

TRONOX

Tronox Incorporated
Debtor-in-Possession as of January 12, 2009
Consolidated Financial Statements
December 31, 2010, 2009 and 2008

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Report of Independent Certified Public Accountants

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We have audited the accompanying consolidated balance sheets of Tronox Incorporated (a Delaware corporation) and subsidiaries (Debtors-in-Possession as of January 12, 2009) (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, comprehensive income (loss) and stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. 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 auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose 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 (Debtors-in-Possession as of January 12, 2009) as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the accumulated deficit and accumulated other comprehensive income amounts as of January 1, 2008 have been restated to correct errors in previously issued financial statements.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
October 19, 2011

TRONOX INCORPORATED
(Debtor-in-Possession as of January 12, 2009)

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2010	2009	2008
	(Millions of dollars, except per share data)		
Net Sales	\$1,217.6	\$1,070.1	\$1,245.8
Cost of goods sold(1)	996.1	931.9	1,133.4
Gross Margin	221.5	138.2	112.4
Selling, general and administrative expenses	59.2	71.7	114.1
Gain on land sales	—	(1.0)	(25.2)
Impairment of long-lived assets	—	0.4	24.9
Restructuring charges	—	17.3	9.6
Net loss on deconsolidation of subsidiary	—	24.3	—
Provision for environmental remediation and restoration, net of reimbursements	(47.3)	—	72.9
Income (Loss) from Operations	209.6	25.5	(83.9)
Interest and debt expense(2)	(49.9)	(35.9)	(53.9)
Gain on liquidation of subsidiary	5.3	—	—
Other expense	(13.6)	(10.3)	(9.5)
Reorganization expense	(144.8)	(9.5)	—
Income (Loss) from Continuing Operations before Income Taxes	6.6	(30.2)	(147.3)
Income tax benefit (provision)	(2.0)	1.5	1.8
Income (Loss) from Continuing Operations	4.6	(28.7)	(145.5)
Income (Loss) from discontinued operations, net of income tax benefit (provision) of nil, \$(0.3) and \$5.8, respectively	1.2	(9.8)	(189.4)
Net Income (Loss)	\$ 5.8	\$ (38.5)	\$ (334.9)
Earnings (Loss) per Share, Basic and Diluted:			
Continuing operations	\$ 0.11	\$ (0.70)	\$ (3.55)
Discontinued operations	0.03	(0.24)	(4.62)
Earnings (Loss) per share	\$ 0.14	\$ (0.94)	\$ (8.17)
Weighted Average Shares Outstanding (in thousands):			
Basic	41,232	41,176	40,995
Diluted	41,383	41,176	40,995

(1) Includes costs of approximately 15% in 2010, 14% in 2009 and 10% in 2008 for raw materials and pigment purchased from the Company's joint venture partner.

(2) Excludes \$33.3 million in 2010, \$32.1 million in 2009, and nil in 2008 that would have been payable under the terms of the 9.5% senior unsecured note, see Note 11.

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

TRONOX INCORPORATED
(Debtor-in-Possession as of January 12, 2009)
CONSOLIDATED BALANCE SHEETS

	At December 31,	
	2010	2009
	(Millions of dollars, except share data)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 141.7	\$ 143.3
Accounts receivable:		
Third party, net of allowance for doubtful accounts of \$0.8 in 2010 and \$1.5 in 2009	243.8	210.7
Related party	2.7	5.5
Inventories	198.4	194.8
Prepaid and other assets	144.8	140.3
Income tax receivable	—	0.1
Deferred income taxes	4.3	3.0
Total Current Assets	735.7	697.7
Property, Plant and Equipment, Net	315.5	313.6
Other Long-Term Assets	46.7	106.5
Total Assets	\$ 1,097.9	\$ 1,117.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable:		
Third party	\$ 134.7	\$ 108.0
Related party	64.3	49.2
Accrued liabilities	45.7	46.9
Long-term debt due within one year	4.3	1.7
Income taxes payable	3.3	3.2
Total Current Liabilities	252.3	209.0
Noncurrent Liabilities		
Long-term debt	420.7	423.3
Pension and other postretirement benefits	107.2	12.5
Other	47.4	37.8
Total Noncurrent Liabilities	575.3	473.6
Liabilities subject to compromise	900.3	1,048.4
Contingencies and Commitments		
Stockholders' Equity		
Class A common stock, par value \$0.01 — 100,000,000 shares authorized, 19,107,467 and 19,107,367 shares issued at December 31, 2010 and December 31, 2009, respectively	0.2	0.2
Class B common stock, par value \$0.01 — 100,000,000 shares authorized, 22,889,431 shares issued at December 31, 2010 and December 31, 2009, respectively	0.2	0.2
Capital in excess of par value	496.2	495.8
Accumulated deficit	(1,128.2)	(1,134.0)
Accumulated other comprehensive income	8.8	31.9
Treasury stock, at cost — 623,953 and 620,253 shares at December 31, 2010 and December 31, 2009, respectively	(7.2)	(7.3)
Total Stockholders' Equity	(630.0)	(613.2)
Total Liabilities and Stockholders' Equity	\$ 1,097.9	\$ 1,117.8

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

TRONOX INCORPORATED
(Debtor-in-Possession as of January 12, 2009)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended		
	December 31,		
	2010	2009	2008
	(Millions of dollars)		
Cash Flows from Operating Activities			
Net Income (loss)	\$ 5.8	\$ (38.5)	\$(334.9)
Adjustments to reconcile net income (loss) to net cash provided by operating activities —			
Depreciation and amortization	50.1	53.1	75.7
Impairments and write-downs of long-lived assets, inventory and goodwill	2.5	17.1	141.7
Deferred income taxes	(5.1)	(1.9)	(9.1)
Provision for environmental remediation and restoration, net of reimbursements	(48.9)	(28.2)	109.7
Amortization of debt issuance costs	9.2	2.9	3.6
Pension and other postretirement benefit income, net	(10.5)	6.0	24.6
(Gain) Loss on (liquidation) deconsolidation of subsidiaries	(5.3)	15.9	—
Gain on sale of land	—	(1.0)	(25.2)
Stock compensation expense	0.5	0.2	0.5
Other noncash items affecting net income	4.5	8.1	9.5
Reorganization items:			
Noncash reorganization items	97.6	(33.5)	—
Gain on forgiveness of debt	—	(5.0)	—
Payments to liabilities subject to compromise	(82.6)	(2.6)	—
Cash collateralized letters of credit, deposits and environmental escrows	—	(117.7)	—
Professional and legal fees	(51.5)	(28.0)	—
Changes in assets and liabilities —			
(Increase) decrease in trade accounts receivable	(11.9)	(22.5)	57.7
(Increase) decrease in related parties accounts receivable	0.9	(5.0)	(4.6)
(Increase) decrease in inventories	(6.6)	55.4	29.7
(Increase) decrease in prepaid and other assets	20.2	(1.9)	(1.0)
Increase (decrease) in accounts payable and accrued liabilities	83.2	61.2	(78.7)
Increase (decrease) in related parties accounts payable	17.0	13.0	2.0
Increase (decrease) in taxes payable	2.3	0.3	3.3
Other	5.5	(1.9)	(37.3)
Cash provided by (used in) operating activities	<u>76.9</u>	<u>(54.5)</u>	<u>(32.8)</u>
Cash Flows from Investing Activities			
Capital expenditures	(45.0)	(24.0)	(34.3)
Collection of repurchased receivables	—	41.1	—
Repurchase of securitized receivables	—	(41.1)	—
Proceeds from sale of assets	—	1.2	25.9
Cash used in investing activities	<u>(45.0)</u>	<u>(22.8)</u>	<u>(8.4)</u>
Cash Flows from Financing Activities			
Reductions of long-term debt	(425.0)	(272.8)	(31.8)
Proceeds from borrowings	425.0	490.0	109.8
Debt issuance costs	(15.4)	(45.6)	(5.0)
Fee related to rights offering and other related debt costs	(16.8)	—	—
Payment of dividends	—	—	(4.2)
Cash provided by (used in) financing activities	<u>(32.2)</u>	<u>171.6</u>	<u>68.8</u>
Effects of Exchange Rate Changes on Cash and Cash Equivalents	<u>(1.3)</u>	<u>(0.8)</u>	<u>1.2</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1.6)</u>	<u>93.5</u>	<u>28.8</u>
Cash and Cash Equivalents at Beginning of Year	<u>143.3</u>	<u>49.8</u>	<u>21.0</u>
Cash and Cash Equivalents at End of Year	<u>\$ 141.7</u>	<u>\$ 143.3</u>	<u>\$ 49.8</u>
Supplemental Cash Flow Information			
Interest Paid	\$ 39.6	\$ 24.6	\$ 28.5
Net Income Tax Paid	\$ 5.7	\$ 2.6	\$ (5.1)

