NL Industries, Inc.

NL INDUSTRIES

Financial highlights

For the year	1971	1970 (Restated)
Sales	**$925,008,000**	$915,877,000
Income before extraordinary charges	**22,757,000**	35,618,000
Net income	**3,257,000**	35,618,000
Per share		
Income before extraordinary charges	**.95**	1.50
Net income	**.14**	1.50
Cash dividends paid	**23,948,000**	36,261,000
Per share	**1.00**	1.525
Property expenditures	**83,990,000**	58,462,000
At year end		
Working capital	**250,279,000**	241,739,000
Long term debt	**234,050,000**	180,902,000
Shareholders' equity	**409,034,000**	426,074,000

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Eightieth Annual Report 1971

Shareholders are cordially invited to attend the eightieth annual meeting of N L Industries, Inc., Tuesday, April 25, 1972, at the Gateway Downtowner Motor Inn in Newark, New Jersey at 2:00 p.m.

To our shareholders

This is our first report to shareholders under our new name, N L Industries, Inc. Much of our total communication effort for the year was tailored to developing an awareness of that change throughout the business and financial community.

During 1971, earnings were lower than 1970 both before and after an extraordinary charge while sales increased slightly for the year.

Sales by N L Industries for the year 1971 were $925,008,000, compared to 1970 sales of $915,877,000. Income in 1971 before an extraordinary charge was $22,757,000, or 95 cents per share, compared to $35,618,000, or $1.50 per share in 1970. Net income after the extraordinary charge of $19,500,000, equal to 81 cents per share, was $3,257,000, or 14 cents per share for 1971.

The extraordinary charge of $19,500,000 against 1971 income, after applicable income tax benefits, resulted from the abandonment of facilities that manufactured certain types of titanium pigments in the United States and Canada. These facilities had become unprofitable because of high operating costs for the pigment grades manufactured.

The decrease in earnings before the extraordinary charge was caused in large part by declining margins in titanium pigment operations. This industry suffered from overcapacity and low market prices throughout the year 1971. The company's metal and oxide operations were affected by lower prices of base metals during the year. Earnings for the year were also depressed by the increased losses of Titanium Metals Corporation of America, a 50% owned company, as a result of reductions and stretch out of military and commercial aircraft procurement and a three month strike.

Effective in 1971, the company includes in its consolidation, on an equity basis, all significant partially owned companies, in accordance with current trends in accounting practice. For the year 1971 this had the effect of reducing per share income by 20 cents. The operating losses of Titanium Metals Corporation of America included therein amounted to 21 cents per share. Earnings for 1970 have been restated and resulted in a reduction of per share earnings of 10 cents. This includes the Titanium Metals Corporation of America loss which amounted to 12 cents per share.

The abandonment of the titanium pigment facilities reinforced our efforts to minimize costs. This action will not have a significant effect on sales and the company will continue to be the world's leading manufacturer of titanium pigments through the use of its remaining facilities. Also, in the past 18 months we have closed down seven other unprofitable plants and have sold three marginal operations.

As a result of the tightening of operations and in anticipation of improved results in 1972, the Board of Directors decided to maintain dividend payments at the same level established in late 1970. During 1971, dividend payments amounted to $1.00 per share, compared to $1.52½ per share paid in 1970. The company has paid dividends to shareholders for 65 consecutive years.

The Administration's economic stabilization program as a whole, had no significant bearing on the results for 1971. The wage/price freeze, however, did have a pronounced effect on operating results of the Doehler-Jarvis Division, as it came at a time when the division was negotiating new prices based on wage contract increases incurred earlier in the year.

Capital expenditures amounted to $59,000,000 in 1970 and $84,000,000 in 1971. It is anticipated that capital expenditures for 1972 will be approximately $70,000,000.

In January of 1971 the company raised $100,000,000 through the sale of 7½% debentures due in 1995. As of December 31, 1971, the company had unused domestic bank term credit commitments of $62,500,000, some portion of which will be utilized during 1972 in connection with completion of the magnesium plant. However, it is not anticipated that the entire amount will be utilized.

While 1971 was not a successful year in terms of overall earnings, N L Industries maintains its position as a leading manufacturer of metal and chemical products. The reshaping of the company that began in the late 1960s continued during 1971, especially in the case of new market penetrations.

The market for magnesium appears poised for increased growth, in anticipation of new applications for the metal. The growth of the magnesium metal market has been limited due to price and availability since there has been but one major source of supply in the United States. Our Great Salt Lake plant will go

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...o production during the first half of 1972 using a new lower cost process for extracting magnesium metal from the lake's brine water. This plant, when in full production, will expand U.S. output by one-third.

Construction of a new plant for anti-corrosive pigments at Langerbrugge, Belgium, is now complete and a plant built in West Germany to manufacture gellants went into operation in the fall. Ground was broken in October for a new plant at Langerbrugge to manufacture specialty refractory products. All of these plants increase the availability and delivery of products to our expanding European markets.

In its search for new sources of raw materials, N L Industries continues to emphasize its mining and exploration activities, now based in new facilities at Golden, Colorado.

Research and development activities mount in importance to the company. The Electronics Department, organized under the New Ventures Group of R & D, expanded its product line through the acquisition of General Electric Company's specialty resistor business during the year.

The company has given priority to environmental protection, and it must be realized that it will have an effect on earnings. We spent approximately $12,000,000 in 1971 on additional control equipment and overall operating costs. Environmental health is of deep concern to the company and this concern was emphasized by the formation of a Board-appointed committee to monitor policy and action in this area.

During the year, two new directors were elected, J. Frank Forster, Chairman and Chief Executive Officer of the Sperry Rand Corporation, and Edgar J. Hagstette, Jr., Vice President and General Manager of the Baroid Division. Two directors previously elected to fill vacancies on the Board, Richard M. Paget, President of Cresap, McCormick and Paget, Inc., and Harry W. Siefert, Vice President of Finance, were also elected by the shareholders.

On February 29, 1972, Ray C. Adam was elected Executive Vice President and Chief Operating Officer. He was also elected a director of the company and a member of the Executive Committee. The office of Chief Operating Officer is a newly created post in N L Industries designed to strengthen the executive organization of the company. Mr. Adam was formerly a Vice President of Mobil Oil Corporation and President of Mobil Chemical Company.

During the past two years, as the pressures imposed by the sluggish national economy took their toll on earnings, there was a considerable effort by our employees to answer the problems created by these pressures. We thank them for their loyalty and dedication.

N L Industries is a stronger company today because of the measures taken to cut costs, restructure management and open up new markets. Those internal factors, together with improving economic conditions that began to develop toward the end of 1971, lead us to expect more favorable results in 1972.

E R Rowley J B Henrich

E. R. ROWLEY,
Chairman of the Board

J. B. HENRICH,
President

March 10, 1972

Corporate developments

RESEARCH & DEVELOPMENT: Research and development operating expenditures amounted to approximately $19 million in 1971. Increased efforts were made in the development of new products in support of the company's divisions and subsidiaries.

Several new products were developed and introduced to the market as additives for plastics. Some of these materials are novel and highly efficient flame retardant chemicals.

Metallurgical research resulted in the development of additional alloys of magnesium to broaden and increase the present applications of this lightweight metal. Also in the area of metallurgy, a line of electronic solder specialties was developed.

The Electronics Department, organized in early 1971 by the New Ventures Group of the Corporate Research and Development Department, began manufacturing thermistors and varistors at a new plant in Muskegon, Michigan. The acquisition of General Electric Company's specialty resistor business during the year expanded the department's product line.

The objective of the New Ventures Group is to start new business based on advanced technology.

EMPLOYEE RELATIONS: Overall employment in N L Industries domestic and foreign operations declined to 27,500 as a result of lower business levels and improved efficiency.

Significant progress was made in the further development of our management resources. In-depth analyses of management talent in our divisions and staff departments and the strengthening of individually tailored development programs are improving the company's executive utilization.

A total of 41 collective bargaining agreements were successfully negotiated in 1971 covering 7,800 employees. Manhours lost due to strikes were less than 1 percent of total manhours worked.

Improvement in industrial safety was noted as a result of our Total Accident Control Program. During 1971, frequency and severity of accidents were reduced by approximately 20 percent. This program was restructured to incorporate requirements of the Federal Occupational Safety and Health Act of 1970.

The company continued to implement its equal employment and affirmative action program with the result of increased employment for female and minority employees. All new Federal requirements were adopted as an integral part of the overall program. N L Industries continued its positive commitments to regulatory agencies and the National Alliance of Businessmen in promoting fair and equitable employment practices.

LITIGATION: With regard to the action instituted against the company in 1970 in the Circuit Court of the City of St. Louis, Missouri, by 350 plaintiffs claiming compensatory and punitive damages from alleged pollution of the atmosphere by the company's St. Louis titanium pigment plant, the complaints of 243 plaintiffs have been dismissed without prejudice for their failure to submit answers to interrogatories. This has had the effect of reducing the damages claimed by $6,075,000, or about three fourths of the total demand.

Motions of similar import have been made on different grounds with respect to a substantial number of the balance of the claimants. These motions await determination by the Court.

The insurance carrier has taken the position that any award of punitive damages would be outside the coverage of the policies and it has reserved its right to disclaim liability for compensatory damages. The carrier has undertaken defense of the action with a full reservation of its rights.

In the opinion of local counsel for the company, disposition of the above-mentioned action will not have a substantial effect upon the earnings or the financial condition of the company.

MINING EXPLORATION: Mining and Exploration Department offices were relocated from New York City to Golden, Colorado, to put the department closer to the area in which many of its activities are conducted.

In 1971, mineral concentrating machinery manufactured by Mineral Deposits, Limited, an affiliate in Australia, was introduced in North America through the Mining and Exploration Department. The machinery scavenges ore from very low grade ore values in plant tailings as well as its primary function of beneficiating run-of-mine ores. Testing facilities necessary to support technical sales were established in Golden, Colorado. This is N L Industries first venture in the mining equipment business.

At the MacIntyre Development mine in New York State, the $4.5 million magnetite regrind circuit was completed to produce higher quality

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magnetite. Magnetite is used by the heavy media and steel industries. The ilmenite production at this mine will be reduced in 1972 due to the substitution of slag as a feed material in our St. Louis titanium pigment plant.

