolio allocation, historical asset-class returns and an assessment of expected future performance using asset-class risk factors.

Rate of Compensation Increases. Tronox Incorporated's estimated rate of compensation increase was 3.50% at both December 31, 2011 and 2010, based on our long-term plans for compensation increases and expected economic conditions, including the effects of merit increases, promotions and general inflation.

Health Care Cost Trend Rates. At December 31, 2011, the assumed health care cost trend rates used to measure the expected cost of benefits covered by the postretirement healthcare plan was 9.0% in 2012, gradually declining to 5.0% in 2018 and thereafter. A 1% increase in the assumed health care cost trend rate for each future year would increase the accumulated postretirement benefit obligation at December 31, 2011 by \$1.0 million, while the aggregate of the service and interest cost components of the 2011 net periodic postretirement cost would increase by \$0.1 million. A 1% decrease in the trend rate for each future year would reduce the accumulated benefit obligation at December 31, 2011 by \$0.8 million and decrease the aggregate of the service and interest cost components of the net periodic postretirement cost for 2011 by \$0.1 million.

Foreign Benefit Plans

Tronox Incorporated currently provides defined benefit retirement plans (funded) for qualifying employees in the Netherlands. The various assumptions used and the attribution of the costs to periods of employee service are fundamental to the measurement of net periodic cost and pension obligations associated with the retirement plans.

The following are considered significant assumptions related to Tronox Incorporated's foreign retirement plans:

Discount Rate. The discount rate selected for the Netherlands plan was 5.25% as of December 31, 2011 and 2010, which is based on long-term Euro corporate bond index rates that correlate with anticipated cash flows associated with future benefit payments.

Expected Long-term Rate of Return. The expected long-term rate of return assumption for the Netherlands plan of 5.25% as of December 31, 2011 and 5.75% as of December 31, 2010 was developed considering the portfolio mix and country-specific economic data that includes the expected long-term rates of return on local government and corporate bonds.

Rate of Compensation Increases. Tronox Incorporated determines its rate of compensation assumptions based on its long-term plans for compensation increases specific to employee groups covered. At December 31, 2011 and 2010, the rate of compensation increases for the Netherlands plan was 3.50%.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-05, *Presentation of Comprehensive Income* ("ASU 2011-05"), which changes the presentation requirements of comprehensive income to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. On December 28, 2011, the FASB issued ASU 2011-12, which defers certain requirements of ASU 2011-05. The remaining requirements of ASU 2011-05 are effective for interim and annual periods beginning after December 15, 2011. The Company does not anticipate that the adoption of this guidance will have a material impact on its consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS")* ("ASU 2011-04"), which changes certain fair value measurement and disclosure requirements, clarifies the application of existing fair value measurement and disclosure requirements and provides consistency to ensure that U.S. GAAP and IFRS fair value measurement and disclosure requirements are described in the same way. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. Management does not anticipate that the adoption of this guidance will have a material impact on its consolidated financial statements.

Results of Operations

The Eleven Months Ended December 31, 2011, One Month Ended January 31, 2011 and Twelve Months Ended December 31, 2010

The following table presents Tronox Incorporated's results of operations for the periods indicated.

	Successor	Predecessor	
	Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Year Ended December 31, 2010
	(Millions of dollars)		
Net Sales	\$ 1,543.4	\$107.6	\$1,217.6
Cost of goods sold.....	(1,104.5)	(82.3)	(996.1)
Gross Margin	438.9	25.3	221.5
Selling, general and administrative expenses.....	(151.7)	(5.4)	(59.2)
Litigation/arbitration settlement.....	9.8	—	—
Provision for environmental remediation and restoration, net of reimbursements	4.5	—	47.3
Income from Operations	301.5	19.9	209.6
Interest and debt expense	(30.0)	(2.9)	(49.9)
Other income (expense)	(9.8)	1.6	(8.3)
Reorganization income (expense).....	—	613.6	(144.8)
Income from Continuing Operations before Income Taxes	261.7	632.2	6.6
Income tax provision.....	(20.2)	(0.7)	(2.0)
Income from Continuing Operations	<u>\$ 241.5</u>	<u>\$631.5</u>	<u>\$ 4.6</u>

Net sales were \$1,543.4 for the eleven months ended December 31, 2011 and \$107.6 million for the one month ended January 31, 2011 compared to \$1,217.6 million for the year ended December 31, 2010. Pigment segment sales accounted for approximately 92.0%, 86.5%, 87.7% of our total sales during the eleven months ended December 31, 2011, one month ended January 31, 2011 and year ended December 31, 2010, respectively. Both sales price and sales volumes of TiO₂ and mineral products increased throughout 2011. See discussion of Net Sales by business line for the further information.

Cost of goods sold was \$1,104.5 million for the eleven months ended December 31, 2011 and \$82.3 million for the one month ended January 31, 2011 compared to \$996.1 million for 2010. Throughout 2011, Tronox Incorporated experienced increases in raw material, chemicals, energy and employee related costs. During the eleven months ended December 31, 2011 and the year ended December 31, 2010, Tronox Incorporated recorded unfavorable exchange rate changes primarily due to movements in the Australian dollar versus the U.S. dollar, which increased cost of goods sold compared to favorable exchange rate changes recorded in the one month ended January 31, 2011 which offset costs of goods sold. Additionally, as a result of fresh-start accounting, Tronox Incorporated recorded \$35.5 million related to non-cash fresh-start inventory accounting affects, which was amortized during the eleven months ended December 31, 2011.

Gross margin was \$438.9 million during the eleven months ended December 31, 2011 and \$25.3 million during the one month ended January 31, 2011 compared to \$221.5 million during 2010. Gross margin percentage was 28.4%, 23.5% and 18.2% during the eleven months ended December 31, 2011, one month ended January 31, 2011 and the year ended December 31, 2010, respectively. Gross margin and gross margin percentage continued to improve primarily due to the increased selling prices and sales volumes, discussed above, which were partially offset by higher costs and unfavorable exchange rate changes. See discussion of Income from Operations by business line for further information.

Selling, general and administrative expenses were \$151.7 million for the eleven months ended December 31, 2011 and \$5.4 million for the one month ended January 31, 2011 compared to \$59.2 million during 2010.

The expense of \$151.7 million during the eleven months ended December 31, 2011 was primarily due to amortization of intangible assets subsequent to fresh-start accounting of \$21.6 million, employee variable compensation and benefit costs of approximately \$48.4 million (including \$13.7 million related to amortization of restricted stock), costs associated with the acquisition of Exxaro Mineral Sands, including banker fees, legal and professional fees and the registration rights penalty of approximately \$28.2 million, audit and professional fees incurred related to fresh-start accounting and the three year audit of our financial statements of approximately \$15.7 million, marketing costs of \$13.5 million and other costs of approximately \$24.3 million.

Additionally, in October 2011, Dennis Wanlass stepped down from his position as CEO; however, he will continue through the close of the Transaction to help facilitate a smooth transition. On December 21, 2011, Tronox Incorporated entered into the separation

agreement with Dennis Wanlass. Per the terms of such agreement, Tronox Incorporated recorded a cash severance payment of \$3.1 million and accelerated vesting of \$2.9 million related to restricted shares granted under the management equity incentive plan, which are included in selling, general and administrative expenses.

As a result of the departure of Dennis Wanlass, the board of directors hired Thomas Casey, the Chairman of the Board, to take over as the CEO as Tronox Incorporated prepared to assimilate its recently announced acquisition of Exxaro Mineral Sands. Thomas Casey was paid a \$2.0 million sign-on bonus, which was included in selling, general and administrative expenses during the fourth quarter of 2011.

The expense of \$5.4 million during the one month ended January 31, 2011 was primarily due to employee variable compensation and benefit costs of approximately \$1.7 million, marketing costs of \$1.0 million and other costs of approximately \$2.7 million.

The expense of \$59.2 million during 2010 was primarily due to employee variable compensation and benefit costs of approximately \$19.7 million, outside services used during the bankruptcy and during the emergence from bankruptcy including attorneys, contract labor and other of \$16.5 million, marketing costs of 11.2 million and other costs of approximately \$11.8 million.

Litigation/arbitration settlement was income of \$9.8 million for the eleven months ended December 31, 2011 due to the settlement with RTI Hamilton, Inc. The settlement agreement reflects a compromise and settlement of disputed claims in complete accord and satisfaction thereof. Of the total payment of \$10.5 million, \$0.7 million constitutes payment for capital costs incurred by Tronox Incorporated in relation to the agreement, plus interest.

Provision for environmental remediation and restoration was income of \$4.5 million during the eleven months ended December 31, 2011, nil during the one month ended January 31, 2011 and income of \$47.3 million during 2010. During the eleven months ended December 31, 2011, Tronox Incorporated received additional reimbursements under the Predecessor's environmental insurance policy related to its remediation efforts at the Henderson, Nevada site. During 2010, Tronox Incorporated recorded receivables from its insurance carrier related to environmental clean-up obligations at the Henderson facility. Due to the accounting for the KM Legacy Liabilities, as described in Note 5, the obligation for the clean-up work had been recorded in prior years, but the insurance coverage was confirmed in 2010.

Interest and debt expense was \$30.0 million for the eleven months ended December 31, 2011, \$2.9 million for the one month ended January 30, 2011 and \$49.9 million during 2010. The \$30.0 million during the eleven months ended December 31, 2011 is comprised of \$29.3 million of interest expense on the Exit Financing Facility and the Wells Revolver, \$0.8 million of amortization of deferred debt issuance costs and \$0.6 million of other costs, offset by \$0.7 million of capitalized interest. The \$2.9 million of interest expense during the one month ended January 31, 2011 is comprised of \$2.6 million of interest expense and \$0.3 million of amortization of deferred debt costs. Additionally, during the one month ended January 31, 2011, interest expense excludes \$2.8 million, which would have been payable under the terms of the \$350.0 million 9.5% senior unsecured notes, which was not accrued while Tronox Incorporated was in bankruptcy in accordance with ASC 852, *Reorganizations* ("ASC 852"). The \$49.9 million during 2010 is comprised of \$39.7 million of interest expense on the DIP facility, \$9.2 million of amortization of deferred debt issuance costs and \$1.0 million of other costs. Additionally, during 2010, interest expense excluded \$33.3 million, which would have been payable under the terms of the \$350.0 million 9.5% senior unsecured notes, which was not accrued while Tronox Incorporated was in bankruptcy.

Other income (expense) was an expense of \$9.8 million for the eleven months ended December 31, 2011, income of \$1.6 million for the one month ended January 31, 2011 and an expense of \$8.3 million during 2010. The expense of \$9.8 million during the eleven months ended December 31, 2011 is comprised of a \$7.8 million net foreign currency loss and \$2.8 million of other expenses, offset by a \$0.2 million gain on liquidation of subsidiary and \$0.6 million of interest income. The income of \$1.6 million for the one month ended January 31, 2011 is comprised of a \$1.5 million net foreign currency gain and \$0.1 million of interest income. The expense of \$8.3 million during 2010 is comprised of a \$12.5 million net foreign currency loss and a \$2.0 million loss in net earnings of equity method investees, offset by a one-time \$5.3 million gain on the dissolution of subsidiary, interest income of \$0.6 million and other income of \$0.3 million.

Reorganization income (expense) was nil for the eleven months ended December 31, 2011, income of \$613.6 million for the one month ended January 31, 2011 and an expense of \$144.8 million for 2010. Upon emergence from bankruptcy, Tronox Incorporated no longer records reorganization income (expense). Any residual costs are included in "Selling, general and administrative expenses." The income of \$613.6 million for the one month ended January 31, 2011 is primarily the result of the application of fresh-start accounting as of January 31, 2011, which resulted in a \$659.1 million gain being recognized due to implementation of fresh-start accounting and the discharge of debt and satisfaction of claims that was only partially offset by \$45.5 million of reorganization items including legal and professional fees, claims adjustments and other fees related to the Rights Offering and debt financing. In 2010, Tronox Incorporated incurred \$66.7 million of reorganization expenses including legal and professional fees related to finalizing the Plan and disclosure statement, as well as fees related to the DIP financing in place during the period, partially offset by gains on rejected contracts and other items related to the ongoing claims reconciliation process.

Income tax provision was \$20.2 million for the eleven months ended December 31, 2011, representing an effective tax rate of 7.7% on pre-tax income of \$261.7 million. In the one month ended January 31, 2011, the Predecessor recorded a tax provision of \$0.7 million, representing an effective tax rate of 0.1% on pre-tax income of \$632.2 million. In 2010, Tronox Incorporated recorded a tax provision of \$2.0 million, representing an effective tax rate of 30.3% on pre-tax income of \$6.6 million

The tax provision for the eleven months ended December 31, 2011 differs from the U.S. statutory rate of 35.0% primarily due to valuation allowances in the United States and income in foreign jurisdictions taxed at rates lower than 35.0%. For the eleven months ended December 31, 2011, the rate is additionally impacted by statute lapses in a foreign jurisdiction, which released significant liabilities related to uncertain tax positions.

In the one month ended January 31, 2011, the tax provision differs from the U.S. statutory rate of 35.0% primarily due to fresh-start adjustments, which were booked net of tax.

Discussion by business lines for the Eleven Months Ended December 31, 2011, One Month Ended January 31, 2011 and Twelve Months Ended December 31, 2010

The following table presents results of operations of each business line for the periods indicated.

	<u>Successor</u>	<u>Predecessor</u>	
	<u>Eleven Months Ended December 31, 2011</u>	<u>One Month Ended January 31, 2011</u>	<u>Year Ended December 31, 2010</u>
		(Millions of dollars)	
Net Sales			
Pigment segment	\$1,420.4	\$ 93.1	\$1,068.2
Electrolytic and other chemical products	116.6	12.1	128.3
Corporate and Other	6.4	2.4	21.1
Net Sales	<u>\$1,543.4</u>	<u>\$107.6</u>	<u>\$1,217.6</u>
Income (Loss) from Operations			
Pigment segment	\$ 355.1	\$ 21.4	\$ 169.7
Electrolytic and other chemical products	(0.3)	0.7	5.8
Corporate and Other	(53.3)	(2.2)	34.1
Income from Operations	<u>\$ 301.5</u>	<u>\$ 19.9</u>	<u>\$ 209.6</u>

Net Sales

Pigment segment net sales were \$1,420.4 million for the eleven months ended December 31, 2011 and \$93.1 million for the one month ended January 31, 2011 compared to \$1,068.2 million during 2010. Net sales include the sale of TiO₂, as well as the sale of heavy minerals, such as ilmenite, rutile, synthetic rutile, leucosene, zircon, activated carbon and staurolite, produced by the Tiwest Joint Venture.

During the eleven months ended December 31, 2011 and the one month ended January 31, 2011, TiO₂ sales accounted for approximately 93% and 95% respectively, of pigment segment net sales. During 2011, TiO₂ sales prices increased, primarily the result of the general global economic recovery and constrained supply of TiO₂. These factors have caused a supply and demand situation that has enabled Tronox Incorporated to pass through price increases to its customers. The average price per metric tonne sold during the eleven months ended December 31, 2011 and one month ended January 31, 2011 increased 41% and 20%, respectively, compared to the average price sold during the year ended December 31, 2010.

The remaining pigment net sales during the eleven months ended December 31, 2011 and one month ended January 31, 2011 are primarily attributable to the sale of heavy minerals produced by the Tiwest Joint Venture. During the eleven months ended December 31, 2011, Tronox Incorporated experienced increased prices in certain heavy minerals, which were partially offset by lower valued sales mix from prior periods.

Electrolytic and other chemical products net sales were \$116.6 million for the eleven months ended December 31, 2011 and \$12.1 million for the one month ended January 31, 2011 compared to \$128.3 million during 2010. The increase in sales during the eleven months ended December 31, 2011 and one month ended January 31, 2011 compared to the twelve months ended December 31, 2010 was primarily due to higher prices for sodium chlorate, which were offset by decreases in volumes sold of sodium chlorate, and manganese dioxide. Higher pricing during both the eleven months ended December 31, 2011 and one month ended January 31, 2011 was due to maintaining the 2010 price increases despite competitive conditions. Lower volumes sold during the eleven months ended December 31, 2011 was primarily due to unplanned outages at our sodium chlorate facility in Hamilton, Mississippi.

Corporate and Other net sales were \$6.4 million for the eleven months ended December 31, 2011, \$2.4 million for the one month ended January 31, 2011 and \$21.1 million during 2010. During the one month ended January 31, 2011 and the year ended 2010, net sales in corporate and other, were primarily attributable to sulfuric acid operations, which were transferred to an environmental remediation trust upon emergence from bankruptcy.

Income from Operations

Pigment segment income from operations was income of \$355.1 million during the eleven months ended December 31, 2011 and \$21.4 million for the one month ended January 31, 2011 compared to \$169.7 million during the year ended December 31, 2010. During both the eleven months ended December 31, 2011 and the one month ended January 31, 2011, TiO₂ sales prices and volumes increased. Such increases were partially offset by higher production costs and selling, general and administrative expenses during both periods. Higher production costs were due to a 19% increase year over year for raw materials and process chemicals. Additionally, included in pigment segment cost of goods sold was to purchase Exxaro's share of the Tiwest Joint Venture tonnes due to the higher market prices in 2011. Higher sales prices and volumes of heavy minerals produced by the Tiwest Joint Venture resulted in increased revenue, which was offset by an increase in related cost of goods sold for reductions to income from operations, including unfavorable foreign currency effects.

During the eleven months ended December 31, 2011, in addition to the increase for raw materials and process chemicals, Tronox Incorporated also experienced increased energy costs and increased employee related costs due to the implementation of variable compensation and the post emergence accounting impact on pension and post retirement medical costs. Foreign currency effects on operating profit were net unfavorable primarily due to movements in the Australian dollar versus the U.S. dollar. Freight costs, due to volumes and higher costs, were also unfavorable.

During the eleven months ended December 31, 2011, selling, general and administrative expenses decreased income from operations by \$73.2 million, and include \$17.8 million of pigment-specific intangible asset amortization, as well as the pigment segment's share of employee costs including salaries, benefits, travel costs and outside services. Marketing costs specific to TiO₂ products of \$13.5 million also increased due to higher volumes and prices.

During the one month ended January 31, 2011, selling, general and administrative expenses decreased income from operations by \$3.3 million, and were primarily comprised of marketing costs of \$1.0 million, as well as the pigment segment's share of employee-related compensation costs.

Electrolytic and other chemical products income from operations was a loss of \$0.3 million during the eleven months ended December 31, 2011 and income of \$0.7 million during the one month ended January 31, 2011 compared to \$5.8 million during the year ended December 31, 2010.

Decreased profitability during the eleven months ended December 31, 2011 was driven by a decrease in sales volumes, higher production and delivery costs and higher selling, general and administrative expenses. Included in selling, general and administrative expenses during the eleven months ended December 31, 2011 is \$0.8 million of amortization of customer relationship intangible assets. The decrease was partially offset by the effects of favorable pricing.

Corporate and Other had an operating loss of \$53.3 million during the eleven months ended December 31, 2011 and an operating loss of \$2.2 million during the one month ended January 31, 2011 compared to \$34.1 million of profit the year ended December 31, 2010.

During the eleven months ended December 31, 2011 Tronox Incorporated incurred costs associated with the bankruptcy and the acquisition of Exxaro Mineral Sands, including banker fees, legal and professional fees and the registration rights penalty accounted for approximately \$28.2 million. Additionally, Tronox Incorporated incurred audit and professional fees related to the three year audit of its financial statements of approximately \$15.7 million, employee variable compensation and benefit costs associated with implementation of incentive cash and stock compensation programs and costs associated with our post-emergence accounting for pension and postretirement healthcare benefit costs. During the eleven months ended December 31, 2011, Tronox Incorporated recognized \$3.0 million of amortization of intangible assets recorded as part of the fresh-start accounting at emergence from bankruptcy, offset by a litigation/arbitration settlement of \$9.8 million and reimbursements of environmental expenditures received during the eleven months ended December 31, 2011 of \$4.3 million compared to \$47.3 million received during 2010. The decline was a result of Tronox Incorporated's exit from bankruptcy, whereby it transferred responsibility for environmental remediation to the trusts established as part of the Plan.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

The following table presents Tronox's Incorporated's results of operations for the periods indicated:

	Year Ended December 31,		
	2010	2009	Change
	(Millions of dollars)		
Net Sales	\$1,217.6	\$1,070.1	\$ 147.5
Cost of goods sold.....	(996.1)	(931.9)	64.2
Gross Margin	221.5	138.2	83.3
Selling, general and administrative expenses.....	(59.2)	(71.7)	12.5
Gain on land sales	—	1.0	(1.0)
Impairment of long-lived assets	—	(0.4)	0.4
Restructuring charges.....	—	(17.3)	17.3
Net loss on deconsolidation of subsidiary.....	—	(24.3)	24.3
Provision for environmental remediation and restoration, net of reimbursements	47.3	—	47.3
Income (Loss) from Operations	209.6	25.5	184.1
Interest and debt expense	(49.9)	(35.9)	(14.0)
Other expense	(8.3)	(10.3)	2.0
Reorganization expense	(144.8)	(9.5)	(135.3)
Income (Loss) from Continuing Operations before Income Taxes	6.6	(30.2)	36.8
Income tax benefit (provision)	(2.0)	1.5	(3.5)
Income (Loss) from Continuing Operations	\$ 4.6	\$ (28.7)	\$ 33.3

Net sales increased \$147.5 million, or 13.8%, to \$1,217.6 million during 2010, from \$1,070.1 million during 2009. The increase was primarily due to a 12.3% (\$131.3 million) increase in selling prices and a 2.6% (\$27.7 million) increase in volume, which was partially offset by the unfavorable effects of foreign exchange rates and a slight decline in other revenues that reduced net sales by 1.1% (\$11.5 million). The change in sales volumes is primarily the result of recovering industry demand in 2010 as compared to 2009, which had lower sales volumes caused by the recession in 2009 following the global financial crisis in 2008. Higher pricing is also a result of increased global demand coupled with lower industry capacity of TiO₂ as producers had permanently removed capacity and also experienced unplanned production outages. See discussion of Net Sales by business lines for a further analysis of net sales.

Gross margin increased \$83.3 million, or 60.3%, to \$221.5 million during 2010, from \$138.2 million during 2009. Gross margin improved to 18.2% during 2010, up from 12.9% during 2009. Gross margin improved primarily due to increased selling prices and sales volumes, discussed above, partially offset by higher costs and unfavorable exchange rate changes. Costs increased due in part to higher raw material chemicals and energy costs, as well as higher freight costs, partially offset by the benefit of having shut down the Savannah TiO₂ facility in 2009. Unfavorable exchange rate effects were primarily due to movements in the Australian dollar versus the U.S. dollar. See discussion of Income from Operations by business line for a further analysis of gross margin.

Selling, general and administrative expenses decreased \$12.5 million, or 17.4%, to \$59.2 million during 2010, from \$71.7 million during 2009. The decrease was primarily due to lower employee compensation and benefit costs of approximately \$16.8 million due to reduced headcount, reduced bonus accruals, reduced severance costs, and lower pension and medical costs in 2010 versus 2009. This was partially offset by increased marketing costs due to higher sales volumes and prices of \$2.6 million, other items of \$0.3 million and one-time costs for the maintenance of our headquarters and technical facility in Oklahoma City, Oklahoma of \$1.4 million.

Gain on land sales in 2009 was \$1.0 million, which was related to the sale of parcels of land in Knoxville, Tennessee, and Norman, Oklahoma.

Impairment of long-lived assets in 2009 was \$0.4 million, which was primarily related to the idling of the TiO₂ business at our Savannah plant.

Restructuring charges were nil during 2010 compared to \$17.3 million in expenses for 2009. The restructuring charges in 2009 were primarily a result of severance, early termination benefits under Tronox Incorporated's U.S. qualified defined benefit plan and asset write-downs, all related to the idling of the TiO₂ business at our Savannah plant.

Net loss on deconsolidation of subsidiaries in 2009 was \$24.3 million, which was related to the effect of deconsolidating the assets and liabilities of the German subsidiaries and the impact of writing off receivables from the German subsidiaries not expected to be collected due to their insolvency.

Provision for environmental remediation and restoration was income of \$47.3 million during 2010 compared to nil for 2009. During 2010, Tronox Incorporated recorded receivables from its insurance carrier related to environmental clean-up obligations at the Henderson facility. Due to the accounting for the KM Legacy Liabilities, as described in Note 5, the obligation for the cleanup work had been recorded in prior years, but the insurance coverage was confirmed in 2010. In 2009, due to the bankruptcy filing and the accounting for the KM Legacy Liabilities, an adjustment to the KM Legacy Liabilities was recorded in reorganization expense.

Interest and debt expense increased \$14.0 million to \$49.9 million for 2010, from \$35.9 million during 2009. Increased costs are primarily attributable to the second DIP facility entered into in conjunction with the term sheet in 2009 for the agreed upon framework of the Plan, as well as the final DIP facility entered into on October 21, 2010. Interest expense for the twelve months ended December 31, 2010 and December 31, 2009 excludes \$33.3 and \$32.1 million, respectively, of interest on Tronox Incorporated's \$350.0 million 9.5% senior unsecured notes due 2012 (the "Senior Unsecured Notes"), which was no longer being accrued subsequent to the Chapter 11 filing on January 12, 2009.

Other expense decreased \$2.0 million to \$8.3 million for 2010, from \$10.3 million during 2009. The change was primarily due to a one-time gain of \$5.3 million in 2010 due to the recognition of the cumulative translation adjustment upon the dissolution of certain European financing and holding companies. Additionally, during 2010 Tronox Incorporated recognized decreased losses from equity affiliates of \$1.6 million, as well as decreased losses on derivatives of \$0.7 million, which were offset by higher foreign currency losses of \$0.4 million and a \$0.8 million increase in other expenses.

Reorganization expense increased \$135.3 million to \$144.8 million for 2010, from \$9.5 million during 2009. Reorganization fees in 2010 relate primarily to refinancing Tronox Incorporated's original DIP facility, negotiating an asset backed lending agreement, legal and professional fees associated with negotiating the specific terms of the Plan, preparing the disclosure statement, negotiating and filing the environmental settlement agreement, as well as the ongoing bankruptcy claims reconciliation process.

Reorganization expenses in 2009 include costs associated with the entry into the original DIP facility, the write-off of deferred debt issuance costs associated with the Senior Unsecured Notes and the secured term loans and revolver, costs associated with amending the terms of the original DIP facility and negotiating the second DIP facility, costs related to efforts to sell assets pursuant to section 363 of the Bankruptcy Code, losses incurred in connection with rejecting contracts and leases and professional fees related to the Chapter 11 activities incurred subsequent to the Chapter 11 filing. Included within this \$9.5 million is a \$75.7 million credit that adjusted the accrued environmental and remediation liabilities to the Settlement amount.

Income tax provision was \$2.0 million for 2010, representing an effective tax rate of 30.3% on pre-tax income of \$6.6 million. For 2009, Tronox Incorporated recorded a tax benefit of \$1.5 million, representing an effective tax rate of 5.0% on a pre-tax loss of \$30.2 million. The rates in both years exclude the effects of operations that are now reported as discontinued.

During 2010, the rate differs from the U.S. statutory rate of 35% primarily due to valuation allowances in multiple jurisdictions along with state income tax benefits offset by capitalized professional fees, the taxation of foreign operations, prior year accrual adjustments, the disallowance of foreign interest deductions, and interest accrued on uncertain tax positions.

During 2009, the rate differs from the U.S. statutory rate of 35% primarily due to valuation allowances in multiple jurisdictions, capitalized professional fees, and prior year accrual adjustments offset by the equity deconsolidation of a foreign subsidiary and state income tax benefits.

Discussion by Business Lines for Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

The following table presents Tronox Incorporated's results of operations of each business line for the periods indicated.

	Year Ended December 31,		
	2010	2009	Change
	(Millions of dollars)		
Net Sales			
Pigment	\$ 1,068.2	\$ 924.4	\$143.8
Electrolytic and other chemical products	128.3	127.1	1.2
Corporate and Other	21.1	18.6	2.5
Net Sales	<u>\$ 1,217.6</u>	<u>\$ 1,070.1</u>	<u>\$147.5</u>
Income (Loss) from Operations			
Pigment	\$ 169.7	\$ 43.0	\$126.7
Electrolytic and other chemical products	5.8	18.0	(12.2)

	Year Ended December 31,		
	2010	2009	Change
Corporate and Other	34.1	(35.5)	69.6
Income from Operations	\$ 209.6	\$ 25.5	\$184.1

Net Sales

Pigment segment net sales increased \$143.8 million, or 15.6%, to \$1,068.2 million during 2010, from \$924.4 million during 2009. The increase was primarily due to a 14.4% (\$133.2 million) increase in selling prices, a 2.3% (\$21.4 million) increase in volume and a \$0.3 million increase in other revenues, which was partially offset by the unfavorable effects of foreign exchange rates that reduced net sales by 1.2% (\$11.1 million). The change in sales volumes was primarily the result of recovering industry demand in 2010 as compared to 2009, which had lower sales volumes caused by the recession in 2009 following the global financial crisis in 2008. Higher pricing was also a result of the recovery in demand coupled with lower industry capacity of TiO₂, as producers had permanently removed capacity and also experienced unplanned production outages that created shortages for TiO₂ products.

Electrolytic and other chemical products net sales increased \$1.2 million, or 0.9%, to \$128.3 million during 2010, from \$127.1 million during 2009. The increase in sales was due to higher volumes of manganese dioxide offset by lower volumes and prices on sodium chlorate. Higher volumes of manganese dioxide were due to growth in the high drain battery market. During 2010, sodium chlorate had an unplanned outage that curtailed production resulting in lost sales opportunities. Higher sales volumes increased net sales by \$5.3 million or 4.2%, offset by unfavorable pricing changes that reduced net sales by \$4.1 million or 3.2%.

Corporate and other net sales increased \$2.5 million or 13.4% to \$21.1 million during 2010, from \$18.6 million during 2009. Net sales in Corporate and Other, was primarily attributable to sulfuric acid sales, which increased year over year. Other revenues include billings to Exxaro for research and development related to their share of the TiO₂ production from the Tiwest Joint Venture.

Pursuant to the Plan, the sulfuric acid operation was transferred to an environmental response trust effective upon Tronox Incorporated's emergence from bankruptcy on February 14, 2011. Accordingly, the sulfuric acid plant will no longer be included in Tronox Incorporated's consolidated financial results after emergence.

Income from Operations

Pigment segment income from operations increased \$126.7 million, to \$169.7 million during 2010, from \$43.0 million during 2009. The increase was primarily due to gross margin, which increased \$102.5 million, restructuring charges which decreased by \$17.2 million and SG&A expenses which decreased \$7.0 million. Gross margin increased primarily due to the increase in selling prices, discussed above, partially offset by higher costs, as well as the unfavorable effects of foreign exchange rates. Higher costs were driven by increased freight expenses and the higher cost to purchase Exxaro's share of the Tiwest Joint Venture tonnes, partially offset by the favorable effects of having shut down the Savannah TiO₂ facility in 2009. Currency exchange rate effects on operating profit were unfavorable primarily due to movements in the Australian dollar versus the U.S. dollar.

SG&A expenses decreased by \$7.0 million, primarily due to pigment's share of the lower employee compensation costs discussed above, partially offset by higher marketing costs due to higher sales prices and volumes. Decreased restructuring charges were the result of severance, early termination benefits under Tronox Incorporated's U.S. qualified defined benefit plan and asset write-downs, all related to the idling of the Savannah TiO₂ plant in 2009.