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

TRONOX INCORPORATED
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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS) AND
STOCKHOLDERS' EQUITY**

	Class A Common Stock	Class B Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Non- Controlling Interest	Total Business/ Stockholders' Equity
	(Millions of dollars)							
Balance at January 1, 2008, prior to restatement (see Note 3)	\$0.2	\$0.2	\$490.8	\$ (136.8)	\$ 78.2	\$(3.0)	\$ 3.4	\$ 433.0
Restatement (see Note 3)	—	—	—	(623.8)	1.0	—	—	(622.8)
Balance at January 1, 2008, as restated	\$0.2	\$0.2	\$490.8	\$ (760.6)	\$ 79.2	\$(3.0)	\$ 3.4	\$(189.8)
Comprehensive Income (Loss):								
Net loss	—	—	—	(334.9)	—	—	—	(334.9)
Other comprehensive loss	—	—	—	—	(73.3)	—	—	(73.3)
Comprehensive loss	—	—	—	—	—	—	—	(408.2)
Stock-based compensation	—	—	4.2	—	—	(3.7)	—	0.5
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)
Transfer to liabilities subject to compromise	—	—	—	—	—	—	(3.4)	(3.4)
Stock-based compensation	—	—	0.8	—	—	(0.6)	—	0.2
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
Balance at December 31, 2010	\$0.2	\$0.2	\$496.2	\$(1,128.2)	\$ 8.8	\$(7.2)	\$ —	\$(630.0)

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

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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 of America (“U.S.”), 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 reportable segments) represent other operations which are comprised of electrolytic manufacturing and marketing operations, all of which are located in the U.S., and are reported in “Other Activities” when reconciling segmented information presented in Note 23.

Formation

The Contribution was completed in November 2005, along with the recapitalization of the Company (as defined below), 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. See Note 20 for additional information regarding the MSA.

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

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Notes to Consolidated Financial Statements — (Continued)

(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 (the “Legacy Environmental Liabilities”) and 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. With respect to claims related to the Legacy Environmental Liabilities, the claimants received a settlement (as described in Note 2) that was allocated to certain environmental response trusts and environmental agencies in accordance with the terms of a settlement agreement, which consideration constituted a fair and equitable settlement of the potential numerous claims and varying priorities stemming from the Legacy Environmental Liabilities. In exchange, claimants provided the Debtors and the reorganized Tronox Incorporated with discharges and/or covenants not to sue subsequent to the effective date of the Plan (as defined below) with respect to the Debtors liability for the Legacy Environmental Liabilities. Similarly, the Plan 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, which were paid in accordance with the terms of such trust’s governing documentation.

As a result of the settlement of the Debtors’ prepetition 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

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Notes to Consolidated Financial Statements — (Continued)

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 February 1, 2011 (the “Fresh-Start Reporting Date”). 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 February 1, 2011 to reflect the fresh-start accounting adjustments was appropriate for financial reporting purposes. The use of the February 1, 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 the Fresh-Start Reporting Date 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.

Accounting under Chapter 11

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 has disclosed prepetition liabilities subject to compromise (“LSTC”) 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 LSTC, including claims that became known after the Chapter 11 filing, are 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.

During the period in which the Debtors were operating under Chapter 11, the Debtors 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.

Germany Insolvency Petition

Tronox Pigments GmbH, 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 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.

Basis of Presentation and Going Concern Matters

While under bankruptcy (or Chapter 11) protection, debtor-in-possession (“DIP”) financing was approved by the courts and was available to finance the ongoing operations of the Company. Management believed that this, combined with the generation of positive cash flows from operations, made the going concern basis of accounting appropriate while the Debtors were under bankruptcy protection.

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Notes to Consolidated Financial Statements — (Continued)

All estimates, assumptions, valuations, appraisals and financial projections, including any fair value adjustments in the accompanying financial statements, do not purport to reflect or provide for the terms of the Plan. In particular, these financial statements do not purport to show: (a) as to stockholders' accounts, the effect of changes that were made in the capitalization of the Company; or (b) as to liabilities, the effect of the exit financing and the elimination of LSTC following implementation of the Plan. As previously mentioned, the Company was required, under accounting principles generally accepted in the U.S. ("GAAP"), to adopt fresh-start accounting as of February 1, 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. With the exception of the preliminary and unaudited fresh-start Condensed Consolidated Balance Sheet presented in Note 25, these financial statements do not present any adjustments that may be required under fresh-start accounting.

2. 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 Securities and Exchange Commission (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 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 was 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 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 U.S.. 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 U.S., creosote used in the treatment of railroad ties at approximately 40 sites across the U.S., 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 U.S., and the production and sale of petroleum products at various refineries and storage facilities and hundreds of service stations across the U.S. The Legacy Environmental Liabilities also included liabilities

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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.

Substantially all of the KM Legacy Liabilities related to the Discontinued Businesses, and were never related to the Company's core chemical business. See Note 20 for additional disclosure regarding the KM Legacy Liabilities.

The Debtors' primary creditors in the bankruptcy proceedings were the U.S. government and more than 30 states, 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 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"). 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

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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 Statement of Operations and a corresponding balance of \$536.4 as of March 31, 2009 on the Consolidated Balance Sheet. The Company calculated the amount of the Settlement, using existing 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 expense” on the Consolidated Statement of Operations.

3. Restatement of Previously Issued Consolidated Financial Statements

Environmental liabilities

As discussed in Note 2, in May 2009, the Company filed a Form 8-K under Item 4.02 indicating that its previously issued financial statements could no longer be relied upon because the Company failed to establish adequate environmental and other contingent reserves as required by applicable accounting pronouncements. The financial statements affected by this disclosure are the Company’s previously issued financial statements for the years ended December 31, 2005, 2006, and 2007, along with the financial information for the first three quarters of

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2008. The Company has not restated periods prior to January 1, 2008, as it does not believe the errors discussed below are material to current or future investors.

At the time of the Spin-off, the Company presented its assets and liabilities (including the KM Legacy Liabilities) on the same basis as Kerr-McGee had reported, as is typical when a parent spins off a subsidiary. The accounting policies and procedures used in relation to the KM Legacy Liabilities were carried over from Kerr-McGee. In 2009, the Company determined that the Kerr-McGee methodology for setting environmental and tort reserves, under ASC 410, was flawed and inconsistent with industry practice. The flawed methodology, applied a threshold for determining recorded reserves that were materially higher than what was required by ASC 410. As a result, the KM Legacy Liabilities were materially understated at the time of the Spin-off and in subsequent reporting periods.

In order to prepare the financial statements for the fiscal years ended December 31, 2008, 2009 and 2010, the Company engaged several environmental and accounting specialists to evaluate the Legacy Environmental Liabilities and the Legacy Tort Liabilities as of and for the years ended December 31, 2007 and December 31, 2008. The Company, in conjunction with these experts, reviewed the methodology and criteria to be used in determining when a liability is probable and when it can be reasonably estimated. We also reviewed the methodology for preparing the estimates. As a result, the Company revised its application of the existing criteria for determining when a liability is estimable. In addition, the Company determined that its estimates should consider remediation activities over a longer time horizon. Accordingly, the Company and the specialists analyzed all available documentation related to over 2,811 identified sites and reassessed the Company's environmental and tort liabilities as of and for the periods ending December 31, 2007 and December 31, 2008. As a result, the KM Legacy Liabilities were understated as of December 31, 2007 by \$303.2 million.