During the year, a drilling program was continued at our fluorspar property in Central Idaho. Sufficient reserves have been developed to undertake a feasibility study on the economics of the property.

In Brazil, a concentrating plant is being built by an affiliate for the production of cassiterite, a tin ore. It will come on stream in 1972 and will have an initial capacity of 1,000 tons per year.

Exploration activities were conducted in Mexico for silver, gold, zinc-lead and copper; in Brazil for tin; in Australia for barite and bentonite and in the United States for zinc. Several possibilities exist for further development of ores located on company leases.

ENVIRONMENTAL CONTROL: During 1971, your company noted many accomplishments in the area of environmental control.

The new $4 million double absorption acid manufacturing unit was completed at our titanium pigment plant in St. Louis. This unit controls sulfur oxide emissions with better than 99.5 percent conversion efficiency. It replaces three older less efficient units, and is the most efficient unit of its kind to be built in the United States. Completion of this project coupled with the installation of a venturi scrubber bring this plant in compliance with the St. Louis County atmospheric emissions control regulations adopted in 1968.

Also in St. Louis, as well as in Cincinnati, particulate emissions are being effectively controlled from red brass melting operations at our Magnus Metal Division plants with the installation of improved melting furnaces.

The Pigments & Chemicals Division has installed a new scrubbing device at its St. Louis plant that will substantially reduce emissions which are visible only in cold weather.

New dry dust collection equipment was brought on stream at the company's TAM Division Niagara Falls, New York, plant to effectively control furnace room emissions of particulate matter into the atmosphere.

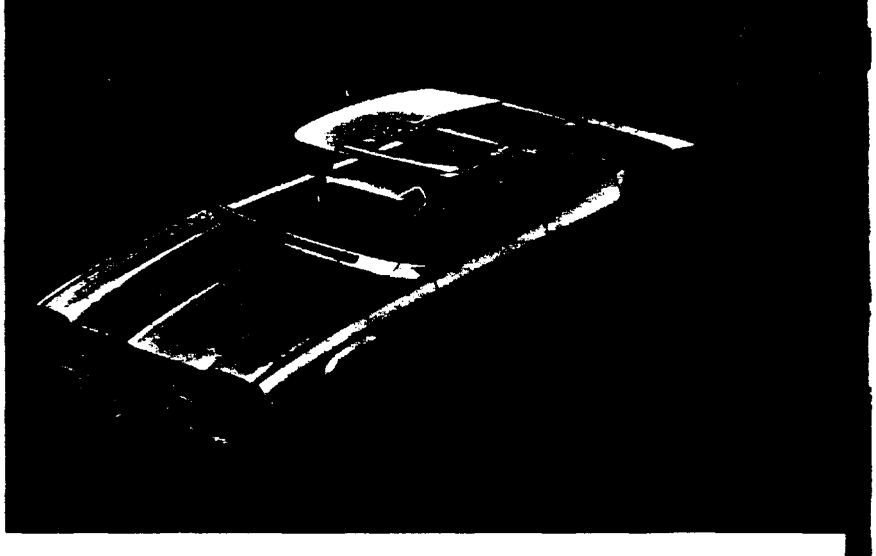
The Sayreville, New Jersey, titanium pigment plant continued its program to reduce air emissions. One venturi scrubber was brought on line with a second scrubber of this type to be in operation by the summer of 1972.

At our new magnesium production plant in Utah, we are collecting base-line data to be sure the plant operation will not affect the local ecology. This new plant has incorporated the best available environmental control technology and equipment for a facility of this type.

As a responsible corporate citizen, your company will continue to improve its control of all emissions in and around its plants to help maintain a healthy environment for its employees and neighbors.

Environmental controls have become a significant cost factor and are requiring ever greater technological advances to achieve relatively minor improvements.

In 1971, the company spent approximately $12 million on its total environmental protection program.



This experimental safety vehicle and others developed by the automobile industry utilize the expertise of our Tool & Engineering Division in tooling and making prototype parts.

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Operations

Consolidated sales: $925,008,000

32% $296 million

Metals & bearings

METAL DIVISION: Antimony, cadmium, lead and zinc metals; fabricated lead products. New York, N.Y.

AMERICAN BEARING DIVISION: Precision sleeve bearings, bearing seals, bushings and machine parts. Indianapolis, Ind.

GOLDSMITH DIVISION: Precious metals and metal oxides. Chicago, Ill.

JONATHAN MANUFACTURING COMPANY: Precision parts and services. Fullerton, California

MAGNUS METAL DIVISION: Brass and bronze journal bearings and castings. Chicago, Ill.

MAGNUS ROLLER BEARING DIVISION: Precision tapered roller bearings. Cincinnati, Ohio

MORRIS P. KIRK & SON, INC.: Aluminum, lead and zinc alloys, fabricated lead products and lead oxides. Los Angeles, California

NATIONAL LEAD COMPANY, S.A.: Lead products. Buenos Aires, Argentina

PIONEER ALUMINUM, INC.: Aluminum and sheet aircraft extrusions and cast aluminum tooling plate. Los Angeles, California

REGAL MOLDS, INC.: Metal dies for plastics and forgings. Toledo, Ohio

SCREW MACHINE DIVISION: Hydraulic brake cylinders and pistons. Chicago, Ill.

SOUTHERN SCREW DIVISION: Complete line of screws and metal fasteners. Statesville, N.C.

STEEL PACKAGE DIVISION: Small steel shipping containers. St. Louis, Mo.

TEXAS MINING & SMELTING DIVISION: Antimony metal and oxide. Laredo, Texas

THE BUNTING BRASS AND BRONZE COMPANY: Brass, bronze, iron and aluminum parts. Toledo, Ohio

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***THE CANADA METAL COMPANY, LIMITED (50%):** Lead oxides, lead and zinc alloys, brass and bronze products, fabricated lead products. Toronto, Canada

***CIA MINERA y REFINADORA, S.A. (49%):** Antimony mining. Mexico City, Mexico

***R-N CORPORATION (50%):** Process for the direct reduction and beneficiation of iron ores. New York, N.Y.

***SCHRAUBENFABRIK NEUSTADT GOETZ & CIE GMBH (99%):** Screws and metal fasteners. Neustadt/Schwarzwald, West Germany

***TITANIUM METALS CORPORATION OF AMERICA (50%):** Titanium metal sponge, ingot and mill products. West Caldwell, N.J.

23% $213 million

Titanium pigments

TITANIUM PIGMENT DIVISION: Titanium pigments and chemicals for the paint, paper, plastics and rubber industries. Sayreville, N.J.

CANADIAN TITANIUM PIGMENTS, LIMITED: Titanium pigments; gellants; lead pigments; stabilizers; zirconium and titanium compounds. Montreal, Canada

KRONOS TITANIUM PIGMENTS, LIMITED: Titanium pigments. London, England

KRONOS S.A./N.V.: Titanium pigments; gellants; lead pigments. Brussels, Belgium

KRONOS TITAN A/S: Titanium pigments; gellants; lead pigments; stabilizers. Fredrikstad, Norway

KRONOS TITAN—G.m.b.H.: Titanium pigments; gellants; lead pigments. Leverkusen, West Germany

TITANIA A/S: Ilmenite ore mining. Hauge i Dalane, Norway

***KRONOS TITANPIGMENT A.B. (76%):** Titanium pigments; gellants; lead pigments. Stockholm, Sweden

***SOCIETE INDUSTRIELLE du TITANE (93%):** Titanium and lead pigments. Paris, France

16% $148 million

Die castings

DOEHLER-JARVIS DIVISION: Die castings of aluminum, zinc, brass and magnesium; finishing and assembly services. Toledo, Oh

COCHRANE FOUNDRY, INC.: Sand castin York, Pennsylvania

FLOATING FLOORS, INC.: Elevated floor and site environmental systems for compu rooms. Toledo, Ohio

TOOL & ENGINEERING DIVISION: Des tooling; prototype assembly and engineering services. Kirksite castings. Chicago, Illinois

BARBER DIE CASTING CO., LIMITED: Aluminum, brass, magnesium, zinc die castings. Hamilton, Canada

INDUSTRIAS DOEHLER do BRASIL, S.A.: castings. São Paulo, Brazil

LAKESHORE DIE CASTING, LIMITED: Aluminum, zinc die castings. Guelph, Canad

METAL CASTINGS DOEHLER, LTD.: Die castings. Worcester, England

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***DOEHLER-AUSTRALIA PTY. LTD. (70%):** castings. Auburn, Australia

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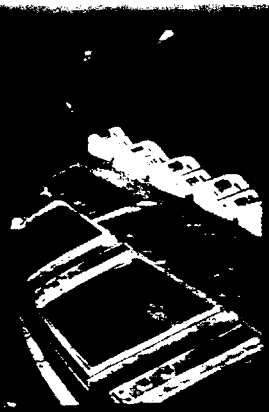
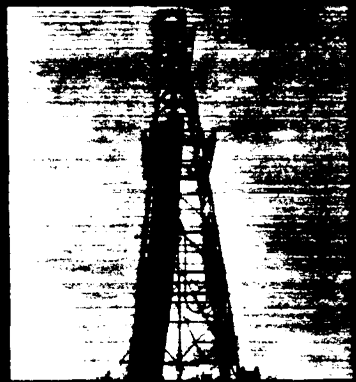
*Affiliates included in consolidation on an equ basis only, therefore sales not included in consolidated sales figure.
Figures in parentheses represent percentage of voting securities owned.





11% $102 million

Chemicals & plastics

GMENTS & CHEMICALS DIVISION: ntimony oxide; lead pigments and chemicals; ad oxides for batteries; gellants and ac zers. Hightstown, N.J.

OS-THOMPSON CORPORATION: olded plastics; wood veneer and lumber. dinburg, Indiana

E BAKER CASTOR OIL COMPANY: astor oils and chemical derivatives, poly- rethane products. Bayonne, N.J.

NTONE CHEMIE G.m.b.H.: Gellants. ordenham, West Germany

ELORE DIVISION: Barium and calcium gments. St. Louis, Mo.

DUSTRIAS DERIPLOM, S.A.: Lead oxides. enos Aires, Argentina

ICOR S A / N V: Anti-corrosive pigments. ngerbrugge, Belgium.