Electrolytic and other chemical products businesses income from operations decreased \$12.2 million, to \$5.8 million for 2010, from \$18.0 million during 2009. The decrease in profitability was driven by lower pricing and higher production costs. Pricing decreased in the second half of 2009 in response to weak economic conditions and increased competition and continued into 2010. Higher costs for sodium chlorate were due to higher electricity prices and reduced production from the unplanned outage that curtailed production resulting in higher per unit costs. Higher costs for the manganese dioxide business were due to higher manganese ore costs. In addition, sodium chlorate freight costs were adversely impacted by mandated repairs to sodium chlorate rail cars. Pricing was unfavorable \$4.1 million and the effect of volumes and costs decreased operating profit \$8.0 million, while SG&A expenses were unfavorable \$0.1 million.

Corporate and other income from operations increased \$69.6 million, to \$34.1 million in profit for 2010, from a \$35.5 million loss during 2009. The loss in 2009 was primarily driven by the recognition of a \$24.3 million loss related to the deconsolidation of the German subsidiary. In addition, operating profit of the sulfuric acid business declined \$6.9 million due to higher costs, which was partially offset by lower SG&A expenses, due to the reductions discussed above, and other items of \$4.9 million.

Outlook

Pigment

Tronox is one of the leading producers of titanium dioxide who, together, produce over 60% of the industry capacity. We consider TiO₂ to be a “quality-of-life” product, with demand affected by GDP and economic conditions in our markets located in various regions of the world. Throughout 2011, we experienced moderate growth in the global demand for our TiO₂ and we expect that our sales volume will reflect a similar trend in 2012. We anticipate modest revenue growth in the first quarter driven largely by both increased sales volume and average prices compared to the fourth quarter of 2011. In the absence of a major economic disruption in Europe, China or elsewhere, we anticipate that demand growth rates will increase at rates roughly correlated to GDP growth over the long term.

The supply of titanium feedstock, one of the primary raw materials used to produce TiO₂, is currently experiencing supply constraints due to the depletion of legacy ore bodies, lack of investment in mining new deposits, and high risk and long lead time (typically up to 5 years) in starting new projects. At present, the titanium feedstock industry capacity expansions are limited and are expected to remain so over the medium term. Titanium feedstock prices, which are typically determined by multi-year contracts, have been slower to respond to these market conditions due to contractual protections in legacy contracts. As these legacy contracts are negotiated and renewed, we believe the supply/demand outlook will remain tight in the titanium feedstock industry in the coming years. Although it is widely known that a number of new titanium feedstock projects are currently being evaluated, many of these remain at the investigation stage, and it is not anticipated that all reported projects will ultimately come into commercial production. As such, we anticipate further selling price increases, as well as further increase to our cost of goods sold.

Electrolytic and Other Chemical Products

The outlook for advanced battery materials remains positive supported by the growth of digital devices and demand for improved battery performance. With the imposition of anti-dumping orders against Chinese and Australian EMD imports into the United States, EMD supply and demand is expected to remain in balance, leading to improved United States industry profitability.

The market for boron specialties remains positive supported by the increasing demand for LCD TVs, solar devices, semi-conductors and expanding pharmaceutical applications. The chlorate market is expected to remain in balance as supply remains challenged by increasing energy and transportation costs, partly offsetting any reductions in the North American pulp and paper market.

Financial Condition and Liquidity

The following table provides information for the analysis of Tronox Incorporated’s historical financial condition and liquidity:

	<u>Successor</u> <u>December 31,</u> <u>2011</u>	<u>Predecessor</u> <u>December 31,</u> <u>2010</u>
	(Millions of dollars)	
Cash and cash equivalents	\$ 154.0	\$ 141.7
Working capital(1).....	488.1	483.4
Total assets	1,657.4	1,097.9
Total long-term debt(2)	\$ 427.3	\$ 425.0

(1) Represents excess of current assets over current liabilities.

(2) Excludes the \$350.0 million of senior unsecured notes classified as “Liabilities subject to compromise” on the Consolidated Balance Sheet at December 31, 2010.

At December 31, 2011, Tronox Incorporated’s total liquidity was \$261.4 million, which was comprised of \$107.4 million available under the \$125.0 million Asset Based Lending Facility (the “Wells Revolver”) and \$154.0 million in cash and cash equivalents. At December 31, 2011, Tronox Incorporated had no amounts drawn on the Wells Revolver, but had \$22.3 million of committed letters of credit, of which \$17.6 million were against the Wells Revolver.

During the eleven months ended December 31, 2011, cash and cash equivalents increased \$93.0 million, reflecting the effects of Tronox Incorporated’s emergence from bankruptcy (see Note 1), as well as the improved cash flow from operations since emergence, offset by Tronox Incorporated buying into the Tiwest Joint Venture expansion during the period. Working capital increased \$168.8 million from January 31, 2011 reflecting significant increases in both accounts receivable, primarily to higher selling prices, and inventories, which reflects the increased cost of production.

During the one month ended January 31, 2011, cash and cash equivalents decreased \$80.7 million, reflecting the funding of the environmental and tort trusts, the payment of claims and professional fees in cash, and clearance of Tronox Incorporated’s liabilities subject to compromise. Working capital decreased \$164.1 million from December 31, 2010 reflecting the effects of Tronox

Incorporated's emergence from bankruptcy, including the release of the environmental settlement escrow of \$35.0 million, and the release of cash security on letters of credit and surety bonds of \$51.7 million, some of which transferred to the environmental trust as a part of the Environmental Claims Settlement Agreement and others that reverted to Tronox Incorporated.

At December 31, 2011, Tronox Incorporated held cash and cash equivalents in the respective jurisdictions: United States \$62.1 million, Australia \$45.6 million and Europe \$46.3 million. Tronox Incorporated's credit facilities limit transfers of funds from subsidiaries in the United States to foreign subsidiaries. Foreign subsidiaries do not have limits on transferring funds among themselves or to the United States. Tronox Incorporated has in place intercompany financing that enable the movement of cash to the United States, if needed.

During 2012, Tronox Incorporated's anticipated use of cash includes servicing its interest and debt repayment obligations, pension contributions, as well as certain capital expenditures for innovative initiatives, productivity enhancements and maintenance and safety requirements. Further, to the extent it is necessary to fund certain seasonal demands of Tronox Incorporated's operations or to support revenue growth, an additional modest use of cash may be needed for working capital. New sources of liquidity may include additional drawings on the Wells Revolver, financing other assets, and/or non-core asset sales, all of which are allowable, with certain limitations, under Tronox Incorporated's existing credit agreements.

In connection with the proposed Transaction, expected cash needs to cover the disclosed merger consideration to Tronox Incorporated's current shareholders of approximately \$190.0 million and other Transaction related expenditures of approximately \$113.6 million is expected to be covered by cash and cash equivalents, the refinancing of the term debt together with other sources of liquidity. As discussed below, Tronox Incorporated has amended the Exit Financing Facility and the Wells Revolver to facilitate the Transaction. This includes, but is not limited to, the modification of restrictions in the agreements which limit the use of funds, increasing the amount of financing available to Tronox Incorporated and an ability to accommodate the local capital needs of the combined company.

In summary, Tronox Incorporated expects that cash on hand, coupled with future cash flows from operations and other sources of liquidity, including the Wells Revolver, will provide sufficient liquidity to allow it to meet projected cash requirements.

Cash Flows

The following table presents Tronox Incorporated's cash flows for the periods indicated:

	<u>Successor</u>	<u>Predecessor</u>		
	<u>Eleven Months Ended December 31, 2011</u>	<u>One Month Ended January 31, 2011</u>	<u>Year Ended December 31, 2010</u>	<u>2009</u>
		(Millions of dollars)		
Net cash provided by (used in) operating activities	\$ 263.4	\$(283.1)	\$ 76.9	(54.5)
Net cash used in investing activities	(132.4)	(5.5)	(45.0)	(22.8)
Net cash provided by (used in) financing activities	(34.9)	207.6	(32.2)	171.6
Effect of exchange rate changes on cash.....	(3.1)	0.3	(1.3)	(0.8)
Net increase (decrease) in cash and cash equivalents	<u>\$ 93.0</u>	<u>\$ (80.7)</u>	<u>\$ (1.6)</u>	<u>93.5</u>

Cash Flows from Operating Activities

Cash flows from operating activities for the eleven months ended December 31, 2011 were a source of funds of \$263.4 million, which reflects Tronox Incorporated's strong business performance since it exited bankruptcy.

Cash flows from operating activities for the one month ended January 31, 2011 were a use of funds of \$283.1 million, which reflects the effects of Tronox Incorporated's emergence from bankruptcy, including the funding of the environmental and tort trusts, the payment of claims and professional fees in cash and clearance of its liabilities subject to compromise.

Cash flows from operating activities for 2010 were a source of funds of \$76.9 million compared to a use of funds of \$54.5 million for 2009. The \$131.4 million increase in cash flows from operating activities was primarily due to improved income from continuing operations in 2010 versus losses from operations in 2009. In addition, during the 2009, Tronox Incorporated funded a \$35.0 million escrow account for the environmental response trusts and contributed \$78.2 million to cash collateralize existing letters of credit at the time of refinancing its original DIP facility. This was partially offset by increased environmental remediation spending at several sites, during 2010, as required by the parties to the Environmental Claims Settlement Agreement.

Cash Flows from Investing Activities

Net cash used in investing activities was \$132.4 million during the eleven months ended December 31, 2011 due to capital expenditures of \$132.9 million, including the buy-in to the completed expansion of the Tiwest Joint Venture's Kwinana Facility for \$79.1 million and equipment purchased at Botlek, as well as normal expenditures at other facilities to maintain business.

Net cash used in investing activities was \$5.5 million during the one month ended January 31, 2011 due to capital expenditures during the period.

Net cash used in investing activities increased \$22.2 million, to \$45.0 million for 2010, compared to \$22.8 million for 2009. The increase was primarily due to a \$21.0 million increase in capital expenditures in 2010 and a decrease in proceeds from the sale of assets of \$1.2 million.

Under the terms of the Exit Financing Facility, capital expenditures are generally limited to \$55.0 million, with a carry-forward of the excess of the \$55.0 million over the amount utilized in the prior year, but with no more than \$15.0 million being able to be carried forward. In February 2012, Tronox Incorporated refinanced its Exit Financing Facility with a new facility (as discussed below). There are no limits on capital expenditures under the new Goldman Sachs facility. Capital expenditures for 2012 are expected to be in the range of \$80.0 million to \$90.0 million, exclusive of capital expenditures associated with the businesses to be acquired.

Cash Flows from Financing Activities

Net cash used in financing activities was \$34.9 million during the eleven months ended December 31, 2011. During the eleven months ended December 31, 2011, Tronox Incorporated borrowed an additional \$14.0 million against the Wells Revolver to facilitate its exit from bankruptcy and help pay for the buy-in of its 50% share of the Kwinana TiO₂ expansion. During 2011, Tronox Incorporated repaid the entire balance on the Wells Revolver of \$39.0 million (of which \$25.0 million was borrowed during the one month ended January 31, 2011), and made scheduled repayments of \$4.3 million on the Exit Facility and \$1.5 million on the financing agreement. Additionally, the Company paid \$5.5 million of commitment fees during the eleven months ended December 31, 2011.

Net cash provided by financing activities was \$207.6 million during the one month ended January 31, 2011, which was primarily due to the receipt of \$185.0 million in proceeds from the rights offering that Tronox Incorporated executed in conjunction with its emergence from bankruptcy, as well as \$25.0 million borrowed against the Wells Revolver (which was repaid during the eleven months ended December 31, 2011).

Net cash used in financing activities was \$32.2 million for 2010 and net cash provided by financing activities was \$171.6 for 2009. In 2010, Tronox Incorporated paid \$15.4 million in fees related to the refinancing of the DIP facilities and the Exit Financing Facility, obtaining the Wells Revolver and other fees associated with the Rights Offering pursuant to the Plan. In 2009, the source of funds from financing activities was primarily due to the \$65.0 million in proceeds from the original DIP facility, \$425.0 million in proceeds from the second DIP facility, partially offset by \$272.8 million of debt repayments on the term loan and the original DIP facility and \$45.6 million in debt issuance and reorganization related costs.

Capital Resources

Final DIP Facility

On October 21, 2010, Tronox Incorporated received court approval and entered into a senior secured super-priority DIP and Exit Credit Agreement (the "Final DIP Facility") with Goldman Sachs Lending Partners ("GSLP"), which was used to refinance the existing \$425.0 million outstanding indebtedness under the second DIP facility. The Final DIP Facility was to expire no earlier than February 15, 2011 or when Tronox Incorporated exercised the exit facility option, upon which the Final DIP converted into an exit facility under substantially the same terms and conditions with a maturity date of October 21, 2015.

The Final DIP Facility bore interest at the greater of a base rate plus a margin of 4.0% or adjusted Eurodollar rate plus a margin of 5.0%. The base rate was defined as the greater of (i) the prime lending rate as quoted in the print edition of *The Wall Street Journal*, (ii) the Federal Funds Rate plus 0.50%, or (iii) 3%. The adjusted Eurodollar rate is defined as the greater of (i) the LIBOR rate in effect at the beginning of the interest period, or (ii) 2.0%. Interest was payable quarterly or, if the adjusted Eurodollar rate applied, it was payable on the last day of each interest period.

The Final DIP Facility was secured by a first priority lien on substantially all of Tronox Incorporated's and its Subsidiary Guarantors' existing and future property and assets.

The terms of the Final DIP Facility provided for customary representations and warranties, affirmative and negative covenants and events of default. The terms of the covenants, subject to certain exceptions, restricted, among other things: (i) debt incurrence; (ii) lien incurrence; (iii) investments, dividends and distributions; (iv) dispositions of assets and subsidiary interests; (v) acquisitions; (vi) sale and leaseback transactions; and (vii) transactions with affiliates and shareholders. The Final DIP Facility also contained covenants that limited the amount of capital expenditures to \$55.0 million per year, with a carry-forward of the excess of the

\$55.0 million over the amount utilized in the prior year, but with no more than \$15.0 million able to be carried-forward from one year to the next.

Exit Successor Credit Agreement

On February 14, 2011, the Final DIP Facility, in accordance with its terms, converted into Tronox Incorporated’s \$425.0 million exit facility (the “Exit Financing Facility”) under substantially the same terms and conditions that existed under the Final DIP Facility, with a maturity date of October 21, 2015.

The Exit Financing Facility is secured by the same assets as the Final DIP Facility, subject however to certain subordination agreements (as more fully described below under the heading “Asset Based Lending Facility”). Tronox Incorporated was in compliance with its financial covenants at December 31, 2011.

Asset Based Lending Facility

On February 14, 2011, Tronox Incorporated also entered into the Wells Revolver, a senior secured asset-based revolving credit facility with Wells Fargo Capital Finance, LLC with a maturity date of February 14, 2015. The Wells Revolver provides Tronox Incorporated with a committed source of capital with a principal borrowing amount of up to \$125.0 million subject to a borrowing base, and also permits an expansion of up to \$150.0 million. Borrowing availability under the Wells Revolver is subject to a borrowing base related to certain eligible inventory and receivables held by our U.S. subsidiaries. As of December 31, 2011, Tronox Incorporated’s borrowing base was \$125.0 million, less letters of credit outstanding of \$17.6 million, for a total net availability of \$107.4 million.

Borrowings under the Wells Revolver are secured by a first priority lien on substantially all of Tronox Incorporated’s and its subsidiary guarantors’ existing and future deposit accounts, inventory and receivables, and certain related assets, and a second priority lien on all of Tronox Incorporated’s and its subsidiary guarantors’ other assets, including capital stock which serve as security under the Exit Term Facility.

The Wells Revolver bears interest at Tronox Incorporated’s option at either (i) the greater of the prime lending rate as announced by Wells Fargo Bank, N.A., (ii) the Federal Funds Rate plus 0.50%, or (iii) the one month LIBOR rate plus 0.50%, plus a margin that varies from 2.0% to 3.5% per annum depending on the average excess availability under the revolver. The unused portion of the Wells Revolver is subject to a commitment fee of 0.75% per annum on the average unused portion of the revolver, payable monthly in arrears. Interest is payable quarterly or, if the prime lending rate or Federal Funds Rate applies, is payable monthly.

Financial Covenants

Tronox Incorporated has financial covenants on the Exit Financing Facility and Wells Revolver. The Exit Financing Facility with Goldman Sachs has the following covenants:

<u>Fiscal Quarter Ending</u>	<u>Total Leverage Ratio (not to exceed)</u>
December 31, 2010 through December 31, 2011	4.25:1.00
March 31, 2012 through December 31, 2012	4.00:1.00
March 31, 2013 through December 31, 2013	3.75:1.00
March 31, 2014 and thereafter.....	3.50:1.00

<u>Fiscal Quarter Ending</u>	<u>Interest Coverage Ratio (not to be less than)</u>
December 31, 2010 and thereafter.....	2.50:1.00

The Wells Revolver contains various covenants and restrictive provisions which limit Tronox Incorporated’s ability to incur additional indebtedness. The Wells Revolver agreement requires Tronox Incorporated to maintain a Consolidated Fixed Charge Coverage Ratio of 1.0 to 1.0 calculated monthly, only if excess availability on the Wells Revolver is less than \$18.75 million. If Tronox Incorporated is required to maintain the Consolidated Fixed Charge Coverage Ratio then either: (i) the Consolidated Adjusted EBITDAR for the test period shall not be less than the Specified EBITDAR percentage of 65% of the Consolidated Adjusted EBITDAR of the Tronox Incorporated and its subsidiaries for all periods ending on or prior to December 31, 2012 or (ii) the Consolidated Adjusted EBITDAR during the test period shall not be less than the Specified EBITDAR threshold of \$100.0 million; provided that the Specified EBITDAR threshold shall be reduced by \$1.25 million on the last day of each month, commencing on January 31, 2012 and ending on December 31, 2012, until such time as the Specified Adjusted EBITDAR threshold is reduced to \$85.0 million.

The Wells Revolver and the Exit Financing Facility are subject to an intercreditor agreement pursuant to which the lenders’ respective rights and interests in the security are set forth.

Tronox Incorporated was in compliance with its financial covenants at December 31, 2011 and December 31, 2010. A breach of any of the covenants imposed on Tronox Incorporated by the terms of the Exit Financing Facility or Wells Revolver could result in a default under the agreement. In the event of a default, the lenders could terminate their commitments to Tronox Incorporated and could accelerate the repayment of all of Tronox Incorporated's indebtedness under the agreement. In such case, Tronox Incorporated may not have sufficient funds to pay the total amount of accelerated obligations, and its lenders could proceed against the collateral pledged.

Exit Facility Refinancing and Wells Revolver Amendment

On February 8, 2012, Tronox Incorporated refinanced its existing Exit Financing Facility and amended the Wells Revolver. Tronox Incorporated obtained a new Goldman Sachs facility comprised of a \$550 million Senior Secured Term Loan and a \$150.0 million Senior Secured Delayed Draw Term Loan (together, the Term Facility). The Term Facility expressly permits the Transaction and, together with existing cash, is expected to fund the cash needs of the combined business, including any cash needs arising from the Transaction.

The Term Facility bears interest at a base rate plus a margin of 2.25% or adjusted Eurodollar rate plus a margin of 3.25%. The base rate is defined as the greater of (i) the prime lending rate as quoted in the print edition of The Wall Street Journal, (ii) the Federal Funds Rate plus 0.50% or (iii) 2%.

The Term Facility is secured by a first priority lien on substantially all of Tronox Incorporated's and the subsidiary guarantors' existing and future property and assets. This will include, upon the completion of the Transaction, certain assets to be acquired in the Transaction.

The terms of the Term Facility provide for customary representations and warranties, affirmative and negative covenants and events of default. The terms of the covenants, subject to certain exceptions, restrict, among other things: (i) debt incurrence; (ii) lien incurrence; (iii) investments, dividends and distributions; (iv) dispositions of assets and subsidiary interests; (v) acquisitions; (vi) sale and leaseback transactions; and (vii) transactions with affiliates and shareholders. In addition, the Term Facility will require that a leverage ratio, as defined in the agreement, not exceed, as of the last day of any fiscal quarter, the correlative ratio as follows:

<u>Fiscal Quarter Ending</u>	<u>Total Leverage Ratio</u>
March 31, 2012 through December 31, 2015	3.00:1.00
March 31, 2016 and thereafter	2.75:1.00

On February 8, 2012, Tronox Incorporated amended the Wells Revolver to allow for the Transaction to occur while keeping the revolver in force.

Subsequent to the Transaction, New Tronox will have the opportunity to upsize or add additional asset based lending facilities in foreign jurisdictions up to a total limit of \$400.0 million.

Rights Offering

On February 14, 2011, Tronox Incorporated received \$185.0 million of new equity investment in the Rights Offering that was open to certain general unsecured creditors. Under the Plan, the general unsecured creditors were given rights to purchase up to 45.5% of the New Common Stock issued on the Effective Date, based on a 17.6% discount to Tronox Incorporated's total enterprise value of \$1,062.5 million as presented in the Plan. The backstop parties, a group of holders of the Senior Unsecured Notes, committed to purchase any of the New Common Stock that was not subscribed to in the Rights Offering, thereby assuring that we received the full \$185.0 million. In return for this commitment, the backstop parties received consideration equal to 8.0% of the \$185.0 million equity commitment (payable as an additional 3.6% of the New Common Stock issued on the Effective Date).

Receivables Securitization

In September 2007, Tronox Incorporated executed a \$100.0 million accounts receivable securitization program (the "Program") with an initial term of one year. Under the initial terms of the agreement, financing could be extended for an additional two years in the form of a securitization or a secured borrowing as determined by the sponsoring institution, Royal Bank of Scotland ("RBS"). Tronox Incorporated subsequently entered into multiple amendments for the purpose of extending the Program's termination date to January 9, 2009, or immediately prior to the Chapter 11 filing. On January 14, 2009, using proceeds from the Original DIP Facility, Tronox Incorporated remitted \$41.1 million to RBS to repurchase RBS' interest in the receivables. Upon receipt of the payment, RBS released its interest in the receivables and the lockbox cash accounts to which collections on the receivables are deposited. The Program was terminated with the entire \$41.1 million balance in transferred receivables repurchased and fully collected from customers by Tronox Incorporated.

Contractual Obligations and Commercial Commitments

The following table sets forth information relating to Tronox Incorporated's contractual obligations as of December 31, 2011:

	Contractual Obligation Payments Due by Year				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(Millions of dollars)		
Debt (including interest)	\$ 539.0	\$ 35.6	\$ 69.9	\$433.5	\$ —
Ore contracts(1)	1,249.1	365.1	596.0	288.0	—
Other purchase obligations(2).....	365.3	113.7	115.3	32.5	103.8
Operating leases (excluding railcar leases).....	15.5	6.6	4.4	1.1	3.4
Railcar leases	16.5	2.6	4.7	4.2	5.0
Total.....	<u>\$2,185.4</u>	<u>\$523.6</u>	<u>\$790.3</u>	<u>\$759.3</u>	<u>\$112.2</u>

(1) Approximately 71% of current annual usage acquired from one supplier.

(2) Includes obligations to purchase Tronox Incorporated's requirements of process chemicals, supplies, utilities and services.

Quantitative and Qualitative Disclosures about Market Risk

Tronox Incorporated is exposed to various market risks. The primary market risks include fluctuations in interest rates, certain raw material commodity prices, and changes in currency exchange rates. Tronox Incorporated manages these risks through normal operating and financing activities and, when appropriate, through the use of derivative instruments. Tronox Incorporated does not invest in derivative instruments for speculative purposes, but historically has entered into, and may enter into, derivative instruments for hedging purposes in order to reduce the exposure to fluctuations in interest rates, natural gas prices and exchange rates.

Commodity Price Risk

A substantial portion of Tronox Incorporated's products and raw materials are commodities whose prices fluctuate as market supply and demand fundamentals change. Accordingly, product margins and the level of our profitability tend to fluctuate with changes in the business cycle and are expected to do so in the near term as ore prices are expected to increase rapidly over the next few years. Tronox Incorporated tries to protect against such instability through various business strategies. These include provisions in sales contracts allowing Tronox Incorporated to pass on higher raw material costs through timely price increases and formula price contracts to transfer or share commodity price risk,

Tronox Incorporated also previously entered into natural gas derivative contracts to reduce the risk of fluctuations in natural gas prices and to increase the predictability of cash flows. These contracts were designated and qualified as cash flow hedges in accordance with ASC 815, *Derivatives and Hedging* ("ASC 815").

Due to restrictions during bankruptcy and current market conditions, Tronox Incorporated does not currently have any derivative instruments outstanding. However, in the future, Tronox Incorporated may enter into these types of derivative instruments from time to time.

Interest Rate Risk

Prior to bankruptcy, Tronox Incorporated was exposed to interest rate risk with respect to its variable-rate debt. In order to manage this risk, Tronox Incorporated entered into interest-rate swap contracts to hedge interest payments on three \$25.0 million tranches of the variable-rate term loan. The first contract matured in March 2009, and the remaining two contracts matured in September 2009. The swaps exchanged the variable LIBOR rate component for fixed rates of 4.83%, 4.59% and 2.46%, respectively, on the three tranches. These contracts were previously designated and qualified as cash flow hedges.

As of December 31, 2011, Tronox Incorporated was exposed to interest rate risk with respect to its variable-rate debt. Tronox Incorporated did not have any interest rate swaps on this exposure. Using a sensitivity analysis and a hypothetical 1.0% increase in interest rates from those in effect at December 31, 2011, the increase in Tronox Incorporated's annual interest expense on the variable-rate debt of \$425.0 million would have reduced net income by approximately \$4.3 million.

Foreign Exchange Risk

Tronox Incorporated manufactures and markets its products in a number of countries throughout the world and, as a result, is exposed to changes in foreign currency exchange rates, particularly in the Netherlands and Australia. Costs in the Netherlands and Australia are incurred, in part, in local currencies other than the U.S. dollar. In Europe, a majority of Tronox Incorporated's revenues and costs are in the local currency creating a partial natural hedge. In Australia however, the majority of Tronox Incorporated's revenues are in U.S. dollars while a majority of the costs are in Australian dollars. This leaves Tronox Incorporated exposed to

movements in the Australian dollar versus the U.S. dollar. In order to manage this risk, Tronox Incorporated has from time to time entered into forward contracts to buy and sell foreign currencies as “economic hedges” for these foreign currency transactions. However, to mitigate future exposure to fluctuations in currency exchange rates, Tronox Limited has made a U.S. dollar functional currency election for both Australian financial reporting and federal tax purposes.

As of December 31, 2011 and 2010, we did not have any forward contracts in place. However, in the future, Tronox Incorporated may enter into these or other types of derivative instruments, from time to time, to manage this risk.

Environmental Matters

Ongoing Businesses of Tronox Incorporated

Tronox Incorporated is subject to a broad array of international, federal, state and local laws and regulations relating to safety, pollution, protection of the environment and the generation, storage, handling, transportation, treatment, disposal and remediation of hazardous substances and waste materials. In the ordinary course of business, Tronox Incorporated is subject to frequent environmental inspections and monitoring and occasional investigations by governmental enforcement authorities. Under these laws, Tronox Incorporated is or may be required to obtain or maintain permits or licenses in connection with its operations. In addition, under these laws, Tronox Incorporated is or may be required to remove or mitigate the effects on the environment of the disposal or release of chemical, petroleum, low-level radioactive and other substances at its facilities. Tronox Incorporated may incur future costs for capital improvements and general compliance under environmental, health and safety laws, including costs to acquire, maintain and repair pollution control equipment. Environmental laws and regulations are becoming increasingly stringent, and compliance costs are significant and will continue to be significant in the foreseeable future. There can be no assurance that such laws and regulations or any environmental law or regulation enacted in the future is not likely to have a material effect on Tronox Incorporated.

In December 2006, the European parliament and European council approved a new European regulatory framework for chemicals called REACH. REACH took effect on June 1, 2007, and the program it establishes will be phased in over 11 years. The registration, evaluation and authorization phases of the program will require expenditures and resource commitments in order to, for example, participate in mandatory data-sharing forums; acquire, generate and evaluate data; prepare and submit dossiers for substance registration; obtain legal advice and reformulate products, if necessary.

Certain aspects of Tronox Incorporated’s operations may be subject to GHG emissions monitoring and reporting requirements. The EPA has proposed regulations that would require a reduction in emissions of GHGs from motor vehicles and adopted regulations that could trigger permit review for GHG emissions from certain stationary sources. For its operations subject to EPA GHG regulations, Tronox Incorporated may face increased monitoring, reporting, and compliance costs. However, it is not possible to estimate the likely financial impact of potential future GHG regulation on any of Tronox Incorporated’s sites. Tronox Incorporated is already managing and reporting GHG emissions, to varying degrees, as required by law for its facilities. The Tiwest Joint Venture TiO₂ plant will be subject to a new Australian carbon tax law beginning in 2012. The estimated impact to the Tiwest Joint Venture is approximately \$10 million Australian dollars annually.

Expenditures for environmental protection and cleanup related to Tronox Incorporated’s ongoing businesses for the years ended December 31, 2011, 2010 and 2009, were as follows:

	Year Ended December 31,		
	2011	2010	2009
	(Millions of dollars)		
Cash expenditures of environmental reserves.....	\$ 0.2	\$ 0.0	\$ 0.1
Recurring operating expenses.....	30.0	27.5	27.9
Environmental capital expenditures associated with ongoing operations.....	3.6	3.0	1.8

Recurring operating expenses are expenditures related to the maintenance and operation of environmental equipment such as incinerators, waste treatment systems and pollution control equipment, as well as the cost of materials, energy and outside services needed to neutralize, process, handle and dispose of current waste streams at Tronox Incorporated’s operating facilities. These operating and capital expenditures are necessary to ensure that ongoing operations are handled in an environmentally safe and effective manner. In addition to past expenditures, reserves were established for the remediation and restoration of sites where liability was probable and future costs to be incurred were reasonably estimable.

As of December 31, 2011, Tronox Incorporated’s financial reserves for sites associated with its ongoing business totaled \$0.6 million. In the Tronox Incorporated Consolidated Balance Sheet at December 31, 2011, \$0.5 million of the total reserve was included in “Noncurrent Liabilities—Other” and the remaining \$0.1 million was included in “Accrued Liabilities” on the Consolidated Balance Sheets. We believe Tronox Incorporated reserved adequately for the reasonably estimable costs of known environmental contingencies. However, adjustments to reserves may be required in the future due to the previously noted uncertainties.

Legacy Environmental Liabilities

At the time of the spin-off of Tronox Incorporated in 2005 by Kerr-McGee Corporation, Tronox Incorporated became liable for significant legacy environmental liabilities related to businesses and operations of Kerr-McGee that were shut down or discontinued prior to the spin-off.

As part of Tronox Incorporated's Plan, it reached a comprehensive settlement with the U.S. government and more than 30 states, local, tribal and quasi-governmental entities that resolved its significant Legacy Environmental Liabilities. The final settlement was reached in November 2010 and was approved by the Bankruptcy Court under environmental law on January 26, 2011. As a result of the Settlement, Tronox Incorporated received a discharge and/or release for the Legacy Environmental Liabilities following its emergence from bankruptcy.

The Settlement established certain environmental response and tort claims trusts that are now responsible for the Legacy Environmental Liabilities in exchange for cash, certain non-monetary assets, and the rights to the proceeds of certain ongoing litigation and insurance and other third party reimbursement agreements. As a result, the Legacy Environmental Liabilities are no longer included in Tronox Incorporated's consolidated financial statements after its emergence from bankruptcy.