The restatement of these amounts does not have any effect on the accounting for the KM Legacy Liabilities in 2009 and 2010, as described in Note 2, except that the adjustment amount, in January 2009, has changed to take into account the effect of the restatement on the December 31, 2008 Consolidated Balance Sheet and the subsequent 2008 activity, which yielded a different result on the Consolidated Statement of Operations for fiscal year 2009. However, this change did not affect the December 31, 2009 Consolidated Balance Sheet. In periods prior to the Petition Date, adjustments to the Legacy Environmental Liabilities are reflected in "Provision for environmental remediation and restoration, net of reimbursements" or in "Income (Loss) from discontinued operations on the Consolidated Statements of Operations. As of and subsequent to the Petition Date, adjustments to the Legacy Environmental Liabilities are reflected in "Reorganization expense" on the Consolidated Statements of Operations and in "Liabilities subject to compromise" on the Consolidated Balance Sheets.

Impairment of Long-lived Assets

In addition, while preparing the financial statements for the fiscal years ended December 31, 2008, 2009 and 2010, current management reviewed the critical accounting assumptions and assertions used in preparing these financial statements. As a result of this review, current management determined that the historical assertion related to a single global pigment asset grouping, utilized for long-lived asset impairment testing, was not the lowest level of independent cash flows. Accordingly, this resulted in management's reassessment of the historical impairment tests for the Company's pigment operations in the U. S., the Netherlands, and Australia. This reassessment included preparing a cash-flow analysis considering historical estimates of sales volumes, sales prices, manufacturing production costs, as well as economic and regulatory climates in existence at the time, over a ten year time horizon. The reassessment resulted in current management concluding that impairments should have been recorded, prior to January 1, 2008, at the pigment plants in Savannah, Georgia and Botlek, the Netherlands. As a result, long-lived assets at December 31, 2007 were overstated by \$375.3 million; therefore retained earnings at January 1, 2008 has been reduced by this amount.

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Other items

In addition, management reviewed certain assertions and amounts related to other items that resulted in the identification of errors to previously reported accrual for contingent liabilities, uncertain tax positions and other matters. As a result, the Company increased retained earnings as of January 1, 2008 by a net amount of \$3.4 million for these items.

The restatement adjustments resulted in a cumulative net reduction to stockholders' equity of approximately \$622.8 million as of January 1, 2008. Except as otherwise specified, all information presented in the consolidated financial statements and the related notes include all such restatement adjustments.

The following table sets forth the effects of the restatement adjustments on the Company's accumulated deficit as of January 1, 2008.

	(Millions of dollars)
Accumulated Deficit, January 1, 2008, prior to restatement	\$(136.8)
Restatement adjustments:	
Environmental liability	(303.2)
Savannah impairments	(200.9)
Botlek impairments	(174.4)
Asset retirement obligations	(7.0)
Uncertain tax position adjustments	5.0
Other items	5.4
Effect of above on income tax accounts	<u>51.3</u>
Total Restatement adjustments	(623.8)
Accumulated Deficit, January 1, 2008, as restated	<u><u>\$(760.6)</u></u>

Additionally, at January 1, 2008, the Company restated Accumulated other comprehensive income for a reclassification of income taxes of \$0.6 million and an adjustment to foreign currency translation of \$0.4 million.

Periods prior to January 1, 2008

The Company has not restated periods prior to January 1, 2008 as it does not believe the errors discussed above are material to current or future investors primarily because:

- The errors relate solely to the pre-emergence financial statements, and the correction of such errors in those financial statements is of limited value in making a current investment decision in a company that has undergone a reorganization (through which it shed any responsibility for the KM Legacy Liabilities) and fresh-start accounting, where by asset values were reset to current market values;
- The vast majority of the costs related to the KM Legacy Liabilities were classified in discontinued operations; The Company believes a reasonable investor making a current investment decision would disregard anything classified in discontinued operations and therefore errors in that classification would not be material;
- The operations to which substantially all the Environmental Legacy Liabilities and all the Tort Legacy Liabilities relate were not part of the Company's core operations and substantially all of the liabilities were incurred by Kerr-McGee prior to the Company's IPO;
- The Company believes the errors do not impact metrics that drive investor conclusions or that are important to investor models; and

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- The Company believes the errors do not alter investors' perceptions of key trends affecting the Company.

In addition, the Company believes it would be very difficult to restate the KM Legacy Liabilities for all periods prior to January 1, 2008 due to the passage of time, the volume of information to be analyzed, and the difficulty in arriving at judgments that should have been made many years ago. Even if the Company were ultimately able to arrive at reasonable estimates for the KM Legacy Liabilities for all the required periods, it would be an extremely costly and lengthy process, which would provide no benefit to current or future shareholders, as discussed above.

4. Significant Accounting Policies

Basis of Presentation

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" in 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 expense" on the Consolidated Statements of Operations. All intercompany transactions have been eliminated.

The consolidated financial statements for 2008 contain certain reclassifications to conform to the presentation used in the current period. At January 1, 2008, non-controlling interest in subsidiary has been reclassified to conform with current required presentation.

The Company operates the Tiwest Joint Venture, with Exxaro Australia Sands Pty Ltd. ("Exxaro"), which is a subsidiary of Exxaro Resources Limited. The joint venture operates a chloride process TiO₂ plant located in Kwinana, Western Australia (the "Kwinana Facility"), a mining operation in Cooljarloo, Western Australia, a mineral separation plant and a synthetic rutile processing facility, both in Chandala, Western Australia. Because of the terms of the joint ownership agreement governing the Tiwest Joint Venture, it is proportionately consolidated in the financial statements. The assets in the Tiwest Joint Venture are "jointly controlled" by the Company and Exxaro, as they share an undivided interest in the assets. As a result, the Consolidated Balance Sheets includes the Company's share of the assets that are jointly controlled and its share of the liabilities for which it is jointly responsible. The Company's Consolidated Statements of Operation includes its share of the income and expenses of the joint venture. 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 a result, 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 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. Actual results could differ materially from those estimates as additional information becomes known.

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 expense" on the Consolidated Statements of Operations.

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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 of other comprehensive income (loss) (see Note 22). 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 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. Cash amounts held within the U.S. were \$103.0 million and \$101.7 million at December 31, 2010 and 2009, respectively.

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 does not generally 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.

Receivables Securitization — The balance of accounts receivable in 2008 included a subordinated retained interest in a pool of receivables that had been securitized. The subordinated retained interest was measured and recorded at its fair value, which incorporated a present value discount along with expected credit losses. Upon collecting such receivables, the difference between the par value collected and the discounted carrying value was recognized in interest income (see Note 7).

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. Recent credit losses have fallen within expectations.

Inventories

Inventories are stated at the lower of cost or market. 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 or standard cost, which approximates actual cost. Raw materials are carried at actual cost.

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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 its Tiwest Joint Venture in Australia. 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. Capitalized interest was \$0.1 million, nil, and \$0.3 million in 2010, 2009 and 2008, respectively.

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).

Goodwill and Other Intangible Assets

Goodwill is initially measured as the excess of the purchase price of an acquired entity over the fair value of individual assets acquired and liabilities assumed. Goodwill and other indefinite-lived intangibles are reviewed annually for impairment or more frequently if impairment indicators arise. The annual impairment assessment for

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goodwill and other indefinite-lived intangible assets is completed at June 30 each year. As of December 31, 2010 and 2009, the Company did not have any goodwill or other intangible assets.