BEY CHEMICALS LIMITED (52%): ellants and stabilizers. London, England

E CARTER WHITE LEAD COMPANY OF ANADA, LIMITED (50%): Lead pigments; ides; stabilizers. Montreal, Canada

10% $92 million

Oil well materials & services

BAROID DIVISION: Oil well drilling materials and services. Chemicals for petroleum industry, gellants for grease; water treating chemicals. *Well perforation and completion*, nuclear well logging. Houston, Texas

BAROID do BRASIL, Ltda.: Oil well drilling materials. Salvador, Brazil

BAROID OF CANADA, LTD.: Oil well drilling materials, services. Calgary, Canada

BAROID INTERNATIONAL, S.p.A.: Oil well drilling materials. Rome, Italy

BAROID OF NIGERIA, LIMITED: Oil well drilling materials. Lagos, Nigeria

BAROID (U.K.) LIMITED: Oil well drilling materials. London, England

PERUBAR, S.A.: Barite mining. Lima, Peru

PIGMENTOS MINERAIS INDUSTRIAL • COMMERCIAL PIGMINA, S.A.: Barite mining. Salvador, Brazil

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***BAROID AUSTRALIA PTY., LIMITED (99%):** Oil well drilling materials. Sydney, Australia

***BAROID de VENEZUELA, S.A. (92%):** Oil well drilling materials. Maracaibo, Venezuela

***BAROID OF LIBYA, LTD. (49%):** Oil well drilling materials. Benghazi, Libya

***BAROID TRINIDAD SERVICES, LTD. (50%):** Oil well drilling services. Trinidad, West Indies

8% $74 million

Other products

PAINT DIVISION: Dutch Boy paints. New York, New York

THE CHAS. TAYLOR'S SONS COMPANY: Specialized high temperature refractories. Cincinnati, Ohio

CHAS. TAYLOR SONS, S.A.: High temperature refractories. Brussels, Belgium

EDGAR PLASTIC KAOLIN CO.: Kaolin clay and glass sand. Edgar, Florida

ELECTRONICS DEPARTMENT: Specialty ceramic resistors. Hightstown, N.J.

MAGNESIUM DIVISION: Magnesium metal and chlorine. Salt Lake City, Utah

NATIONAL LEAD OVERSEAS CAPITAL CORP.: European subsidiary financing. New York, N.Y.

NATIONAL LEAD COMPANY OF OHIO: Contract operator for U.S. Atomic Energy Commission's uranium ore concentration plant. Fernald, Ohio

NUCLEAR DIVISION: Depleted uranium; nuclear services. Albany, N.Y.

TAM DIVISION: Zirconium oxide, silicates and chemicals, zirconates, stannates and opacifiers. New York, N.Y.

THE TITANIUM ALLOY MANUFACTURING CO. PTY., LIMITED: Southport, Queensland, Australia

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***LAKE VIEW TRUST AND SAVINGS BANK (99%):** Commercial bank. Chicago, Illinois

***MINERAL DEPOSITS, LIMITED (85%):** Mining of rutile, zircon ores. Southport, Queensland, Australia

***NATIONAL LEAD COMPANY (PHILIPPINES), INC. (51%):** Paints and related products. Manila, Philippines

****QUEENSLAND TITANIUM MINES PTY. LTD.* (75%):** Mining of rutile, zircon ores. Southport, Queensland, Australia

***WILSON-SNEAD MINING COMPANY, INC. (50%):** Bauxite mining. Eufaula, Ala.

Metals & bearings

Sales and earnings of the divisions and subsidiaries comprising the Metals, Bearings and Jonathan Group were generally lower than 1970 levels. The lower prices of base and precious metals, especially antimony and silver, had a significant effect on earnings. The price of antimony, a major base metal product of the company, declined approximately 40 percent during the year.

Sales of precision bearings, journal and roller bearings and other bearings products produced by Magnus Metal Division, American Bearing Division and The Bunting Brass and Bronze Company were slightly lower than in 1970.

The minority interest in Morris P. Kirk & Son, Inc. and its subsidiary, Pioneer Aluminum, Inc., was purchased by the company. It previously owned 76 percent of the outstanding stock of these companies. Pioneer Aluminum, under new management, embarked upon a major effort to expand into commercial industrial markets.

Plans for the Metal Division in 1972 include completion of a new secondary smelter engineered with the most modern production equipment and emission control devices.

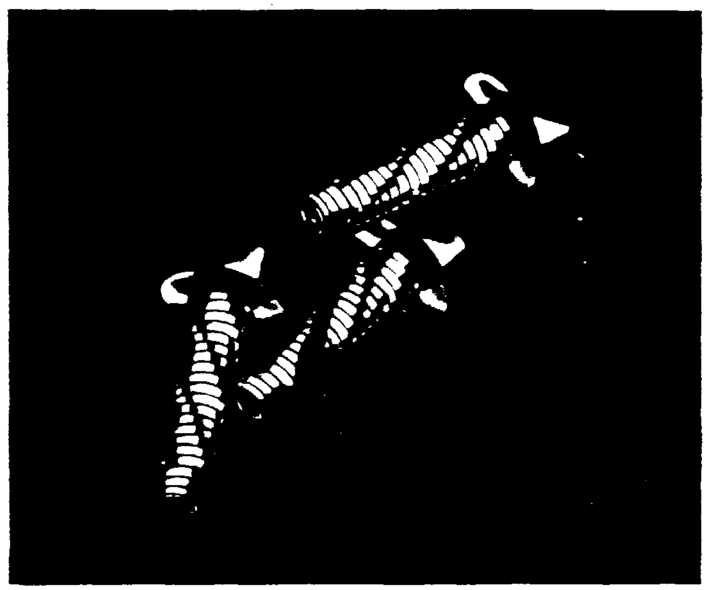
A new electrolytic process for refining silver scrap will be on stream in early 1972 at the Goldsmith Division.

Jonathan Manufacturing Company expanded its line of precision steel slides to include commercial slides for use in such products as filing drawers.

The Metals, Bearings and Jonathan Group is consolidating its base metals manufacturing operations, where possible, to maximize its profits and efficiency. Some operations that have become unprofitable or incompatible with existing product lines were either sold or shut down. Blatchford Base and Aluminum Match Plate Corporation were sold during the year.

The Southern Screw Division operated at about the same level as in 1970. The fastener industry continued to meet strong competition from imports, especially in standard sizes and configurations. For 1972, the division is introducing a new thread rolling screw under the ROLOK trade name for use in metals, die castings and ductile plastics. This new fastener eliminates tapping and resists vibration.

National Lead Company, S.A. in Buenos Aires, Argentina, became a wholly owned subsidiary of N L Industries in January, 1971. National Lead Company, S.A. primarily produces fabricated lead products.



The latest twist in fasteners from the Southern Screw Division. This new line of ROLOK screws roll-forms its own thread for a perfect fit that won't shake loose and offers customer cost savings by eliminating tapping needs.

Recycling contributes to a better environment and is a good business. At plants across the country, our Metal Division salvages thousands of used automobile batteries (foreground). The reclaimed alloys are used again by battery manufacturers to make new batteries (insert).

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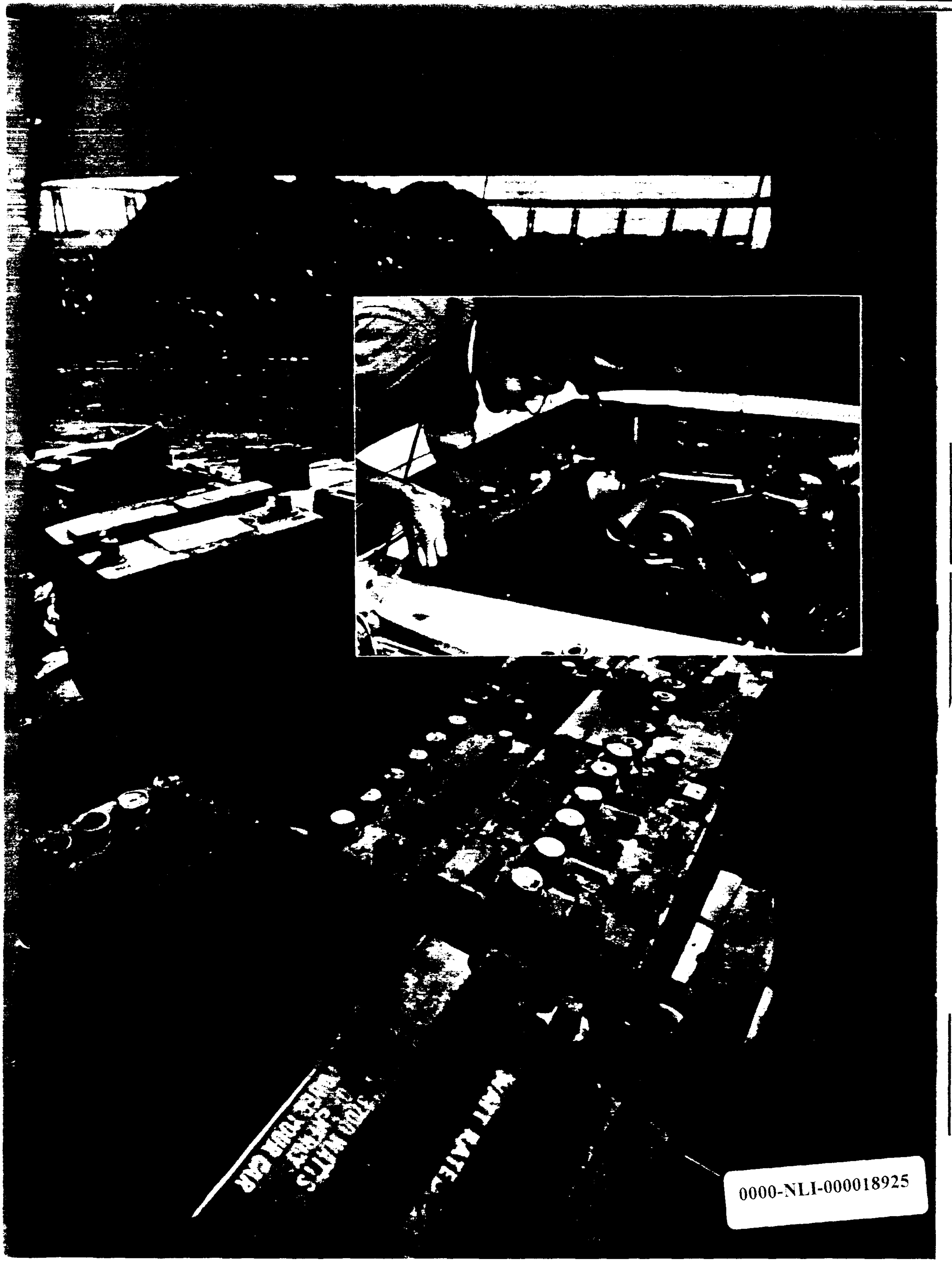


Titanium pigments

The company's Titanium Pigment Operations completed a difficult year that was plagued with worldwide industry overcapacity and increased costs. Despite these adverse conditions our worldwide share of the market showed a slight increase and our U.S. share remained the same. However, because of the competitive situation in the Canadian market, the increased cost of doing business in Europe and the depressed prices that prevailed in the United States throughout the entire year, earnings declined.