Substantially all of the Legacy Environmental Liabilities related to liabilities for civil remediation and other environmental claims by federal, state, local, tribal and quasi-governmental agencies arising from historical activities by Kerr-McGee or its antecedents over a 60-year period at more than 2,800 wood treatment, thorium, refining, petroleum marketing, coal, nuclear, offshore contract drilling, mining, fertilizer, waste disposal and other sites throughout the United States. The Legacy Environmental Liabilities included claims for soil, groundwater and other contamination resulting from, among other things, radioactive waste rock from uranium mining on the Navajo Nation and elsewhere in the southwestern United States, creosote used in the treatment of railroad ties at approximately 40 sites across the United States, the production of ammonium perchlorate in Nevada for use in rocketfuel, the production of radioactive thorium in Illinois for use in gas mantles, the manufacture and blending of fertilizer products at dozens of sites across the United States, and the production and sale of petroleum products at various refineries and storage facilities and hundreds of service stations across the United States. The Legacy Environmental Liabilities also included liabilities related to the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") Superfund Sites in Jacksonville, Florida; Manville, New Jersey; Soda Springs, Idaho; West Chicago, Illinois; Milwaukee, Wisconsin; and Wilmington, North Carolina.

Under CERCLA and similar state laws, a current or former owner or operator of real property may be liable for remediation costs regardless of whether the release or disposal of hazardous substances was in compliance with law at the time it occurred, and a current owner or operator may be liable regardless of whether it owned or operated the facility at the time of the release. Tronox Incorporated was also obligated to perform or have performed remediation or remedial investigations and feasibility studies at sites that were not designated as Superfund sites by the EPA. Such work was undertaken pursuant to consent orders or other agreements. Decommissioning and remediation obligations, and the attendant costs, varied substantially from site to site and depended on unique site characteristics, available technology and the regulatory requirements applicable to each site. As discussed above, Tronox Incorporated has settled the Legacy Environmental Liabilities and, as such, the Legacy Environmental Liabilities are no longer included in its consolidated financial statements now that Tronox Incorporated has emerged from bankruptcy.

Tronox Incorporated's expenditures for environmental protection and cleanup related to the Legacy Environmental Liabilities for years ended December 31, 2011, 2010, and 2009 were as follows:

	Year Ended December 31,		
	2011	2010	2009
	(Millions of dollars)		
Cash expenditures of environmental reserves	\$23.0	\$57.9	\$23.6
Recurring operating expenses	0.0	0.6	3.9
Environmental capital expenditures associated with ongoing operations	0.0	0.7	0.1

Recurring operating expenses are expenditures related to the maintenance and operation of environmental equipment, as well as the cost of materials, energy and outside services needed to maintain the properties.

As discussed above, reserves have been established for environmental costs at its facilities and were established for remediation and restoration of Legacy Environmental Liabilities where liability was probable and future costs to be incurred were reasonably estimable. Tronox Incorporated considered a variety of matters when setting environmental reserves, including the stage of investigation; whether the EPA or another relevant agency had ordered action or quantified cost; whether Tronox Incorporated had received an order to conduct work; whether Tronox Incorporated participated as a PRP in the Remedial Investigation/Feasibility Study ("RI/FS") process and, if so, how far the RI/FS had progressed; the status of the record of decision by the relevant agency; the status of site characterization; the stage of the remedial design; evaluation of existing remediation technologies; the number and financial condition of other PRPs; and whether Tronox Incorporated could reasonably evaluate costs based on a remedial design or engineering plan.

As of December 31, 2010, Tronox Incorporated's financial reserves for the Legacy Environmental Liabilities totaled \$440.1 million, which was classified on the Consolidated Balance Sheets at December 31, 2010, as "Liabilities Subject to Compromise."

Financial Statements and Supplementary Data

The Tronox Incorporated Consolidated Financial Statements are included in this proxy statement/prospectus.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Former Independent Registered Accounting Firm

Effective May 12, 2010, the client-auditor relationship between Tronox Incorporated and Ernst & Young LLP ("E&Y") was terminated upon the dismissal of E&Y as Tronox Incorporated's independent registered accounting firm. The decision to change accountants was recommended and approved by Tronox Incorporated's board of directors.

As previously disclosed on May 5, 2009, Tronox Incorporated concluded that their previously filed financial reports should no longer be relied upon because Tronox Incorporated failed to establish adequate reserves as required by applicable accounting pronouncements. The financial statements that would be affected by any restatement related to the methodology previously employed in establishing and maintaining Tronox Incorporated's environmental and other contingent reserves are Tronox Incorporated's previously issued financial statements for the years ended December 31, 2005, 2006, and 2007 along with affected Selected Consolidated Financial Data for 2003 and 2004 and the financial information for the first three quarters of 2008.

E&Y reported in their letter to Tronox Incorporated filed as an Exhibit to Form 8-K/A filed by Tronox Incorporated on June 3, 2010 that they did not agree with the description of the events reported in the paragraph above. On or about May 5, 2009, E&Y advised Tronox Incorporated and the Chairman of the Audit Committee that they did not believe a sufficient reconciliation had been performed between indications that the environmental and other contingent liability reserves may have been understated (as reported by Tronox Incorporated on Form 8-K filed on April 13, 2009) and Tronox Incorporated's previous accounting and reporting for those reserves. Such reconciliation in the view of E&Y would have provided information with respect to the adequacy of internal controls, including disclosure controls, and the possible need to restate previously issued financial statements. As of the date of filing of Form 8-K by Tronox Incorporated on June 3, 2010, E&Y was unaware if any such reconciliation had been performed. Without the reconciliation as referred to above, E&Y was unable to agree that Tronox Incorporated had a sufficient basis to determine that the 2007 and prior financial statements should no longer be relied upon as reported in Form 8-K filed by Tronox Incorporated on May 9, 2009 noted above. E&Y agrees with the statements made by Tronox Incorporated in the first sentence of the paragraph which follows regarding their report on 2007 financial statements as originally issued. Further, since E&Y has not performed an audit of Tronox Incorporated's financial statements since 2007 they have no basis to agree or disagree with respect to the statements made in the following paragraph pertaining to disagreements or "reportable events" covering the fiscal years ended 2008 and 2009 and the period through the termination of the client-auditor relationship.

E&Y's report on the financial statements for the fiscal year ended December 31, 2007 did not contain any adverse opinion or disclaimer of opinion and was not qualified as to uncertainty, audit scope or accounting principles. During the fiscal years ended December 31, 2008 and 2009, and the interim periods ending with the termination of the client-auditor relationship, (i) there were no disagreements between Tronox Incorporated and E&Y on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of E&Y, would have caused E&Y to make reference to the subject matter of the disagreement in connection with any report that E&Y would have been required to provide had Tronox Incorporated obtained an audit for each of such fiscal years, and (ii) there were no "reportable events," as defined in Item 304(a)(1)(v) of Regulation S-K of the Securities and Exchange Commission.

Current Independent Registered Accounting Firm

Effective June 8, 2010, with the prior approval of its board of directors, Tronox Incorporated engaged Grant Thornton LLP ("GT") as its principal independent registered public accounting firm to audit Tronox Incorporated's financial statements for the fiscal years ended December 31, 2010, 2009 and 2008.

Tronox Incorporated had not previously consulted with GT regarding either (i) the application of accounting principles to a specific completed or contemplated transaction; (ii) the type of audit opinion that might be rendered on Tronox Incorporated's financial statements; or (iii) any matter that was either the subject of a disagreement with E&Y or a reportable event (as provided in Item 304(a)(1)(v) of Regulation S-K) during the years ended December 31, 2010, 2009 and 2008 and any later interim periods.

The audited financial statements of Tronox Incorporated included in this proxy statement/prospectus include only financial statements that have been audited by GT.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Tronox Incorporated

We have audited the accompanying consolidated balance sheets of Tronox Incorporated (a Delaware corporation) and subsidiaries (the Company) as of December 31, 2011 (Successor Company) and 2010 (Predecessor Company), and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the eleven months ended December 31, 2011 (Successor Company), the one month ended January 31, 2011 (Predecessor Company) and for each of the two years in the period ended December 31, 2010 (Predecessor Company). 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 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tronox Incorporated and subsidiaries as of December 31, 2011 (Successor Company) and 2010 (Predecessor Company), and the results of their operations and their cash flows for the eleven months ended December 31, 2011 (Successor Company), the one month ended January 31, 2011 (Predecessor Company) and for each of the two years in the period ended December 31, 2010 (Predecessor Company), in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, Tronox Incorporated and certain of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Bankruptcy Code on January 12, 2009. Material conditions to the Company's Plan of Reorganization were resolved on January 26, 2011 and the Company subsequently emerged from bankruptcy protection. In connection with its emergence from bankruptcy, the Company adopted the guidance for fresh start accounting in accordance with FASB ASC Topic 852, *Reorganizations*, as of January 31, 2011.

/s/ Grant Thornton LLP

Oklahoma City, Oklahoma
March 22, 2012

TRONOX INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS

	Successor	Predecessor		
	Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Year Ended December 31, 2010 2009	
	(Millions of dollars, except share and per share data)			
Net Sales	\$ 1,543.4	\$ 107.6	\$1,217.6	\$1,070.1
Cost of goods sold.....	(1,104.5)	(82.3)	(996.1)	(931.9)
Gross Margin	438.9	25.3	221.5	138.2
Selling, general and administrative expenses.....	(151.7)	(5.4)	(59.2)	(71.7)
Gain on the sale of land	—	—	—	1.0
Impairment of long-lived assets	—	—	—	(0.4)
Restructuring charges.....	—	—	—	(17.3)
Net loss on deconsolidation of subsidiary.....	—	—	—	(24.3)
Litigation/arbitration settlement.....	9.8	—	—	—
Provision for environmental remediation and restoration, net of reimbursements	4.5	—	47.3	—
Income from Operations	301.5	19.9	209.6	25.5
Interest and debt expense	(30.0)	(2.9)	(49.9)	(35.9)
Other income (expense)	(9.8)	1.6	(8.3)	(10.3)
Reorganization income (expense).....	—	613.6	(144.8)	(9.5)
Income (Loss) from Continuing Operations before Income Taxes	261.7	632.2	6.6	(30.2)
Income tax (provision) benefit.....	(20.2)	(0.7)	(2.0)	1.5
Income (Loss) from Continuing Operations	241.5	631.5	4.6	(28.7)
Income (loss) from discontinued operations, net of income tax benefit of nil, nil, nil and nil, respectively.....	—	(0.2)	1.2	(9.8)
Net Income (Loss)	<u>\$ 241.5</u>	<u>\$ 631.3</u>	<u>\$ 5.8</u>	<u>\$ (38.5)</u>
Income (Loss) per Share, Basic and Diluted:				
Basic —				
Continuing operations	\$ 16.12	\$ 15.29	\$ 0.11	\$ (0.70)
Discontinued operations	—	(0.01)	0.03	(0.24)
Net income per share	<u>\$ 16.12</u>	<u>\$ 15.28</u>	<u>\$ 0.14</u>	<u>\$ (0.94)</u>
Diluted —				
Continuing operations	\$ 15.46	\$ 15.25	\$ 0.11	\$ (0.70)
Discontinued operations	—	—	0.03	(0.24)
Net income per share	<u>\$ 15.46</u>	<u>\$ 15.25</u>	<u>\$ 0.14</u>	<u>\$ (0.94)</u>
Weighted Average Shares Outstanding (in thousands):				
Basic	14,981	41,311	41,232	41,176
Diluted	15,619	41,399	41,383	41,176

The accompanying notes are an integral part of the consolidated financial statements.

TRONOX INCORPORATED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	<u>Successor</u>	<u>Predecessor</u>		
	<u>Eleven Months Ended December 31, 2011</u>	<u>One Month Ended January 31, 2011</u>	<u>Year Ended December 31, 2010 2009</u>	
		(Millions of dollars)		
Net Income (Loss)	\$241.5	\$631.3	\$ 5.8	\$(38.5)
Foreign currency translation adjustments	(6.1)	0.9	(10.0)	36.8
Reclassification of realized (gain) loss on cash flow hedges to net income (loss), net of taxes of nil, nil, nil and \$0.3	—	—	—	0.4
Retirement and postretirement plans:				
Actuarial loss, net of taxes of \$1.9 million, nil, nil and nil	(50.9)	—	(18.7)	(11.3)
Amortization of actuarial gain, net of taxes of nil, nil, nil and nil	—	0.5	3.1	4.3
Prior service credit, net of taxes of nil, nil, nil and nil	—	—	12.1	—
Amortization of prior service cost, net of taxes of nil, nil, nil and nil	—	(1.1)	(14.0)	(3.9)
Termination of nonqualified benefits restoration plan, net of taxes of nil, nil, nil and nil(1)	—	—	4.4	—
Deconsolidation of Germany pension plan, net of taxes of nil, nil, nil and nil(2)	—	—	—	(0.3)
Total comprehensive income (loss)	<u>\$184.5</u>	<u>\$631.6</u>	<u>\$(17.3)</u>	<u>\$(12.5)</u>

- (1) The nonqualified benefits restoration plan was terminated as part of the Plan.
(2) The Company's German operations were declared insolvent on March 13, 2009, as discussed in Note 20.

The accompanying notes are an integral part of the consolidated financial statements.

TRONOX INCORPORATED
CONSOLIDATED BALANCE SHEETS

	<u>Successor</u> December 31, 2011	<u>Predecessor</u> December 31, 2010
	(Millions of dollars, except share and per share data)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 154.0	\$ 141.7
Accounts receivable:		
Third party, net of allowance for doubtful accounts of \$0.4 and \$0.8	270.9	243.8
Related party	6.9	2.7
Inventories	311.2	198.4
Prepaid and other assets	21.7	144.8
Deferred income taxes	4.3	4.3
Total Current Assets	<u>769.0</u>	<u>735.7</u>
Property, Plant and Equipment, Net	554.5	315.5
Intangible Assets, Net	313.3	—
Other Long-Term Assets	20.6	46.7
Total Assets	<u>\$1,657.4</u>	<u>\$ 1,097.9</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable:		
Third party	\$ 126.9	\$ 134.7
Related party	74.8	64.3
Accrued liabilities	45.7	45.7
Long-term debt due within one year	5.9	4.3
Income taxes payable	27.6	3.3
Total Current Liabilities	<u>280.9</u>	<u>252.3</u>
Noncurrent Liabilities		
Long-term debt	421.4	420.7
Pension and postretirement healthcare benefits	142.7	107.2
Deferred income taxes	19.1	—
Other	41.0	47.4
Total Noncurrent Liabilities	<u>624.2</u>	<u>575.3</u>
Liabilities Subject to Compromise	—	900.3
Contingencies and Commitments		
Stockholders' Equity		
Successor new common stock, par value \$0.01 — 100,000,000 shares authorized, 15,406,803 shares issued and 15,076,691 shares outstanding at December 31, 2011	0.1	—
Predecessor Class A common stock, par value \$0.01 — 100,000,000 shares authorized, 19,107,367 shares issued at December 31, 2010	—	0.2
Predecessor Class B common stock, par value \$0.01 — 100,000,000 shares authorized, 22,889,431 shares issued at December 31, 2010	—	0.2
Capital in excess of par value	579.2	496.2
Retained earnings (accumulated deficit)	241.5	(1,128.2)
Accumulated other comprehensive income (loss)	(57.0)	8.8
Treasury stock, at cost — 94,513 shares at December 31, 2011 and 623,953 shares at December 31, 2010	(11.5)	(7.2)
Total Stockholders' Equity	<u>752.3</u>	<u>(630.0)</u>
Total Liabilities and Stockholders' Equity	<u>\$1,657.4</u>	<u>\$ 1,097.9</u>

The accompanying notes are an integral part of the consolidated financial statements.

TRONOX INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Successor	Predecessor		
	Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Years Ended December 31, 2010	2009
	(Millions of dollars)			
Cash Flows from Operating Activities				
Net income (loss)	\$241.5	\$ 631.3	\$ 5.8	\$ (38.5)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation, depletion and amortization	79.1	4.1	50.1	53.1
Impairments and write-downs of long-lived assets and inventory	—	—	2.5	17.1
Deferred income taxes	3.8	0.8	(5.1)	(1.9)
Provision for environmental remediation and restoration, net of reimbursements	—	—	(48.9)	(28.2)
Amortization of debt issuance costs	0.8	0.3	9.2	2.9
Pension and postretirement healthcare benefit (income) expense, net	4.4	(0.4)	(10.5)	6.0
(Gain) loss on liquidation/dissolution/deconsolidation of subsidiaries	(0.2)	—	(5.3)	15.9
Gain on the sale of land	—	—	—	(1.0)
Stock compensation expense	13.8	—	0.5	0.2
Other noncash items affecting net income (loss)	(6.7)	(0.2)	8.1	10.7
Reorganization items:				
Noncash reorganization items	—	(636.6)	97.6	(33.5)
Gain on forgiveness of debt	—	—	—	(5.0)
Environmental settlement funding	—	(270.0)	—	—
Claims paid with cash	—	(18.6)	(82.6)	(2.6)
Tort settlement funding	—	(16.5)	—	(117.7)
Professional and legal fees	—	(12.0)	(51.5)	(28.0)
Changes in assets and liabilities:				
(Increase) decrease in trade accounts receivable	(56.0)	(8.1)	(11.9)	(22.5)
(Increase) decrease in related parties accounts receivable	(2.0)	(2.1)	0.9	(5.0)
(Increase) decrease in inventories	(64.0)	(15.3)	(6.6)	55.4
(Increase) decrease in prepaids and other assets	27.7	35.4	20.2	(1.9)
Increase (decrease) in accounts payable and accrued liabilities	(38.2)	23.1	83.2	61.2
Increase (decrease) in related parties accounts payable	9.9	0.5	17.0	13.0
(Increase) decrease in taxes payable	26.0	0.2	(1.3)	(2.3)
Other, net	23.5	1.0	5.5	(1.9)
Cash provided by (used in) operating activities	<u>\$263.4</u>	<u>\$(283.1)</u>	<u>\$ 76.9</u>	<u>\$ (54.5)</u>
Cash Flows from Investing Activities:				
Capital expenditures	(132.9)	(5.5)	(45.0)	(24.0)
Collection of repurchased receivables	—	—	—	41.1
Repurchase of securitized receivables	—	—	—	(41.1)
Proceeds from sale of assets	0.5	—	—	1.2
Cash used in investing activities	<u>(132.4)</u>	<u>(5.5)</u>	<u>(45.0)</u>	<u>(22.8)</u>
Cash Flows from Financing Activities				
Reductions of debt	(44.7)	—	(425.0)	(272.8)
Proceeds from borrowings	14.0	25.0	425.0	490.0
Debt issuance costs and commitment fees	(5.5)	(2.4)	(15.4)	(45.6)
Proceeds from rights offering	—	185.0	—	—
Fee related to rights offerings and other related debt costs	—	—	(16.8)	—
Other equity, net	1.3	—	—	—
Cash provided by (used in) financing activities	<u>(34.9)</u>	<u>207.6</u>	<u>(32.2)</u>	<u>171.6</u>
Effects of Exchange Rate Changes on Cash and Cash Equivalents	<u>(3.1)</u>	<u>0.3</u>	<u>(1.3)</u>	<u>(0.8)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	93.0	(80.7)	(1.6)	93.5
Cash and Cash Equivalents at Beginning of Period	61.0	141.7	143.3	49.8
Cash and Cash Equivalents at End of Period	<u>\$154.0</u>	<u>\$ 61.0</u>	<u>\$ 141.7</u>	<u>\$ 143.3</u>
Supplemental Cash Flow Information				
Interest paid	\$ 28.6	\$ 2.6	\$ 39.6	\$ 24.6
Net income taxes paid	\$ 8.0	\$ 0.3	\$ 5.7	\$ 2.6

The accompanying notes are an integral part of the consolidated financial statements.

TRONOX INCORPORATED
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	New Common Stock	Class A Common Stock	Class B Common Stock	Capital in Excess of par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non- Controlling Interest	Total Stockholders' Equity
	(Millions of dollars)								
Predecessor:									
Balance at December 31, 2008	\$—	\$ 0.2	\$ 0.2	\$ 495.0	\$(1,095.5)	\$ 5.9	\$ (6.7)	\$ 3.4	\$ (597.5)
Comprehensive Income (Loss):									
Net loss.....	—	—	—	—	(38.5)	—	—	—	(38.5)
Other comprehensive income.....	—	—	—	—	—	26.0	—	—	26.0
Comprehensive loss.....	—	—	—	—	—	—	—	—	(12.5)
Transfers to liabilities subject to compromise.....	—	—	—	—	—	—	—	(3.4)	(3.4)
Stock-based compensation.....	—	—	—	0.8	—	—	(0.6)	—	0.2
Predecessor:									
Balance at December 31, 2009	\$—	\$ 0.2	\$ 0.2	\$ 495.8	\$(1,134.0)	\$ 31.9	\$ (7.3)	\$—	\$ (613.2)
Comprehensive Income (Loss):									
Net income.....	—	—	—	—	5.8	—	—	—	5.8
Other comprehensive loss.....	—	—	—	—	—	(23.1)	—	—	(23.1)
Comprehensive loss.....	—	—	—	—	—	—	—	—	(17.3)
Stock-based compensation.....	—	—	—	0.4	—	—	0.1	—	0.5
Predecessor:									
Balance at December 31, 2010	\$—	\$ 0.2	\$ 0.2	\$ 496.2	\$(1,128.2)	\$ 8.8	\$ (7.2)	\$—	\$ (630.0)
Comprehensive Income:									
Net income.....	—	—	—	—	631.3	—	—	—	631.3
Other comprehensive income.....	—	—	—	—	—	0.3	—	—	0.3
Comprehensive income.....	—	—	—	—	—	—	—	—	631.6
Stock-based compensation.....	—	—	—	0.1	—	—	—	—	0.1
Fresh-start reporting adjustments:									
Elimination of predecessor common stock, capital in excess of par value, and accumulated deficit.....	—	(0.2)	(0.2)	(496.3)	496.9	(9.1)	7.2	—	(1.7)
Issuance of new common stock.....	0.1	—	—	564.1	—	—	—	—	564.2
Predecessor:									
Balance at January 31, 2011	\$ 0.1	\$—	\$—	\$ 564.1	\$ —	\$ —	\$ —	\$—	\$ 564.2
Successor:									
Balance at February 1, 2011	\$ 0.1	\$—	\$—	\$ 564.1	\$ —	\$ —	\$ —	\$—	\$ 564.2
Comprehensive Income (Loss):									
Net income.....	—	—	—	—	241.5	—	—	—	241.5
Other comprehensive loss.....	—	—	—	—	—	(57.0)	—	—	(57.0)
Comprehensive income.....	—	—	—	—	—	—	—	—	184.5
Shares withheld for claims.....	—	—	—	—	—	—	(6.8)	—	(6.8)
Warrants exercised.....	—	—	—	1.3	—	—	—	—	1.3
Stock-based compensation.....	—	—	—	13.8	—	—	(4.7)	—	9.1
Successor:									
Balance at December 31, 2011	\$ 0.1	\$—	\$—	\$ 579.2	\$ 241.5	\$(57.0)	\$(11.5)	\$—	\$ 752.3

The accompanying notes are an integral part of the consolidated financial statements.

TRONOX INCORPORATED
Notes to Consolidated Financial Statements

1. The Company

Tronox Incorporated, a Delaware Corporation, was formed on May 17, 2005, (“Tronox” or the “Company”) in preparation for the contribution (the “Contribution”) and transfer by Kerr-McGee Corporation (“Kerr-McGee” or “KM”) of certain entities, including those comprising substantially all of its chemical business. The Company has one reportable segment representing the pigment business. The pigment segment primarily produces and markets titanium dioxide pigment (“TiO₂”) and has production facilities in the United States, Australia and the Netherlands. The pigment segment also includes heavy minerals production operated through the Company’s joint venture in Australia (the “Tiwest Joint Venture”). The heavy minerals production is integrated with the Company’s Australian pigment plant, but also has third-party sales of minerals not utilized by the pigment operations. Electrolytic and other chemical products (which do not constitute a reportable segment) represent other operations which are comprised of electrolytic manufacturing and marketing operations, all of which are located in the United States, and are reported in “Other Activities” when reconciling segmented information presented in Note 24.

Formation

The Contribution was completed in November 2005, along with the recapitalization of the Company, whereby common stock held by Kerr-McGee converted into approximately 22.9 million shares of Class B common stock. An initial public offering (“IPO”) of Class A common stock was completed on November 28, 2005. Prior to the IPO, the Company was a wholly owned subsidiary of Kerr-McGee. Pursuant to the IPO registration statement on Form S-1, the Company sold approximately 17.5 million shares of its Class A common stock at a price of \$14.00 per share. Pursuant to the terms of the Master Separation Agreement dated November 28, 2005, among Kerr-McGee, Kerr-McGee Worldwide Corporation and the Company (the “MSA”), the net proceeds from the IPO of \$224.7 million were distributed to Kerr-McGee.

Concurrent with the IPO, the Company, through its wholly owned subsidiaries, issued \$350.0 million in aggregate principal amount of 9.5% senior unsecured notes due 2012 and borrowed \$200.0 million under a six-year senior secured credit facility. Pursuant to the terms of the MSA, the Company distributed to Kerr-McGee the net proceeds from the borrowings of approximately \$537.1 million.

Following the IPO, approximately 43.3% of the total outstanding common stock was held by the general public and 56.7% was held by Kerr-McGee. The holders of Class A common stock and Class B common stock had identical rights, except that holders of Class A common stock were entitled to one vote per share, while holders of Class B common stock were entitled to six votes per share on all matters to be voted on by stockholders.

On March 8, 2006, Kerr-McGee’s Board of Directors declared a dividend of the Company’s Class B common stock owned by Kerr-McGee to its stockholders (the “Distribution”). The Distribution was completed on March 30, 2006, resulting in Kerr-McGee having no ownership or voting interest in the Company. The Contribution included significant liabilities related to the historic operations of Kerr-McGee, such as coal mining, wood treatment, refining, thorium compounds manufacturing, uranium and refining operations, that had been terminated, discontinued, or divested in prior years.

Bankruptcy Proceedings and Emergence from Chapter 11

On January 12, 2009 (the “Petition Date”), Tronox and certain of its subsidiaries (collectively, the “Debtors”) filed voluntary petitions in the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”) seeking reorganization relief under the provisions of Chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”). The Debtors’ Chapter 11 cases were consolidated for the purpose of joint administration. On November 30, 2010 (the “Confirmation Date”), the Bankruptcy Court entered an order (the “Confirmation Order”) confirming the Debtors’ First Amended Joint Plan of Reorganization pursuant to Chapter 11 of the Bankruptcy Code, dated November 5, 2010 (as amended and confirmed, the “Plan”). Under Chapter 11 of the Bankruptcy Code, a debtor may reorganize its business for the benefit of its stakeholders with the consummation of a plan of reorganization being the principal objective. Among other things (subject to certain limited exceptions and except as otherwise provided in the Plan or the Confirmation Order), the Confirmation Order discharged the Debtors from any debt arising before the Petition Date, terminated all of the rights and interests of pre-bankruptcy equity security holders and substituted the obligations set forth in the Plan and new common stock for those pre-bankruptcy claims. Under the Plan, claims and equity interests were divided into classes according to their relative priority and other criteria.

The Plan was designed to accomplish, and was premised on, a resolution of the Debtor’s legacy environmental liabilities (the “Legacy Environmental Liabilities”) and legacy tort liabilities (the “Legacy Tort Liabilities” and collectively, with the Legacy Environmental Liabilities, the “KM Legacy Liabilities”). The Plan ensured that the Debtors emerged from Chapter 11 free of the significant KM Legacy Liabilities and were sufficiently capitalized. A final settlement was reached in November 2010 with respect to the Legacy Environmental Liabilities (the “Environmental Settlement”) and the Legacy Tort Liabilities (the “Tort Settlement” and,

together with the Environmental Settlement, the “Settlement”). In exchange, claimants provided the Debtors and the reorganized Tronox Incorporated with discharges and/or covenants not to sue subsequent to the Effective Date with respect to the Debtors liability for the Legacy Environmental Liabilities. The Settlement established certain environmental response and tort claims trusts that are now responsible for the KM Legacy Liabilities in exchange for cash, certain non-monetary assets, and the rights to the proceeds of certain ongoing litigation and insurance and other third party reimbursement agreements. The Plan also provided for the creation and funding of a torts claim trust (the “Tort Claims Trust”), which was the sole source of distributions to holders of Legacy Tort Liabilities claims, who were paid in accordance with the terms of such trust’s governing documentation.

As a result of the settlement of the Debtors’ pre-petition debt and termination of the rights and interests of pre-bankruptcy equity, the Plan enabled Tronox Incorporated to reorganize around its existing operating locations, including: (a) its headquarters and technical facility at Oklahoma City, Oklahoma; (b) the TiO₂ facilities at Hamilton, Mississippi and Botlek, the Netherlands; (c) the electrolytic chemical businesses at Hamilton, Mississippi and Henderson, Nevada (except that the real property and buildings associated with the Henderson business were transferred to an environmental response trust and reorganized Tronox Incorporated is not responsible for environmental remediation related to historic contamination at such site); and (d) its interest in the Tiwest Joint Venture.

Material conditions to the Plan, most notably the settlement of the claims related to the KM Legacy Liabilities, were resolved during the period from the Confirmation Date until January 26, 2011, when the environmental settlement was approved by the Bankruptcy Court, and subsequently on February 14, 2011 (the “Effective Date”), the Debtors emerged from bankruptcy and continued operations as reorganized Tronox Incorporated.

To fund cash payments required by the Plan and meet the go-forward operating and working capital needs of its business, Tronox relied on a combination of debt financing and money from new equity investments made by certain existing creditors. Specifically, such funding included: (i) total funded exit financing of no more than \$470.0 million and (ii) the proceeds of a \$185.0 million rights offering (the “Rights Offering”) open to substantially all unsecured creditors and backstopped by certain unsecured creditors. In addition, the reorganization included: (i) settlement of government claims related to the Legacy Environmental Liabilities through the creation of certain environmental response trusts and a litigation trust; (ii) settlement of claims related to the Legacy Tort Liabilities through the establishment of a torts claim trust; (iii) issuance of new common stock (the “New Common Stock”) whereby holders of the allowed general unsecured claims received their pro rata share of 50.9% of the New Common Stock on the Effective Date, and the opportunity to participate in the Rights Offering for an aggregate of 49.1% of the New Common Stock, also issued on the Effective Date; and (iv) issuance of warrants, on the Effective Date, to the holders of equity in the Company consisting of two tranches: the new series A warrants (the “Series A Warrants”) and the new series B warrants (the “Series B Warrants”), to purchase their pro rata share of a combined total of 7.5% of the New Common Stock, after and including the issuance of any New Common Stock upon exercise of the Series A Warrants and the Series B Warrants.

The consummation of the Plan resulted in a substantial realignment of the interests in the Company between its existing prepetition creditors and stockholders. As a result, Tronox was required to adopt fresh-start accounting. Having resolved the material contingencies related to implementing the Plan on January 26, 2011 and due to the proximity of the Effective Date to the end of month accounting period, which closed on January 31, 2011, the Company applied fresh-start accounting as of January 31, 2011. The Company evaluated the activity between January 26, 2011 and January 31, 2011 and, based upon the immateriality of such activity, concluded that the use of January 31, 2011 to reflect the fresh-start accounting adjustments was appropriate for financial reporting purposes. The use of the January 31, 2011 date is for financial reporting purposes only and does not affect the Effective Date of the Plan.

Fresh-start accounting provisions were applied pursuant to Accounting Standards Codification (“ASC”) 852, *Reorganizations* (“ASC 852”), and the financial statements as of February 1, 2011 and for subsequent periods report the results of Tronox with no beginning retained earnings or accumulated deficit, and reflect the creation and issuance of the Company’s new share capital.

Germany Insolvency Petition

Tronox Pigments GmbH, the Predecessor’s holding subsidiary for a pigment facility in Uerdingen, Germany, filed an application with the insolvency court in Krefeld, Germany, to commence insolvency proceedings on March 13, 2009. The German Insolvency Court appointed a trustee to administer the insolvency proceedings which resulted in the Company losing management control over these subsidiaries. As a result, the German subsidiaries have been deconsolidated from the Company’s consolidated financial statements as of March 13, 2009. Management has determined that the operations and cash flows of its insolvent German subsidiaries qualify as a discontinued operation. Accordingly, all amounts associated with these operations have been included in discontinued operations.