Derivative Instruments and Hedging Activities

From time to time, the Company enters into foreign currency forward contracts to hedge a portion of its foreign currency risk associated with pigment sales, raw material purchases and operating costs. The Company also uses natural gas forward contracts to hedge a portion of its commodity price risk arising from natural gas consumption. Historically, the Company has also entered into interest rate swap contracts to hedge a portion of its interest payments on variable-rate debt. Designated free-standing derivative instruments are accounted for in accordance with ASC 815, Derivatives and Hedging, (“ASC 815”). Depending on when the contracts mature, derivative instruments are recorded in “Prepaid and other assets,” “Other Long-Term Assets,” “Accrued liabilities” or “Noncurrent Liabilities-Other” on the Consolidated Balance Sheets, measured at fair value. Fair value is derived from quoted market prices. For contracts that qualify and are designated as cash flow hedges of forecasted transactions under the provisions of ASC 815, unrealized gains and losses are initially reflected in “Accumulated other comprehensive income” on the Consolidated Balance Sheets to the extent effective and recognized in earnings in the periods during which the hedged forecasted transactions affect earnings (i.e., when operating costs are incurred and upon the sale of finished inventory, in the case of a hedged raw material purchase). The ineffective portion of the change in fair value of such hedges, if any, is included in current earnings. For derivatives not designated for hedge accounting, gains and losses are recognized in earnings in the periods incurred. Cash flows associated with derivative instruments are included in the same category in the Consolidated Statements of Cash Flows as the cash flows from the item being hedged. The Company had derivative contracts during 2009 and 2008. The Company was not party to any derivative contracts during 2010. See Note 14 for additional information regarding derivative instruments.

Environmental Remediation and Other Contingencies

The Company recognizes losses and records an undiscounted liability when environmental assessments and/or remedial efforts are probable and the associated costs can be reasonably estimated. Aside from the Legacy Environmental Liabilities, which are discussed in Notes 2 and 20, 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 significantly 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 the 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.

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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.

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. See Note 10 for additional information regarding asset retirement obligations.

Research and Development

Research and development costs were \$6.1 million, \$5.0 million and \$7.7 million in 2010, 2009 and 2008, respectively, and were expensed as incurred.

Employee Stock-Based Compensation

In 2005, the Company established a long-term incentive plan, awarding stock options and restricted stock under the plan to its employees and non-employee directors. The fair value of equity instruments was measured based on the average stock price on the grant date and was recognized over the vesting period. The Black-Scholes option pricing model was utilized to measure the fair value of stock options. Stock options generally contain only service conditions and have graded vesting provisions. The policy for cost attribution associated with this type of award is to use the straight-line method over the requisite service period for the entire award as opposed to dividing the award into separate tranches to determine cost attribution. See Note 17 for additional information regarding employee stock-based compensation.

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.

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Income Taxes

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, Income Taxes, (“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 18 for additional information regarding income taxes.

Fair value measurement

The Company adopted the methods of fair value as described in ASC 820, Fair Value Measurements and Disclosures, (“ASC 820”) to value its financial assets and liabilities effective January 2008. As defined in ASC 820, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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, as well as considers counterparty credit risk in its assessment of fair value.

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5. New/Revised Accounting Standards

Consolidation — Effective January 1, 2010, the Company adopted amendments to ASC 810, Consolidation, (“ASC 810”). These amendments required an enterprise to qualitatively assess the determination of the primary beneficiary of a variable interest entity (“VIE”) based on whether the enterprise: (1) has the power to direct the activities of a VIE that most significantly affect the entity’s economic performance; and (2) has the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. These amendments also required, among other considerations, an ongoing reconsideration of the primary beneficiary. The adoption of the guidance did not have a material impact on the consolidated financial statements.

In January 2010, the Financial Accounting Standards Board (the “FASB”) issued guidance on implementation issues relating to the accounting for decreases in the ownership of a subsidiary and expanded the disclosures required for a business combination achieved in stages and for deconsolidation of a business. The adoption of these amendments as of December 31, 2010 did not have a material effect on the consolidated financial statements.

In December 2007, the FASB issued guidance which established new accounting and disclosure requirements for non-controlling, or minority interests, including their classification as a separate component of equity and the adjustment of net income to include amounts attributable to minority interests. This guidance also established new accounting standards requiring recognition of a gain or loss upon deconsolidation of a subsidiary. In 2009, the Company lost control over its German subsidiaries and recorded a \$24.3 million loss on the deconsolidation of the subsidiary.

Fair Value Measurement — In January 2010, the FASB issued additional guidance on improving disclosures regarding fair value measurements. The guidance required entities to disclose the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers, as well as the reasons for any transfers in or out of Level 3. Except for a requirement to disclose information about purchases, sales, issuances, and settlements in the reconciliation of recurring Level 3 measurements on a gross basis, all of the amendments were effective for the Company beginning in the first quarter of 2010. The requirement to separately disclose purchases, sales, issuances, and settlements of recurring Level 3 measurements does not become effective until 2011. These changes did not have a material impact on the consolidated financial statements.

In August 2009, the FASB provided additional guidance clarifying the measurement of liabilities at fair value. These amendments required that the fair value of a liability be measured maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. The amendments also clarified that an adjustment to fair value for a restriction that prevents the transfer of the liability is not required. These changes also clarified how the price of a traded debt security should be considered in estimating the fair value of a liability. These amendments were effective for the first reporting period beginning after their issuance. The adoption of these amendments as of September 30, 2009 did not have a material effect on the consolidated financial statements.

In April 2009, the FASB modified the requirements for fair value disclosures of financial instruments. The modifications required disclosures about the fair value of financial instruments during interim reporting periods and were effective for interim periods ending after June 15, 2009. The adoption of these disclosure requirements as of June 30, 2009 did not have a material effect on the consolidated financial statements.

Pension and Other Postretirement Benefits — In March 2008, the FASB amended the requirements for disclosures about postretirement benefit plan assets. These changes required additional disclosures about the nature and valuation of postretirement benefit plan assets for fiscal years ending after December 15, 2009. These additional disclosures are included in Note 16.

TRONOX INCORPORATED
(Debtor-in-Possession as of January 12, 2009)

Notes to Consolidated Financial Statements — (Continued)

6. Statements of Operations Data

Other Expense

Components of other expense in 2010, 2009 and 2008 were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(Millions of dollars)		
Net unrealized and realized foreign currency loss	\$(12.5)	\$ (7.7)	\$(1.0)
Equity in net losses of equity method investees	(2.0)	(3.6)	(1.0)
Interest income	0.6	0.4	1.0
Gain/(loss) on accounts receivable sales(1)	—	0.5	(3.0)
Loss on derivatives(2)	—	(0.7)	(5.8)
Other	<u>0.3</u>	<u>0.8</u>	<u>0.3</u>
Total	<u>\$(13.6)</u>	<u>\$(10.3)</u>	<u>\$(9.5)</u>

(1) Includes interest income accreted on collections of securitized receivables in 2009 and 2008. See discussion of the accounts receivable securitization program in Note 7.

(2) See discussion of derivatives in Note 14.

Reorganization Expense

Items resulting from reorganization since the January 12, 2009 bankruptcy are recorded in “Reorganization expense” on the Consolidated Statements of Operations.

The Company’s net expense for reorganization items was as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(Millions of dollars)		
Legal and professional fees	\$ (56.9)	\$(50.3)	\$—
Accelerated amortization of debt issuance costs	(28.6)	(17.5)	—
Rejected contracts	(22.8)	(22.1)	—
Indirect environmental claims	(25.9)	—	—
Fees related to the Rights Offering and other debt related costs	(16.8)	—	—
Forgiveness of debt	—	5.0	—
Environmental and tort Settlement adjustment(1)	—	75.7	—
Other net adjustments	<u>6.2</u>	<u>(0.3)</u>	<u>—</u>
Total	<u>\$(144.8)</u>	<u>\$ (9.5)</u>	<u>\$—</u>

(1) See Note 2 for a description of the Legacy Tort Liabilities and the Legacy Environmental Liabilities Settlement.