Some of our titanium pigment plants operated on a curtailed basis during part of the year to reduce inventories. In December 1971, it was announced that the company's chloride process facilities at Sayreville, New Jersey, and Varennes, Quebec, Canada, would be abandoned. The calcium extended pigment facilities at St. Louis, Missouri, were also abandoned. Abandonment of these facilities will not have a significant effect on our sales and we will continue to be the world's leading manufacturer of titanium pigments through the use of our remaining facilities.

We will continue to operate the chloride process facility in West Germany. The calcium extended pigments will be replaced by other grades presently manufactured by the company. Further progress was made during 1971 in supplying titanium pigments in bulk thereby offering an economic advantage to our customers. This trend is expected to grow further during 1972.

Our Titanium Pigment Operations will continue to maintain a satisfactory position in producing its own raw materials. Expansion of the Tellnes, Norway, mine to one million tons capacity is proceeding on schedule, and additional tonnage will be available for use in company plants and for sale to other pigment manufacturers.

Operating profits are expected to improve in 1972 as a result of elimination of unprofitable business, better operating efficiency and the effects of a price increase both in the United States and Europe.

Sales of strontium titanate boules, another area of our Titanium Pigment Operations, increased again in 1971 with generally satisfactory earnings. For the first time we offered finished gem stones to the jewelry trade, as well as boules that require further fabrication, to reinforce our market position.

Colorful everyday plastics products, such as telephones, rely on titanium pigments to impart whiteness, brightness and opacity. These pigments are also essential to paint, paper and other industries.

Die castings

Sales were higher and earnings slightly lower for the Doehler-Jarvis Division in 1971.

The increase in smaller cars which require fewer and smaller die castings, the general excess capacity in captive die casting operations of major customers and the continued decline in the use of zinc die castings for decorative hardware were some of the factors that affected earnings performance.

While the die casting industry as a whole sustained sizable losses, the Doehler-Jarvis Division did well by comparison with the industry. Sales gains over 1970 were recorded in both aluminum and magnesium die castings. Our position in zinc die castings was maintained and there was only a slight reduction in sales of brass die castings.

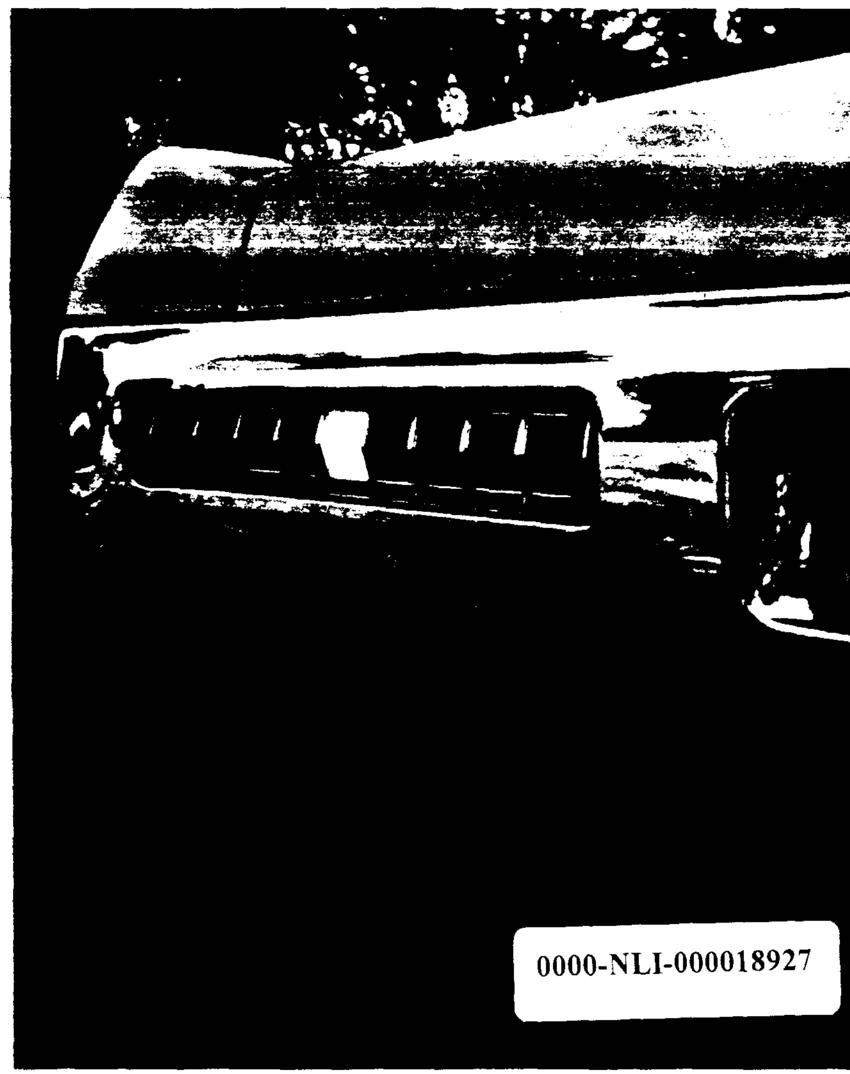
Doehler's better-than-average industry performance was largely the result of success in finding new markets for die castings to replace the shrinking zinc market. Its recent entry into injection molded plastics should help offset the declining zinc business as more zinc die cast parts are replaced by plastics.

Basic research in new die casting applications was conducted to apply our patented transplant coat process to the production of the Wankel engine. Other projects include the design of a die cast aluminum engine block for a major automobile producer and the development of a die cast magnesium baseball bat as a proprietary product.

With N L Industries entry into primary magnesium production, Doehler's magnesium die casting technological development program resulted in increased magnesium die casting usage. In early 1971, an agreement with AC Spark Plug Company was made to produce magnesium fuel pump units. The Batavia, New York, plant was expanded to accommodate this increased business and to provide additional capacity for further expansion.

Our foreign die casting subsidiaries had a good year. Doehler-Australia, Pty. Ltd., formed in early 1971, showed good growth and is fast becoming a major custom die castings supplier to Australia's expanding industry. Barber Die Casting Co., Limited and Lakeshore Die Casting, Limited, in Canada, showed marked improvement in manufacturing performance, especially at Barber, where its three-speed transmission program for General Motors was highly successful. Metal Castings Doehler, Ltd., in Great Britain also recorded a gain in both sales and earnings.

From slide projector component parts (left) to automobile parts like the tail light assembly (below), the Doehler-Jarvis Division is a specialist in the manufacture of both small and large, and simple and complex die castings for many products. Its plants in the United States and overseas have complete die casting facilities for design, assembly, finishing and production.



Chemicals & plastics

The Pigments & Chemicals Division developed more efficient lead oxides for use in the storage battery industry. This was in response to the rapid growth of lead-acid storage batteries in the areas of portable power tools and electric vehicles which require more sophisticated raw materials.

New markets for some of its line of BENTONE® gellants were developed in cosmetics and pharmaceuticals. Another potential market for these products is agricultural insecticides and liquid fertilizers. Sales continued at a good level in the established gellant markets of paints, plastics, inks and adhesives. Gellants are used as suspension and flow control agents.

Several new chemical additives for rigid PVC plastics to improve heat, light, impact and resistance to fire were developed. These compounds have application in plastic pipe, residential siding, drains, gutters and other similar molded plastics products.

The division has developed new antimony compounds for use in plastics, textiles and paints to improve flame retardancy. The demand for flame resistant materials is growing fast due to public and governmental pressures.

For economy and improved work efficiency the division relocated its executive, marketing and research groups into one building at Hightstown, New Jersey. New plants were completed in West Germany and Belgium for the production and marketing of BENTONE® gellants and ONCOR® anti-corrosive pigments in Europe.

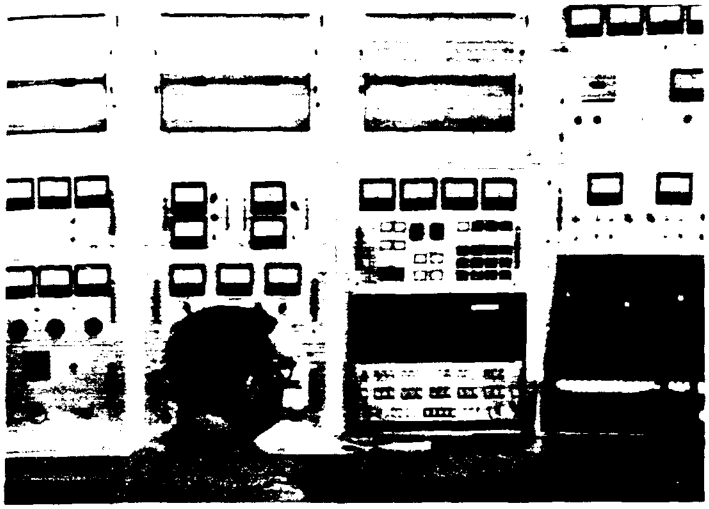
Earnings by our Amos-Thompson Corporation subsidiary declined in 1971. Tight pricing in the plastics markets brought about low margins, especially in the automotive industry. The continued growth of synthetic materials and photographic finishes which compete with Amos-Thompson's wood veneer products also affected earnings and sales.