Acquisition of Exxaro Mineral Sands Operations

On September 25, 2011, the Company entered into a definitive agreement (the “Transaction Agreement”) with Exxaro Resources Limited (“Exxaro”) and certain of its affiliated companies, to acquire 74% of its South African mineral sands operations,

including its Namakwa and KZN Sands mines, separation and slag furnaces, along with Exxaro's 50% share of the Tiwest Joint Venture in Western Australia (together "Exxaro Mineral Sands"), which the Company refers to as the Transaction (the "Transaction"). The combination of Exxaro's Mineral Sands business, along with Tronox's proprietary chloride titanium dioxide process technology, will establish Tronox as the only fully vertically integrated pigment company.

In the Transaction, the existing business of Tronox Incorporated will be combined with the Exxaro Mineral Sands business under a new Australian holding company, Tronox Limited. The Transaction will be effectuated in two primary steps. In the first step, Tronox Incorporated will become a subsidiary of Tronox Limited, with Tronox Incorporated stockholders receiving one Class A Share and \$12.50 in cash for each share of Tronox Incorporated common stock, unless the holder elects to receive an exchangeable share of Tronox Limited (subject to proration), which is exchangeable for one Class A Share of Tronox Limited and an amount in cash equal to \$12.50 without interest (the "Exchangeable Shares"). The Exchangeable Shares will not be transferable until after December 31, 2012 but the Tronox Limited Class A Shares, including those deliverable upon the exchange of an Exchangeable Share, will be transferable. In the second step, Tronox Limited will acquire Exxaro Mineral Sands in exchange for issuance of Class B Shares to Exxaro and one of its subsidiaries. Upon completion of the Transaction, assuming no Tronox Incorporated stockholders elect to receive Exchangeable Shares, former Tronox Incorporated stockholders and Exxaro will hold 15,236,568 Class A Shares and 9,950,856 Class B Shares, respectively, representing approximately 61.5% and 38.5%, respectively, of the voting power in Tronox Limited.

Upon the closing of the Transaction, each outstanding Series A Warrants and Series B Warrants will be converted into a warrant to acquire, under the same terms and conditions, Class A shares of Tronox Limited and a cash payment of \$12.50. Any fractional Class A Shares resulting from an aggregation of all such warrants granted to the holder under a particular award agreement with the same exercise price shall be rounded down.

On December 30, 2011, the Company filed a Form S-4 with the Securities and Exchange Commission (the "SEC"). The Form S-4 has been filed with the SEC but has not yet become effective. The Tronox Limited securities may not be sold nor may offers to buy them be accepted prior to the time the registration statement becomes effective.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

During the period in which the Debtors were operating under Chapter 11, the Company reported revenues, expenses (including professional fees), realized gains and losses, and provisions for losses resulting from the reorganization and restructuring separately on its Consolidated Statements of Operations. Furthermore, the Company reported reorganization items separately within the operating, investing, and financing categories of the Consolidated Statements of Cash Flows.

As previously mentioned, the Company was required, under accounting principles generally accepted in the United States ("U.S. GAAP"), to adopt fresh-start accounting as of January 31, 2011; therefore, the Company undertook a comprehensive re-evaluation of its assets and liabilities based on the reorganization value as established and confirmed in the Plan. See Note 4 for additional information regarding the Company's adoption of fresh-start accounting.

Subsequent to the Debtors' Chapter 11 filing, the Company recorded its financial condition and results of operations in accordance with ASC 852. The financial statements for periods in which the Company was operating under Chapter 11 distinguishes transactions and events that were directly associated with the reorganization from the ongoing operations of the business. The Company disclosed prepetition liabilities subject to compromise separately from those that are not (such as fully secured liabilities that are not compromised) and from post petition liabilities on its Consolidated Balance Sheets. The liabilities subject to compromise, including claims that became known after the Chapter 11 filing, were reported based on the expected amount of the allowed claims in accordance with ASC 450, *Contingencies* ("ASC 450"), as opposed to the amounts for which those allowed claims were or may be settled.

Accordingly, the financial information set forth in this report, unless otherwise expressly set forth or as the context otherwise indicates, reflects the consolidated results of operations and financial condition of Tronox and its subsidiaries on a fresh-start basis for the period beginning February 1, 2011 ("Successor"), and of Tronox and its subsidiaries on a historical basis for the periods through January 31, 2011 ("Predecessor").

Principles of Consolidation

The Company's consolidated financial statements include the accounts of all majority-owned subsidiary companies. Investments in affiliated companies that are 20% to 50% owned are carried as a component of "Other Long-Term Assets" on the Consolidated Balance Sheets at cost adjusted for equity in undistributed earnings. Except for dividends and changes in ownership interest, changes in equity in undistributed earnings are included in "Other income (expense)" on the Consolidated Statements of Operations. All intercompany transactions have been eliminated.

Tiwest Joint Venture

	<u>Nature of Business</u>	<u>2011 %</u>	<u>2010 %</u>	<u>2009 %</u>
Tiwest Joint Venture	Titanium minerals, and pigment production	50%	50%	50%

The Company operates the Tiwest Joint Venture with Exxaro Australia Sands Pty Ltd., which is a subsidiary of Exxaro. The Tiwest Joint Venture operates a chloride process TiO₂ plant located in Kwinana, Western Australia (the “Kwinana Facility”), a mining operation in Cooljarloo, Western Australia, and a mineral separation plant and a synthetic rutile processing facility, both in Chandala, Western Australia.

The Tiwest Joint Venture is a contractual relationship between Tronox and Exxaro whereby each party hold an undivided interest in each asset of the joint venture, and are proportionally liable for each of the joint venture’s liabilities. The Tiwest Joint Venture is not a separate legal entity and does not enter into any transactions. Transactions are entered into by the joint venture partners who have the right to sell their own product, collect their proportional share of the revenues and absorb their share of costs. As such, the Company does not account for the Tiwest Joint Venture under the equity method.

The Company accounts for its share of the Tiwest Joint Venture’s assets that are jointly controlled and its share of liabilities for which it is jointly responsible on a proportionate gross basis in its Consolidated Balance Sheet. Additionally, the Company accounts for the revenues generated from its share of the products sold and its share the expenses of the joint venture on a gross basis in its Consolidated Statements of Operations.

Through a separate agreement, the Company is responsible for the marketing of Exxaro’s TiO₂, in which capacity it acts as principal and bears the credit risk for such sales. As the Company acts as principal, the total tonnes of TiO₂ from the Tiwest Joint Venture sold are included in the Company’s net sales and the cost to acquire any tonnes from Exxaro is included in the Company’s cost of goods sold.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. It is at least reasonably possible that the effect on the financial statements of a change in estimate within one year of the date of the financial statements due to one or more future confirming events could have a material effect on the financial statements.

Foreign Currency

The U.S. dollar is considered the functional currency for the Company’s operations, except for its European operations. The Company determines the functional currency of each subsidiary based on a number of factors, including the predominant currency for revenues, expenditures and borrowings. Foreign currency transaction gains or losses are recognized in the period incurred and are included in “Other income (expense)” on the Consolidated Statements of Operations.

The euro is the functional currency for the Company’s European operations and, as such, translation adjustments resulting from translating the functional currency financial statements into U.S. dollar equivalents are reflected as a separate component on the Consolidated Statements of Other Comprehensive Income (Loss). When the subsidiary’s functional currency is the U.S. dollar, such as the Company’s Australian operations, adjustments from the remeasurement of foreign currency monetary assets and liabilities are presented in “Other income (expense)” on the Consolidated Statements of Operations.

Gains and losses on intercompany foreign currency transactions that are not expected to be settled in the foreseeable future are reported by the Company in the same manner as translation adjustments.

Cash and Cash Equivalents

The Company considers all investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, total cash and cash equivalents was \$154.0 million and \$141.7 million, respectively, of which \$62.1 million and \$103.0 million, respectively, was held within the United States.

Accounts Receivable

Accounts receivable are reflected at their net realizable values, reduced by an allowance for doubtful accounts to allow for expected credit losses. The allowance is estimated by management, based on factors such as age of the related receivables and historical experience, giving consideration to customer profiles. The Company generally does not charge interest on accounts receivable, nor require collateral; however, certain operating agreements have provisions for interest and penalties that may be invoked, if deemed necessary. Accounts receivable are aged in accordance with contract terms and are written off when deemed uncollectible. Any subsequent recoveries of amounts written off are credited to the allowance for doubtful accounts. See Note 8 for additional information regarding accounts receivable.

Concentration of Credit Risk — A significant portion of the Company’s liquidity is concentrated in trade accounts receivable that arise from sales of TiO₂ to customers in the paint and coatings industry. The industry concentration has the potential to impact the Company’s overall exposure to credit risk, either positively or negatively, in that its customers may be similarly affected by changes in economic, industry or other conditions. The Company performs ongoing credit evaluations of its customers, and uses credit risk insurance policies from time to time as deemed appropriate to mitigate credit risk but generally does not require collateral. The Company maintains allowances for potential credit losses based on historical experience.

Concentration of Customers — For the year ended December 31, 2011, the Company’s ten largest customers represented approximately 36.5% of its total net sales; however, no single customer accounted for more than 10% of its total net sales.

Inventories

Inventories are stated at the lower of actual cost or market, net of allowances for obsolete and slow-moving inventory. The cost of finished goods inventories is determined using the first-in, first-out method. Carrying values include material costs, labor and associated indirect manufacturing expenses. Costs for materials and supplies, excluding ore, are determined by average cost to acquire. Raw materials are carried at actual cost. The Company periodically reviews its inventory for obsolescence or inventory that is no longer marketable for its intended use, and records any write-down equal to the difference between the cost of inventory and its estimated net realizable value based on assumptions about alternative uses, market conditions and other factors.

See Note 8 for additional information regarding inventories.

Property, Plant and Equipment, Net

Property, plant and equipment, net is stated at cost less accumulated depreciation and amortization. Maintenance and repairs are expensed as incurred, except that costs of replacements or renewals that improve or extend the lives of existing properties are capitalized.

Depreciation — Property, plant and equipment is depreciated over its estimated useful life by the straight-line method. Useful lives for certain property, plant and equipment are as follows:

Mineral leaseholds	Units of Production
Vessel linings, general mechanical and process equipment	3 — 10 years
Electrical equipment, process piping and waste treatment ponds	10 — 15 years
Support structures and process tanks	20 years
Electrical distribution systems, mining equipment and other infrastructure assets	25 years
Buildings	10 — 40 years

Mineral Leaseholds — The Company is engaged in the acquisition, exploration and development of mineral properties to provide feedstock for its pigment production through the Tiwest Joint Venture. Mineral property acquisition costs are capitalized in property, plant and equipment in accordance with ASC 805, *Business Combinations* (“ASC 805”) as tangible assets when management has determined that probable future benefits consisting of a contribution to future cash inflows have been identified and adequate financial resources are available or are expected to be available as required to meet the terms of property acquisition and anticipated exploration and development expenditures.

Mineral property exploration costs are expensed as incurred. When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, the costs incurred to develop such property through the commencement of production are capitalized.

Retirements and Sales — The cost and related accumulated depreciation and amortization are removed from the respective accounts upon retirement or sale of property, plant and equipment. Any resulting gain or loss is included in “Cost of goods sold” or “Selling, general, and administrative expenses” on the Consolidated Statements of Operations.

Interest Capitalized — The Company capitalizes interest costs on major projects that require an extended period of time to complete. See Note 12 for additional information regarding capitalized interest.

See Note 8 for additional information regarding property, plant and equipment.

Asset Impairments

Whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, the Company evaluates impairments by asset group for which the lowest level of independent cash flows can be identified. If the sum of these estimated future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized for the excess of the carrying amount of the asset over its estimated fair value. Fair value is determined using prices for similar assets in the marketplace (market approach) or discounted future cash flows (income approach).

Intangible Assets

As a result of the application of fresh-start accounting, the Company recognized \$335.1 million in separately identifiable intangible assets. Subsequent to initial recognition, intangibles are amortized on a straight-line basis over their estimated useful lives, which range from 5 to 20 years.

The Company tests its finite-lived intangible assets for impairment when impairment indicators arise. Assessing the impairment of intangible assets requires management to make significant estimates and assumptions, including, but not limited to, the expected future cash flows that the assets will generate, how the assets will be used based on the strategic direction, their remaining useful life, and their fair value on an open market. Considerable judgment is also applied in incorporating the potential impact of the economic climate on customer demand and selling prices, the cost of production and the limited activity on secondary markets for the assets and on the cost of capital. There is a significant risk that customer demand and pricing will be lower than expected. Although management believes its estimates of undiscounted future cash flows, for impairment testing purposes, and of fair values are reasonable, actual financial results could differ from these estimates due to the inherent uncertainty in making such estimates. During the eleven months ended December 31, 2011, the Company noted the existence of no such indicators warranting the performance of an impairment test.

See Note 10 for further information related to the Company's intangible assets.

Asset Retirement Obligations

To the extent a legal obligation exists, an asset retirement obligation ("ARO") is recorded at its estimated fair value and accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value. Fair value is measured using expected future cash outflows discounted at Tronox's credit-adjusted risk-free interest rate. No market-risk premium has been included in the Company's calculation of ARO balances since no reliable estimate can be made by the Company. The Company's consolidated financial statements classify accretion expense related to asset retirement obligations as a production cost, which is included in "Cost of goods sold" on the Consolidated Statements of Operations. See Note 11 for additional information regarding asset retirement obligations.

The Company's most significant ARO at December 31, 2011 and 2010 was its share of mine closure and rehabilitation costs associated with the Tiwest Joint Venture. Significant judgment is applied in estimating the ultimate cost that will be required to rehabilitate the mines. The Company used the following assumptions in determining asset retirement obligations associated with mine closure and rehabilitation costs associated with the Tiwest Joint Venture:

- Inflation of 2.5% per year during 2011 and 2.5% per year during 2010
- Credit adjusted risk-free interest rate of 6.1% per year during 2011 and 13.6% per year during 2010
- Life of mine over 15 years in 2011 and 13 years in 2010
- Life of mine rehabilitation over 18 years in 2011 and 19 years in 2010

A primary factor resulting in the 2010 credit adjusted risk-free interest rate of 13.6% was the Company's bankruptcy status.

Environmental Remediation and Other Contingencies

In accordance with ASC 450 and ASC 410, *Asset Retirement and Environmental Obligations* ("ASC 410"), the Company recognizes a loss and records an undiscounted liability when litigation has commenced or a claim or assessment has been asserted, or, based on available information, commencement of litigation or assertion of a claim or assessment is probable, and the associated costs can be reasonably estimated. Aside from the Legacy Environmental Liabilities, which are discussed in Note 5, the Company estimates environmental liabilities on a case by case basis. Estimates of environmental liabilities, which include the cost of investigation and remediation, are based on a variety of factors, including, but not limited to, the stage of investigation, the stage of the remedial design, evaluation of existing remediation technologies, presently enacted laws and regulations as well as prior experience in remediation of

contaminated sites. In future periods, a number of factors could change the Company's estimate of environmental remediation costs, such as changes in laws and regulations, or changes in their interpretation or administration or relevant cleanup levels; revisions to the remedial design; unanticipated construction problems; identification of additional areas or volumes of contaminated soils and groundwater; the availability of information to estimate probable but previously inestimable obligations; and changes in costs of labor, equipment and technology.

To the extent costs of investigation and remediation have been incurred and are recoverable from federal, state, or other governmental agencies and have been incurred or are recoverable under certain insurance policies or from other parties and such recoveries are deemed probable, the Company records a receivable for the estimated amounts recoverable (undiscounted). Receivables are reflected on the Consolidated Balance Sheets in either "Accounts receivable" or as a component of "Other Long-Term Assets," depending on the estimated timing of collection.

Self Insurance

The Company is self-insured for certain levels of general and vehicle liability, property, workers' compensation and health care coverage. The cost of these self-insurance programs is accrued based upon estimated fully developed settlements for known and anticipated claims. Any resulting adjustments to previously recorded reserves are reflected in current operating results. The Company does not accrue for general or unspecific business risks.

Revenue Recognition

Revenue is recognized when persuasive evidence of a sales arrangement exists, delivery has occurred, sales price is fixed or determinable and collectability is reasonably assured. All amounts billed to a customer in a sales transaction related to shipping and handling represent revenues earned and are reported as net sales. Costs incurred by the Company for shipping and handling are reported in "Cost of goods sold" on the Consolidated Statements of Operations.

Cost of Goods Sold

Cost of goods sold includes the costs of purchasing, manufacturing and distributing products, including raw materials, energy, labor, depreciation and other production costs. Receiving, distribution, freight and warehousing costs are also included in "Cost of goods sold" on the Consolidated Statements of Operations.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include costs related to marketing, sales, agent commissions, research and development, legal and administrative functions such as human resources, information technology, investor relations, accounting, treasury, and tax compliance. Costs include expenses for salaries and benefits, travel and entertainment, promotional materials and professional fees.

Research and Development

Research and development costs were \$8.7 million, \$0.4 million, \$6.1 million and \$5.0 million for the eleven months ended December 31, 2011, one month ended January 31, 2011 and years ended 2010 and 2009, respectively, and were expensed as incurred.

Pension and Postretirement Accounting

The Company provides pension and postretirement benefits for qualifying employees worldwide, which are accounted for in accordance with ASC 715, *Compensation — Retirement Benefits* ("ASC 715"). During 2008 and 2009, the Company froze its U.S. nonqualified benefit plan and qualified benefit plan, respectively.

See Note 17 for additional information regarding pension and postretirement benefits.

Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance with ASC 718, *Compensation-Stock Compensation* ("ASC 718").

Liability Restricted Stock Awards — The Company withholds the highest combined maximum rate imposed under all applicable federal, state, local and foreign tax laws on behalf of employees that received stock awards. As such, these restricted stock awards are classified as liability awards and are re-measured to fair value at each reporting date. The restricted stock awards classified as liabilities contain only a service condition and have graded vesting provisions. The Company has elected to recognize compensation costs on a straight-line basis over the requisite service period for the entire award.

Equity Restricted Stock Awards — The fair value of equity instruments is measured based on the average stock price on the grant date and is recognized over the vesting period. The restricted stock awards contain service, market and/or performance conditions. For awards containing only a service condition, the Company has elected to recognize compensation costs using the straight-line method over the requisite service period for the entire award. For awards containing a market condition, the fair value of the award is measured using the lattice model. For awards containing a performance condition, the fair value of the award is equal to the average stock price but compensation expense is not recognized until the Company concludes that it is probable that the performance condition will be met. The Company reassesses the probability each quarter.

Stock Options — The Black-Scholes option pricing model is utilized to measure the fair value of stock options. Stock options generally contain only service conditions and have graded vesting provisions. The Company has elected to recognize compensation costs using the straight-line method over the requisite service period for the entire award.

See Note 18 for additional information regarding employee stock-based compensation.

Income Taxes

The Company accounts for taxes in accordance with ASC 740, *Income Taxes* (“ASC 740”).

The Company has operations in several countries around the world and is subject to income and similar taxes in these countries. The estimation of the amounts of income tax involves the interpretation of complex tax laws and regulations and how foreign taxes affect domestic taxes, as well as the analysis of the realizability of deferred tax assets, tax audit findings and uncertain tax positions. Although the Company believes its tax accruals are adequate, differences may occur in the future, depending on the resolution of pending and new tax matters.

Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided against a deferred tax asset when it is more likely than not that all or some portion of the deferred tax asset will not be realized. The Company periodically assesses the likelihood that it will be able to recover its deferred tax assets and reflects any changes in its estimates in the valuation allowance, with a corresponding adjustment to earnings or other comprehensive income (loss), as appropriate. ASC 740 requires that all available positive and negative evidence be weighted to determine whether a valuation allowance should be recorded.

The amount of income taxes the Company pays is subject to ongoing audits by federal, state and foreign tax authorities, which may result in proposed assessments. The Company’s estimate for the potential outcome for any uncertain tax issue is highly judgmental. The Company assesses its income tax positions and records tax benefits for all years subject to examination based upon its evaluation of the facts, circumstances and information available at the reporting date. For those tax positions for which it is more likely than not that a tax benefit will be sustained, the Company records the amount that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. Interest and penalties are accrued as part of tax expense, where applicable. If the Company does not believe that it is more likely than not that a tax benefit will be sustained, no tax benefit is recognized.

See Note 19 for additional information regarding income taxes.

Fair value measurement

The Company accounts for its financial assets and liabilities in accordance with ASC 820, *Fair Value Measurements and Disclosures*, (“ASC 820”). In measuring fair value on a recurring basis, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs, to the extent possible, and considers counterparty credit risk in its assessment of fair value.

3. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (“FASB”) issued ASU 2011-05, *Presentation of Comprehensive Income* (“ASU 2011-05”), which changes the presentation requirements of comprehensive income to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. ASU 2011-05 requires that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. On December 28, 2011, the FASB issued ASU 2011-12, which defers certain requirements of ASU 2011-05. The remaining requirements of ASU 2011-05 are effective for interim and annual periods beginning after December 15, 2011. The Company does not anticipate that the adoption of this guidance will have a material impact on its consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (“IFRS”)* (“ASU 2011-04”), which changes certain fair value measurement and disclosure requirements, clarifies the application of existing fair value measurement and disclosure requirements and provides consistency to ensure that U.S. GAAP and IFRS fair value measurement and disclosure requirements are described in the same way. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company does not anticipate that the adoption of this guidance will have a material impact on its consolidated financial statements.

4. Fresh-Start Accounting

As discussed in Note 1, the Company applied fresh-start accounting pursuant to ASC 852 as of January 31, 2011. ASC 852 provides for, among other things, a determination of the value to be assigned to the assets of the reorganized Company.

Enterprise valuation

In connection with the development of the Plan, the Company estimated the enterprise value of the Successor. Using a number of estimates and assumptions, the Company prepared financial projections through 2013, which were included in the disclosure statement related to the Plan. Based on these financial projections, the Company estimated a going concern enterprise value of the Successor within a range of approximately \$975.0 million to \$1,150.0 million, with a midpoint of \$1,063.0 million, which included the fair value of tax attributes that were expected to be available to the Successor. The enterprise value range was included in the disclosure statement which was approved by the bankruptcy court. Management used an enterprise value of \$1,150.0 million, which was considered to be the best estimate of the value. The reorganization value is viewed as the fair value of the Successor before considering liabilities and is intended to approximate the amount a willing buyer would pay for the assets of the entity immediately after the reorganization and represents the amount of resources available for the satisfaction of post-petition liabilities and allowed claims, as negotiated between the Debtors and their creditors.

The enterprise value was estimated using three valuation methods: (i) discounted cash flow analysis (“DCF”), (ii) comparable company analysis and (iii) transaction values analysis, each of which is discussed further below.

The DCF analysis is a forward-looking enterprise valuation methodology that estimates the value of an asset or business by calculating the present value of expected future cash flows to be generated by that asset or business. Under this methodology, projected future cash flows are discounted by the business’ weighted average cost of capital (the “Discount Rate”). The Discount Rate reflects the estimated blended rate of return that would be required by debt and equity investors to invest in the business based upon its capital structure. The Company’s enterprise value was determined by calculating the present value of its unlevered after-tax free cash flows based on its four-year financial projections plus an assumed terminal value at the end of the projected period at a discount rate reflecting the company-specific risk factors. The present value of the Company’s four-year cash flow projections was calculated using a Discount Rate based upon a weighted average cost of capital (the “WACC”) ranging from 11.3% — 13.3% and an implied terminal value ranging from 5.5x — 7.5x terminal Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”).

The comparable company analysis estimates the value of a company based on a relative comparison with other publicly-traded companies with similar operating and financial characteristics. Under this methodology, the enterprise value for each selected public company was determined by examining the trading prices for the equity securities of such company in the public markets and adding the aggregate amount of outstanding net debt for such company (at book value) and noncontrolling interests. Those enterprise values are commonly expressed as multiples of various measures of operating statistics, most commonly EBITDA. In addition, each of the selected public company’s operational performance, operating margins, profitability, leverage and business trends were examined. Based on these analyses, financial multiples and ratios were calculated to apply to the Company’s actual and projected operational performance. Multiples ranged from 4.4x — 5.4x for 2011 projected EBITDA.

The transaction values analysis estimates value by examining public merger and acquisition transactions. The valuations paid in such acquisitions or implied in such mergers are analyzed as ratios of various financial results. These transaction multiples were calculated based on the purchase price (including any debt assumed) paid to acquire companies that are comparable to us. Since precedent transactions analysis reflects aspects of value other than the intrinsic value of a company, there are limitations as to its applicability in determining the enterprise value. Nonetheless, the Company reviewed recent merger and acquisition transactions involving similar companies. Many of the transactions analyzed occurred in fundamentally different industry and credit market conditions from those prevailing in the marketplace, and therefore, may not be the best indication of value. Transaction multiples range that was utilized was 6.9x — 7.9x, the last twelve months’ EBITDA.

The enterprise value was determined based equally on all three valuation methods. In addition, the Company’s expected tax attributes, valued based on a DCF of the projected tax savings arising from the use of its available post-emergence attributes, were considered in the analysis. Income taxes in these financial projections were calculated based on the projected applicable statutory tax rates in the countries in which we operate. For 2014 through 2034, the Company applied a growth rate of 1.0% to 5.0% to U.S. income

tax provision in order to estimate its NOL utilization. Unlevered free cash flows for 2010 through 2013 include taxes on an unlevered basis without NOL value. The Company assumed a 2013 tax rate of 34.5%.

The enterprise valuation was based upon achieving the future financial results set forth in the Company's projections, as well as the realization of certain other assumptions. The financial projections included in the enterprise valuation were limited by the information available to us as of the date of the preparation of the projections and reflected numerous assumptions concerning anticipated future performance, as well as prevailing and anticipated market and economic conditions that were and continue to be beyond the Company's control and that may not materialize. These assumptions and the financial projections are inherently subject to significant uncertainties, as well as significant business, economic and competitive risks, many of which are beyond the Company's control. Accordingly, there can be no assurance that the assumptions and financial projections will be achieved and actual results could vary materially.

The assumptions for which there is a reasonable possibility of a variation that would significantly affect the calculated enterprise value include, but are not limited to, sales volumes, product pricing, product mix, foreign currency exchange rates, costs of raw materials and energy, achievement of operating margins and cost reductions, income tax rates, working capital changes, capital spending and overall industry conditions.

The following unaudited condensed consolidated balance sheet information illustrates the financial effects from implementing the Plan and the adoption of fresh-start accounting as of January 31, 2011.

	As of January 31, 2011			
	Predecessor	Reorganization Adjustments	Fresh-Start Adjustments	Successor
	(Millions of dollars)			
Current Assets				
Cash and cash equivalents	\$ 117.4	\$ (56.4) ^a	\$ —	\$ 61.0
Accounts receivable, net.....	256.7	(3.8) ^b	—	252.9
Inventories	213.7	(1.7) ^c	35.5 ^k	247.5
Prepaid and other assets	139.3	(88.7) ^d	—	50.6
Deferred income taxes	4.2	—	0.4 ^p	4.6
Total Current Assets	731.3	(150.6)	35.9	616.6
Property, Plant and Equipment, Net	317.5	(21.0)^e	185.7^l	482.2
Intangible Assets, Net	—	—	335.1^m	335.1
Other Long-Term Assets	41.7	(13.9)^f	(13.6)ⁿ	14.2
Total Assets	<u>\$1,090.5</u>	<u>\$ (185.5)</u>	<u>\$543.1</u>	<u>\$1,448.1</u>
Liabilities and Stockholders' Equity				
Current Liabilities				
Accounts payable	\$ 221.6	\$ (0.3) ^g	\$ —	\$ 221.3
Accrued liabilities.....	44.5	(0.5) ^h	—	44.0
Short-term debt.....	—	25.0 ⁱ	—	25.0
Long-term debt due within one year.....	4.3	—	—	4.3
Income taxes payable	2.7	—	—	2.7
Total Current Liabilities	273.1	24.2	—	297.3
Noncurrent Liabilities				
Long-term debt	420.7	—	—	420.7
Pension and other postretirement benefits.....	107.2	—	(10.8) ^o	96.4
Deferred income taxes	—	—	13.1 ^p	13.1
Other.....	47.0	—	9.4 ^q	56.4
Total Noncurrent Liabilities	574.9	—	11.7	586.6
Liabilities Subject to Compromise	896.7	(896.7)^j	—	—
Total Liabilities	<u>1,744.7</u>	<u>(872.5)</u>	<u>11.7</u>	<u>883.9</u>
Total Stockholders' Equity	(654.2)	687.0	531.4^r	564.2
Total Liabilities and Stockholders' Equity	<u>\$1,090.5</u>	<u>\$ (185.5)</u>	<u>\$543.1</u>	<u>\$1,448.1</u>

Allocation of reorganization value to assets and liabilities

The reorganization value derived from the Company’s enterprise value of \$1,150.0 million was allocated among Tronox’s assets in conformity with the purchase method of accounting guidance for business combinations included in ASC 805, which requires recording assets and liabilities at fair value (except for deferred income taxes and pension and postretirement benefit obligations). The reorganization value was assigned first to tangible and identifiable intangible assets and then the excess of net asset values over reorganization value was recorded as an adjustment to equity.

All estimates, assumptions, valuations, appraisals and financial projections, including the fresh-start adjustments, the reorganization value and equity value projections, are inherently subject to significant uncertainties outside of management’s control. Accordingly, there can be no assurance that the estimates, assumptions, valuations, appraisals and financial projections will be realized and actual results could vary materially.

- a. *Cash and cash equivalents* — The adjustments to cash and cash equivalents represent net cash outflows, after giving effect to transactions pursuant to the Plan, including borrowings under a \$125.0 million senior secured asset-based revolving credit agreement with Wells Fargo Capital Finance, LLC (the “Wells Revolver”) with a maturity date of February 14, 2015, receipt of proceeds from the Rights Offering; payments relating to the discharge of debts and other liabilities subject to compromise; and the funding of the environmental response and tort trusts.

	(Millions of dollars)
Sources of funds:	
Wells Revolver	\$ 25.0
Rights Offering	185.0
Release of environmental settlement escrow	35.0
Transfer of environmental letters of credit	29.9
Transfer of surety bonds	15.0
5% cash premium on collateralized letters of credit	2.2
	<u>\$ 292.1</u>
Use of funds:	
Environmental letters of credit	\$ (29.9)
Surety bonds	(15.0)
Cash settlement payments to environmental trusts	(270.0)
Cash settlement to tort trust	(16.5)
Admin., cure and 503(b)(9) claims	(3.7)
Settlement of secured and convenience claims	(0.9)
Professional and legal service fees	(12.0)
Prorated property taxes	(0.5)
	<u>\$(348.5)</u>
Net cash outflows from reorganization	<u>\$ (56.4)</u>

- b. *Accounts receivable, net* — The adjustment represents the transfer of certain trade and miscellaneous receivables to the environmental trusts.
- c. *Inventories* — The adjustment represents the transfer of finished goods and materials and supplies held at legacy sites to the environmental trusts.
- d. *Prepaid and other assets* — The adjustments to prepaid and other assets represent the transfer and release of funds on deposit related to letters of credit, surety bonds and environmental settlement escrow accounts that have been reclassified to cash and cash equivalents and used as “sources of funds,” along with the transfer of prepaid and other asset balances at legacy sites that have been transferred to the environmental trust.