Rejected contracts and indirect environmental claims comprise adjustments made to reflect the Debtors’ estimated amount of claims to be allowed. Such claims are classified as “Liabilities subject to compromise” on the Consolidated Balance Sheets.

TRONOX INCORPORATED
(Debtor-in-Possession as of January 12, 2009)

Notes to Consolidated Financial Statements — (Continued)

Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share from continuing operations for the years ended December 31, 2010, 2009 and 2008:

	2010			2009			2008		
	<u>Income from Continuing Operations</u>	<u>Shares</u>	<u>Earnings per Share</u>	<u>Loss from Continuing Operations</u>	<u>Shares</u>	<u>Loss per Share</u>	<u>Loss from Continuing Operations</u>	<u>Shares</u>	<u>Loss per Share</u>
	(Millions of dollars, except shares and per share data)								
Basic earnings (loss) per common share	\$4.6	41,232	\$0.11	\$(28.7)	41,176	\$(0.70)	\$(145.5)	40,995	\$(3.55)
Restricted Stock	—	151	—	—	—	—	—	—	—
Diluted earnings (loss) per common share	\$4.6	41,383	\$0.11	\$(28.7)	41,176	\$(0.70)	\$(145.5)	40,995	\$(3.55)

The following table sets forth the computation of basic and diluted earnings (loss) per share from discontinued operations for the years ended December 31, 2010, 2009 and 2008:

	2010			2009			2008		
	<u>Income from Discontinued Operations</u>	<u>Shares</u>	<u>Earnings per Share</u>	<u>Loss from Discontinued Operations</u>	<u>Shares</u>	<u>Loss per Share</u>	<u>Loss from Discontinued Operations</u>	<u>Shares</u>	<u>Loss per Share</u>
	(Millions of dollars, except shares and per share data)								
Basic earnings (loss) per common share	\$1.2	41,232	\$0.03	\$(9.8)	41,176	\$(0.24)	\$(189.4)	40,995	\$(4.62)
Restricted Stock	—	151	—	—	—	—	—	—	—
Diluted earnings (loss) per common share	\$1.2	41,383	\$0.03	\$(9.8)	41,176	\$(0.24)	\$(189.4)	40,995	\$(4.62)

The number of stock options measured under the treasury stock method, that were antidilutive because they were not “in the money” was 1,152,408, 1,162,464 and 1,456,215 at December 31, 2010, 2009 and 2008, respectively. The average exercise price of these antidilutive options was \$9.54, \$9.56 and \$9.13, respectively, at December 31, 2010, 2009 and 2008. As of the Effective Date, all old shares of common stock were canceled and shares of the New Common Stock were issued.

7. Balance Sheet Data

Accounts Receivable

Summarized below are third party accounts receivable, net of the related allowance for doubtful accounts, at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
	(Millions of dollars)	
Accounts receivable — trade	\$209.8	\$201.5
Receivable from insurers(1)	33.1	8.8
Other	<u>1.7</u>	<u>1.9</u>
Total	244.6	212.2
Allowance for doubtful accounts	<u>(0.8)</u>	<u>(1.5)</u>
Net.	<u>\$243.8</u>	<u>\$210.7</u>

TRONOX INCORPORATED
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Notes to Consolidated Financial Statements — (Continued)

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

Receivables Securitization — The Company executed a \$100.0 million accounts receivable securitization program (the “Program”) in September 2007 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, The Royal Bank of Scotland plc (“RBS”) (as successor to ABN AMRO Bank N.V.). The Company 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 a senior secured DIP credit and security agreement, the Company 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 were deposited. The Program was terminated at that time with the entire \$41.1 million balance in transferred receivables repurchased and fully collected from customers by the Company.

The Company accounted for the Program in accordance with ASC 860, Transfers and Servicing (“ASC 860”). At the time a participation interest in the receivables was sold, the receivable representing that interest was removed from the Consolidated Balance Sheets and proceeds were recognized. Upon Program termination, the receivables repurchased were reflected in net cash flows from investing activities and all were subsequently collected in 2009.

The Company’s gain (loss) on the sale of receivables of nil, \$0.5 million and (\$3.0) million for the years ended December 31, 2010, 2009 and 2008, respectively, included interest income accreted on the collections of receivables of nil, \$0.3 million, and \$2.7 million, respectively. The net gain (loss) is included in “Other expense” on the Consolidated Statements of Operations.

Inventories

Major categories of inventories at December 31, 2010 and 2009 were:

	<u>2010</u>	<u>2009</u>
	(Millions of dollars)	
Raw materials	\$ 62.7	\$ 37.6
Work-in-process	6.9	8.2
Finished goods(1)	80.0	103.0
Materials and supplies, net	48.8	46.0
Total	\$198.4	\$194.8

(1) Includes inventory on consignment to other parties of approximately \$8.1 million and \$13.9 million in 2010 and 2009, respectively.

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Notes to Consolidated Financial Statements — (Continued)

Prepaid and other current assets

Major categories of prepaid and other current assets at December 31, 2010 and 2009 were:

	<u>2010</u>	<u>2009</u>
	(Millions of dollars)	
Prepaid expenses	\$ 17.6	\$ 15.7
Environmental settlement escrow(1)	41.3	35.0
Cash collateralized letters of credit and surety bonds	78.2	82.7
Other	<u>7.7</u>	<u>6.9</u>
Total	<u>\$144.8</u>	<u>\$140.3</u>

(1) Funds held in escrow as agreed in the Environmental Settlement, to be released at time of funding the environmental trusts. (See Note 20)

Property, Plant and Equipment, Net

Property, plant and equipment, net at December 31, 2010 and 2009 was as follows:

	<u>2010</u>	<u>2009</u>
	(Millions of dollars)	
Land	\$ 33.3	\$ 32.9
Buildings	93.1	93.6
Machinery and equipment	995.1	989.7
Construction-in-progress	46.2	21.3
Mineral Leaseholds	12.4	12.9
Other	<u>62.7</u>	<u>56.4</u>
Total	1,242.8	1,206.8
Less accumulated depreciation, depletion and amortization	<u>(927.3)</u>	<u>(893.2)</u>
Net	<u>\$ 315.5</u>	<u>\$ 313.6</u>

Other Long-Term Assets

Other long-term assets were as follows at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
	(Millions of dollars)	
Receivable from the U.S. Department of Energy(1)	\$ 3.6	\$ 27.0
Investments in equity method investees	14.8	16.8
Receivable from Kerr-McGee(1)	—	17.8
Debt issuance costs, net	14.8	37.2
Deferred tax benefits	9.4	4.0
Other, net	<u>4.1</u>	<u>3.7</u>
Total	<u>\$46.7</u>	<u>\$106.5</u>

(1) See Note 20 for a description of the environmental-related receivable related to environmental remediation expenditures.