Sales and earnings by The Baker Castor Oil Company, a subsidiary, were comparable to the previous year. Sales of the company's chemical specialty lines and castor-urethane adhesives increased appreciably.

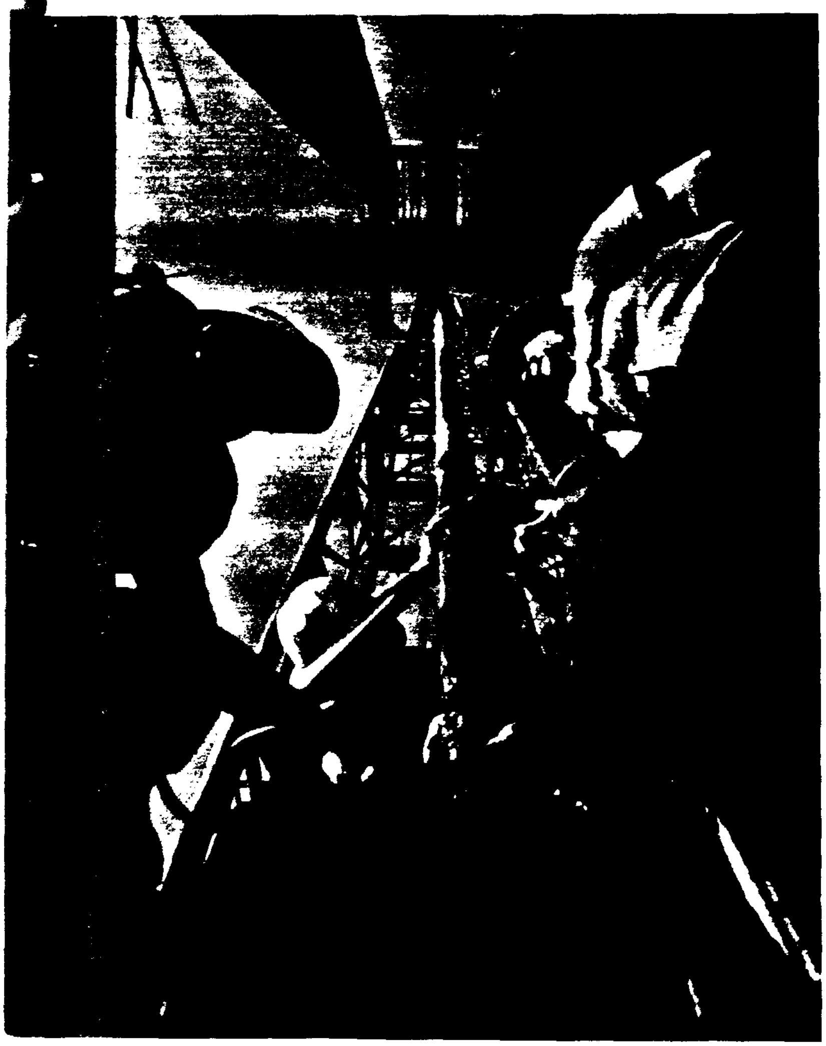
The number of applications of the newly-developed line of castor-urethane adhesives was expanded. This product is used for installing artificial plastic turf in indoor and outdoor sporting arenas as well as for installing other artificial surfaces. Several new thixotropes for the protective coatings industry were also developed and introduced to the market.

Our subsidiary the Amos-Thompson Corporation makes many custom injection-molded plastic parts such as television cabinets and adding machine housings (top).
New York City's Verrazano-Narrows Bridge (below) and other similar structures are protected from exposure, by paints formulated with ONCOR® anti-corrosive pigments, developed and produced by the Pigments & Chemicals Division.

Oil well materials & services



Baroid Division has developed a unique, on-site computerized drilling control unit which utilizes a computer (above) in a mobile unit to guide well drilling for minimum cost operation. Baroid's well known lines of specialized mud products are used at drilling sites (below) around the world, to lubricate drill bits and act as down-hole suspension agents.



The Baroid Division moderately increased its overall sales and profits in 1971 above the previous year's level despite a reduction in U.S. and Canadian drilling activities brought about by the general economic slowdown and ecological pressures.

The division is a leading supplier of oil and gas well drilling materials and services, and provides products and services to the mining, water treatment, oil and gas production, brewing, foundry, grease, paint, livestock feed, steel and other industries.

International sales of drilling fluids increased substantially, particularly in Southeast Asia, South America, Nigeria and the Middle East.

Sales gains were recorded in the logging, perforating and other wireline services of the McCullough Services Department. New and updated equipment has enhanced McCullough's capabilities for remedial work on producing oil and gas wells.

Growth was achieved in sales of chemicals used for water treatment and for corrosion and scale control, and in sales to the non-soap grease market.

Baroid has mining and processing operations in the United States, Canada, Italy and Latin America for barite, bentonite and other basic materials used in drilling fluids and foundry products. The growing drilling activity in Southeast Asia is consuming ever-increasing amounts of drilling fluids material. The division has continued to strengthen its position in this area by further development of Australian bentonite deposits. Preliminary exploration and metallurgical work were completed on a new source of barite in northern Canada, to serve the expected Arctic drilling operations.

Computerized Drilling Control (CDC) units were put into operation in 1971 after an extensive period of field testing. The CDC system is a new and unique well-servicing concept which utilizes on-site computers to analyze drilling functions and to optimize drilling rates based on minimum cost operations. CDC is a vital part of Baroid's drilling engineering concept, an integrated system of information gathering, analyzing, and engineering direction throughout the entire drilling process.

The outlook for 1972 is for continued growth in foreign sales of drilling fluids, demand for McCullough Services, utilization of oil field rental equipment, grease industry sales and wireline services.

Other products

For the Paint Division, manufacturer and marketer of DUTCH BOY® paints, 1971 was a good year with both sales and earnings increasing.

For 1972 a completely new and expanded consumer advertising and merchandising program has been developed featuring the quality aspects of both interior and exterior DUTCH BOY paints. This program will make extensive use of all major television networks, local TV spots, newspapers and point-of-sale material.

TAM Division sales and earnings declined in 1971 mainly due to slow market conditions of its various customers. Because of unprofitable operation, the division is dropping ferro titanium alloys used to deoxidize steel. New product prospects include development of a chemical compound filter for kidney machines and chemical compounds that will improve flame retardancy in wool.

Earnings by The Chas. Taylor's Sons Company, a specialty refractories manufacturing subsidiary, increased significantly as a result of an effective cost reduction program begun in 1970.

Sales of Taylor refractories to the Common Market through Chas. Taylor Sons, S.A. in Belgium increased over 1970. To meet this growing demand, construction began last year on a new plant in Langerbrugge, Belgium which will manufacture refractory cements, moldables and castables.

Based upon the terms and conditions of an accepted proposal, the company's Nuclear Division is presently negotiating a long-term agreement with Allied-Gulf Nuclear Services, a partnership composed of Allied Chemical Nuclear Products, Inc. (a wholly-owned subsidiary of Allied Chemical Corporation) and Gulf Oil Corporation. Under the agreement, the company will design and fabricate special equipment required for the transportation of irradiated fuel and will transport such fuel by truck, rail, and/or water from various utility reactor sites located throughout the United States to the Allied-Gulf reprocessing plant at Barnwell, South Carolina. The agreement also calls for the company's rendering of reactor-site services in connection with the handling and transportation of the irradiated fuel. It is contemplated that shipments will begin in July 1973 and continue for approximately twenty years.

Construction of the Magnesium Division's magnesium metal and chemical complex by the Great Salt Lake in Utah neared completion at the end of 1971. It will be on stream in the first half of 1972. Operation at full capacity of 45,000 tons per year of magnesium metal and 80,000 tons per year of chlorine should be realized by late 1973 and will expand U.S. output of magnesium metal by one-third.

This plant will use a new process for extracting magnesium metal from the Great Salt Lake's brine water. This new process, combined with a greater concentration of raw material—magnesium chloride—in the lake, will allow magnesium to be more competitive with other lightweight materials. New technology to decrease the costs of manufacturing is also being developed.

Our Latex House Paint, like other widely known Dutch Boy interior and exterior paints, represents a standard of quality for thousands of satisfied homeowners.

N L Industries will become a leading supplier of magnesium metal in 1972 when its unique brine preparation and electrolytic cell production facility comes on stream. Magnesium chloride-rich brine from the Great Salt Lake is to be concentrated as feed to the plant.

Affiliates

TIMET A sharp reduction in sales for 1971 resulted in a substantial loss for the year for Titanium Metals Corporation of America (TIMET) a subsidiary jointly owned by the company and Allegheny Ludlum Industries, Inc.

TIMET reported a loss of $9,885,000 on 1971 sales of $37,277,000 as compared to 1970 losses of $5,641,000 on sales of $49,947,000.

Many key factors contributed to the continued pressure on earnings. Curtailment and lagging production of military and civilian aircraft, which utilize large quantities of titanium, directly affected titanium metal consumption. Overcapacity, very low selling prices, inflationary cost increases, high depreciation and interest charges, titanium sponge imports and a three month strike that ended in January, 1972 at the Toronto, Ohio, mill products plant were also contributing factors.

In meeting the adverse conditions in the industry, TIMET reduced its work force. Prior to the strike at Toronto, Ohio, the sponge and ingot operation at the Henderson, Nevada plant was shut down since adequate inventories were available. The Henderson plant was reopened in early 1972.

Outside the aerospace industry, there is growing interest in the use of titanium tubing. This type of welded tubing has demonstrated long service life with its resistance to acidic corrosion and is finding use in desalting, power plant surface condensers, oil refineries and chemical processing equipment. TIMET has improved the technique of tubing manufacture to the point where titanium is now competitive with many of the more commonly used tubing materials.

Titanium electrode markets have found broader acceptance in 1971, and requirements for commercially pure grade material are growing. Anodes for wet chlorine gas and cathodes for electrolytic refining of copper remain most promising for large potential users of titanium strip products.

Although titanium is finding growing markets in other areas, the aerospace industry is still by far the largest user of this metal. As economic conditions in this industry improve, titanium usage will increase. An upsurge in business investment should also increase usage as new plants are built which utilize equipment containing titanium metal.