	(Millions of dollars)
Change in prepaid and other assets	
Transfer of environmental letters of credit	\$(29.9)
Release of environmental settlement escrow	(35.0)
Release of Kress Creek escrow account	(4.6)
Henderson prepaid land development costs	(2.0)
Transfer of surety bonds	(15.0)
5% cash premium on collateralized letters of credit	(2.2)
	<u>\$(88.7)</u>

- e. *Property, plant and equipment, net* — The adjustment represents the transfer of property, plant and equipment held at legacy sites to the environmental trust.
- f. *Other long-term assets* — The net adjustment represents the transfer of a \$14.8 million investment in equity method investees to the Nevada Environmental Trust and \$1.5 million in long-term receivables transferred to other environmental trusts, which were slightly offset by the recognition of \$2.4 million in deferred financing fees related to the Wells Revolver.
- g. *Accounts payable* — The net adjustment represents payments made at emergence offset by accruals recorded for payments that will need to be made post-emergence as a result of execution of the Plan.
- h. *Accrued liabilities* — The adjustment represents \$0.5 million in pro-rated property taxes related to sites that have been transferred to the environmental trusts as part of the Plan.
- i. *Short-term debt* — The change in the short-term debt balance represents a \$25.0 million draw on the Wells Revolver that the Company made on the Effective Date.
- j. *Liabilities subject to compromise* — The adjustment to liabilities subject to compromise reflects the discharge of liabilities subject to compromise through a series of transactions involving cash and equity.

Fresh-Start Accounting

In applying fresh-start accounting on January 31, 2011, the Company recorded assets and liabilities at estimated fair value, except for deferred income taxes and certain liabilities associated with employee benefits, which were recorded in accordance with ASC 852 and ASC 740, respectively. The significant assumptions related to the valuations of the Company's assets and liabilities recorded in connection with fresh-start accounting are discussed herein. All valuation inputs, with the exception of the calculation of raw material inventories and the Company's long-term debt, are considered to be Level 3 inputs under ASC 820, as they are based on significant inputs that are not observable in the market.

- k. *Inventories* — The Company recorded inventory at its fair value of \$247.5 million, which was determined as follows:
 - Finished goods were valued based on the estimated selling price of finished goods on hand less costs to sell, including disposal and holding period costs, and a reasonable profit margin on the selling and disposal effort for each specific category of finished goods being evaluated;
 - Work in process was valued based on the estimated selling price once completed less total costs to complete the manufacturing process, costs to sell including disposal and holding period costs, a reasonable profit margin on the remaining manufacturing, selling, and disposal effort; and
 - Raw materials were valued based on current replacement cost, which approximates fair value.
- l. *Property, plant, and equipment, net* — The Company recorded a \$143.7 million fair value step-up on its property, plant and equipment at the time of applying fresh-start accounting. The \$143.7 million step-up was ascribed to the corresponding property, plant and equipment classes which included land, buildings, machinery and equipment and construction in progress, (collectively real and personal property). Fair value was based on the highest and best use of the assets. For the majority of assets, the indirect cost approach was utilized to value the assets.

Additionally, the Company recorded the fair value of lease tenements of \$42.0 million using a discount rate of 19.1% based on the Company's WACC adjusted for risks inherent to lease tenements and a remaining useful life of 16 years, depreciated on a unit of production basis.
- m. *Intangible assets, net* — The change in intangibles is due to the recognition of \$335.1 million in separately identifiable intangible assets at fair value as a result of the application of fresh-start accounting. The following is a summary of the approaches used to determine the fair value of the significant intangible assets:
 - The Company recorded the fair value of trade names of \$3.6 million using the income approach relief-from-royalty methodology. Significant assumptions used in the calculation include:
 - 0.10% royalty rate based on qualitative factors and the market-derived royalty rates;
 - Discount rates of 20% based on Tronox's WACC adjusted for risks commonly inherent in trade names; and
 - Remaining useful life of five years based upon the nature of the industry and the relative strength of names in the marketplace.
 - The Company recorded the fair value of TiO₂ technology of \$31.9 million using the income approach relief-from-royalty methodology. Significant assumptions used in the calculation include:
 - 0.75% royalty rate based on qualitative factors and the market-derived royalty rates;
 - Discount rates of 22.7% based on Tronox's WACC adjusted for risks inherent in TiO₂ technology; and
 - Remaining useful life of 20 years based on the nature of the industry, the length of time that the technology has been in use, and the relative strength of the technology in the marketplace.

- The Company recorded the fair value of \$5.0 million for in-process research and development based on a probability-weighted income approach. Significant assumptions used in the calculation include:
 - Discount rates of 14.2% based on Tronox’s WACC adjusted for risks inherent in intangible assets, specifically in-process R&D; and
 - Remaining useful life of five years.
 - The Company recorded the fair value of customer relationships of \$293.9 million using a form of the income approach typically referred to as the multi-period economic income method. Significant assumptions used in the calculation include:
 - Customer attrition rate of 7.4% based on historical data;
 - Discount rates of 19.7% based on Tronox’s WACC adjusted for risks inherent in intangible assets, specifically customer relationships; and
 - Remaining useful life of 15 years.
 - The Company also recognized the fair value of other intangibles of \$0.7 million. Other consists of highly specialized proprietary software utilized for its Botlek pigment facility, which has an estimated remaining useful life of seven years.
- n. *Other long-term assets* — The change in other long-term assets is due to the write-off of \$14.6 million of deferred financing fees that were related to the Predecessor’s debtor-in-possession (“DIP”) financing facilities, which converted to a \$425.0 million exit facility on February 14, 2011. The \$14.6 million was partially offset by \$0.8 million in deferred taxes recognized and \$0.2 million related to the write-off of the net pension asset related to the Predecessor. At that time, additional deferred financing costs were capitalized based on the application of accounting principles. As of the emergence date, the fair value of debt changed where the stated coupon of the debt became par. Therefore all previous deferred financing costs were written-off.
- o. *Pension and other postretirement benefits* — The net adjustment reflects the fair value adjustments to pension obligations as a result of the application of fresh-start accounting.
- p. *Deferred income taxes* — The application of fresh-start accounting on January 31, 2011, resulted in the re-measurement of deferred income tax assets and liabilities associated with the revaluation of the Company’s assets and liabilities pursuant to ASC 852. Deferred income taxes were recorded at amounts determined in accordance with ASC 740.
- q. *Other noncurrent liabilities* — The net adjustment reflects the fair value adjustments to asset retirement obligations as a result of the application of fresh-start accounting.
- r. *Stockholders’ equity* — The adjustments reflect net gains relating to executing the Plan, gains related to revaluation of assets and “resetting” retained earnings and accumulated other comprehensive income to zero.

5. Accounting for KM Legacy Liabilities

Background

In December 2008, the Company’s then newly appointed Chief Executive Officer informed the Board of Directors (the “Board”) of his concerns over the adequacy of the Company’s environmental liability reserves, and requested independent verification of such reserves prior to filing the 2008 annual report with the SEC. At its December 2008 meeting, the Board directed management to conduct an internal review of the reserve-setting process. In January 2009, management presented the Board with a summary of the internal review, and the Board directed management to hire an expert to review the adequacy of the Company’s environmental reserves as of December 31, 2008. As a result of the preliminary findings from the expert’s review (which consisted of an analysis of documents, interviews of the Company’s environmental project managers, and other information related to a sample of eleven environmental sites or categories of environmental sites selected by the Company), on May 5, 2009, the Company filed a Form 8-K under Item 4.02 stating that its previously-filed financial statements, while the Company was a reporting entity under the SEC’s rules and regulations, could no longer be relied upon because it had failed to establish adequate reserves for the KM Legacy Liabilities as required by U.S. GAAP. The Company also disclosed that its review was continuing and that any required increases to the reserves, while unknown at the time, would be material.

In 2002, Kerr-McGee began an internal restructuring (the “KM Restructuring”) that transferred its oil and gas business to a newly formed entity. Tronox Incorporated was formed in May 2005 as the parent holding company for the Kerr-McGee chemical business and for liabilities related to historic operations of Kerr-McGee that had been terminated, discontinued, or divested prior to the IPO (the “Discontinued Businesses”), including the significant KM Legacy Liabilities that were not related to the ongoing operations of the Kerr-McGee chemical business. The KM Restructuring and Kerr-McGee’s spin-off of the Company, which were completed in March 2006 (the “Spin-Off”), resulted in the Debtors becoming solely responsible for the liabilities of the Discontinued Businesses, including the KM Legacy Liabilities.

Substantially all of the KM Legacy Liabilities related to the Discontinued Businesses, and were never related to the Company's core chemical business. Substantially all of the Legacy Environmental Liabilities related to liabilities for civil remediation and other environmental claims by federal, state, local, tribal and quasi-governmental agencies arising from historical activities by Kerr-McGee or its antecedents over a 60-year period at more than 2,800 wood treatment, thorium, refining, petroleum marketing, coal, nuclear, offshore contract drilling, mining, fertilizer, waste disposal and other sites throughout the United States. The Legacy Environmental Liabilities included claims for soil, groundwater and other contamination resulting from, among other things, radioactive waste rock from uranium mining on the Navajo Nation and elsewhere in the southwestern United States, creosote used in the treatment of railroad ties at approximately 40 sites across the United States, the production of ammonium perchlorate in Nevada for use in rocket fuel, the production of radioactive thorium in Illinois for use in gas mantles, the manufacture and blending of fertilizer products at dozens of sites across the United States, and the production and sale of petroleum products at various refineries and storage facilities and hundreds of service stations across the United States. The Legacy Environmental Liabilities also included liabilities related to Superfund Sites in Jacksonville, Florida; Manville, New Jersey; Soda Springs, Idaho; West Chicago, Illinois; Milwaukee, Wisconsin; and Wilmington, North Carolina. The Legacy Tort Liabilities consisted principally of civil tort claims held by individual plaintiffs alleging personal injuries and property damage caused by exposure to asbestos, benzene, creosote, or other environmental contamination or chemical exposure, in each case arising in connection with the Discontinued Businesses.

The Debtors' primary creditors in the bankruptcy proceedings were the U.S. government and more than 30 state, local, tribal and quasi-governmental entities that held claims related to the Legacy Environmental Liabilities and thousands of individual holders of claims related to the Legacy Tort Liabilities. Certain of the KM Legacy Liabilities were administrative claims that would have been required to be paid in full, in cash, under the Bankruptcy Code while others may not have been dischargeable at all post-bankruptcy. As a result, the Bankruptcy Court could not impose a resolution of the KM Legacy Liabilities without the consent of the related claimants and the Company could not have successfully reorganized without resolving the KM Legacy Liabilities in total. In addition, resolving the claims on an individual basis would have required an extensive, costly and time-consuming process that might not have been possible and likely would have threatened the successful reorganization of the Company. Accordingly, the resolution of these claims on an overall or total basis was essential.

Negotiations regarding the overall resolution of the KM Legacy Liabilities began shortly after the Petition Date. A preliminary agreement in principle was signed in December 2009 and the Company reached the Settlement in November 2010. The Settlement was approved by the Bankruptcy Court on November 30, 2010, subject, in the case of the Environmental Settlement, to a public notice-and-comment period required by applicable environmental laws. This period expired on December 29, 2010, and the Environmental Settlement was approved by the Bankruptcy Court on January 26, 2011. As a result of the Settlement, the Company is no longer responsible for the KM Legacy Liabilities following its emergence from bankruptcy.

Accounting for the KM Legacy Liabilities in 2009

Typically the bankruptcy process involves reconciliation of claims between a debtor and its creditors on an individual basis, with an allowed amount for each claim ultimately agreed to by the parties and/or set forth in an order of the bankruptcy court. With respect to large, complex and disputed claims such as those related to the KM Legacy Liabilities, the individual resolution of such claims typically would be implemented pursuant to certain provisions of the federal rules of bankruptcy procedure. In either scenario, as a claim is allowed by the court, the debtor adjusts its books and records for the allowed amount of the claim in the period such allowed amount is approved. The allowed claim amount is the basis used to allocate recoveries among the creditors, with the settled amount being the amount ultimately recovered by the creditors. An allowed claim amount is not typically the same as the settled or recovered amount. The difference between the allowed amount and the settled or recovered amount is recognized as part of the reorganization adjustment to record the consummation of the reorganization plan under fresh-start accounting.

In contrast, because of the nature and magnitude of the KM Legacy Liabilities, the Company could not successfully reorganize without resolving them on an overall basis. As a result, the parties bypassed the customary individual claims reconciliation process described above and instead embarked on a process to resolve the KM Legacy Liabilities in total. That process culminated in the Settlement. The claims related to the KM Legacy Liabilities were never individually "allowed" or "settled" during the claims resolution process in the bankruptcy proceedings because they were settled "in total" pursuant to the Settlement that was then implemented by consummation of the Plan. Accordingly, no final amounts for individual claims were "allowed" or determined in the bankruptcy proceedings. Nor was the amount of the Settlement a "settled amount" as such term is used in the bankruptcy accounting literature.

Accordingly, the Company concluded that the amount of the Settlement should be considered to be the “expected amount” of the allowed claims for all of the KM Legacy Liabilities during all accounting periods while the Company was in bankruptcy through to the date of its emergence, and therefore should be accounted for as such in accordance with ASC 852. Furthermore, as a result of the bankruptcy and the subsequent negotiations to resolve the KM Legacy Liabilities on an overall basis, the Company concluded it was appropriate to cease using ASC 410, *Asset Retirement and Environmental Obligations* (“ASC 410”) (*i.e.*, recognizing and measuring the liabilities on a site-by-site basis), and instead viewed the Legacy Environmental Liabilities as a single significant liability that could only be measured on an aggregate basis.

In addition, because the KM Legacy Liabilities were loss contingencies, ASC 450 was applied. ASC 450 provides that loss contingencies should be recorded when information available before the financial statements are issued or are available to be issued indicates that an asset had been impaired or a liability had been incurred at the date of the financial statements. Therefore, the Company concluded that, from the Petition Date, it was more appropriate to account for the KM Legacy Liabilities according to ASC 852 in conjunction with ASC 450, and not in accordance with ASC 410 which requires a site-by-site analysis.

In satisfaction of the Legacy Environmental Liabilities, the Company’s environmental creditors received approximately \$325.9 million in cash and accounts receivable, other non-monetary assets (including the sites associated with the Legacy Environmental Liabilities) valued at \$68.4 million, and the rights to 88% of any proceeds, if any, from the litigation that the Company commenced in May 2009 against Kerr-McGee and its new parent, Anadarko Petroleum Corporation (“Anadarko”), related to the Spin-Off (the “Anadarko Litigation”). In satisfaction of the Debtors’ liability for the Legacy Tort Liabilities, its tort creditors received approximately \$17.6 million in cash and accounts receivable and the rights to 12% of any proceeds that may be recovered in the Anadarko Litigation.

Accordingly, the reserve for the KM Legacy Liabilities was adjusted to the amount of the Settlement in the quarter ended March 31, 2009, the accounting period during which the Debtors filed for bankruptcy. The Settlement amount of \$411.9 million was used to initially calculate the amount of the contingent liability, then was adjusted for payments made for environmental remediation work performed in 2009, 2010 and through to the Effective Date in 2011. As a result, the Company adjusted the reserve for the KM Legacy Liabilities in the first quarter of 2009 resulting in a credit of \$75.7 million on the Consolidated Statements of Operations and a corresponding balance of \$536.4 as of March 31, 2009 on the Consolidated Balance Sheets. The Company calculated the amount of the Settlement, using existing U.S. GAAP rules on exchange transactions, as the funded cash settlement amount plus the fair value of the non-monetary assets exchanged. The Company also transferred rights to certain insurance proceeds, other reimbursement agreements, and the proceeds of the Anadarko Litigation, if any; however, because these are gain contingencies, they were not used in calculating the Settlement amount. The adjustment in 2009 is reflected in “Reorganization income (expense)” on the Consolidated Statements of Operations.

6. Statements of Operations Data

Other Income (Expense)

The components of other income (expense) consisted of:

	Successor	Predecessor		
	Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Year Ended December 31, 2010 2009	
		(Millions of dollars)		
Net unrealized and realized foreign currency gain (loss)	\$(7.8)	\$ 1.5	\$(12.5)	\$ (7.7)
Gain (loss) on liquidation/dissolution of subsidiary	0.2	—	5.3	—
Loss in net earnings of equity method investees	—	—	(2.0)	(3.6)
Interest income	0.6	0.1	0.6	0.4
Gain on accounts receivable sales	—	—	—	0.5
Loss on derivatives	—	—	—	(0.7)
Other	(2.8)	—	0.3	0.8
Total	\$(9.8)	\$ 1.6	\$ (8.3)	\$(10.3)

Reorganization Income (Expense)

Items resulting from the Company's reorganization from bankruptcy were classified as "Reorganization income (expense)" on Consolidated Statements of Operations. Upon emergence from bankruptcy, the Company no longer reports reorganization income (expense). Any residual costs are included in "Selling, general and administrative expenses" on the Consolidated Statements of Operations. The Company's net charges for reorganization items in the applicable periods were as follows:

	Successor	Predecessor		
	Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Year Ended December 31, 2010 2009	
		(Millions of dollars)		
Legal and professional fees	\$—	\$ (12.0)	\$ (56.9)	\$(50.3)
Accelerated amortization on debt issuance costs	—	—	(28.6)	(17.5)
Rejected contracts	—	—	(22.8)	(22.1)
Indirect environmental claims	—	(24.3)	(25.9)	—
Fees related to the Rights Offering and other debt related costs	—	(9.2)	(16.8)	—
Forgiveness of debt	—	127.7	—	5.0
Gain as a result of application of fresh-start accounting	—	531.4	—	—
Environmental and tort Settlement adjustments(1)	—	—	—	75.7
Other net adjustments	—	—	6.2	(0.3)
Total	\$—	\$613.6	\$(144.8)	\$ (9.5)

(1) See Note 5 for a description of the Legacy Tort Liabilities and the Legacy Environmental Liabilities Settlement.

7. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the periods indicated:

	Successor	Predecessor		
	Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Year Ended December 31, 2010 2009	
		(Millions of dollars, except share and per share data)		
Income (Loss) from Continuing Operations	\$ 241.5	\$ 631.5	\$ 4.6	\$ (28.7)
Shares (In thousands)	14,981	41,311	41,232	41,176
Effect of Dilutive Securities:				
Restricted Stock	55	88	151	—
Warrants	579	—	—	—
Options	4	—	—	—
Total Dilutive Shares	15,619	41,399	41,383	41,176
Basic Income (Loss) per Share	\$ 16.12	\$ 15.29	\$ 0.11	\$ (0.70)
Diluted Income (Loss) per Share	\$ 15.46	\$ 15.25	\$ 0.11	\$ (0.70)

The following table sets forth the computation of basic and diluted earnings per share from discontinued operations for the periods indicated:

	Successor	Predecessor		
	Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Year Ended December 31, 2010 2009	
	(Millions of dollars, except share and per share data)			
Income (Loss) from Discontinued Operations	\$—	\$ (0.2)	\$ 1.2	\$ (9.8)
Basic Income (Loss) per Share	<u>\$—</u>	<u>\$(0.01)</u>	<u>\$0.03</u>	<u>\$(0.24)</u>
Diluted Income (Loss) per Share	<u>\$—</u>	<u>\$ —</u>	<u>\$0.03</u>	<u>\$(0.24)</u>

In computing diluted earnings per share under the treasury stock method, the Company considered potentially dilutive shares. The number of stock options that were anti-dilutive because they were not “in the money” was 1,152,408, 1,152,408 and 1,162,464 for the one month ended January 31, 2011 and years ended December 31, 2010 and 2009, respectively. The average exercise price of these anti-dilutive options was \$9.54, \$9.54 and \$9.56 for the one month ended January 31, 2011 and years ended December 31, 2010 and 2009, respectively.

8. Balance Sheet Data

Accounts Receivable

Accounts receivable, net of related party receivables and the related allowance for doubtful accounts, consisted of the following at December 31, 2011 and 2010:

	Successor	Predecessor
	December 31, 2011	December 31, 2010
	(Millions of dollars)	
Accounts receivable — trade	\$ 268.7	\$ 209.8
Receivable from insurers(1)	—	33.1
Other	<u>2.6</u>	<u>1.7</u>
Total.....	271.3	244.6
Allowance for doubtful accounts	<u>(0.4)</u>	<u>(0.8)</u>
Net	<u>\$ 270.9</u>	<u>\$ 243.8</u>

- (1) Receivables from insurers relate to reimbursements of certain environmental expenditures. Environmental-related receivables not expected to be collected within one year from the balance sheet date are reflected in “Other Long-Term Assets” on the Consolidated Balance Sheets.

Inventories

Inventories, net of allowance for obsolete inventories and supplies, consisted of the following at December 31, 2011 and 2010:

	Successor	Predecessor
	December 31, 2011	December 31, 2010
	(Millions of dollars)	
Raw materials.....	\$ 123.5	\$ 62.7
Work-in-process.....	9.0	6.9
Finished goods(1).....	130.3	80.0
Materials and supplies, net(2)	<u>48.4</u>	<u>48.8</u>
Total.....	<u>\$ 311.2</u>	<u>\$ 198.4</u>

- (1) Includes inventory on consignment to others of approximately \$12.0 million and \$8.1 million at December 31, 2011 and 2010, respectively.
- (2) Materials and supplies consist of processing chemicals, maintenance supplies and spare parts, which will be consumed directly and indirectly in the production of the Company’s products.

Prepaid and Other Current Assets

Prepaid and other current assets consisted of the following at December 31, 2011 and 2010:

	<u>Successor</u> <u>December 31,</u> <u>2011</u>	<u>Predecessor</u> <u>December 31,</u> <u>2010</u>
	(Millions of dollars)	
Prepaid expenses.....	\$10.2	\$ 17.6
Environmental settlement escrows(1).....	—	41.3
Cash collateralized letters of credit and surety bonds.....	4.9	78.2
Other.....	6.6	7.7
Total.....	<u>\$21.7</u>	<u>\$144.8</u>

- (1) Funds held in escrow related to the environmental settlement agreement that were released at time of funding the environmental trusts.

Property, Plant and Equipment

Property, plant and equipment, net consisted of the following at December 31, 2011 and 2010:

	<u>Successor</u> <u>December 31,</u> <u>2011</u>	<u>Predecessor</u> <u>December 31,</u> <u>2010</u>
	(Millions of dollars)	
Land.....	\$ 24.2	\$ 33.3
Buildings.....	44.9	93.1
Machinery and equipment.....	417.1	995.1
Construction-in-progress.....	49.1	46.2
Mineral leaseholds.....	42.0	12.4
Other.....	33.1	62.7
Total.....	610.4	1,242.8
Less accumulated depreciation, depletion and amortization.....	(55.9)	(927.3)
Net.....	<u>\$554.5</u>	<u>\$ 315.5</u>

Depreciation expense for the eleven months ended December 31, 2011, one month ended January 31, 2011 and years ended December 31, 2010 and 2009 was \$55.9 million, \$3.8 million, \$46.9 million and \$49.8 million, respectively.

Other Long-Term Assets

Other long-term assets consisted of the following at December 31, 2011 and 2010:

	<u>Successor</u> <u>December 31, 2011</u>	<u>Predecessor</u> <u>December 31, 2010</u>
	(Millions of dollars)	
Receivable from the U.S. Department of Energy(1).....	\$ —	\$ 3.6
Investments in equity method investees(2).....	—	14.8
Debt issuance costs, net.....	8.4	14.8
Deferred tax benefits.....	9.0	9.4
Other, net.....	3.2	4.1
Total.....	<u>\$20.6</u>	<u>\$46.7</u>

- (1) See Note 21.

- (2) The Company had an interest of approximately 30% in Basic Management, Inc. and Subsidiaries (“BMI”). BMIs combined financial statements included The Landwell Company, L.P., a limited partnership in which the Company had a direct interest of approximately 30%. The Company accounted for its investment in these companies under the equity method. Upon emergence from bankruptcy, these assets were transferred to the environmental trusts and the Company no longer has any ownership or investment in these companies.

Accrued Liabilities

Accrued liabilities consisted of the following at December 31, 2011 and 2010:

	<u>Successor</u>	<u>Predecessor</u>
	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Millions of dollars)	
Employee-related costs and benefits	\$ 26.3	\$ 23.1
Sales rebates	8.2	7.6
Taxes other than income taxes	5.2	8.3
Interest.....	1.3	1.3
Asset retirement obligations.....	0.9	1.4
Reserves for environmental remediation and restoration	0.1	0.2
Other.....	3.7	3.8
Total.....	<u>\$45.7</u>	<u>\$45.7</u>

Noncurrent Liabilities — Other

Noncurrent liabilities — other consisted of the following at December 31, 2011 and 2010:

	<u>Successor</u>	<u>Predecessor</u>
	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Millions of dollars)	
Reserve for uncertain tax positions	\$ 0.9	\$ 19.1
Asset retirement obligations	29.2	17.9
Reserve for workers' compensation and general liability claims	8.5	8.2
Reserves for environmental remediation and restoration.....	0.5	0.6
Other	1.9	1.6
Total	<u>\$41.0</u>	<u>\$47.4</u>

9. Cash Flows Statement Data

Other noncash items included in the reconciliation of net income (loss) to net cash flows from operating activities include the following:

	<u>Successor</u>	<u>Predecessor</u>		
	<u>Eleven Months Ended December 31, 2011</u>	<u>One Month Ended January 31, 2011</u>	<u>Year Ended December 31, 2010</u>	<u>2009</u>
	(Millions of dollars)			
Workers' compensation and insurance liability.....	\$ 1.6	\$ 0.1	\$ 3.7	\$ 1.9
Abandonment expense.....	6.3	—	0.7	5.6
Asset retirement obligation accretion expense	1.9	0.1	0.4	0.6
Asset retirement obligation changes in estimates	0.9	—	(0.2)	(0.6)
Inventory write-downs.....	0.4	—	0.6	—
Equity in loss of affiliates.....	—	—	2.0	0.3
FIN 48 liability adjustment.....	(17.8)	(0.4)	3.6	2.6
Other net adjustments	—	—	(2.7)	0.3
Total.....	<u>\$ (6.7)</u>	<u>\$(0.2)</u>	<u>\$ 8.1</u>	<u>\$10.7</u>

Other, net, included in the reconciliation of net income (loss) to net cash flows from operating activities includes the following:

	Successor	Predecessor		
	Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
		(Millions of dollars)		
Environmental expenditures, net of reimbursements	\$33.2	\$—	\$12.7	\$ 7.5
Pension and postretirement	(7.4)	—	(7.0)	(6.2)
Asset retirement obligation expenditures	(1.5)	—	(0.9)	(2.3)
Other net adjustments.....	(0.8)	1.0	0.7	(0.9)
Total.....	<u>\$23.5</u>	<u>\$ 1.0</u>	<u>\$ 5.5</u>	<u>\$(1.9)</u>

10. Intangible Assets

As a result of fresh-start accounting, the Company recognized \$335.1 million of separately identifiable intangible assets at fair value on January 31, 2011. Intangible assets, net consisted of the following at December 31, 2011 and 2010:

	Successor	Predecessor
	December 31, 2011	December 31, 2010
	(Millions of dollars)	
Intangible assets.....	\$335.1	\$—
Less accumulated amortization	(21.8)	—
Intangible assets, net	<u>\$313.3</u>	<u>\$—</u>

The gross cost and accumulated amortization of intangible assets at December 31, 2011, by major intangible asset category, were as follows:

	Successor		
	Gross Cost	Accumulated Amortization	Net Carrying Amount
	(Millions of dollars)		
Customer relationships	\$293.9	\$(18.6)	\$275.3
TiO ₂ technology	31.9	(1.5)	30.4
Trade names.....	3.6	(0.7)	2.9
In-process research and development	5.0	(0.9)	4.1
Other	0.7	(0.1)	0.6
Total	<u>\$335.1</u>	<u>\$(21.8)</u>	<u>\$313.3</u>

Amortization expense related to intangible assets for the eleven months ended December 31, 2011 was \$21.8 million. There was no amortization expense related to intangible assets for the one month ended January 31, 2011 and years ended December 31, 2010 and 2009. Estimated future amortization expense related to intangible assets is as follows:

	Total Amortization
	(Millions of dollars)
2012	\$ 23.7
2013	23.7
2014	22.9
2015	22.8
2016	21.2
Thereafter.....	199.0
Total	<u>\$313.3</u>

11. Asset Retirement Obligations

A summary of the changes in the asset retirement obligations during the eleven months ended December 31, 2011 and one month ended January 31, 2011 is as follows:

	<u>2011</u>
	(Millions of dollars)
Predecessor: Balance, January 1	\$19.3
Fresh-start adjustments	9.5
Accretion expense	0.1
Changes in estimates, including cost and timing of cash flows(1)	<u>(0.1)</u>
Predecessor: Balance, January 31	\$28.8
Settlements/payments	(1.5)
Accretion expense	1.9
Changes in estimates, including cost and timing of cash flows(1)	<u>0.9</u>
Successor: Balance, December 31	<u>\$30.1</u>
Current portion included in accrued liabilities	<u>\$ 0.9</u>
Noncurrent portion included in noncurrent liabilities — other	<u>\$29.2</u>

- (1) Includes a decrease of \$0.1 million and \$0.1 million due to foreign currency revaluation of the Company's Australian and Botlek obligations during the eleven months ended December 31, 2011 and one month ended January 31, 2011, respectively.

A summary of the changes in the asset retirement obligations during 2010 is included in the table below.

	<u>2010</u>
	(Millions of dollars)
Predecessor: Balance, January 1	\$11.3
Settlements/payments	(0.9)
Accretion expense	0.5
Changes in estimates, including cost and timing of cash flows(1)	8.4
Predecessor: Balance, December 31	<u>\$19.3</u>
Current portion included in accrued liabilities	<u>\$ 1.4</u>
Noncurrent portion included in noncurrent liabilities — other	<u>\$17.9</u>

- (1) Includes an increase of \$1.3 million due to foreign currency revaluation of the Company's Australian obligation in 2010.

A summary of the asset retirement obligations by site for the years ended December 31, 2011 and 2010 is included in the table below.

	<u>Successor</u>	<u>Predecessor</u>
	<u>December 31,</u>	<u>December 31,</u>
	<u>2011</u>	<u>2010</u>
	(Millions of dollars)	
Australia Tiwest Joint Venture	\$19.1	\$10.6
Botlek	9.8	7.5
Hamilton	1.2	1.2
Total asset retirement obligations	<u>\$30.1</u>	<u>\$19.3</u>

Transfers to Liabilities Subject to Compromise

As part of the Environmental Settlement, the Company contributed its Mobile, Alabama and Savannah, Georgia facilities. Therefore, the asset retirement liabilities were transferred to and are classified as "Liabilities subject to compromise" on the Consolidated Balance Sheets at December 31, 2010 (see Note 14).

Continuing Asset Retirement Obligations

The Company has recognized an obligation for its undivided share of the cost to close and rehabilitate the mine site in Western Australia, operated by the Tiwest Joint Venture. At December 31, 2011 and 2010, the accreted obligation represents management's estimate of the total costs to restore the area that has been disturbed, as required under the mining lease.

The Botlek ARO relates to the future closure of the Company's Botlek facility at the end of the Company's long-term lease and to return the site back to original state upon plant closure and exit. The ARO was adjusted during 2010 to address the estimated costs and timing of the site obligations.

An ARO was recorded related to a process waste landfill at the Company's Hamilton, Mississippi TiO₂ facility to address one-time closure costs (cap with liner and cover with soil) and annual monitoring costs of the closed landfill under applicable state environmental laws in Mississippi. Closure is expected to be completed in 2015.

12. Debt

Short-term debt consisted of the following at December 31, 2011 and 2010:

	<u>Successor</u> <u>December 31,</u> <u>2011</u>	<u>Predecessor</u> <u>December 31,</u> <u>2010</u>
	(Millions of dollars)	
Wells Revolver(1)	\$—	\$—
Short-term debt.....	\$—	\$—

(1) Average effective interest rate of 14.1% in 2011.

During 2011, to facilitate its exit from bankruptcy and help pay for the buy-in of its 50% share of the Kwinana TiO₂ expansion, the Company borrowed \$39.0 million against the Wells Revolver, which by December 31, 2011, was fully repaid using cash generated from operations.