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Notes to Consolidated Financial Statements — (Continued)

Accrued Liabilities

Accrued liabilities at December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
	(Millions of dollars)	
Employee-related costs and benefits	\$23.1	\$24.6
Sales rebates	7.6	7.3
Taxes other than income taxes	8.3	7.7
Interest	1.3	1.5
Asset retirement obligations	1.4	0.8
Reserves for environmental remediation and restoration	0.2	0.1
Other	<u>3.8</u>	<u>4.9</u>
Total	<u>\$45.7</u>	<u>\$46.9</u>

Noncurrent Liabilities — Other

Noncurrent liabilities — other consisted of the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
	(Millions of dollars)	
Reserve for uncertain tax positions	\$19.1	\$15.4
Asset retirement obligations	17.9	10.5
Reserve for workers' compensation and general liability claims	8.2	9.1
Reserves for environmental remediation and restoration	0.6	0.3
Other	<u>1.6</u>	<u>2.5</u>
Total	<u>\$47.4</u>	<u>\$37.8</u>

8. 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>2010</u>	<u>2009</u>	<u>2008</u>
	(Millions of dollars)		
Workers compensation and insurance liability	\$ 3.7	\$ 1.9	\$(1.1)
Abandonment expense	0.7	5.6	—
Asset retirement obligation accretion expense	0.4	0.6	2.7
Asset retirement obligation changes in estimates	(0.2)	(0.6)	0.7
Change in estimated legal accruals	—	—	6.5
Inventory write-downs	0.6	—	—
Equity in loss of affiliates	2.0	0.3	1.0
Other net adjustments	<u>(2.7)</u>	<u>0.4</u>	<u>(0.3)</u>
Total	<u>\$ 4.5</u>	<u>\$ 8.2</u>	<u>\$ 9.5</u>

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Notes to Consolidated Financial Statements — (Continued)

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(Millions of dollars)		
Environmental expenditures, net of reimbursements	\$12.7	\$ 7.5	\$(18.9)
Pension and postretirement	(7.0)	(6.2)	(9.4)
Asset retirement obligation expenditures	—	—	(2.4)
Other net adjustments	(0.2)	(3.2)	(9.9)
Total	\$ 5.5	\$(1.9)	\$(40.6)

9. Impairment of Goodwill, Other Intangibles and Long-Lived Assets

Assessing the impairment of goodwill, other intangibles and long-lived 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.

Continuing Operations

2008

In the fourth quarter of 2008, impairment tests on specific long-lived assets were triggered due to the credit crisis, the impending recession and downward pressure on the then current, as well as forecasted volumes and prices at the Company’s facility in Botlek, the Netherlands. As a result, management concluded that the carrying amount of certain long-lived assets was not fully recoverable and a non-cash charge of \$21.6 million was recorded. Additionally, in 2008, the Company recognized \$3.3 million of impairments related to capital expenditures at the Savannah plants subsequent to the plants being fully impaired in 2007.

Discontinued Operations

2008

In the second quarter of 2008, upon concluding its annual goodwill and other indefinite-lived intangibles impairment testing, the Company determined that current and forecasted economic conditions, including increased production costs, did not provide sufficient cash flows to support the carrying value of the goodwill associated with operations in Uerdingen, Germany. As a result, the Company recorded a \$13.5 million impairment of goodwill related to its German operations, which is included in “Income (Loss) from discontinued operations” on the Consolidated Statement of Operations.

During the fourth quarter of 2008, an impairment charge of \$106.6 million on specific long-lived assets in Uerdingen, Germany was recorded, in “Income (Loss) from discontinued operations” on the Consolidated Statement of Operations. The impairment was triggered by reductions in forecasted volumes and prices, as a result of market conditions beginning to deteriorate and corresponding decreases in the Company’s sales.

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(Debtor-in-Possession as of January 12, 2009)

Notes to Consolidated Financial Statements — (Continued)

10. Asset Retirement Obligations

A summary of the changes in the asset retirement obligations during 2010 and 2009 is included in the table below.

	<u>2010</u>	<u>2009</u>
	(Millions of dollars)	
Balance, January 1	\$11.3	\$ 39.6
Transfer to liabilities subject to compromise	—	(27.2)
Settlements/payments	(0.9)	(2.3)
Accretion expense	0.5	0.6
Changes in estimates, including cost and timing of cash flows(1)	<u>8.4</u>	<u>0.6</u>
Balance, December 31	<u>\$19.3</u>	<u>\$ 11.3</u>
Current portion included in accrued liabilities	<u>\$ 1.4</u>	<u>\$ 0.8</u>
Noncurrent portion included in noncurrent liabilities — other	<u>\$17.9</u>	<u>\$ 10.5</u>

(1) Includes an increase of \$1.3 million and \$2.7 million, respectively, due to foreign currency revaluation of the Company's Australian obligation in 2010 and 2009.

A summary of the asset retirement obligations by site for the years ended December 31, 2010 and 2009 is included in the table below.

	<u>2010</u>	<u>2009</u>
	(Millions of dollars)	
Australia Tiwest Joint Venture	\$10.6	\$10.1
Botlek	7.5	0.1
Hamilton	<u>1.2</u>	<u>1.1</u>
Total asset retirement obligations	<u>\$19.3</u>	<u>\$11.3</u>

Transfers to LSTC

The Mobile, Alabama synthetic rutile plant was shut down in 2003. Operations at the Mobile plant included production of feedstock for the Company's TiO₂ plants. Feedstock operations had resulted in minor contamination of groundwater adjacent to surface impoundments resulting from the normal operations of this facility. Activities related to decommissioning have been substantially completed except for ongoing activities at the site, such as, collecting and treating rain water from the manufacturing plant footprint. Pond closure activities relate to the removal of iron oxide at the site and are still ongoing.

The sulfate TiO₂ facility was shut down and the related gypsum operations were curtailed at the Savannah, Georgia plant in 2004. An asset retirement liability related to the TiO₂ sulfate production was established to address remediation activities resulting from the normal operations of this facility, including environmental assessment, closure of certain impoundments, groundwater monitoring, asbestos abatement, and other work.

As part of the Environmental Settlement, the Company contributed its Mobile and Savannah facilities. Therefore, the asset retirement liabilities were transferred to and are classified as "Liabilities subject to compromise" on the Consolidated Balance Sheets (see Notes 13 and 20).

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(Debtor-in-Possession as of January 12, 2009)

Notes to Consolidated Financial Statements — (Continued)

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 its Tiwest Joint Venture. As of December 31, 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.

11. Debt

Long-term debt consisted of the following as of December 31, 2010 and 2009:

	2010	2009
	(Millions of dollars)	
Debtor-In-Possession and Exit Credit Agreement — Final DIP Facility (1, 3) . . .	\$ 425.0	\$ —
Debtor-In-Possession and Exit Credit Agreement — Second DIP Facility(2)	—	425.0
9.5% Senior Unsecured Notes due December 2012	350.0	350.0
Total debt	775.0	775.0
Less: Long-term debt due in one year	(4.3)	(1.7)
Less: Long-term debt classified as liabilities subject to compromise.	(350.0)	(350.0)
Long-term debt	\$ 420.7	\$ 423.3

- (1) Average effective interest rate of 7.7% in 2010.
- (2) Average effective interest rate of 12.5% in 2010 and 10.4% in 2009.
- (3) The Company exercised its exit facility option on February 14, 2011, upon which the Final DIP Facility was converted to the Exit Financing Facility due October 21, 2015. Therefore, the Final DIP Facility has been classified as long-term.

The scheduled maturities of the Company's debt were as follows at December 31, 2010:

	Total Debt
	(Millions of dollars)
2011	\$ 4.3
2012	4.3
2013	4.3
2014	4.3
2015	407.8
Total debt	\$425.0

As of December 31, 2010, the total carrying value of long-term debt approximates its fair value due to the variable interest rates on such instruments. The fair value hierarchy for long-term debt is Level 2 (Significant Other Observable Inputs).

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Notes to Consolidated Financial Statements — (Continued)

2009 and Prior

Term Loan Facility and Multicurrency Revolving Credit Facility

In November 2005, Tronox Worldwide LLC, a wholly owned subsidiary of the Company, entered into a senior secured credit facility consisting of a \$200.0 million six-year term loan facility (“the Term Loan Facility”) and a five-year multicurrency revolving credit facility with maximum borrowing capacity of \$250.0 million (“the Revolving Credit Facility”). Interest on amounts borrowed under the credit agreement was payable, at Tronox Worldwide LLC’s election, at a base rate or a LIBOR rate, in each case as defined in the credit agreement.

The filing of the bankruptcy petitions on January 12, 2009, constituted an event of default under the Term Loan Facility. The total principal amount owed under the Term Loan Facility was \$212.8 million as of the Petition Date. As a result of such event of default, all obligations under the notes and the Term Loan Facility became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Company and the application of applicable bankruptcy law. As discussed below, the total principal amount owed under the Term Loan Facility was repaid in December 2009 with the funds from the Second DIP Facility.