LAKE VIEW TRUST AND SAVINGS BANK Despite profit-squeezing lending rates and sluggish demand for loans, Lake View Trust and Savings Bank achieved net earnings of $4,137,000, which compared favorably with 1970 net earnings of $4,466,000.

The Bank retained its standing among the top ten banks in the State of Illinois and continues as the largest bank in Chicago outside the Loop. It reached an all-time high in average gross daily deposits of $298 million for the year 1971. Total assets at year end were $345,462,000, compared to $327,429,000 for 1970.

Deposit growth and account retention were due to improved customer service. Marketing, planning and promotional activities were strengthened in 1971, resulting in marked gains in several banking service areas.

The Bank Holding Company Act Amendments of 1970 provide that a bank holding company such as N L Industries, Inc. shall not after December 31, 1980 engage in any activities other than banking or activities closely related to banking, subject to conditions that the Federal Reserve Board may impose. While the company must divest itself of control of the Bank by December 31, 1980, it might be necessary or advisable to do so prior to that date if the Federal Reserve Board objected to acquisitions or new activities of N L Industries.

THE CANADA METAL COMPANY, LIMITED, a 50 percent owned subsidiary, had lower sales and earnings than in 1970. Overall performance generally followed the pattern of lower profit margins and declining prices of base metals experienced in the United States. Canada Metal is a manufacturer of nonferrous metal products and alloys.

MINERAL DEPOSITS, LIMITED, an 85 percent owned subsidiary in Australia, had a good year. Sales of zircon, used as a raw material in refractory products, increased. Exports of its Reichert mining equipment also increased.

A desalting plant in Key West, Florida, received in 1971 the longest welded titanium tubes ever produced. Fabricated at TIMET, these 105-foot titanium tubes combat the corrosive effects of sea water in the process of converting salt water to fresh water.

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New facilities

Financial report

NL INDUSTRIES

SALES: Sales in 1971 amounted to $925,008,000, representing a 1% increase from 1970 sales. Foreign sales in 1971 increased over 1970, whereas United States sales declined.

	1971	1970
United States	$762,001,000	$779,226,000
Foreign	163,007,000	136,651,000
	$925,008,000	$915,877,000

EARNINGS: Income before extraordinary charges for 1971 totaled $22,757,000 or $.95 per share. Extraordinary charges, net of applicable income taxes, of $19,500,000, equal to $.81 per share, reduced 1971 net income to $3,257,000, or $.14 per share.

The extraordinary charges result from the abandonment of facilities that manufactured certain types of titanium pigments in the United States and Canada. These facilities had become unprofitable because of high operating costs for the pigment grades manufactured. Closing these facilities will not have a significant effect on sales and will not significantly diminish the company's output of titanium pigments.

The provision for the extraordinary charges has been applied against the assets to which they relate; principally property, plant and equipment. Estimates for other expenses of closing down these facilities, which are not significant, are included in current liabilities.

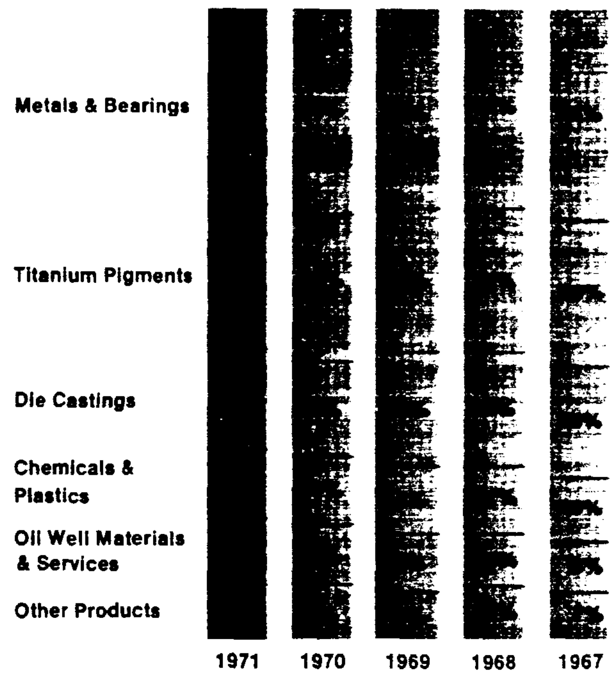
The portion of the extraordinary charges, net of applicable income tax, related to foreign operations amounted to $4,988,000.

Comparative income, before extraordinary charges, of United States and foreign operations were as follows:

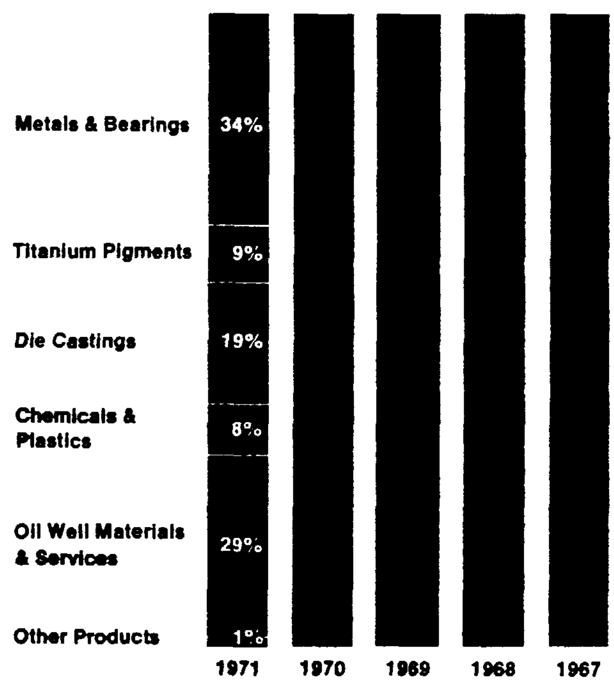
	1971	1970
United States	$ 12,788,000	$ 23,066,000
Foreign	9,969,000	12,552,000
	$ 22,757,000	$ 35,618,000
Per share of common stock:		
Income before extraordinary charges	$ .95	$1.50
Extraordinary charges, net of tax	(.81)	—
Net income	$ .14	$1.50

LINES OF BUSINESS: The Company's primary lines of business accounted for approximately the percentages of consolidated net sales and of income before extraordinary charges and income taxes (before allocation of net executive office expense, parent company interest expense and the net contribution of the Lake View Trust and Savings Bank and other companies carried on an equity basis) as indicated on the charts at right.

Sales



Profits



START-UP COSTS: Included in other assets at December 31, 1971 is $810,000 of deferred start-up costs relating to the construction of the magnesium plant in Utah. Additional start-up costs are expected to be deferred in the early part of 1972. Amortization of deferred start-up costs will commence in 1972 and such costs will be amortized over a period of five years.

TAXES ON INCOME: Exclusive of the income taxes related to the extraordinary charges, the provision for United States and foreign taxes on income amounted to $16,290,000 in 1971, compared to $26,987,000 in 1970. The provision for deferred income taxes amounted to $5,191,000 and $4,096,000 for 1971 and 1970, respectively. Deferred income taxes are due principally to accelerated depreciation utilized for tax purposes and the capitalization of interest expense on funds borrowed to construct the magnesium plant. The applicable tax benefit related to the extraordinary charges has been reflected as adjustments to the reserves for current taxes and deferred taxes on income.

The Company's United States income tax returns have been examined and settled through 1967. The years 1968 and 1969 are now under examination. The liability for taxes on income covers consolidated United States and foreign subsidiaries and the Company believes that adequate provision has been made for all years not yet examined.

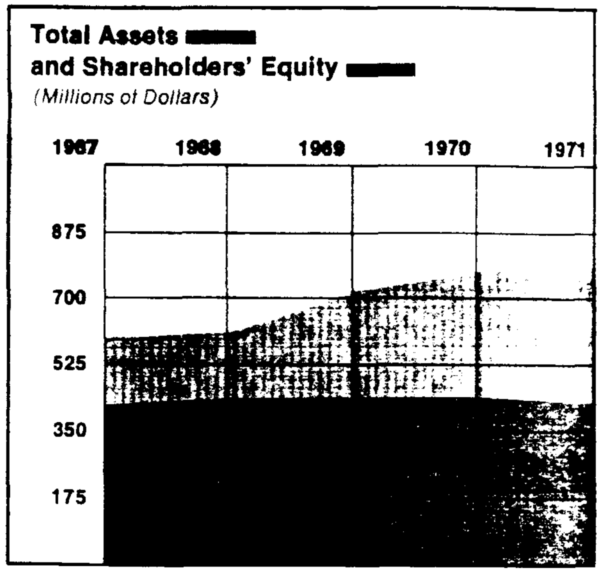
DIVIDENDS: A dividend of $.25 per share was paid in each of the four quarters of 1971. Dividend payments per share for 1971 totaled $1.00 as compared with $1.525 for 1970.

NL INDUSTRIES

Financial report continued

FINANCIAL POSITION: Total assets increased to $782,420,000 and shareholders' equity, exclusive of treasury stock, amounted to $415,091,000.

The following chart illustrates the changes in total assets and shareholders' equity, exclusive of treasury stock, over the past five years:



At December 31, 1971, net assets of consolidated foreign subsidiaries aggregated $109,617,000.

Book value per share amounted to $17.05 at the end of 1971, compared with $17.89 at the beginning of the year. Working capital at year end amounted to $250,279,000 as compared with $241,739,000 at December 31, 1970. This change resulted principally from conversion of short term borrowings to long-term debt.

Working capital at year end 1971 and 1970 follows:

	1971	1970
United States	$204,259,000	$204,233,000
Foreign	46,020,000	37,506,000
	$250,279,000	$241,739,000

The source and utilization of working capital is shown in the Consolidated statement of changes in financial position on page 22.

Inventories at the end of 1971 amounted to $184,236,000, as compared to $196,405,000 at the end of 1970. A comparative summary follows:

	1971	1970
Raw materials	$ 42,795,000	$ 50,472,000
Finished and in process	120,668,000	126,137,000
Supplies	20,773,000	19,796,000
	$184,236,000	$196,405,000

PROPERTY, PLANT AND EQUIPMENT: During the year the Company invested $83,990,000 in property, plant and equipment.