Long-term debt consisted of the following at December 31, 2011 and 2010:

	<u>Initial</u> <u>Principal</u> <u>Amount</u>	<u>Maturity</u> <u>Date</u>	<u>Successor</u> <u>December 31,</u> <u>2011</u>	<u>Predecessor</u> <u>December 31,</u> <u>2010</u>
	(Millions of dollars)			
Debtor-In-Possession and Exit Credit Agreement — Final DIP Facility(1)....	\$425.0	10/21/15	\$420.8	\$ 425.0
Co-generation Unit Financing Arrangement(2).....	8.0	2/1/16	6.5	—
Senior secured asset-based revolving credit agreement.....	125.0	2/14/15	—	—
9.5% Senior Unsecured Notes due December 2012	350.0	N/A	—	350.0
Total debt.....			427.3	775.0
Less: Long-term debt classified as liabilities subject to compromise.....			—	(350.0)
Less: Long-term debt due in one year			(5.9)	(4.3)
Long-term debt.....			<u>\$421.4</u>	<u>\$ 420.7</u>

(1) Average effective interest rate of 7.2% and 7.7% in 2011 and 2010, respectively.

(2) Average effective interest rate of 6.5% in 2011.

The scheduled maturities of the Company's long-term debt were as follows at December 31, 2011:

	<u>Total Debt</u>
	(Millions of dollars)
2012	\$ 5.9
2013	5.9
2014	5.8
2015	409.6
2016	0.1
Thereafter.....	—
Total debt.....	<u>\$427.3</u>

As of December 31, 2011, the total carrying value of long-term debt approximates its fair value due to the variable interest rates and frequent repricing of such instruments. The fair value hierarchy for long-term debt is a Level 2 input.

2009 and Prior

9.5% Senior Unsecured Notes due December 2012

Concurrent with the IPO, the Company's wholly owned subsidiaries, Tronox Worldwide LLC and Tronox Finance Corp., issued \$350.0 million in aggregate principal amount of 9.5% senior unsecured notes due 2012 (the "Senior Unsecured Notes") in a private offering. During the second quarter of 2006, the Company registered these notes with the SEC and subsequently completed an exchange of all notes and guarantees for publicly tradable notes and guarantees having substantially identical terms, on July 14, 2006.

The terms of the Senior Unsecured Notes provided for customary representations and warranties, affirmative and negative covenants, and events of default.

As a result of the bankruptcy petitions filed on January 12, 2009, the Company's Senior Unsecured Notes were included in "Liabilities Subject to Compromise" on the Consolidated Balance Sheets at December 31, 2010. While operating as a debtor-in-possession during the Chapter 11 bankruptcy proceedings, the Debtor ceased recording interest on all unsecured pre-petition indebtedness in accordance with ASC 852. Therefore, interest expense for the period January 1 through January 31, 2011 excludes \$2.8 million that would have been payable under the terms of the Senior Unsecured Notes. Additionally, interest expense for the years ended December 31, 2010 and 2009 excludes \$33.3 million and \$32.1 million, respectively, that would have been payable under the terms of the Senior Unsecured Notes.

Debtor-In-Possession Credit Agreement — Original DIP Facility

On January 13, 2009, the Debtors obtained Bankruptcy Court interim approval of a senior secured super-priority DIP credit and security agreement (the "Original DIP Facility") between and among the Company, Tronox Worldwide LLC, Credit Suisse, as Administrative Agent, JP Morgan Chase Bank, N.A., as Collateral Agent, and the lenders that from time to time become party thereto. The Original DIP Facility provided for a first priority and priming secured revolving credit commitment of \$125.0 million. The Debtors received final approval to access the full amount of the Original DIP Facility on February 6, 2009.

The Original DIP Facility provided for an aggregate commitment of up to \$125.0 million, subject to a borrowing base, which permitted borrowings on a revolving basis. Interest on amounts borrowed under the Original DIP Facility was payable, at Tronox Worldwide LLC's election, at a base rate or a LIBOR rate (subject to a 3.5% minimum), in each case as defined in the credit agreement, plus a margin of 9.5%. The initial draw of \$60.0 million under the Original DIP Facility was used to make interest payments due December 31, 2008 on existing debt, repurchase all securitized receivables of \$41.1 million, pay fees related to the execution of the Original DIP Facility of approximately \$8.1 million, and to fund the working capital requirements of the Company. During 2009, the Company had a second draw of \$5.0 million used to fund its working capital requirements. The \$65.0 million draw under the Original DIP Facility was repaid in December 2009 with the funds from the Second DIP Facility.

Debtor-In-Possession and Exit Credit Agreement — Second DIP Facility

On December 24, 2009, the Bankruptcy Court granted final approval, authorizing the Company and its U.S. Subsidiaries to enter into a senior secured super priority DIP and Exit Credit Agreement ("Second DIP Facility") with Goldman Sachs Lending Partners ("GSLP"), which consisted of a \$335.0 million tranche B-1 facility and a \$90.0 million tranche B-2 facility. The Second DIP Facility featured a right to convert the DIP to an exit facility providing the Company with committed exit financing that was expected, at the time, to be sufficient to meet its settlement obligations under the December 2009 plan.

The proceeds from the Second DIP Facility were used, in part, to repay \$212.8 million related to a secured term loan facility and the remaining balance of the Original DIP Facility. In addition, the proceeds funded the environmental settlement escrow of \$35.0 million, and the collateralized outstanding letters of credit and surety bonds of approximately \$78.2 million, some of which were transferred to the environmental trust as part of the Settlement.

2010

Debtor-In-Possession and Exit Credit Agreement — Final DIP Facility

On October 21, 2010, the Company received court approval and entered into a senior secured super-priority DIP and Exit Credit Agreement (the "Final DIP Facility") with GSLP, which was used to refinance the Debtor's existing \$425.0 million outstanding indebtedness under the Second DIP Facility. The Final DIP Facility was to expire no earlier than February 15, 2011 or when the Company exercised the exit facility option, upon which the Final DIP converted into an exit facility under substantially the same terms and conditions with a maturity date of October 21, 2015.

The Final DIP Facility bore interest at the greater of a base rate plus a margin of 4.0% or adjusted Eurodollar rate plus a margin of 5.0%. The base rate was defined as the greater of (i) the prime lending rate as quoted in the print edition of *The Wall Street Journal*, (ii) the Federal Funds Rate plus 0.50%, or (iii) 3%. The adjusted Eurodollar rate is defined as the greater of (i) the LIBOR rate in effect at the beginning of the interest period, or (ii) 2.0%. Interest was payable quarterly or, if the adjusted Eurodollar rate applied, it was payable on the last day of each interest period.

The Final DIP Facility was secured by a first priority lien on substantially all of Tronox's and the Subsidiary Guarantors' existing and future property and assets.

The terms of the Final DIP Facility provided for customary representations and warranties, affirmative and negative covenants and events of default. The terms of the covenants, subject to certain exceptions, restricted, among other things: (i) debt incurrence; (ii) lien incurrence; (iii) investments, dividends and distributions; (iv) dispositions of assets and subsidiary interests; (v) acquisitions; (vi) sale and leaseback transactions; and (vii) transactions with affiliates and shareholders. The Final DIP Facility also contained covenants that limited the amount of capital expenditures to \$55.0 million per year, with a carry-forward of the excess of the \$55.0 million over the amount utilized in the prior year, but with no more than \$15.0 million able to be carried-forward from one year to the next. In addition, the Final DIP Facility required the following financial ratios to be maintained.

2011

Exit Successor Credit Agreement

On February 14, 2011, the Final DIP Facility, in accordance with its terms, converted into Tronox's \$425.0 million exit facility (the "Exit Financing Facility") under substantially the same terms and conditions that existed under the Final DIP Facility, with a maturity date of October 21, 2015.

The Exit Financing Facility is secured by the same assets as the Final DIP Facility, subject however to certain subordination agreements (as more fully described below under the heading "Asset Based Lending Facility").

Asset Based Lending Facility

On February 14, 2011 the Company entered into the Wells Revolver, a senior secured asset-based revolving credit agreement with Wells Fargo Capital Finance, LLC. The Wells Revolver has a maturity date of February 14, 2015. The Wells Revolver provides the Company with a committed source of capital with a principal borrowing amount of up to \$125.0 million subject to a borrowing base, and also permits an expansion of up to \$150.0 million. Borrowing availability under the Wells Revolver is subject to a borrowing base, which is related to certain eligible inventory and receivables held by the Company's U.S. subsidiaries. As of December 31, 2011, the Company's borrowing base was \$125.0 million, less letters of credit outstanding of \$17.6 million, for a total net availability of \$107.4 million.

Borrowings under the Wells Revolver are secured by a first priority lien on substantially all of the Company's and the subsidiary guarantors' existing and future deposit accounts, inventory and receivables, and certain related assets, and a second priority lien on all of Tronox's and the subsidiary guarantors' other assets, including capital stock which serve as security under the Exit Financing Facility.

The Wells Revolver bears interest at the Company's option at either (i) the greater of the prime lending rate as announced by Wells Fargo Bank, N.A., (ii) the Federal Funds Rate plus 0.50%, or (iii) the one month LIBOR rate plus 0.50%, plus a margin that varies from 2.0% to 3.5% per annum depending on the average excess availability under the revolver. The unused portion of the Wells Revolver is subject to a commitment fee of 0.75% per annum on the average unused portion of the revolver, payable monthly in arrears. Interest is payable quarterly or, if the prime lending rate or Federal Funds Rate applies, is payable monthly.

Co-generation Unit Financing Arrangement

In March 2011, the Tiwest Joint Venture acquired a steam and electricity gas fired co-generation plant, adjacent to its Kwinana pigment plant, through a five year financing arrangement. Tronox Western Australia Pty Ltd, the Company's wholly owned subsidiary, owns a 50% undivided interest in the co-generation plant through the Tiwest Joint Venture. As a result, the Company incurred additional debt totaling \$8.0 million, in order to finance its share of the asset purchase. Under the financing arrangement, monthly payments are required and interest accrues on the remaining balance owed at the rate of 6.5% per annum.

2012

Exit Facility Refinancing and Wells Revolver Amendment

On February 8, 2012, the Company refinanced the Exit Financing Facility and amended the Wells Revolver. The Company obtained a new Goldman Sachs facility comprised of a \$550.0 million Senior Secured Term Loan and a \$150.0 million Senior Secured Delayed Draw Term Loan. See Note 26 for additional information.

Financial Covenants

At December 31, 2011, the Company had financial covenants on the Exit Financing Facility and the Wells Revolver. The Exit Financing Facility with Goldman Sachs has the following covenants:

<u>Fiscal Quarter Ending</u>	<u>Total Leverage Ratio (not to exceed)</u>
December 31, 2010 through December 31, 2011.....	4.25:1.00
March 31, 2012 through December 31, 2012	4.00:1.00
March 31, 2013 through December 31, 2013	3.75:1.00
March 31, 2014 and thereafter	3.50:1.00

<u>Fiscal Quarter Ending</u>	<u>Interest Coverage Ratio (not to be less than)</u>
December 31, 2010 and thereafter	2.50:1.00

The Wells Revolver contains various covenants and restrictive provisions which limits the Company's ability to incur additional indebtedness. The Wells Revolver requires the Company to maintain a Consolidated Fixed Charge Coverage Ratio of 1.0 to 1.0 calculated monthly, only if excess availability on the Wells Revolver is less than \$18.75 million. If the Company is required to maintain the Consolidated Fixed Charge Coverage Ratio then either: (i) the Consolidated Adjusted EBITDAR for the test period shall not be less than the Specified EBITDAR percentage of 65% of the Consolidated Adjusted EBITDAR of the parent and its subsidiaries for all periods ending on or prior to December 31, 2012 or ii) the Consolidated Adjusted EBITDAR during the test period shall not be less than the Specified EBITDAR threshold of \$100.0 million; provided that the Specified EBITDAR threshold shall be reduced by \$1.25 million on the last day of each month, commencing on January 31, 2012 and ending on December 31, 2012, until such time as the Specified Adjusted EBITDAR threshold is reduced to \$85.0 million.

The Exit Financing Facility and the Wells Revolver are subject to an intercreditor agreement pursuant to which the lenders' respective rights and interests in the security are set forth.

The Company was in compliance with its financial covenants at December 31, 2011 and 2010. A breach of any of the covenants imposed on the Company by the terms of the Exit Financing Facility or the Wells Revolver could result in a default under the agreement. In the event of a default, the lenders could terminate their commitments to the Company and could accelerate the repayment of all of the Company's indebtedness under the agreement. In such case, the Company may not have sufficient funds to pay the total amount of accelerated obligations, and its lenders could proceed against the collateral pledged.

Interest expense

	<u>Successor</u>	<u>Predecessor</u>		
	<u>Eleven Months Ended December 31, 2011</u>	<u>One Month Ended January 31, 2011</u>	<u>Year Ended December 31, 2010 2009</u>	
		(Millions of dollars)		
Interest expense	\$29.3	\$ 2.6	\$39.7	\$32.7
Amortization of deferred debt issuance costs.....	0.8	0.3	9.2	2.9
Other	0.6	—	1.0	0.3
Capitalized interest.....	(0.7)	—	—	—
Interest and debt expense	<u>\$30.0</u>	<u>\$ 2.9</u>	<u>\$49.9</u>	<u>\$35.9</u>

For the one month ended January 31, 2011 and years ended December 31, 2010 and 2009, interest expense excludes \$2.8 million, \$33.3 million and \$32.1 million, respectively, which would have been payable under the terms of the \$350.0 million 9.5% senior unsecured notes.

13. Restructuring and Exit Activities

The Company previously owned and operated a TiO₂ plant in Antwerp, Belgium, which was shut down during 2001. Severance payments were expected to continue until 2016. During 2010 and 2009, the Company recorded payments of \$0.5 million and \$0.4 million, respectively. Additionally, during 2010 and 2009, the Company recorded adjustments related to the effects of foreign currency exchange of \$0.4 million and nil, respectively, in "Other income (expense) on the Consolidated Statements of Operations, and other adjustments of nil and of \$0.5 million, respectively, in "Cost of goods sold" on the Consolidated Statements of Operations. In 2010, the Company purchased an insurance annuity to satisfy the future severance obligations. Subsequently, the Belgian subsidiary was liquidated and the remaining reserves were reversed in 2010.

In 2009, the Company ceased TiO₂ operations at its Savannah, Georgia facility. Tronox subsequently removed all proprietary technology related to the TiO₂ operations, wrote down certain inventories to net realizable value, recognized a restructuring charge for severance payments to employees of the Savannah TiO₂ operations and recorded a reserve for \$0.6 million. During 2010 and 2009, the Company recorded payments of \$0.2 million and \$0.4 million, respectively. Additionally, during 2010 and 2009, the Company recorded adjustments of \$0.3 million and \$0.8 million, respectively, in "Cost of goods sold" and "Other income (expense)," respectively, on the Consolidated Statements of Operations. Such costs were attributable to the Company's pigment reportable segment. Pursuant to the Plan, the Savannah site was transferred to an environmental response trust upon Tronox Incorporated's emergence from bankruptcy on February 14, 2011. The Company has determined that the Savannah TiO₂ operations do not meet the criteria for discontinued operations treatment.

In January 2011, the Company accrued a severance liability related to the work force reduction upon emergence from bankruptcy. During the eleven months ended December 31, 2011, the Company recorded payments of \$0.2 million. At December 31, 2011, the Company had no reserves for restructuring and exit activities.

14. Liabilities Subject to Compromise

As a result of the bankruptcy, the payment of prepetition indebtedness was subject to compromise or other treatment under the Debtors' Plan. Although actions to enforce or otherwise affect payment of prepetition claims were generally stayed, at hearings held in January 2009, the Bankruptcy Court granted final approval of the Debtors' "first-day" motions, generally designed to stabilize the Debtors' operations and covering, among other things, employee wages, health and benefit plans, qualified pension and savings plans, supplier relations, customer relations, business operations, utilities, tax matters, cash management and retention of professionals.

The Debtors paid all of their undisputed post petition payables in the ordinary course of business. In addition, the Debtors rejected certain prepetition executory contracts and unexpired leases with respect to the Debtors' operations with the approval of the Bankruptcy Court, which were no longer required for ongoing operations. Damages resulting from rejection of executory contracts and unexpired leases are treated as general unsecured prepetition claims and were classified as "Liabilities subject to compromise" on the Consolidated Balance Sheets.

On May 28, 2009, the Bankruptcy Court entered an order establishing August 12, 2009 as the claims bar date. The claims bar date was the date by which most claims against the Debtors arising prior to the Debtors' Chapter 11 filings had to be filed if the claimants wished to receive any distribution. On June 2, 2009, the Debtors commenced notification, including publication, to all known actual and potential creditors informing them of the bar date and the required procedures with respect to the filing of proofs of claim. As part of the bankruptcy, claims timely filed by the claims bar date were reconciled against the amounts listed, with certain exceptions, by the Debtors in their schedules of assets and liabilities. In most cases, to the extent the Debtors objected to any filed claims, the Bankruptcy Court made the final determination as to the amount, nature and validity of such claims. Moreover, the treatment of allowed claims against the Debtors was determined pursuant to the terms of the Plan, which was confirmed by the Bankruptcy Court on November 30, 2010. Liabilities subject to compromise were cleared through the implementation of the Plan in 2011.

Prepetition liabilities that were subject to compromise were reported at the amounts expected to be allowed, even if they settled for lesser amounts. Liabilities subject to compromise consisted of the following at December 31, 2010:

	<u>Predecessor</u>
	<u>December 31, 2010</u>
	(Millions of dollars)
Legacy Environmental Liabilities	\$422.2
Senior Unsecured Notes due December 2012	350.0
Indirect environmental claims	38.6
Accounts payable	21.5
Interest payable	20.4
Legacy tort liabilities.....	17.9
Rejected contracts	9.5
Nonqualified benefits restoration plan	9.4
Income and franchise taxes payable.....	5.3
Other	5.5
Total liabilities subject to compromise	<u>\$900.3</u>

15. Derivative Instruments

As a result of its Chapter 11 filing on January 12, 2009, the Company was in default under its natural gas and interest rate swap agreements which were terminated by the counterparties to those agreements immediately following the Petition Date. In accordance with accounting guidance, the unrealized gains and losses on these contracts were recognized in “Other income (expense)” on the Consolidated Statements of Operations of \$0.7 million related to natural gas in 2009 and \$1.3 million related to interest rate swaps in 2010 (which was offset by previously accrued derivative expenses of \$1.3 million) when the contracts were set to mature. Subsequent to the termination of these contracts, the Company has not entered into new contracts to hedge its natural gas usage or variable interest payments.

16. Financial Instruments

The Company holds or issues financial instruments for other than trading purposes. At December 31, 2011 and 2010, respectively, the carrying amounts and estimated fair values of these instruments are as follows:

	<u>Successor</u>		<u>Predecessor</u>	
	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Carrying Value</u>	<u>Estimated Fair Value</u>
	(Millions of dollars)			
Cash and cash equivalents	\$ 154.0	\$ 154.0	\$141.7	\$141.7
Long-term receivables	—	—	4.8	4.8
Grantor trust assets.....	—	—	1.0	1.0

The carrying amounts of cash and cash equivalents with maturities of three months or less represent a Level 1 fair value measurement based upon the existence of active markets with quoted prices for identical assets. Grantor trust assets, which consisted of cash and cash equivalents, were also a Level 1 fair value measurement based upon the existence of active markets with quoted prices for identical assets. The fair value of long-term receivables was equal to their carrying value; as such receivables were based upon contractual amounts.

17. Pension and Other Postretirement Healthcare Benefits

Retirement Plans

Overview — Tronox is the sponsor of noncontributory defined benefit retirement plans (qualified and nonqualified plans) in the United States, a contributory defined benefit retirement plan in the Netherlands and a U.S. contributory postretirement plan for health care insurance. Substantially all U.S. employees may become eligible for the postretirement healthcare benefits if they reach retirement age while working for the Company.

Establishment of U.S. Plans — Effective with the Distribution on March 30, 2006, the Company established a U.S. qualified defined benefit plan (funded), U.S. supplemental nonqualified benefit plans (unfunded) and a U.S. postretirement healthcare plan (unfunded). Benefits under the qualified plan were generally based on years of service and final average pay. The supplemental nonqualified benefit plans were designed to maintain benefits for all employees at a plan formula level. The establishment of the U.S. plans resulted in a transfer of certain assets to the Company and an assumption of obligations associated with current and former employees participating in such plans. According to the employee benefits agreement between Kerr-McGee and Tronox, \$450.3 million in qualified plan assets were transferred to a trust. In addition, assets in the amount of \$4.4 million (comprised primarily of fixed income securities) were transferred on the Distribution date, from the Kerr-McGee grantor trust account to the Tronox grantor trust account. Although not considered plan assets, certain nonqualified benefit payments were paid from the grantor trust. The grantor trust assets were nil and \$1.0 million at December 31, 2011 and 2010, respectively, and were recorded at fair value in “Other Long-Term Assets” on the Consolidated Balance Sheets with changes in fair value recognized in earnings.

For the retirement plans that qualify under the Employee Retirement Income Security Act of 1974 (“ERISA”), the benefit amount that can be provided to employees by the plans is limited by both ERISA and the Internal Revenue Code. Therefore, the Company has unfunded supplemental nonqualified plans designed to maintain benefits for all employees at the plan formula level.

U.S. Plan Changes — The Company was obligated under the MSA to maintain the material features (as defined in the employee benefits agreement of the MSA) of the U.S. postretirement healthcare plan without change for a period of three years following the Distribution date. During the third quarter of 2007, the Company announced that effective April 1, 2009, certain features would change, including the cost-sharing provisions between the Company and plan participants, life insurance benefits and certain retirement eligibility criteria. This announcement resulted in a plan remeasurement, which was performed by the Company’s actuary in August 2007. A new discount rate of 6.25% was selected by management for this remeasurement due to changes in certain economic indicators since the previous measurement as of December 31, 2006.

On June 30, 2008, the nonqualified benefits restoration plan was frozen and closed to new participants. The U.S. qualified defined benefit plan was frozen and closed to new participants on June 1, 2009.

In July 2008, the Company announced a temporary suspension of benefits accrued under its U.S. nonqualified benefit plan effective July 1, 2008. In conjunction with the filing for Chapter 11, the Debtors decided not to immediately petition the Bankruptcy Court for the benefits to be reinstated. Upon determining that benefit accruals would not resume, the Company recorded a curtailment gain of \$0.1 million in accordance with ASC 715 during 2009. In October 2010, the Bankruptcy Court approved the termination of the nonqualified benefits restoration plan, which resulted in a loss of \$3.7 million that was recorded as reorganization expense. Due to the bankruptcy, no benefits were paid as a result of the plan termination. The liability balance at December 31, 2010 of \$9.4 million for these claims was reported in “Liabilities subject to compromise” on the Consolidated Balance Sheets, and was settled as part of the Plan.

Germany Insolvency — As discussed in Note 20, during March 2009, the Company’s holding subsidiary for a pigment facility in Uerdingen, Germany, filed an application with the insolvency court in Krefeld, Germany, to commence insolvency proceedings. The German Insolvency Court appointed a trustee to administer the insolvency proceedings which resulted in the Company losing management control over these subsidiaries. The German subsidiaries have been deconsolidated from the Company’s consolidated financial statements as of March 13, 2009. Accordingly, all amounts associated with the German subsidiaries and their results of operations, including pension expense, have been classified as discontinued operations.

Benefit Obligations and Funded Status — The following provides a reconciliation of beginning and ending benefit obligations, beginning and ending plan assets, funded status and balance sheet classification of the Company’s pension and other postretirement healthcare plans as of and for the years ended December 31, 2011 and 2010. The benefit obligations and plan assets associated with the Company’s principal benefit plans are measured on December 31.

	Retirement Plans		Postretirement Healthcare Plan	
	Successor December 31, 2011	Predecessor December 31, 2010	Successor December 31, 2011	Predecessor December 31, 2010
	(Millions of dollars)			
<i>Change in benefit obligations —</i>				
Benefit obligation, beginning of year	\$ 480.7	\$ 482.3	\$ 8.5	\$ 22.7
Service cost	2.9	2.5	0.3	0.2
Interest cost	23.4	24.8	0.3	0.4
Plan changes	—	—	—	(11.7)
Net actuarial (gains) losses	20.3	25.3	0.9	(1.3)
Foreign currency rate changes	(2.8)	(6.1)	—	—
Contributions by plan participants	0.6	0.5	1.3	1.1
Special termination benefits	1.2	—	—	—
Termination of the nonqualified benefits restoration plan(2)....	(9.4)	—	—	—
Benefits paid	(32.2)	(46.5)	(2.1)	(2.9)
Administrative expenses	(1.9)	(2.1)	—	—
Benefit obligation, end of year	<u>482.8</u>	<u>480.7</u>	<u>9.2</u>	<u>8.5</u>
<i>Change in plan assets —</i>				
Fair value of plan assets, beginning of year	371.9	386.0	—	—
Actual return on plan assets	7.2	34.1	—	—
Employer contributions(1)	7.2	5.2	0.8	1.8
Participant contributions	0.6	0.5	1.3	1.1
Foreign currency rate changes	(3.4)	(5.3)	—	—
Benefits paid(1)	(32.2)	(46.5)	(2.1)	(2.9)
Administrative expenses	(1.9)	(2.1)	—	—
Fair value of plan assets, end of year(3)	<u>349.4</u>	<u>371.9</u>	<u>—</u>	<u>—</u>
Net over (under) funded status of plans	<u>\$ (133.4)</u>	<u>\$ (108.8)</u>	<u>\$ (9.2)</u>	<u>\$ (8.5)</u>
<i>Classification of amounts recognized in the Consolidated Balance Sheets —</i>				
Noncurrent asset	\$ 0.7	\$ —	\$ —	\$ —
Liabilities subject to compromise(2)	—	(9.4)	—	—
Current accrued benefit liability	(0.1)	(0.1)	(0.5)	(0.6)
Noncurrent accrued benefit liability	<u>(134.0)</u>	<u>(99.3)</u>	<u>(8.7)</u>	<u>(7.9)</u>
Sub-total of liabilities	(133.4)	(108.8)	(9.2)	(8.5)
Accumulated other comprehensive loss	<u>50.0</u>	<u>188.8</u>	<u>0.9</u>	<u>(67.4)</u>
Total	<u>\$ (83.4)</u>	<u>\$ 80.0</u>	<u>\$ (8.3)</u>	<u>\$ (75.9)</u>

- (1) The Company expects 2012 contributions to be approximately \$4.3 million for the Netherlands plan and \$3.4 million for the U.S. qualified retirement plan, while net benefits paid are expected to be approximately \$0.6 million for the U.S. postretirement healthcare plan.
- (2) Because the nonqualified benefits restoration plan was settled as part of the Plan, amounts paid in 2011 represent the settlement of the entire liability. The net obligation for this plan is reflected in “Liabilities Subject to Compromise” on the December 31, 2010 Consolidated Balance Sheets.
- (3) Excludes the grantor trust assets of \$1.0 million at December 31, 2010 associated with the nonqualified U.S. plan sponsored by the Company. The Grantor trust was liquidated in 2011, and the remaining funds reverted to the Company.

At December 31, 2011, the Company’s U.S. qualified retirement plan was in an underfunded status of \$133.9 million. As a result, the Company has a projected minimum funding requirement of \$31.2million for 2011, which will be payable in 2012.

During Chapter 11 proceedings, pension obligations of the Debtors were classified as “Liabilities Subject to Compromise” on the Consolidated Balance Sheets. Under the Plan, except with respect to the nonqualified pension plan, all benefit plans remained in force subsequent to the Confirmation Date. Accordingly, approximately \$91.1 million of pension and other postretirement benefit liabilities were reclassified from “Liabilities Subject to Compromise” on the Consolidated Balance Sheets to current or long-term liabilities, as appropriate, at the Confirmation Date.

The following table summarizes the accumulated benefit obligations and the projected benefit obligations associated with the Company’s unfunded, nonqualified retirement plans.

	<u>Successor</u> <u>December 31,</u> <u>2011</u>	<u>Predecessor</u> <u>December 31,</u> <u>2010(1)(2)</u>
	(Millions of dollars)	
Accumulated benefit obligation.....	\$ 0.2	\$ 9.5
Projected benefit obligation.....	(0.2)	(9.5)
Market value of plan assets	—	—
Funded status — (under)/over funded	<u>\$ (0.2)</u>	<u>\$ (9.5)</u>

- (1) Although not considered plan assets, a grantor trust was established from which payments for certain U.S. supplemental pension benefits are made. The trust assets had a balance of \$1.0 million at December 31, 2010. The grantor trust was liquidated during 2011, and the remaining funds reverted to the Company.
- (2) Includes \$9.4 million related to the nonqualified benefits restoration plan which was settled as part of the Plan.

Summarized below are the accumulated benefit obligation, the projected benefit obligation, the market value of plan assets and the funded status of the Company’s funded retirement plans.

	<u>Successor</u>		<u>Predecessor</u>	
	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>U.S.</u> <u>Qualified</u> <u>Plan</u>	<u>The Netherlands</u> <u>Retirement</u> <u>Plan</u>	<u>U.S.</u> <u>Qualified</u> <u>Plan</u>	<u>The Netherlands</u> <u>Retirement</u> <u>Plan</u>
	(Millions of dollars)			
Accumulated benefit obligation	\$ 392.1	\$ 79.4	\$ 375.9	\$ 84.2
Projected benefit obligation	(392.4)	(90.2)	(376.3)	(94.9)
Market value of plan assets.....	258.5	90.9	288.1	83.8
Funded status — (under)/over funded.....	<u>\$ (133.9)</u>	<u>\$ 0.7</u>	<u>\$ (88.2)</u>	<u>\$ (11.1)</u>

Expected Benefit Payments — The following table shows the expected cash benefit payments for the next five years and in the aggregate for the years 2017 through 2021:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017-</u> <u>2021</u>
	(Millions of dollars)					
Retirement Plans(1)	\$30.7	\$30.8	\$30.3	\$29.8	\$30.4	\$150.1
Postretirement Healthcare Plan	0.6	0.6	0.6	0.6	0.7	3.6

- (1) Includes benefit payments expected to be paid from the U.S. qualified retirement plan of \$27.9 million, \$27.8 million, \$27.2 million, \$26.5 million and \$27.0 million in each year, 2012 through 2016, respectively, and \$130.2 million in the aggregate for the period 2017 through 2021.

Retirement Expense — The tables below present the allocated cost, as well as net periodic cost associated with the U.S. and foreign retirement plans sponsored by the Company for the eleven months ended December 31, 2011, one month ended January 31, 2011 and years ended December 31, 2010 and 2009:

	Retirement Plans				Postretirement Healthcare Plan			
	Successor	Predecessor			Successor	Predecessor		
	Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Year Ended December 31, 2010 2009		Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Year Ended December 31, 2010 2009	
	(Millions of dollars)							
Net periodic cost —								
Service cost.....	\$ 2.7	\$ 0.2	\$ 2.5	\$ 3.7	\$0.3	\$ —	\$ 0.2	\$ 0.3
Interest cost.....	21.5	1.9	24.8	25.7	0.3	—	0.4	1.3
Expected return on plan assets.....	(20.4)	(2.0)	(30.0)	(28.7)	—	—	—	—
Curtailment/special termination/settlement loss(1)	—	—	—	10.0	—	—	—	—
Net amortization —								
Prior service cost (credit).....	—	—	0.1	1.3	—	(1.1)	(13.8)	(12.5)
Net amortization —								
Actuarial (gain) loss....	—	0.5	3.8	4.7	—	0.1	0.2	0.2
Sub-total net periodic cost (income).....	<u>\$ 3.8</u>	<u>\$ 0.6</u>	<u>\$ 1.2</u>	<u>\$ 16.7</u>	<u>\$0.6</u>	<u>\$ (1.0)</u>	<u>\$ (13.0)</u>	<u>\$ (10.7)</u>

(1) The special termination benefits are associated with the work force reduction programs discussed in Note 13.