9.5% Senior Unsecured Notes due December 2012

In November 2005, 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 provide 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 Senior Unsecured Notes are shown within “Liabilities subject to compromise” on the Consolidated Balance Sheets (see Note 13). While operating as a debtor-in-possession during the Chapter 11 bankruptcy proceedings, Tronox ceased recording interest on all unsecured prepetition indebtedness in accordance with ASC 852. Therefore, interest expense for the twelve months ended December 31, 2010, 2009 and 2008 excludes \$33.3 million, \$32.1 million and nil, respectively. Additionally, the unamortized debt issuance costs related to the 9.5% Senior Unsecured Notes were treated as valuations of the carrying value of the related debt and compared against the expected allowed claim on the debt. The Company consequently wrote off \$4.1 million of unamortized debt issuance costs associated with its 9.5% Senior Unsecured Notes in January 2009.

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

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Notes to Consolidated Financial Statements — (Continued)

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 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 the Settlement obligations under the December 2009 plan.

In December 2009, the proceeds from the Second DIP Facility were used, in part, to repay \$212.8 million related to the 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, environmental letters of credit of \$29.9 million, and surety bonds of \$15.0 million, some of which were transferred to the environmental trust as a 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 that was used to refinance Tronox’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 (“the Exit Facility Option”), upon which the Final DIP Facility 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% or adjusted Eurodollar rate plus a margin of 5%. 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 was defined as the greater of (i) the LIBOR rate in effect at the beginning of the interest period, or (ii) 2%. Interest was payable quarterly or, if the adjusted Eurodollar rate applies, 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, 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. The Final DIP Facility also contained covenants that limit 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 carried-forward from one year to the next. In addition, the Final DIP Facility required the following financial ratios specified below to be maintained.

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The Final DIP Facility Leverage Ratio, as defined in the agreement, was not to exceed, as of the last day of any fiscal quarter, the correlative ratio indicated as follows:

<u>Fiscal Quarter Ending</u>	<u>Total Leverage Ratio</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

The Final DIP Facility Interest Coverage Ratio, as defined in the agreement, was not to be less than, as of the last day or any fiscal quarter, the correlative ratio indicated as follows:

<u>Fiscal Quarter Ending</u>	<u>Interest Coverage Ratio</u>
December 31, 2010 and thereafter	2.50:1.00

The Company was in compliance with its financial covenants at December 31, 2010.

2011

Exit 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 in *Asset Based Lending Facility*).

Asset Based Lending Facility

On February 14, 2011 the Company entered into a senior secured asset-based revolving credit agreement with Wells Fargo Capital Finance, LLC (the “Wells Revolver”) with 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.

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 Term Facility.

The Wells Revolver bears interest at the Company’s option at the greater of either (i) 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.

The Wells Revolver contains various covenants and restrictive provisions which limit the Company’s ability to incur additional indebtedness. The Wells Revolver agreement 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

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than \$18.75 million. If the Company is required to maintain the fixed charge coverage ratio then either: (i) the consolidated adjusted earnings before interest, taxes, depreciation, amortization, and restructuring (“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 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.

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 agreements. In such case, the Company may not have sufficient funds to pay the total amount of accelerated obligations, and the Company’s lenders under the Final DIP Facility could proceed against the collateral pledged. Any acceleration in the repayment of the Company’s indebtedness or related foreclosure could adversely affect the business.

12. Restructuring and Exit Activities

The Company previously owned and operated a TiO₂ plant in Antwerp, Belgium, which was shut down during 2001. The remaining reserve for exit activities at the beginning of 2008 consisted of \$1.5 million related to employee severance and \$0.6 million related to long-term closure costs. The Company paid severance costs of \$0.5 million, \$0.3 million and \$0.3 million in 2010, 2009 and 2008 respectively. The Company paid \$0.1 million in closure costs in 2009. Severance payments were expected to continue until the year 2016. However 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.

The Company implemented an involuntary work force reduction program in 2007 as part of its ongoing efforts to reduce operating and selling, general and administrative costs. The work force review was global in scope, with the exception of the Company’s Uerdingen, Germany, facility. The remaining provision at the beginning of 2008 for severance and other employee related costs of \$0.9 million was paid during 2008.

In 2008, the Company announced involuntary work force reduction programs in the U.S. As a result of the programs, the work force was reduced by 112 employees. Qualifying employees terminated under the programs were eligible for special termination benefits under the Company’s pension plan along with severance payments. In connection with the 2008 programs in the U.S., the Company incurred pretax charges of \$2.3 million for severance and other employee related costs. These costs for 2008 are reflected in the Statement of Operations with \$0.4 million in selling, general and administrative expenses and \$1.9 million in restructuring costs. The total charge attributable to the Company’s pigment reportable segment was \$1.3 million. Payments of \$2.0 million were made during 2008.

In 2009, the Company ceased TiO₂ operations at its Savannah, Georgia facility. Employees were provided special termination benefits under the Company’s pension plan along with severance payments. The Company incurred pretax charges of \$0.6 million for severance and other employee related costs, with \$0.4 million paid out during 2009. These costs for 2009 of \$0.6 are reflected in the Statement of Operations within restructuring costs. The remaining \$0.2 million was paid in 2010. Such costs were attributable to the Company’s pigment reportable segment.

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In 2009, the Company also identified certain closure reserves for operations that were no longer required and therefore reversed the reserve balance.

Restructuring and Exit Reserves. The following table presents a reconciliation of the beginning and ending balances of reserves for restructuring and exit activities for 2010 and 2009, followed by a brief description of the items which make up the ending 2010 balance.

	2010			2009		
	Personnel Costs	Dismantlement and Closure	Total(1)	Personnel Costs	Dismantlement and Closure	Total(1)
			(Millions of dollars)			
Beginning balance	\$ 1.2	\$ 0.3	\$ 1.5	\$ 1.6	\$ 1.4	\$ 3.0
Provisions	—	—	—	0.6	—	0.6
Payments	(0.7)	—	(0.7)	(0.7)	(0.1)	(0.8)
Adjustments(2)	<u>(0.4)</u>	<u>(0.3)</u>	<u>(0.7)</u>	<u>(0.3)</u>	<u>(1.0)</u>	<u>(1.3)</u>
Ending balance	<u>\$ 0.1</u>	<u>\$ —</u>	<u>\$ 0.1</u>	<u>\$ 1.2</u>	<u>\$ 0.3</u>	<u>\$ 1.5</u>

- (1) Amounts exclude AROs and special termination benefits under the Company’s pension plan.
- (2) The adjustments in 2010 are included within the Statement of Operations with \$0.3 million in “Cost of goods sold” and \$0.4 million in “Other expense.” The adjustments in 2009 are included within the Statement of Operations with \$0.5 million in “Cost of goods sold” and \$0.8 million in “Other expense.”

The reserve balance for personnel costs of \$0.1 million at the end of 2010 relates to the closure of the Mobile, Alabama facility.

13. Liabilities Subject to Compromise

As a result of the Bankruptcy Cases, the payment of prepetition indebtedness was subject to compromise or other treatment under the Debtors’ Plan. Although actions to enforce or otherwise effect payment of prepetition claims were generally stayed, at hearings held in January 2009, the U.S. 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 have paid and continue to pay substantially 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 U.S. 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 are classified as “Liabilities subject to compromise” on the Consolidated Balance Sheets.

On May 28, 2009, the U.S. 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 in the Bankruptcy Cases. 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 Cases, claims timely filed by the claims bar date were or will ultimately be 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 object to any filed claims, the U.S. Bankruptcy Court has made the final determination as to the amount, nature and validity of such claims. Moreover, the treatment of allowed claims against the Debtors is

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determined pursuant to the terms of the Plan, which was confirmed by the U.S. Bankruptcy Court on November 30, 2010.