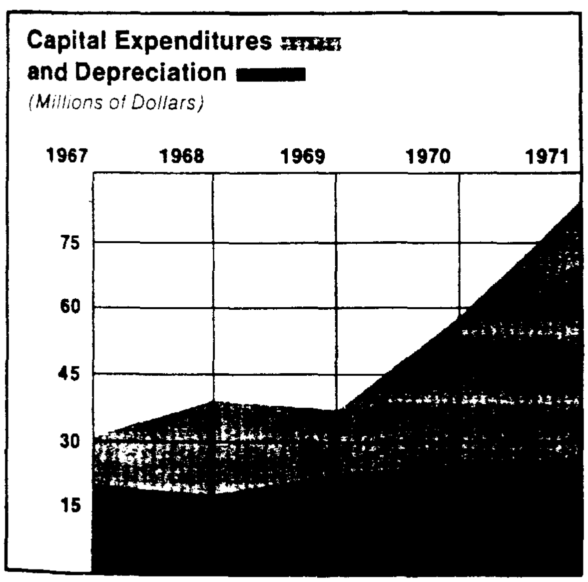
Major expenditures were made for the Magnesium Division's plant in Utah; a West German plant which will manufacture gellants; a plant in Belgium designed to produce anti-corrosive pigments; expansion of the Norwegian mining facility; and expenditures in connection with the environmental control program.

The adjustments to property, plant and equipment resulting from the extraordinary charges have been applied directly against the applicable category of manufacturing properties and related depreciation reserves.

A summary of property accounts follows:

	1971	1970
Manufacturing properties		
Land	$ 14,451,000	$ 14,851,000
Buildings	145,393,000	146,107,000
Machinery and equipment	429,600,000	418,038,000
Mining properties	48,131,000	43,676,000
Intangibles not being amortized	22,492,000	22,492,000
	660,067,000	645,164,000
Less reserves	334,042,000	341,363,000
	$326,025,000	$303,801,000

Manufacturing properties are depreciated principally on the straight-line method; mining properties are depleted on either the unit of production or the straight-line method.



LONG-TERM DEBT: At December 31, 1971 long-term debt had increased to $234,050,000 from $180,902,000 at the end of 1970. The composition of long-term debt at December 31, follows:

	1971	1970
7½% debentures due December 15, 1995	$100,000,000	$ —
4⅜% subordinated debentures, due in annual installments of $850,000 through 1973 and $1,297,000 thereafter to April 1988	24,676,000	24,798,000
6½% deutsche mark bearer bonds, due 1973 through 1979	15,750,000	16,275,000
Loans from banks under the terms of a $135,000,000 credit agreement, at prime rates, due in equal semi-annual installments from 1974 through 1978	72,500,000	94,938,000
Bank loans—5½% to 9%	11,735,000	39,290,000
Other	9,389,000	5,601,000
	$234,050,000	$180,902,000

In January 1971, the Company issued $100,000,000 of 7½% debentures due December 15, 1995, the proceeds of which have been used to repay indebtedness to banks. Commencing in 1976, the Company is required to make annual sinking fund payments sufficient to retire $5,000,000 principal amount of debentures. Also commencing in 1976, at its option, the Company may annually redeem, at face value, $5,000,000 of debentures. The Company has a further option to redeem outstanding debentures at decreasing premium amounts until 1990 and at face value thereafter. Debentures redeemed at the option of the Company may be credited against sinking fund obligations.

The 4⅜% subordinated debentures outstanding at December 31, 1971 and 1970 are after deducting $937,000 and $1,665,000 respectively, representing the principal amount of debentures held by the Company.

Under the terms of the Company's June 1, 1971 renegotiated revolving credit agreement with fourteen banks, which provides for the borrowing of up to a maximum of $135,000,000, the Company may, on or before June 1, 1974, convert such borrowings as it may have made to a long-term loan repayable over a 4-year period in eight equal semi-annual installments. The agreement provides that the Company must maintain consolidated working capital of at least $150,000,000 and contains certain restrictions on additional borrowings. These restrictions at December 31, 1971 would limit increases in long-term debt to approximately $75,000,000. At the current level of debt, the restriction on additional borrowing would limit the amount of retained earnings available for cash dividend declarations to approximately $112,000,000, and the working capital restriction would reduce this amount to $100,279,000.

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Consolidated statement of income and retained earnings (Note 1)

NL INDUSTRIES

	Years ended December 31 1971	1970 (Restated)
Revenues:		
Net sales	**$925,008,000**	$915,877,000
Equity in partially-owned companies	**(1,179,000)**	752,000
Equity in Lake View Trust and Savings Bank	**2,898,000**	2,790,000
Other income	**3,831,000**	1,153,000
	930,558,000	920,572,000
Costs and expenses:		
Costs of goods sold	**707,419,000**	680,918,000
Depreciation, depletion and amortization	**26,344,000**	25,319,000
Selling, general and administrative	**146,243,000**	140,756,000
Interest	**11,505,000**	10,684,000
Minority interest	**—**	290,000
	891,511,000	857,967,000
Income before United States and foreign income taxes	**39,047,000**	62,605,000
Provision for United States and foreign income taxes (Page18)	**16,290,000**	26,987,000
Income before extraordinary charges	**22,757,000**	35,618,000
Extraordinary charges, net of applicable income taxes of $19,489,000 (Page17)	**19,500,000**	—
Net income:	**3,257,000**	35,618,000
Income per share of common stock (based on average shares outstanding)		
Income before extraordinary charges	**$ .95**	$1.50
Extraordinary charges, net of tax	**(.81)**	—
Net income	**$ .14**	$1.50
Retained earnings at beginning of year	**345,295,000**	347,295,000
	348,552,000	382,913,000
Less:		
Dividends paid—1971, $1.00 per share; 1970—$1.525 per share	**23,948,000**	36,261,000
Adjustments relating to acquisitions (Note 2)	**2,097,000**	1,357,000
Retained earnings at end of year	**$322,507,000**	$345,295,000

Reference is made to accompanying notes and financial report

0000-NLI-000018936

Consolidated balance sheet

NL INDUSTRIES

	December 31 1971	1970 (Restated)
Assets		
Current assets:		
Cash	**$ 25,653,000**	$ 25,906,000
Accounts and notes receivable, less allowances of $2,704,000 in 1971 and $2,630,000 in 1970	**146,075,000**	142,015,000
Inventories (Note 3)	**184,236,000**	196,405,000
Prepaid expenses	**3,872,000**	3,927,000
Total current assets	**359,836,000**	368,253,000
Investments: (Note 1)		
Lake View Trust and Savings Bank	**43,894,000**	45,395,000
Partially-owned companies, at equity, and other investments, at cost	**42,215,000**	45,632,000
Property, plant and equipment, at cost, less accumulated depreciation and depletion of $334,042,000 in 1971 and $341,363,000 in 1970 (Page 19)	**326,025,000**	303,801,000
Other assets (Page 18)	**10,450,000**	6,727,000
	$782,420,000	$769,808,000
Liabilities		
Current liabilities:		
Loans payable	**$ 22,988,000**	$ 39,202,000
Accounts payable and accrued liabilities	**77,355,000**	79,384,000
Taxes on income	**9,214,000**	7,928,000
Total current liabilities	**109,557,000**	126,514,000
Long-term debt (Page 19)	**234,050,000**	180,902,000
Deferred taxes on income (related principally to accelerated depreciation)	**19,499,000**	23,877,000
Other liabilities and reserves (Note 2)	**10,280,000**	8,732,000
Minority interest (Note 2)	**—**	3,709,000
Shareholders' Equity (Notes 1, 2, 4 and Page 19)		
Common stock, par value $2.50; shares authorized 60,000,000; shares issued 24,177,168	**60,443,000**	60,443,000
Capital surplus	**32,141,000**	32,158,000
Retained earnings	**322,507,000**	345,295,000
	415,091,000	437,896,000
Less treasury stock at cost: 1971, 185,258 shares; 1970, 361,126 shares	**6,057,000**	11,822,000
	409,034,000	426,074,000
	$782,420,000	$769,808,000

Reference is made to accompanying notes and financial report

0000-NLI-000018937

Consolidated statement of changes in financial position

NL INDUSTRIES

	Years ended December 31 1971	1970 (Restated)
Source of funds:		
Income before extraordinary charges	**$ 22,757,000**	$ 35,618,000
Items not requiring the use of funds:		
Depreciation	**26,344,000**	25,319,000
Deferred income taxes	**5,191,000**	4,096,000
Equity in income of partially-owned companies, net of dividends received	**5,257,000**	(2,316,000)
	59,549,000	62,717,000
Extraordinary charges:		
Loss, net of applicable income taxes	**(19,500,000)**	—
Net property, plant and equipment abandoned	**31,178,000**	—
Reduction in deferred taxes	**(9,569,000)**	—
Funds provided from operations	**61,658,000**	62,717,000
Treasury stock issued for companies acquired	**5,729,000**	4,522,000
Long-term borrowings, net	**53,148,000**	86,214,000
Disposal of fixed assets	**5,166,000**	2,628,000
Increase in other liabilities and reserves	**1,548,000**	938,000
Other	**142,000**	396,000
	127,391,000	157,415,000
Application of funds:		
Dividends	**23,948,000**	36,261,000
Capital expenditures	**83,990,000**	58,462,000
Acquisition of minority interest	**3,709,000**	3,607,000
Cost of treasury stock issued in excess of its par value or fair value of companies acquired	**2,097,000**	1,409,000
Investments	**503,000**	1,088,000
Fixed assets and other non-current assets of acquired companies	**834,000**	117,000
Other	**3,770,000**	1,608,000
	118,851,000	102,552,000
Increase (decrease) in working capital	**$ 8,540,000**	$ 54,863,000
Details of the above increases (decreases) are as follows:		
Cash	**$(253,000)**	$(743,000)
Accounts and notes receivable	**4,060,000**	435,000
Inventories	**(12,169,000)**	20,275,000
Prepaid expenses	**(55,000)**	(47,000)
	(8,417,000)	19,920,000
Loans payable	**16,214,000**	29,564,000
Accounts payable and accrued liabilities	**2,029,000**	(4,631,000)
Taxes on income	**(1,286,000)**	10,010,000
	16,957,000	34,943,000
	$ 8,540,000	$ 54,863,000

Reference is made to accompanying notes and financial report

0000-NLI-000018938

Notes to financial statements

NL INDUSTRIES

1. CONSOLIDATION PRINCIPLES. The consolidated financial statements include the accounts of the Company and all wholly-owned domestic and foreign subsidiaries translated at appropriate rates of exchange.