The following table shows the pretax amounts that are expected to be reclassified from “Accumulated other comprehensive income” on the Consolidated Balance Sheets to retirement expense during 2012:

	Retirement Plans	Postretirement Healthcare Plan
	(Millions of dollars)	
Unrecognized actuarial loss	\$ —	\$ —
Unrecognized prior service cost (credit)	—	—

Assumptions — The following weighted average assumptions were used to determine the net periodic cost:

	Successor		Predecessor			
	2011		2010		2009	
	United States	International	United States	International	United States	International
Discount rate	5.25%	5.25%	5.50%	5.25%	6.25%	6.00%
Expected return on plan assets	6.44%	5.25%	7.50%	5.75%	7.50%	5.50%
Rate of compensation increases	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%

The following weighted average assumptions were used in estimating the actuarial present value of the plans' benefit obligations:

	Successor		Predecessor			
	2011		2010		2009	
	United States	International	United States	International	United States	International
Discount rate	4.50%	5.25%	5.00%	5.00%	5.50%	5.25%
Rate of compensation increases	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%

In forming the assumption of the U.S. long-term rate of return on plan assets, the Company took into account the expected earnings on funds already invested, earnings on contributions expected to be received in the current year, and earnings on reinvested returns. The long-term rate of return estimation methodology for U.S. plans is based on a capital asset pricing model using historical data and a forecasted earnings model. An expected return on plan assets analysis is performed which incorporates the current portfolio allocation, historical asset-class returns and an assessment of expected future performance using asset-class risk factors. The Company's assumption of the long-term rate of return for the Netherlands plan was developed considering the portfolio mix and country-specific economic data that includes the rates of return on local government and corporate bonds.

The discount rate selected for all U.S. plans was 4.50% as of December 31, 2011 and 5.00% at January 31, 2011 and December 31, 2010. The 2011 rate was selected based on the results of a cash flow matching analysis, which projected the expected cash flows of the plans using a yield curves model developed from a universe of Aa-graded U.S. currency corporate bonds (obtained from Bloomberg) with at least \$50.0 million outstanding. Bonds with features that imply unreliable pricing, a less than certain cash flow, or other indicators of optionality are filtered out of the universe. The remaining universe is categorized into maturity groups, and within each of the maturity groups yields are ranked into percentiles.

For 2010 and 2009, the discount rate for the Company's U.S. qualified plan and postretirement healthcare plan was based on a discounted cash flow analysis performed by its independent actuaries utilizing the Citigroup Pension Discount Curve as of the end of the year. For the foreign plans, the Predecessor bases the discount rate assumption on local corporate bond index rates.

At December 31, 2011 the assumed health care cost trend rates used to measure the expected cost of benefits covered by the postretirement healthcare plan was 9.0% in 2012, gradually declining to 5.0% in 2018 and thereafter. A 1% increase in the assumed health care cost trend rate for each future year would increase the accumulated postretirement benefit obligation at December 31, 2011 by \$1.0 million, while the aggregate of the service and interest cost components of the 2011 net periodic postretirement cost would increase by \$0.1 million. A 1% decrease in the trend rate for each future year would reduce the accumulated benefit obligation at December 31, 2011 by \$0.8 million and decrease the aggregate of the service and interest cost components of the net periodic postretirement cost for 2011 by \$0.1 million.

Plan Assets — Asset categories and associated asset allocations for the Company’s funded retirement plans at December 31, 2011 and 2010:

	Successor		Predecessor	
	December 31, 2011		December 31, 2010	
	Actual	Target	Actual	Target
United States				
Equity securities	57%	45%	45%	40%
Debt securities	40	55	53	60
Cash and cash equivalents	3	—	2	—
Total	100%	100%	100%	100%
Netherlands				
Equity securities	40%	25%	35%	25%
Debt securities	51	58	54	58
Real estate	9	10	9	10
Cash and cash equivalents	—	7	2	7
Total	100%	100%	100%	100%

The U.S. plan is administered by a board-appointed committee that has fiduciary responsibility for the plan’s management. The committee maintains an investment policy stating the guidelines for the performance and allocation of plan assets, performance review procedures and updating of the policy. At least annually, the U.S. plan’s asset allocation guidelines are reviewed in light of evolving risk and return expectations.

Substantially all of the plan’s assets are invested with nine equity fund managers, three fixed-income fund managers and one money-market fund manager. To control risk, equity fund managers are prohibited from entering into the following transactions, (i) investing in commodities, including all futures contracts, (ii) purchasing letter stock, (iii) short selling, and (iv) option trading. In addition, equity fund managers are prohibited from purchasing on margin and are prohibited from purchasing Tronox securities. Equity managers are monitored to ensure investments are in line with their style and are generally permitted to invest in U.S. common stock, U.S. preferred stock, U.S. securities convertible into common stock, common stock of foreign companies listed on major U.S. exchanges, common stock of foreign companies listed on foreign exchanges, covered call writing, and cash and cash equivalents.

Fixed-income fund managers are prohibited from investing in (i) direct real estate mortgages or commingled real estate funds, (ii) private placements above certain portfolio thresholds, (iii) tax exempt debt of state and local governments above certain portfolio thresholds, (iv) fixed income derivatives that would cause leverage, (v) guaranteed investment contracts and (vi) Tronox securities. They are permitted to invest in debt securities issued by the U.S. government, its agencies or instrumentalities, commercial paper rated A3/P3, FDIC insured certificates of deposit or bankers’ acceptances and corporate debt obligations. Each fund manager’s portfolio should have an average credit rating of A or better.

The Netherlands plan is administered by a pension committee representing the employer, the employees and the pensioners. The pension committee has six members, whereby three members are elected by the employer, two members are elected by the employees and one member is elected by the pensioners, and each member has one vote. The pension committee meets at least quarterly to discuss regulatory changes, asset performance and asset allocation. The plan assets are managed by one Dutch fund manager against a mandate set at least annually by the pension committee. In accordance with policies set by the pension committee, a new fund manager was appointed effective December 1, 2006. Simultaneous with the change in fund manager, the asset allocation was modified using committee policy guidelines. The plan assets are evaluated annually by a multinational benefits consultant against state defined actuarial tests to determine funding requirements.

The fair values of pension investments as of December 31, 2011 are summarized below:

U.S. Pension				
Fair Value Measurement at December 31, 2011, Using:				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(Millions of dollars)				
Asset category:				
Equity securities — U.S.	\$ 147.1(1)	\$ —	\$ —	\$ 147.1
Debt securities				
Corporate	—	13.0(6)	—	13.0
U.S. Mutual Funds	52.0(2)	—	—	52.0
Government	10.3(5)	0.9(6)	—	11.2
Asset-backed	—	0.9(6)	—	0.9
Mortgages	—	23.5(6)	—	23.5
International Commingled Fixed Income Funds.....	—	3.2(3)	—	3.2
Cash & cash equivalents				
Commingled Cash Equivalents Fund.....	—	7.6(4)	—	7.6
Total at fair value	<u>\$ 209.4</u>	<u>\$ 49.1</u>	<u>\$ —</u>	<u>\$ 258.5</u>

- (1) For equity securities owned by the funds, fair value is based on observable quoted prices on active exchanges, which are Level 1 inputs.
- (2) For mutual funds, fair value is based on nationally recognized pricing services, which are Level 1 inputs.
- (3) For commingled fixed income funds, fair value is based on observable inputs of comparable market transactions, which are Level 2 inputs.
- (4) For commingled cash equivalents funds, fair value is based on observable inputs of comparable market transactions, which are Level 2 inputs.
- (5) For government debt securities that are traded on active exchanges, fair value is based on observable quoted prices, which are Level 1 inputs.
- (6) For corporate, government, asset-backed, and mortgage related debt securities, fair value is based on observable inputs of comparable market transactions, which are Level 2 inputs.

Non-U.S. Pension				
Fair Value Measurement at December 31, 2011, Using:				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(Millions of dollars)				
Asset category:				
Equity securities — Non-U.S. Pooled Funds	\$ —	\$ 36.5(1)	\$ —	\$ 36.5
Debt securities — Non-U.S. Pooled Funds	—	46.3(2)	—	46.3
Real Estate Pooled Fund.....	—	8.0(3)	—	8.0
Cash	—	0.1	—	0.1
Total at fair value	<u>\$ —</u>	<u>\$ 90.9</u>	<u>\$ —</u>	<u>\$ 90.9</u>

- (1) For equity securities in the form of fund units that are redeemable at the measurement date, the unit value is deemed as a Level 2 input.
- (2) For pooled fund debt securities, the fair value is based on observable inputs, but do not solely rely on quoted market prices, and therefore are deemed Level 2 inputs.
- (3) For real estate pooled funds, the fair value is based on observable inputs, but do not solely rely on quoted market prices, and therefore are deemed Level 2 inputs.

The following tables set forth a summary of changes in the fair value of the Level 3 plan assets for the year ended December 31, 2011:

	<u>U.S. Level 3 Assets</u>	
	<u>International Commingled Funds US Equity</u>	<u>Total</u>
	(Millions of dollars)	
Balance at December 31, 2010.....	\$ 21.8	\$ 21.8
Transfers to Level 2.....	(21.8)	(21.8)
Balance at December 31, 2011.....	<u>\$ —</u>	<u>\$ —</u>

The fair values of pension investments as of December 31, 2010 are summarized below:

	<u>U.S. Pension</u>			<u>Total</u>
	<u>Fair Value Measurement at December 31, 2010, Using:</u>			
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
	(Millions of dollars)			
Asset category:				
Equity securities — U.S.	\$ 107.9(1)	\$ —	\$ 21.8(7)	\$ 129.7
Debt securities				
Corporate	—	13.3(6)	—	13.3
U.S. Mutual Funds	77.8(2)	—	—	77.8
Government	19.9(5)	0.8(6)	—	20.7
Asset-backed.....	—	0.6(6)	—	0.6
Mortgages	—	26.8(6)	—	26.8
International Commingled Fixed Income Funds.....	—	12.9(3)	—	12.9
Cash & cash equivalents				
Commingled Cash Equivalents Fund.....	—	6.3(4)	—	6.3
Total at fair value	<u>\$ 205.6</u>	<u>\$ 60.7</u>	<u>\$ 21.8</u>	<u>\$ 288.1</u>

- (1) For equity securities owned by the funds, fair value is based on observable quoted prices on active exchanges, which are Level 1 inputs.
- (2) For mutual funds, fair value is based on nationally recognized pricing services, which are Level 1 inputs.
- (3) For commingled fixed income funds, fair value is based on observable inputs of comparable market transactions, which are Level 2 inputs.
- (4) For commingled cash equivalents funds, fair value is based on observable inputs of comparable market transactions, which are Level 2 inputs.
- (5) For government debt securities that are traded on active exchanges, fair value is based on observable quoted prices, which are Level 1 inputs.
- (6) For corporate, government, asset-backed, and mortgage related debt securities, fair value is based on observable inputs of comparable market transactions, which are Level 2 inputs.
- (7) For U.S. equity securities and commingled fixed income funds, fair value is based on the valuation provided by the fund manager, and therefore deemed Level 3 inputs.

Non-U.S. Pension

Fair Value Measurement at December 31, 2010, Using:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(Millions of dollars)			
Asset category:				
Equity securities — Non-U.S.	\$ —	\$30.5(1)	\$ —	\$ 30.5
Debt securities Pooled Funds	—	45.5(2)	—	45.5
Real Estate Pooled Fund	—	7.8(3)	—	7.8
Total at fair value	\$ —	\$83.8	\$ —	\$ 83.8

- (1) For equity securities in the form of fund units that are redeemable at the measurement date, the unit value is deemed as a Level 2 input.
- (2) For pooled fund debt securities, the fair value is based on observable inputs, but do not solely rely on quoted market prices, and therefore are deemed Level 2 inputs.
- (3) For real estate pooled funds, the fair value is based on observable inputs, but do not solely rely on quoted market prices, and therefore are deemed Level 2 inputs.

The following tables set forth a summary of changes in the fair value of the Level 3 plan assets for the year ended December 31, 2010:

	U.S. Level 3 Assets	
	International Comingled Funds US Equity	Total
	(Millions of dollars)	
Balance at December 31, 2009	\$ 22.4	\$22.4
Realized gain	0.5	0.5
Net unrealized gain	0.1	0.1
Purchases, sales, issuances, and settlements (net)	(1.2)	(1.2)
Balance at December 31, 2010	\$ 21.8	\$21.8

Savings Investment Plan

Effective with the Distribution on March 30, 2006, the Company established a defined contribution Savings Investment Plan (“SIP”) into which employees’ contributions and matching Company contributions are paid. Effective January 1, 2007, the Company modified its matching contribution to be 75% of the first 6% of employees’ contributed compensation (as defined in the SIP). As part of its ongoing efforts to reduce costs, the Company suspended its SIP matching contribution effective July 1, 2008. The SIP matching contribution was reinstated on March 22, 2010. The Company modified its matching contribution to be 100% of the first 3% of employees’ contributed compensation (as defined by SIP) and 50% of the next 3%. January 1, 2011, the Board approved a discretionary Company non-matching contribution of 6% of pay. This new discretionary Company non-matching contribution will be subject to approval each year by the Board, following their review of the Company’s financial performance. Additionally, the Company modified its matching contribution to be 100% of the first 3% of employees’ contributed compensation (as defined by SIP) and 50% of the next 3%. Compensation expense associated with the Company’s matching contribution was \$4.8 million, \$0.1 million, \$1.2 million and nil for the eleven months ended December 31, 2011, one month ended January 31, 2011 and years ended December 31, 2010 and 2009, respectively.

18. Stock-Based Compensation

Successor

On the Effective Date, the Company adopted the management equity incentive plan (the “MEIP”), which permits the grant of awards that constitute incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and other stock-based awards, cash payments and other forms such as the compensation committee of the Board in its discretion deems appropriate, including any combination of the above. Subject to further adjustment, the number of shares

available for delivery pursuant to the awards granted under the MEIP is 1.2 million shares. The shares awarded under the MEIP, may be authorized but unissued shares, authorized and issued shares reacquired and held as treasury shares or a combination thereof.

Grants to Board Members

As noted above, the MEIP authorized the issuance of restricted shares to eligible directors who were serving on the Board on the Effective Date. The equity compensation available under the MEIP to eligible directors consists of the following: (i) an equity retainer award; (ii) a primary award; and (iii) a secondary award. The terms of those specific awards are as follows:

- *Equity Retainer Award* — Eligible directors who were serving on the Board on the Effective Date received shares of restricted stock with a value equal to \$70,000, determined by dividing \$70,000 by the average of the ten day trading price of the Company’s common stock for the ten day period commencing on the twentieth trading day following the Effective Date and rounding down to the nearest full share. The equity retainer award vest in four pro-rata equal installments on the last day of each quarter that ends during the covered period, provided that the eligible director is then providing services to the Board on each such vesting date.
- *Primary Award* — Eligible directors who were serving on the Board on the Effective Date received a grant of 2,500 shares of restricted stock. The primary award restricted shares vest in twelve pro-rata equal installments on the last day of each calendar quarter that ends following the Effective Date, provided that the eligible director is then providing services to the Board on each such vesting date.
- *Secondary Award* — Eligible directors who were serving on the Board on the Effective Date received grants of restricted shares as follows:
 - The Chairman of the Board received a secondary restricted share award of 6,500 shares.
 - Each Co-chairman of the Strategic Committee, who was not serving as Chairman of the Board, received a secondary restricted share award of 6,500 shares.
 - The Chairman of the Audit Committee, who was not serving as the Chairman of the Board or Chairman of the Strategic Committee, received a secondary restricted share award of 4,500 shares.
 - All eligible directors, other than the Chairman of the Board and the Chairmen of the Strategic Committee and Audit Committee, received a secondary restricted share award of 3,500 shares.

The secondary awards vest based on the following schedule, provided that the eligible director is then providing services to the Board on each such vesting date: (i) 12.5% on December 31, 2011, December 31, 2012 and December 31, 2013; (ii) 20% on December 31, 2014; and (iii) 42.5% on December 31, 2015; provided that all secondary restricted share awards shall immediately vest upon the consummation of a change in control of the Company, as specified in the MEIP.

Notwithstanding anything set forth to the contrary in the MEIP, effective January 1, 2014, the shareholders of the Company, may, upon a majority vote, resolve to terminate any or all unvested secondary restricted shares, and following such a vote, all such secondary restricted shares shall be cancelled and forfeited for no consideration.

Compensation expense related to these restricted stock awards was \$1.4 million for the eleven months ended December 31, 2011. The following table summarizes restricted stock share activity with Board members for the eleven months ended December 31, 2011.

	<u>Equity Retainer Award</u>		<u>Primary Award</u>		<u>Secondary Award</u>	
	<u>Number of Shares</u>	<u>Weighted-Avg. Grant Date Fair Value</u>	<u>Number of Shares</u>	<u>Weighted-Avg. Grant Date Fair Value</u>	<u>Number of Shares</u>	<u>Weighted Avg. Grant Date Fair Value</u>
Restricted Shares						
Balance at February 1, 2011	—	—	—	—	—	—
Awards granted	3,138	\$ 122.50	15,000	\$ 122.50	28,000	\$ 122.50
Awards earned	(3,138)	\$ 122.50	(4,992)	\$ 122.50	(3,503)	122.50
Balance at December 31, 2011	—	\$ —	10,008	\$ 122.50	24,497	\$ 122.50
Outstanding awards expected to vest	—	\$ —	10,008	\$ 122.50	24,497	\$ 122.50

Grants to employees

On the Effective Date, 219,250 shares of restricted stock were granted to employees that vest quarterly over a three-year period. During 2011, the Company granted an additional 81,430 shares to employees that vest over a three-year period. The Company is withholding the highest combined maximum rate imposed under all applicable federal, state, local and foreign tax laws on behalf of

the employees that have received these awards. Compensation expense related to these restricted stock awards was \$12.3 million for the eleven months ended December 31, 2011.

The following table summarizes restricted stock share activity with employees for the eleven months ended December 31, 2011.

	<u>Number of Shares</u>	<u>Fair Value(1)</u>
Balance at February 1, 2011.....	—	\$ —
Awards granted	300,680	\$ 112.74
Awards earned.....	(97,502)	\$ 122.50
Awards forfeited.....	(2,084)	\$ 122.50
Balance at December 31, 2011.....	<u>201,094</u>	<u>\$ 107.91</u>
Outstanding awards expected to vest	<u>201,094</u>	<u>\$ 107.91</u>

(1) Represents the weighted-average grant-date fair value.

Stock Options

During 2011, the Company granted stock options to employees which vest over a three year period. The following table presents a summary of activity for the Company's options for the eleven months ended December 31, 2011:

	<u>Number of Options</u>	<u>Price(1)</u>	<u>Contractual Life Years(1)</u>	<u>Intrinsic Value Millions(2)</u>
		(Millions of dollars)		
Balance at February 1, 2011.....	—	\$ —	—	\$—
Options issued	<u>69,000</u>	<u>110.00</u>	<u>10.0</u>	<u>0.7</u>
Outstanding at December 31, 2011.....	<u>69,000</u>	<u>\$ 110.00</u>	<u>10.0</u>	<u>\$ 0.7</u>

(1) Represents weighted average exercise price and weighted average remaining contractual life, as applicable.

(2) Reflects aggregate intrinsic value based on the difference between the market price of the Company's stock at December 31, 2011 and the options' exercise price.

Valuation and Cost Attribution Methods. Options' fair value was determined on the date of grant using the Black-Scholes option-pricing model and was recognized in earnings (net of expected forfeitures of 5,834 at December 31, 2011) on a straight-line basis over the employee service period of three years necessary to earn the awards, which is the vesting period. The Company ran the Black-Scholes option-pricing model as of December 13, 2011 and used the following assumptions:

	<u>2011</u>
Risk-free interest rate.....	1.97%
Expected dividend yield	0.0%
Expected volatility	48.6%
Expected term (years)	10.0
Per-unit fair value of options granted	\$66.08

The Company used the fair market value and exercise price of \$110.00, which was the closing price of TROX.PK recorded on December 31, 2011.

Expected Volatility — In setting the volatility assumption, the Company considered the most recent reported volatility of each compensation peer company. For the 2011 valuation, the peer company group included the following companies: Cabot Corporation, Celanese Corporation, Chemtura Corporation, Cliffs Natural Resources Inc., Cytec Industries Inc., Eastman Chemical Company, FMC Corporation, Freeport-McMoRan Copper & Gold Inc., Georgia Gulf Corporation, Huntsman Corporation, Kronos Worldwide, Inc., The Lubrizol Corporation, Nalco Holding Company, PPG Industries, Inc., Rockwood Holdings, Inc., RPM International Inc., The Sherwin-Williams Company, Solutia Inc., Southern Copper Corporation, Teck Resources Limited, The Valspar Corporation, W.R. Grace & Co, and Westlake Chemical Corporation.

Risk-free interest rate — The Company used a risk-free interest rate of 1.97%, which was the yield of the ten year U.S. Treasury Note.

Compensation expense related to the Company's nonqualified stock option awards for the eleven months ended December 31, 2011 was \$0.1 million.

Predecessor

Upon emergence from bankruptcy, all predecessor common stock equivalents, including but not limited to stock options and restricted stock units of the Company were cancelled with the Plan.

Overview — The Company's Long Term Incentive Plan ("LTIP") authorized the issuance of shares of its Class A common stock to certain employees and non-employee directors any time prior to November 16, 2015, in the form of fixed-price stock options, restricted stock, stock appreciation rights or performance awards. As of the Effective Date, all stock-based awards previously issued under the Predecessor's LTIP plan were cancelled.

Compensation Expense — The following summarizes total stock-based compensation expense recognized from continuing operations during the one month ended January 31, 2011 and years ended December 31, 2010 and 2009. Stock-based compensation expense is based on the fair value of the awards.

	<u>Predecessor</u>		
	<u>One Month Ended January 31, 2011</u>	<u>Years Ended December 31,</u>	
		<u>2010</u>	<u>2009</u>
	(Millions of dollars)		
Stock options	\$—	\$ 0.2	\$ 0.4
Restricted stock-based awards	0.1	0.3	(0.2)
Performance awards.....	—	—	—
Total stock-based compensation expense.....	<u>0.1</u>	<u>0.5</u>	<u>0.2</u>
Income tax benefit(1)	—	—	—
Total stock-based compensation expense.....	<u>\$ 0.1</u>	<u>\$ 0.5</u>	<u>\$ 0.2</u>

(1) During the one month ended January 31, 2011 and years ended December 31, 2010 and 2009, the valuation allowance was adjusted for activity during each period. For this reason, any tax benefit associated with compensation expense had a corresponding offset to the valuation allowance, yielding no overall income tax benefit.

Stock Options — The following table presents a summary of activity for the Company's options for the one month ended January 31, 2011 and year ended December 31, 2010:

	<u>Number of Options</u>	<u>Price(1)</u>	<u>Contractual Life (Years)(1)</u>	<u>Intrinsic Value (Millions)(2)</u>
Options outstanding at December 31, 2009.....	1,162,464	\$ 9.56	6.32	\$ (11.1)
Options forfeited	(10,056)	11.69		
Options outstanding at December 31, 2010.....	1,152,408	\$ 9.54	5.31	\$ (11.0)
Options cancelled	(1,152,408)			
Options outstanding at January 31, 2011.....	<u>—</u>	\$ —	—	\$ —

- (1) Represents weighted average exercise price and weighted average remaining contractual life, as applicable.
- (2) Reflects aggregate intrinsic value based on the difference between the market price of the Company's stock and the options' exercise price.

The Company did not grant stock options during the one month ended January 31, 2011 and years ended December 31, 2010 and 2009.

Restricted Stock Awards and Stock Opportunity Grants — The following table summarizes information about restricted stock, restricted stock units and stock opportunity grant activity for the one month ended January 31, 2011 and year ended December 31, 2010:

	<u>Number of Shares</u>	<u>Fair Value(1)</u>
Balance at December 31, 2009.....	208,916	\$ 7.68
Awards forfeited.....	(4,700)	\$ 11.31
Awards earned.....	<u>(56,163)</u>	<u>\$ 14.81</u>
Balance at December 31, 2010.....	148,053	\$ 4.92
Awards cancelled.....	<u>(148,053)</u>	<u> </u>
Balance at January 31, 2011.....	<u> </u>	<u>\$ —</u>

(1) Represents the weighted average grant date fair value.

The Company did not grant restricted stock during the one month ended January 31, 2011 and years ended December 31, 2010 and 2009.

Performance Awards — The following table summarizes information about performance share and performance unit activity for the one month ended January 31, 2011 and year ended December 31, 2010:

	<u>Number of Units</u>
Balance at December 31, 2009	2,911,114
Awards forfeited	(116,204)
Awards earned	<u>(105,760)</u>
Balance at December 31, 2010	2,689,150
Awards cancelled.....	<u>(2,689,150)</u>
Balance at January 31, 2011	<u> </u>

19. Income Taxes

Taxation of a company with operations in several foreign countries involves many complex variables. Because of these complexities, the comparisons between the United States and international components of income before income taxes and the provision for income taxes shown below do not necessarily provide reliable indicators of relationships in future periods.

Income (loss) from continuing operations before income taxes is comprised of the following:

	<u>Successor</u>	<u>Predecessor</u>		
	<u>Eleven Months Ended December 31, 2011</u>	<u>One Month Ended January 31, 2011</u>	<u>Year Ended December 31, 2010 2009</u>	
		(Millions of dollars)		
United States.....	\$119.4	\$497.4	\$(10.0)	\$ (15.2)
International.....	142.3	134.8	16.6	(15.0)
Total.....	<u>\$261.7</u>	<u>\$632.2</u>	<u>\$ 6.6</u>	<u>\$ (30.2)</u>

The income tax benefit (provision) from continuing operations is summarized below:

	Successor	Predecessor		
	Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Year Ended December 31, 2010 2009	
		(Millions of dollars)		
U.S. Federal:				
Current	\$ —	\$—	\$—	\$—
Deferred.....	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
International:				
Current	(16.0)	0.1	(6.8)	—
Deferred.....	(3.8)	(0.8)	5.1	1.9
	<u>(19.8)</u>	<u>(0.7)</u>	<u>(1.7)</u>	<u>1.9</u>
State:				
Current	(0.4)	—	(0.3)	(0.4)
Deferred.....	—	—	—	—
	<u>(0.4)</u>	<u>—</u>	<u>(0.3)</u>	<u>(0.4)</u>
Total benefit/(provision) from continuing operations	<u>\$ (20.2)</u>	<u>\$ (0.7)</u>	<u>\$ (2.0)</u>	<u>\$ 1.5</u>

In the following table, the U.S. federal statutory income tax rate is reconciled to the Company's effective income tax rates for "Income (Loss) from Continuing Operations" as reflected in the Consolidated Statements of Operations.

	Successor	Predecessor		
	Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Year Ended December 31, 2010 2009	
U.S. statutory tax rate.....	35.0%	35.0%	35.0%	35.0%
Increases (decreases) resulting from:				
Taxation of foreign operations	(6.8)	(0.3)	91.2	(3.0)
State income taxes	2.0	(0.1)	(15.2)	14.2
Disallowed officers compensation	2.5	—	—	—
Capitalized professional fees	4.5	0.4	207.1	(19.6)
Foreign interest disallowance	2.1	—	61.0	(2.9)
Permanent adjustment for fresh-start (net of tax)	—	(29.3)	—	—
Prior year accruals	—	—	23.3	(6.4)
Change in uncertain tax positions.....	(6.0)	—	54.2	0.2
Valuation allowances	(25.3)	(1.3)	(427.0)	(157.7)
Equity deconsolidation of subsidiary	—	—	—	149.7
Other, net.....	<u>(0.3)</u>	<u>(4.3)</u>	<u>0.7</u>	<u>(4.5)</u>
Effective tax rate.....	<u>7.7%</u>	<u>0.1%</u>	<u>30.3%</u>	<u>5.0%</u>

For U.S. federal income tax purposes, typically the amount of cancellation of debt income ("CODI") recognized, and accordingly the amount of tax attributes that may be reduced, depends in part on the fair market value of non-cash consideration given to creditors. On the Effective Date, the fair market value of non-cash consideration given was such that the creditors received consideration in excess of their claims. For this reason, the Company did not recognize any CODI and retained all of its U.S. tax attributes. In addition, the Company is reflecting a tax deduction for the premium paid to the creditors of \$1,129.7 million. This deduction will increase the Company's net operating losses ("NOL's") in the United States and in various states where the Company has filing requirements. The resulting estimated federal tax benefit of \$395.4 million and the estimated corresponding state tax benefit of \$51.0 million, net of the deferred federal effect, have been fully offset by a valuation allowance in accordance with ASC 740, after considering all available positive and negative evidence. Because the financial offset for the consideration given to creditors was recorded through equity, neither the tax benefits nor the offsetting valuation allowance impacts are shown in the effective tax rate table above. Instead, the excess tax benefit, which nets to zero with the valuation allowance, is reflected as an equity adjustment.

Upon emergence from bankruptcy, the Company experienced an ownership change resulting in a limitation under IRC Section 382 and 383 related to its U.S. NOL's generated prior to emergence. The Company does not expect that the application of these limitations will have any material affect upon its U.S. federal or state income tax liabilities.

Net deferred tax assets (liabilities) at December 31, 2011 and 2010 were comprised of the following:

	<u>Successor</u> December 31, 2011	<u>Predecessor</u> December 31, 2010
	(Millions of dollars)	
Deferred tax assets:		
Net operating loss and other carryforwards.....	\$ 494.5	\$ 76.3
Property, plant and equipment	6.3	14.8
Reserves for environmental remediation and restoration	6.2	164.7
Obligations for pension and other employee benefits	57.4	49.1
Investments	33.7	32.2
Grantor Trusts	123.0	—
State and local tax	1.4	0.8
Other long-term assets.....	—	8.4
Inventory	3.5	6.0
Interest.....	—	2.9
Other accrued liabilities	15.7	18.5
Litigation.....	—	3.7
Unrealized foreign exchange losses	1.1	—
Other	0.3	12.1
Total deferred tax assets	<u>743.1</u>	<u>389.5</u>
Valuation allowance associated with deferred tax assets	<u>(561.0)</u>	<u>(346.0)</u>
Net deferred tax assets	<u>\$ 182.1</u>	<u>\$ 43.5</u>
Deferred tax liabilities —		
Property, plant and equipment	\$ (67.0)	\$ (21.4)
Intangibles	(117.9)	—
Inventory	(0.7)	(1.0)
Prepaid expenses	(0.6)	(0.7)
Uncertain tax positions.....	(0.8)	(3.9)
Other	(0.9)	(2.8)
Total deferred tax liabilities	<u>(187.9)</u>	<u>(29.8)</u>
Net deferred tax asset/(liability).....	<u>\$ (5.8)</u>	<u>\$ 13.7</u>
Balance sheet classifications:		
Deferred tax assets — current	\$ 4.3	\$ 4.3
Deferred tax assets — long-term.....	9.0	9.4
Deferred tax liability — current	—	—
Deferred tax liability — long-term.....	<u>(19.1)</u>	<u>—</u>
Net deferred tax asset (liability)	<u>\$ (5.8)</u>	<u>\$ 13.7</u>

During the years ended December 31, 2011 and 2010, the total change to the valuation allowance was an increase of \$215.0 million and a decrease of \$24.9 million, respectively.

The deferred tax assets generated by tax loss carryforwards of the Company have been substantially offset by valuation allowances. The expiration of these carryforwards as of December 31, 2011, is shown below. These expiration amounts are comprised of International, U.S. and State losses.

	<u>Tax Loss Carryforwards</u> (Millions of dollars)
Year of Expiration:	
2012	\$ 0.3
2013	21.7
2014	51.5
2015	31.4
2016	32.9
Thereafter	<u>2,690.5</u>
Total tax losses	<u>\$2,828.3</u>

The application of fresh-start accounting on January 31, 2011 resulted in the re-measurement of deferred income tax liabilities associated with the revaluation of the Company's assets and liabilities pursuant to ASC 852 (see Note 4). As a result, deferred income taxes were recorded at amounts determined in accordance with ASC 740 of \$11.8 million as part of reorganization income. Additionally, during 2011, the Company released valuation allowances against certain of its deferred tax assets in the Netherlands and Australia resulting from this re-measurement.

Undistributed earnings of certain foreign subsidiaries totaled \$144.0 million at December 31, 2011. At December 31, 2011, no provision for deferred U.S. income taxes had been made for these earnings because they were considered to be indefinitely reinvested outside the United States. The distribution of these earnings in the form of dividends or otherwise, may subject the Company to U.S. federal and state income taxes and, possibly, foreign withholding taxes. However, because of the complexities of U.S. taxation of foreign earnings, it is not practicable to estimate the amount of additional tax that might be payable on the eventual remittance of these earnings to the United States.

The Company entered into a tax sharing agreement with Kerr-McGee that governed Kerr-McGee's and the Company's respective rights, responsibilities and obligations subsequent to the IPO with respect to taxes for tax periods ending in 2005 and prior. Generally, taxes incurred or accrued prior to the IPO that are attributable to the business of one party will be borne solely by that party. The tax sharing agreement was set aside by the Bankruptcy Court and, therefore, no future payables or receivables will be recorded under the tax sharing agreement for tax periods ending in 2005 and prior.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits at January 31, 2011 and December 31, 2011 is as follows:

	<u>2011</u> (Millions of dollars)
Predecessor: Balance at January 1	\$ 13.0
Additions for tax positions related to the current year	—
Reductions for tax positions related to prior years	—
Unrealized foreign exchange gains (losses)	(0.2)
Decrease due to settlements	—
Decrease due to lapse of applicable statute of limitations	—
Predecessor: Balance at January 31	<u>\$ 12.8</u>
Additions for tax positions related to the current year	0.9
Reductions for tax positions related to prior years	—
Unrealized foreign exchange gains (losses)	0.2
Decrease due to settlements	(3.0)
Decrease due to lapse of applicable statute of limitations	<u>(9.3)</u>
Successor: Balance at December 31	<u>\$ 1.6</u>

A reconciliation of the beginning and ending amounts of unrecognized tax benefits at 2010 and 2009 is as follows:

	<u>Predecessor</u>	
	<u>2010</u>	<u>2009</u>
	(Millions of dollars)	
Predecessor: Balance at January 1.....	\$ 7.9	\$ 40.4
Additions for tax positions related to the current year	3.5	—
Reductions for tax positions related to prior years	—	(32.5)
Unrealized foreign exchange gains (losses)	1.6	0.5
Decrease due to lapse of applicable statute of limitations	—	(0.5)
Predecessor: Balance at December 31.....	<u>\$13.0</u>	<u>\$ 7.9</u>

Included in the balance at December 31, 2011 and 2010, were tax positions of \$0.8 million and \$0.8 million, respectively, for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. There were no tax positions with timing uncertainty as of December 31, 2009. The net benefit associated with approximately \$0.8 million and \$12.2 million of the December 31, 2011 and 2010 reserve, respectively, for unrecognized tax benefits, if recognized, would affect the effective income tax rate.

As a result of potential settlements, it is reasonably possible that the Company's gross unrecognized tax benefits for interest deductibility may decrease within the next twelve months by an amount up to \$0.8 million.

The Company recognizes interest and penalties related to unrecognized tax benefits in "Income tax benefit (provision)" on the Consolidated Statements of Operations. During the eleven months ended December 31, 2011, one month ended January 31, 2011 and years ended December 31, 2010 and 2009, the Company recognized approximately \$(10.2) million, \$0.1 million, \$1.6 million and \$1.7 million, respectively, in gross interest and penalties in the Consolidated Statements of Operations. At December 31, 2011 and 2010, the Company had approximately nil and \$9.9 million, respectively, accrued for the gross payment of interest and penalties. At December 31, 2011 and 2010, the noncurrent liability section of the Consolidated Balance Sheets reflected \$1.6 million and \$19.1 million, respectively, as the reserve for uncertain tax positions. The 2010 balance of \$19.1 million included the \$9.9 million of interest and penalties, which was reversed as part of the interest number above, but did not include unrecognized tax benefits of \$3.8 million, which were recorded to the deferred tax liability account.

The Company was included in the U.S. federal income tax returns of Kerr-McGee Corporation and Subsidiaries for tax periods ending in 2005 and prior. The Internal Revenue Service (the "IRS") has completed its examination of the Kerr-McGee Corporation and Subsidiaries' federal income tax returns for all years through 2005, and these years have been closed with the exception of issues for which a refund claim has been filed and is being pursued in the U.S. Court of Federal Claims. The amounts payable to Kerr-McGee under the tax sharing agreement with respect to these closed years was settled upon emergence.

The U.S. returns are now closed for years through 2008, with the exception of issues for which the Kerr-McGee Corporation refund claim is being pursued in the United States Court of Federal Claims. The Netherlands returns are closed through 2005. The Australian returns are closed through 2004. The Switzerland returns are closed through 2007. The Company believes that it has made adequate provision for income taxes that may be payable with respect to years open for examination; however, the ultimate outcome is not presently known and, accordingly, additional provisions may be necessary and/or reclassifications of noncurrent tax liabilities to current may occur in the future.

20. Discontinued Operations

As discussed in Note 1, the German subsidiaries have been deconsolidated from the Company's consolidated financial statements as of March 13, 2009. Management has determined that the operations and cash flows of the insolvent German subsidiaries qualify as a discontinued operation.

The following table presents pretax income (loss) from discontinued operations by type of cost and total after-tax loss from discontinued operations for the eleven months ended December 31, 2011, one month ended January 31, 2011 and years ended December 31, 2010 and 2009.

	<u>Environmental Provisions(1)</u>	<u>Litigation Provisions, Legal and Other Costs(1)</u>	<u>Income (Loss) from Operations(2)</u>	<u>Total</u>
	(Millions of dollars)			
<i>Successor: Eleven Months Ended December 31, 2011:</i>				
Total pretax gain (loss).....	\$ —	\$ —	\$ —	\$ —
Tax benefit (provision).....				—
Total after tax gain (loss).....				<u>\$ —</u>
<i>Predecessor: One Month Ended January 31, 2011:</i>				
Total pretax gain (loss).....	\$ —	\$ (0.2)	\$ —	\$ (0.2)
Tax benefit (provision).....				—
Total after tax gain (loss).....				<u>\$ (0.2)</u>
<i>Predecessor: Year Ended December 31, 2010:</i>				
Total pretax gain (loss).....	\$ 2.2	\$ (1.1)	\$ 0.1	\$ 1.2
Tax benefit (provision).....				—
Total after tax gain (loss).....				<u>\$ 1.2</u>
<i>Predecessor: Year Ended December 31, 2009:</i>				
Total pretax gain (loss).....	\$ 2.5	\$ (2.2)	\$ (9.8)	\$ (9.5)
Tax benefit (provision).....				(0.3)
Total after tax gain (loss).....				<u>\$ (9.8)</u>

- (1) Legal and environmental costs are allocated to discontinued operations on a specific identification basis. Other costs are primarily comprised of insurance and ad valorem taxes on properties of these former businesses under remediation.
- (2) The Company's income (loss) from operations related to its German operations.

21. Contingencies

Contingencies Related to Ongoing Businesses of Tronox

In accordance with ASC 450, *Contingencies*, and ASC 410, *Asset Retirement and Environmental Obligations*, Tronox Incorporated recognizes a loss and records an undiscounted liability when litigation has commenced or a claim or an assessment has been asserted, or, based on available information commencement of litigation or assertion of a claim or assessment is probable, and the associated costs can be estimated. It is not possible for Tronox Incorporated to reliably estimate the amount and timing of all future expenditures related to environmental matters because, among other reasons:

- Environmental laws and regulations, as well as enforcement policies and clean up levels, are continually changing, and the outcome of court proceedings, alternative dispute resolution proceedings (including mediation) and discussions with regulatory agencies are inherently uncertain.

The Company believes that it has reserved adequately for the probable and reasonably estimable costs of known contingencies. There is no environmental litigation, claim or assessment that has been asserted nor is there any probability of an assessment or a claim for which the Company has not recorded a liability. However, additions to the reserves may be required as additional information is obtained that enables the Company to better estimate its liabilities. The Company cannot reliably estimate the amount of future additions to the reserves at this time. In certain situations, reserves may be probable but may not be estimable. Additionally, sites may be identified in the future where the Company could have potential liability for environmental related matters. If a site is identified, the Company will evaluate to determine what reserve, if any, should be established. For additional discussion of environmental matters, see "Tronox Incorporated Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company is subject to extensive regulation by federal, state, local and foreign governments. Governmental authorities regulate the generation and treatment of waste and air emissions at the Company's operations and facilities. At many of its operations, the Company also complies with worldwide, voluntary standards such as International Organization for Standardization ("ISO") 9002 for quality management and ISO 14001 for environmental management. ISO 9000 and 14000 are standards developed by the ISO, a nongovernmental organization that promotes the development of standards and serves as a bridging organization for quality and

environmental standards. The Company is also subject to various federal, state and local environmental laws and regulations that require environmental assessment or remediation efforts (collectively environmental remediation) at multiple locations.

The Company's reserves for environmental contingencies related to its ongoing businesses amounted to \$0.6 million and \$0.8 million at December 31, 2011 and 2010, respectively, of which \$0.5 million at December 31, 2011 and \$0.6 million at December 31, 2010 was classified in "Other Non-current Liabilities" on the Consolidated Balance Sheets.

The following table summarizes the contingency reserve balances, provisions, payments and settlements for the eleven months ended December 31, 2011, one month ended January 31, 2011 and years ended December 31, 2010 and 2009, as well as balances, accruals and receipts of reimbursements of environmental costs from other parties.

	Reserves for Environmental Remediation(1)
	(Millions of dollars)
Predecessor: Balance at December 31, 2008	\$ 0.5
Provisions/Accruals	—
Payments	<u>(0.1)</u>
Predecessor: Balance at December 31, 2009	\$ 0.4
Provisions/Accruals	0.4
Payments	<u>—</u>
Predecessor: Balance at December 31, 2010	\$ 0.8
Provisions/Accruals	—
Payments	<u>(0.1)</u>
Successor: Balance at February 1, 2011	\$ 0.7
Provisions/Accruals	—
Payments	<u>(0.1)</u>
Successor: Balance at December 31, 2011	<u><u>\$ 0.6</u></u>

(1) Provision for environmental remediation and restoration at December 31, 2011, January 31, 2011 and December 31, 2010 and 2009 includes \$0.3 million, \$0.4 million, \$0.4 million, and nil, respectively, related to the Company's Oklahoma Tech Center. These charges are reflected in "Provision for environmental remediation and restoration, net of reimbursements" on the Consolidated Statements of Operations.

Legal

In August 2011, the outstanding legal disputes between the Company and RTI Hamilton, Inc dating back to 2008 came to a close with the parties reaching an agreement in principle. The agreement reflects a compromise and settlement of disputed claims in complete accord and satisfaction thereof. RTI Hamilton paid Tronox the sum of \$10.5 million within five business days of receipt of the Bankruptcy Court Approval. Of the total payment, \$0.7 million constitutes payment for capital costs incurred by Tronox in relation to the agreement, plus interest.

The Western Australian Office of State Revenue (the "OSR") continues to review their technical position on the imposition of stamp duty on the transfer of the Company's shares related to Kerr-McGee's restructuring in 2002 and from the share transfer related to the spinoff of the Company from Kerr-McGee in 2005. The OSR recently contacted the Company seeking additional information related to the 2005 spinoff. In addition, the OSR informed the Company that it has made a preliminary determination that the Company was land rich at the time of the 2002 share transfers and, as a result, the Company may be liable for stamp duty and penalties arising from that share transfer. The OSR has not made an assessment at this time and continues discussions with the Company and its legal advisors. The Company has accrued stamp duty on the 2002 transaction in the amount of \$3.2 million based upon its position that the Company was not land rich at the time of the share transfers. The Company intends to exercise all of its legal and administrative remedies in the event that the OSR makes an assessment based upon its claim that it is land rich.

Registration Rights Agreement

On the Effective Date, the Company entered into a Registration Rights Agreement (the "Registration Rights Agreement") with certain stockholders of the Company party thereto. Pursuant to the Registration Rights Agreement, among other things, the Company was required to file with the SEC, pursuant to Section 13(a) of the Exchange Act, a registration statement for its New Common Stock prior to September 30, 2011. The Company did not meet the September 30, 2011 deadline, and therefore, is expected to be subject to liquidation damages of approximately \$2.0 million. The Company accrued \$2.0 million related to such liability and, as of

December 31, 2011, the Company received and paid claims in the amount of \$0.6 million. Through February 15, 2012, the Company received and paid additional claims in the amount of \$0.3 million.

Other Matters

From time to time, the Company may be party to a number of legal and administrative proceedings involving environmental and/or other matters in various courts or agencies. These proceedings, individually and in the aggregate, may have a material adverse effect on the Company. These proceedings may be associated with facilities currently or previously owned, operated or used by the Company and/or its predecessors, some of which may include claims for personal injuries, property damages, cleanup costs and other environmental matters. Current and former operations of the Company may also involve management of regulated materials, which are subject to various environmental laws and regulations. These laws and regulations may obligate the Company to clean up various sites at which petroleum and other hydrocarbons, chemicals, low-level radioactive substances and/or other materials have been contained, disposed of or released. Some of these sites have been designated Superfund sites by the United States Environmental Protection Agency (the "EPA") pursuant to the comprehensive environmental response compensation and liability act ("CERCLA") or state equivalents. Similar environmental laws and regulations and other requirements exist in foreign countries in which the Company operates.

KM Legacy Liabilities

At the time of the Contribution and IPO, The Company became liable for the KM Legacy Liabilities, including the Legacy Environmental Liabilities. As further described in Note 5, the KM Legacy Liabilities primarily relate to businesses and operations of Kerr-McGee that were shut down or discontinued prior to the Contribution and IPO, and represent over 2,800 individual locations; such businesses involved the treatment of forest products, the production of rocket fuel, the refining and marketing of petroleum products, offshore contract drilling, coal mining, and the mining, milling and processing of nuclear materials. As discussed in Note 1, as part of the Plan, the Company reached the Settlement, which resolved its obligations for the KM Legacy Liabilities. As a result, the KM Legacy Liabilities are not included in the Company's financial statements after the Effective Date.

The Company's reserves for the KM Legacy Liabilities amounted to \$440.1 million and \$518.3 million at December 31, 2010 and 2009, respectively, which were classified in "Liabilities subject to compromise" on the Consolidated Balance Sheets. The following table provides a reconciliation of the changes in the KM Legacy Liabilities during the eleven months ended December 31, 2011, one month ended January 31, 2011 and the years ended December 31, 2010 and 2009.

	<u>Legacy Tort Liabilities(1)</u>	<u>Legacy Environmental Liabilities(1)</u>	<u>Reimbursements Receivables(5)</u>
	(Millions of dollars)		
Predecessor: Balance at December 31, 2008	\$ 14.8	\$ 579.6	\$ 64.5
Provisions/Accruals.....	—	—	2.6
KM Legacy Liability Settlement(2)	(4.6)	(71.1)	—
Transfers(3).....	9.0	16.7	—
Payments	(0.6)	(25.5)	(12.9)
Predecessor: Balance at December 31, 2009	\$ 18.6	\$ 499.7	\$ 54.2
Provisions/Accruals(4).....	(0.3)	—	31.6
Transfers	—	—	(36.4)
Payments	(0.4)	(77.5)	(12.7)
Predecessor: Balance at December 31, 2010	\$ 17.9	\$ 422.2	\$ 36.7
Payments	—	(27.8)	(4.8)
Settlements	(17.9)	(394.4)	—
Successor: Balance at February 1, 2011	\$ —	\$ —	\$ 31.9
Payments	—	—	(31.9)
Successor: Balance at December 31, 2011	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

- (1) Reflected in "Liabilities subject to compromise" on the Consolidated Balance Sheets at December 31, 2010 and 2009.
- (2) Provision for the Legacy Tort Liabilities and the Legacy Environmental Liabilities in 2009 represent the Settlement adjustment recorded in 2009 (see Note 1).
- (3) Includes reclassifications in from other accounts of asset retirement liabilities and general and auto reserves, which were included in the Settlement. Includes reclassifications out of indirect environmental claims classified separately in the Consolidated Balance Sheets.

- (4) Reimbursement Receivables accrual includes \$47.7 million related to the Henderson, Nevada facility and \$1.7 million related to the West Chicago, Illinois facility, partially offset by a \$17.8 million write-off related to the cancellation of the MSA.
- (5) Reimbursement Receivables for environmental remediation and restoration at December 31, 2010 and 2009 include \$36.7 million and \$54.2 million, respectively, related to insurance proceeds, as well as reimbursements from the U.S. Department of Energy and Anadarko under the MSA. During 2010, the Company rejected the MSA as part of the bankruptcy process and therefore reversed \$17.8 million of unpaid receivables related thereto.

As discussed in Note 1, as part of the Plan, the Debtor's reached the Settlement that resolved its obligations for the KM Legacy Liabilities. The Settlement established certain environmental response and tort claims trusts in exchange for cash, certain non-monetary assets, and the rights to the proceeds of certain ongoing litigation and insurance and other third party reimbursement agreements. The amount of the Settlement was approximately \$411.9 million, excluding any estimate of amounts for the rights to proceeds from ongoing litigation and insurance proceeds.

During the eleven months ended December 31, 2011, the Company received an additional \$4.5 million in insurance proceeds not included in the receivable balances above. The additional reimbursement was recorded to income upon receipt.

At December 31, 2010, the Company estimated the amount of probable insurance recoveries associated with the environmental reserve based on management's interpretations and estimates surrounding the available or applicable insurance coverage. As such, the Company had a receivable for these probable insurance recoveries of \$33.1 million, which was recorded in "Accounts Receivable" on the Consolidated Balance Sheets.

Master Separation Agreement

Pursuant to the MSA (which recites that it binds successors), Kerr-McGee was to reimburse the Company for a portion of the environmental remediation costs it incurred and paid (net of any cost reimbursements it recovered or expected to recover from insurers, governmental authorities or other parties). The reimbursement obligation extended to costs incurred at any site associated with any of the Company's former businesses or operations.

With respect to any site for which the Company had established a reserve as of the effective date of the MSA, or alternatively for which no reserve had been established, 50% of the remediation costs the Company incurs in excess of the reserve amount (after meeting a \$200,000 minimum threshold amount) would be reimbursable by Kerr-McGee, net of any amounts recovered or, in the Company's reasonable and good faith estimate, that would be recovered from third parties. At December 31, 2009, the Company had a receivable of \$17.8 million, primarily representing 50% of the settlement offer it had made related to a New Jersey wood-treatment site that Anadarko consented to contribute if the settlement were accepted.

Kerr-McGee's aggregate reimbursement obligation to the Company could not exceed \$100.0 million and was subject to various other limitations and restrictions. For example, Kerr-McGee was not obligated to reimburse the Company for amounts paid to third parties in connection with tort claims or personal injury lawsuits, or for administrative fines or civil penalties that the Company was required to pay. Kerr-McGee's reimbursement obligation was also limited to costs that the Company actually incurred and paid within seven years following the completion of the IPO. In 2010, the Company rejected the MSA with Kerr-McGee as part of the bankruptcy process and reversed a total of \$17.8 million in outstanding receivables.

22. Commitments

Leases

The Company has various commitments under noncancellable operating lease agreements, principally for railcars, office space and production equipment. The aggregate minimum annual rentals under all operating leases at December 31, 2011, are shown in the table below. Total rental expense related to operating leases was \$11.6 million, \$1.3 million, \$14.6 million and \$11.9 million, respectively for the eleven months ended December 31, 2011, one month ended January 31, 2011 and years ended December 31, 2010 and 2009. At December 31, 2011, minimum rental commitments under non-cancelable leases were approximately as follows:

	<u>Operating</u> (Millions of dollars)
2012	\$ 9.2
2013	4.9
2014	4.2
2015	2.8
2016	2.5
Thereafter	<u>8.4</u>
Total minimum lease payments	<u><u>\$32.0</u></u>

Purchase Obligations

Purchase obligations are agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions, and the approximate timing of the transaction. In the normal course of business, the Company enters into contractual agreements to purchase raw materials, process chemicals and utilities. Aggregate future payments under these contracts are shown in the table below.

Type of Obligation	Payments Due by Year						Total
	2012	2013	2014	2015	2016	2017 and Thereafter	
	(Millions of dollars)						
Ore contracts(1)	\$365.1	\$284.0	\$312.0	\$288.0	\$ —	\$ —	\$1,249.1
Other purchase obligations	113.7	65.5	49.8	18.8	13.7	103.8	365.3
Total.....	<u>\$478.8</u>	<u>\$349.5</u>	<u>\$361.8</u>	<u>\$306.8</u>	<u>\$13.7</u>	<u>\$103.8</u>	<u>\$1,614.4</u>

(1) Approximately 71% of current annual usage acquired from one supplier.

Letters of Credit

At December 31, 2011, the Company had outstanding letters of credit in the amount of approximately \$22.3 million, of which \$17.6 million was outstanding under the Wells Revolver.

Other

The Company had entered into certain agreements that required it to indemnify third parties for losses related to environmental matters, litigation and other claims. No material obligations are presently known and, thus, no reserve has been recorded in connection with such indemnification agreements.

Labor Concentration — As of December 31, 2011, the Company had 925 employees, with 650 in the United States, 247 in Europe, 21 in Australia and 7 in other international locations. None of the Company's employees in the United States are represented by collective bargaining agreements, and substantially all of its employees in Europe are represented by works' councils. In addition, as of December 31, 2011, the Tiwest Joint Venture had 657 employees, all of whom were located in Australia. Approximately 48% of those employees are represented by collective bargaining agreements.

23. Stockholders' Equity

Upon emergence from bankruptcy, all Predecessor Class A common stock and Predecessor Class B common stock was cancelled with the Plan. As part of its emergence from bankruptcy, the Company authorized 100,000,000 shares of New Common Stock, 544,041 Series A Warrants and 672,175 Series B Warrants (see Note 1). The changes in shares outstanding and treasury shares for the eleven months ended December 31, 2011 were as follows:

New common stock shares outstanding:	
Issued February 1, 2011.....	14,918,217
Stock-based compensation.....	72,936
Claims.....	5,676
Shares issued for warrants exercised	79,862
Balance at December 31, 2011	<u>15,076,691</u>
 New common stock held as treasury shares:	
Shares acquired February 1, 2011.....	56,230
Stock-based compensation.....	38,283
Balance at December 31, 2011	<u>94,513</u>

Warrants — As of December 31, 2011, the Company had outstanding Series A Warrants to purchase 461,616 ordinary shares at an exercise price of \$62.13 per ordinary share issued and outstanding and Series B Warrants to purchase 593,365 ordinary shares at an exercise price of \$68.56 per ordinary share issued and outstanding. The warrants have anti-dilution protection for in-kind stock dividends, stock splits, stock combinations and similar transactions and may be exercised at any time during the period from February 14, 2011 to the close of business on February 14, 2018.

24. Reporting by Business Segment and Geographic Locations

The Company has one reportable segment representing its pigment business. The pigment segment primarily produces and markets TiO₂ and has production facilities in the United States, Australia, and the Netherlands. The pigment segment also includes heavy minerals production operated through Exxaro. The heavy minerals production is integrated with the Company's Australian pigment plant, but also has third-party sales of minerals not utilized by its pigment operations. Electrolytic and other chemical products (which do not constitute reportable segments) represent the Company's other operations which are comprised of electrolytic manufacturing and marketing operations, all of which are located in the United States, and are reported in "Other Activities" when reconciling segmented information. Segment performance is evaluated based on segment operating profit (loss), which represents the results of segment operations before unallocated costs, such as general corporate expenses not identified to a specific segment, environmental provisions related to sites no longer in operation, gains on land sales from properties not used in current operations, income tax expense or benefit and other income (expense).

	Pigment Segment	Other Activities		Total
		Electrolytic	Corporate and Other	
(Millions of dollars)				
Successor: February 1 through December 31, 2011				
Net Sales	\$ 1,420.4	\$ 116.6	\$ 6.4	\$ 1,543.4
Income (Loss) from Operations	355.1	(0.3)	(53.3)	301.5
Interest and debt expense				(30.0)
Other income (expense)				(9.8)
Reorganization expense				—
Income (Loss) from Continuing Operations before Income Taxes				\$ 261.7
Total Assets	\$ 1,439.6	\$ 79.0	\$ 138.8	\$ 1,657.4
Depreciation, Depletion and Amortization	67.0	7.1	5.0	79.1
Capital Expenditures	116.7	6.5	9.7	132.9
Predecessor: January 1 through January 31, 2011				
Net Sales	\$ 93.1	\$ 12.1	\$ 2.4	\$ 107.6
Income (Loss) from Operations	21.4	0.7	(2.2)	19.9
Interest and debt expense				(2.9)
Other income (expense)				1.6
Reorganization income (expense)				613.6
Income (Loss) from Continuing Operations before Income Taxes				632.2
Total Assets	\$ 714.7	\$ 117.5	\$ 258.3	\$ 1,090.5
Depreciation, Depletion and Amortization	3.3	0.6	0.2	4.1
Capital Expenditures	4.2	0.8	0.5	5.5
For the year Ended December 31, 2010				
Net Sales	\$ 1,068.2	\$ 128.3	\$ 21.1	\$ 1,217.6
Income (Loss) from Operations	169.7	5.8	34.1	209.6
Interest and debt expense				(49.9)
Other income (expense)				(8.3)
Reorganization expense				(144.8)
Income (Loss) from Continuing Operations before Income Taxes				\$ 6.6
Total Assets	\$ 716.2	\$ 122.9	\$ 258.8	\$ 1,097.9
Depreciation, Depletion and Amortization	39.6	7.1	3.4	50.1
Capital Expenditures	36.6	6.1	2.3	45.0
For the year Ended December 31, 2009				
Net Sales	\$ 924.4	\$ 127.1	\$ 18.6	\$ 1,070.1
Income (Loss) from Operations	43.0	18.0	(35.5)	25.5
Interest and debt expense				(35.9)
Other income (expense)				(10.3)
Reorganization expense				(9.5)
Income (Loss) from Continuing Operations before Income Taxes				\$ (30.2)
Total Assets	\$ 700.5	\$ 99.5	\$ 317.8	\$ 1,117.8
Depreciation, Depletion and Amortization	41.0	7.4	4.7	53.1
Capital Expenditures	19.1	4.7	0.2	24.0

- (1) Pigment segment income (loss) from operations in 2009 includes \$4.3 million of severance and special termination benefits associated with the Company's work force restructuring, \$0.4 million related to the impairment of long-lived assets and \$13.0 million related to the write off of materials and supplies associated with the closure of the Company's Savannah, Georgia facility.

	Successor	Predecessor		
	Eleven Months Ended December 31, 2011	One Month Ended January 31, 2011	Year Ended December 31, 2010 2009	
(Millions of dollars)				
Net Sales(1)				
U.S. operations	\$ 793.4	\$ 60.1	\$ 692.1	\$ 619.8
International operations				
The Netherlands	274.7	15.1	209.0	175.4
Australia.....	475.3	32.4	316.5	274.9
Total	<u>\$1,543.4</u>	<u>\$107.6</u>	<u>\$1,217.6</u>	<u>\$1,070.1</u>
Net Property, Plant and Equipment				
U.S. operations	\$ 196.7	\$164.4	\$ 164.9	\$ 180.8
International operations				
The Netherlands	54.3	49.0	45.6	35.1
Australia.....	303.5	104.1	105.0	97.7
Total	<u>\$ 554.5</u>	<u>\$317.5</u>	<u>\$ 315.5</u>	<u>\$ 313.6</u>

(1) Based on country of production.

25. Related Party Transactions

The Company conducts transactions with BMI and its subsidiaries in support of the Company's Henderson, Nevada facility. The Company previously owned approximately 30% in these companies, which was contributed to the Nevada Environmental Trust as part of the Plan. The Company no longer has any investment in BMI or its subsidiaries. For the years ended December 31, 2010 and 2009, payments made to BMI totaled \$0.5 million, and \$0.6 million, respectively.

The Company conducts transactions with Exxaro Australia Sands Pty Ltd, a subsidiary of Exxaro and the Company's 50% partner in the Tiwest Joint Venture. The Company purchased, at open market prices, raw materials used in its production of TiO₂ and Exxaro's share of TiO₂ produced by the Tiwest Joint Venture. The Company also provided administrative services and product research and development activities, which were reimbursed by Exxaro. For the eleven months ended December 31, 2011, one month ended January 31, 2011, and years ended December 31, 2010 and 2009, the Company made payments of \$315.8 million, \$44.0 million, \$108.9 million and \$115.6 million, respectively, and received payments of \$7.5 million, nil, \$2.2 million and \$3.6 million, respectively, related to these transactions. The total payments to Exxaro of \$315.8 million in the eleven months ended December 31, 2011, include \$79.1 million related to the Company's purchase of its 50% share of the Tiwest Joint Venture Kwinana pigment plant expansion in June 2011.

Concentration of Supplier — During the eleven months ended December 31, 2011, one month ended January 31, 2011 and years ended December 31, 2010 and 2009, approximately 20.3%, 21.7%, 15.1% and 13.8%, respectively, of raw materials were purchased from the Company's joint venture.

26. Subsequent Events

The Company has evaluated subsequent events through March 22, 2012, the date the financial statements were issued.

Exit Facility Refinancing and Wells Revolver Amendment

On February 8, 2012, the Company refinanced the Exit Financing Facility and amended the Wells Revolver. The Company obtained a new Goldman Sachs facility comprised of a \$550.0 million Senior Secured Term Loan and a \$150.0 million Senior Secured Delayed Draw Term Loan (together, the Term Facility). The Term Facility expressly permits the Transaction and, together with existing cash, is expected to fund the cash needs of the combined business, including any cash needs arising from the Transaction.

The Term Facility bears interest at a base rate plus a margin of 2.25% or adjusted Eurodollar rate plus a margin of 3.25%. The base rate is defined as the greater of (i) the prime lending rate as quoted in the print edition of The Wall Street Journal, (ii) the Federal Funds Rate plus 0.50%, or (iii) 2%.

The Term Facility is secured by a first priority lien on substantially all of the Company's and the subsidiary guarantors' existing and future property and assets. This will include, upon the consummation of the Transaction, certain assets to be acquired in the Transaction.

The terms of the Term Facility provide for customary representations and warranties, affirmative and negative covenants and events of default. The terms of the covenants, subject to certain exceptions, restrict, among other things: (i) debt incurrence; (ii) lien incurrence; (iii) investments, dividends and distributions; (iv) dispositions of assets and subsidiary interests; (v) acquisitions; (vi) sale and leaseback transactions; and (vii) transactions with affiliates and shareholders. In addition, the Term Facility requires that a leverage ratio, as defined in the agreement, not exceed, as of the last day of any fiscal quarter, the correlative ratio as follows:

<u>Fiscal Quarter Ending</u>	<u>Total Leverage Ratio</u>
March 31, 2012 through December 31, 2015	3.00:1.00
March 31, 2016 and thereafter.....	2.75:1.00

On February 8, 2012, the Company amended the Wells Revolver to allow for the Transaction to occur while keeping the revolver in force.

Subsequent to the Transaction, new Tronox will have the opportunity to upsize or add additional asset based lending facilities in foreign jurisdictions up to a total limit of \$400 million.