The Company's investment in major unconsolidated majority-owned foreign subsidiaries and in Lake View Trust and Savings Bank are stated at cost, adjusted for subsequent changes in equity. The Company includes in income its equity in the net income of such subsidiaries.

To conform with recent developments in accounting principles, commencing in 1971 the Company retroactively adopted the practice of reporting its investments in companies owned 50% or less and minor majority-owned foreign subsidiaries at its equity in their underlying net assets and including in income its equity in the net income of these companies. Previously, investments in these companies were carried at cost, and income thereon reflected only to the extent received as dividends. As a result of this change, amounts previously reported for 1970 have been restated as follows:

	(In Thousands) Previously Reported	Restated
Net Income	$ 38,071	$ 35,618
Income per common share	$1.60	$1.50
Investments:		
Partially owned companies, at equity, and other investments, at cost	$ 28,473	$ 45,632
Total Retained Earnings	$328,136	$345,295

Pertinent financial data pertaining to foreign operations is shown on pages 17 and 18 .

Financial data regarding partially-owned companies follows:

	Titanium Metals Corp. of America	Mineral Deposits, Limited	Canada Metal Co., Ltd.
% owned by N L	50%	85%	50%
Assets		(In Thousands)	
1971	$65,621	$11,767	$12,448
1970	75,387	10,258	13,227
Liabilities			
1971	51,321	5,765	1,955
1970	51,202	4,740	2,386
Net income (loss) as reported			
1971	(9,885)	1,678	930
1970	(5,641)	1,486	1,616

In addition, the Company's equity in the earnings of the other companies included in the income statement caption "Equity in partially-owned companies" aggregated $1,874,000.

Following is a summary of pertinent financial information relating to the Lake View Trust and Savings Bank:

	(In Thousands) 1971	1970
Assets	$345,462	$327,429
Deposits and other liabilities	$320,972	$301,278
N L's equity in Bank's net income	4,133	4,459
Less: Interest cost to N L, after applicable tax benefit of $1,141,000 in 1971 and $1,617,000 in 1970, on funds borrowed to purchase bank	1,235	1,669
Net income attributable to Bank	$ 2,898	$ 2,790

See Report of Affiliates, page 15, for comments relating to the Bank Holding Company Act of 1970.

2. ACQUISITIONS. During 1971, the Company exchanged 175,003 shares of its treasury stock for the outstanding stock held by the minority interest of Morris P. Kirk & Son, Inc. and acquired, for cash, all of the outstanding preferred stock of National Lead Company, S.A. (the Company owns all of the outstanding common stock). These acquisitions have been accounted for as purchases and the results of operations since date of purchase are included for 1971. As a result of these transactions, retained earnings were charged $2,097,000, representing the appropriate portion of the excess of the cost of treasury shares issued over the fair value of the net assets acquired, and the reserve for foreign operations was credited $3,093,000, representing the excess of the carrying value of the net assets acquired over the purchase price, primarily because of the anticipated currency devaluation in Argentina at date of purchase. The effect of this major currency devaluation, which occurred during 1971, amounted to $2,574,000 and was charged to the reserve for foreign operations.

3. INVENTORIES. Inventories are valued at the lower of cost (principally average cost) or market. Certain metal inventories are valued using the last-in, first-out method, which results in such inventories being stated at less than current replacement cost at December 31, 1971. The valuation of a portion of these same inventories is further reduced by the use of the base stock method. Pursuant to such method, an inventory reserve (amounting to $10,356,000 in 1971 and $11,471,000 in 1970) is maintained.

4. CAPITAL STOCK AND STOCK OPTIONS. Under provisions of the 1968 Stock Option Incentive Plan, 700,000 shares of the Company's common stock have been reserved for issuance to officers and to other key employees. Under the plan, options may be granted to purchase common stock at 100% of the market price at the date of grant and are exercisable over a period of five years from date of grant. Details of shares under option at December 31, 1971 and transactions during the year follow:

Balance at January 1, 1971	395,400
Granted	—
Less: Exercised	1,300
Expired	25,500
Balance at December 31, 1971	368,600
Price per share of shares granted and outstanding at December 31, 1971	$20 to $36
Shares exercisable	368,600
Available for future options at December 31, 1971	329,700

The excess ($17,000) of the cost of treasury shares issued (1,300 shares) over the proceeds on the exercise of options was charged to capital surplus. In addition the Company purchased 435 of its own shares during 1971.

In connection with the acquisition of the Bunting Brass & Bronze Company in 1968, the Company granted to holders of stock options previously granted by Bunting, substitute stock options. During the year, no options were exercised and options for 476 shares at $20.50 per share are outstanding at December 31, 1971.

The Company is authorized to issue 5,000,000 shares of preferred stock without par value. The rights of the preferred stock as to dividends, redemption, liquidation and conversion will be determined upon issuance.

5. PENSIONS. The Company and its subsidiaries have various pension plans covering the majority of their employees. Total pension costs approximated $10,900,000 in 1971 and $10,100,000 in 1970. Current service costs are being funded. The major portion of the prior service costs is being charged to income and funded over a period of thirty years. With respect to one of the major plans, there was a change during the year in the actuarial method and certain actuarial assumptions used in computing pension cost as well as amendment of certain benefits. The effect of these changes on pension cost and net income was not material. Unfunded vested benefits at December 31, 1971 amounted to approximately $15,096,000.

6. CONTINGENCY. The Company has agreed with the insurance companies from which Titanium Metals Corporation of America (TIMET), a 50% owned company, has borrowed $30,000,000 under loan agreements that if, at any time, the net working capital of TIMET falls below $12,500,000, it will make an investment in TIMET in an amount equal to 50% of such deficiency. Compliance with this provision has been waived by the lenders to the extent that from July 31, 1971 to December 31, 1974, TIMET may maintain working capital in an amount not less than $6,000,000. At December 31, 1971, the net working capital of TIMET as defined in the loan agreement was $6,591,000.

7. LITIGATION. See comments regarding pending litigation on page 4.

Auditors' report

Lybrand, Ross Bros. & Montgomery
Certified Public Accountants
1251 Avenue of the Americas, New York, N.Y.

To the Shareholders of
N L Industries, Inc.
New York, N.Y.

We have examined the consolidated balance sheet of N L Industries, Inc. and its Consolidated Subsidiaries as of December 31, 1971 and the related consolidated statements of income and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain consolidated subsidiaries in 1970 whose total assets and total sales comprised 17% and 14%, respectively, of the corresponding consolidated totals. In 1971 we have examined the financial statements of certain of those subsidiaries not examined by us in 1970 and the total assets and total sales of the remaining subsidiaries whose financial statements were not examined by us in 1971 were not material in relation to the corresponding consolidated totals. In addition, we did not examine the financial statements of certain partially-owned companies, for which the Company's equity in the earnings is included in the income statement caption "Equity in partially-owned companies," which statements reflect net losses of $4,307,000 and $1,409,000 for 1971 and 1970, respectively, applicable to the Company. All of these statements were examined by other certified public accountants whose reports thereon were furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries and partially-owned companies, is based solely upon such reports. We made a similar examination of the financial statements of the Company and its Consolidated Subsidiaries for the year 1970.

In our opinion, based upon our examination and the reports of other certified public accountants, the aforementioned financial statements present fairly the consolidated financial position of N L Industries, Inc. and its Consolidated Subsidiaries at December 31, 1971 and 1970, and the consolidated results of their operations and of changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, February 18, 1972

0000-NLI-000018940

... in this report contains TITANOX titanium dioxide, a chemical pigment produced by NL Industries ... used by
... manufacturers to obtain color brightness, whiteness and ...

... Industries, Inc.

...en year review of operations

...ousands of dollars, except per share figures

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
...sales	**$925,008**	$915,877	$929.785	$858,195	$818,905	$865.687	$837.215	$735,189	$664.606	$615.269
...me before taxes and extraordinary items	**39,047**	62.605	95,435	95,490	95,122	115,686	114.986	110.014	98.205	96,131
...me before extraordinary items	**22,757**	35.618	50,842	49,177	52,842	63,941	61.601	58.691	51.433	49.824
...income	**3,257**	35,618	50,842	49,177	55,891	63.941	61.601	58,691	51.433	49,824
Per common share										
Income before extraordinary items	**.95**	1.50	2.13	2.05	2.21	2.66	2.55	2.51	2.19	2.04
Net income	**.14**	1.50	2.13	2.05	2.34	2.66	2.55	2.51	2.19	2.04
...dends paid on common shares	**23,948**	36,261	40,272	39,062	38,786	38.295	38.378	38.036	38,049	38.034
Per common share	**1.00**	1.525	1.70	1.625	1.625	1.625	1.625	1.625	1.625	1.625
...rent assets	**359,836**	368,253	348,333	312,077	320,171	310,311	296.548	300.974	276,069	270.275
...rent liabilities	**109,557**	126.514	161,457	108,016	101,855	97,721	97.599	99.600	91.461	80.280
...rking capital	**250,279**	241,739	186,876	204,061	218,316	212,590	198.949	201,374	184.608	189.995
...perty, plant and equipment, net	**326,025**	303,801	273,169	252,883	226,060	214,725	196,134	174,961	170,263	171.696
...perty expenditures	**83,990**	58.462	37,161	39,264	30,867	32.440	41,096	20,447	14.558	15,712
...preciation	**26,344**	25,319	22,651	18,187	20,266	18,302	17.249	16.286	15.523	15.159
...al assets	**782,420**	769.808	714,872	612,608	597,044	589,425	537,225	513.311	481.351	473.743
...reholders' equity	**409,034**	426.074	423,587	424.209	419,893	407.257	373,320	355.759	334.960	373.507

... per share figures reflect the 2 for 1 stock split which took place in 1969.
...tain amounts have been restated (See Note 1 to consolidated financial statements).

0000-NLI-000018941

...ted in U.S.A.

NL INDUSTRIES