Prepetition liabilities that are subject to compromise are reported at the amounts expected to be allowed, even if they potentially may be settled for lesser amounts.

Liabilities subject to compromise consist of the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
	(Millions of dollars)	
Legacy Environmental Liabilities	\$422.2	\$ 499.7
Senior Unsecured Notes due December 2012	350.0	350.0
Indirect environmental claims	38.6	12.7
Accounts payable	21.5	24.7
Interest payable	20.4	20.4
Legacy tort liabilities	17.9	18.6
Rejected contracts	9.5	8.4
Nonqualified benefits restoration plan	9.4	9.6
U.S. qualified and postretirement healthcare pension plans	—	96.9
Income and franchise taxes payable	5.3	—
Other	<u>5.5</u>	<u>7.4</u>
Total liabilities subject to compromise	<u>\$900.3</u>	<u>\$1,048.4</u>

14. Derivative Instruments

As a result of the Company's 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 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.

The Company 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 previously designated and qualified as cash flow hedges in accordance with ASC 815. As such, the resulting changes in fair value of these contracts, to the extent they were effective, were recorded in "Accumulated other comprehensive income" on the Consolidated Balance Sheets. Upon settlement, the gains and losses were recognized in earnings in the periods during which the forecasted transactions affected earnings (i.e., reported as cost of goods sold when inventory is sold).

The Company had three interest-rate swap contracts to hedge interest payments on three \$25.0 million tranches of its 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 such, the resulting changes in fair value of these contracts were recorded in "Accumulated other comprehensive income" on the Consolidated Balance Sheets. Settlement occurred concurrent with interest

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payments that were made on a quarterly basis where realized gains or losses were recognized as a component of interest expense.

Previously, the Company entered into foreign currency derivative contracts as economic hedges for a portion of its foreign currency transactions.

In 2008, pretax gains on qualifying cash flow hedges of \$2.1 million were reclassified from “Accumulated other comprehensive income” on the Consolidated Balance Sheets to earnings. The 2008 amount excludes gains and losses from the Company’s foreign currency derivatives. The ineffective portfolio of the derivatives designated as hedges was nil.

The total amount of net realized and unrealized losses on non-hedge derivatives for natural gas, exchange rates and interest rate swaps reflected in “Other expense” on the Consolidated Statements of Operations for 2010, 2009 and 2008 were nil, \$0.7 million and \$5.8 million, respectively.

15. Financial Instruments

The Company holds or issues financial instruments for other than trading purposes. At December 31, 2010 and 2009, the carrying amounts and estimated fair values of these instruments are as follows:

	December 31, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(Millions of dollars)			
Cash and cash equivalents	\$141.7	\$141.7	\$143.3	\$143.3
Long-term receivables	4.8	4.8	45.9	45.9
Grantor trust assets.	1.0	1.0	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, consisting of cash and cash equivalents, are also a Level 1 fair value measurement based upon the existence of active markets with quoted prices for identical assets. The fair value for long-term receivables is equal to the carrying value as such receivables were based upon contractual amounts.

16. Pension and Other Postretirement Benefits

Retirement Plans

Overview — Tronox is the sponsor of noncontributory defined benefit retirement plans (qualified and nonqualified plans) in the U.S., 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.

The qualified defined benefit plan was frozen and closed to new participants on June 1, 2009. The nonqualified benefits restoration plan was frozen and closed to new entrants on June 30, 2008. 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. In April 2009, the Company announced it would also be suspending the benefits accrued under its U.S. qualified benefit plan effective April 1, 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 and 2009 of \$9.4 million and \$9.6 million, respectively, for

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these claims is reported in “Liabilities subject to compromise” on the Consolidated Balance Sheets, and was settled as part of the Plan.

As discussed in Note 19, 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.

Establishment of U.S. Plans — 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 are generally based on years of service and final average pay. The supplemental nonqualified benefit plans are 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 \$1.0 million as of December 31, 2010 and 2009, and have been recorded at fair value in the Consolidated Balance Sheets in other long-term assets with changes in fair value recognized currently 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.

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.

During the second quarter of 2008, the Company announced additional changes to the cost-sharing provisions between the Company and plan participants to take effect beginning on April 1, 2009. This announcement resulted in another plan remeasurement, which was performed by the Company’s actuary in June 2008. A discount rate of 6.75% was used for this remeasurement. The plan changes reduced the Company’s postretirement benefit obligation by \$21.5 million. The plan changes reduced 2008 estimated annual net periodic cost by approximately \$2.1 million.

As a result of the Company’s workforce reduction activities coupled with higher employee turnover, the Company experienced a significant increase in the number of employees retiring in 2008. The increase in retirements led to a corresponding increase in lump sum distributions under the Company’s U.S. qualified and nonqualified benefit plans. The total lump sum distributions reached a material limit that required the Company to record partial settlements on those plans in accordance with ASC 715, Compensation — Retirement Benefits (“ASC 715”). The partial settlements resulted in a settlement loss of \$18.5 million related to the U.S. qualified

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benefit plan and \$1.5 million related to the U.S. nonqualified benefit plan. Settlement losses increased net periodic pension cost, which is reflected in “Selling, general and administrative expenses” in the Consolidated Statements of Operations.

In July 2008, the Company announced a temporary suspension of benefits accrued under its U.S. nonqualified benefit plan effective July 1, 2008. At the time of the announcement, the Company anticipated resuming benefit accruals at the beginning of 2009 and at December 31, 2008, no decision had been made regarding the timing of when the benefits would resume. Subsequent to December 31, 2008, and in conjunction with the filing for Chapter 11 protection, the Debtors decided not to immediately petition the 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 the first quarter of 2009. In April 2009, the Company announced it would also be suspending the benefits accrued under its U.S. qualified benefit plan effective April 1, 2009.

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,

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2010 and 2009. The benefit obligations and plan assets associated with the Company's principal benefit plans are measured on December 31.

	<u>Retirement Plans</u>		<u>Postretirement Healthcare Plan</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(Millions of dollars)			
<i>Change in benefit obligations —</i>				
Benefit obligation, beginning of year	\$ 482.3	\$436.0	\$ 22.7	\$ 26.5
Service cost	2.5	3.7	0.2	0.3
Interest cost	24.8	25.7	0.4	1.3
Plan changes	—	—	(11.7)	—
Net actuarial gains (losses)	25.3	43.1	(1.3)	(2.2)
Foreign currency rate changes	(6.1)	2.3	—	—
Contributions by plan participants	0.5	0.5	1.1	1.7
Special termination benefits	—	3.3	—	—
Benefits paid	(46.5)	(29.9)	(2.9)	(4.9)
Administrative expenses	(2.1)	(2.4)	—	—
Benefit obligation, end of year	<u>480.7</u>	<u>482.3</u>	<u>8.5</u>	<u>22.7</u>
<i>Change in plan assets —</i>				
Fair value of plan assets, beginning of year	386.0	354.2	—	—
Actual return on plan assets	34.1	58.6	—	—
Employer contributions(1)	5.2	3.0	1.8	3.2
Participant contributions	0.5	0.5	1.1	1.7
Foreign currency rate changes	(5.3)	2.0	—	—
Benefits paid(1)	(46.5)	(29.9)	(2.9)	(4.9)
Administrative expenses	(2.1)	(2.4)	—	—
Fair value of plan assets, end of year(2)	<u>371.9</u>	<u>386.0</u>	<u>—</u>	<u>—</u>
Net over (under) funded status of plans	<u><u>\$(108.8)</u></u>	<u><u>\$(96.3)</u></u>	<u><u>\$(8.5)</u></u>	<u><u>\$(22.7)</u></u>
<i>Classification of amounts recognized in the Consolidated Balance Sheets —</i>				
Liabilities subject to compromise (1, 4)	\$ (9.4)	\$(83.8)	\$ —	\$(22.7)
Current accrued benefit liability	(0.1)	—	(0.6)	—
Noncurrent accrued benefit liability(4)	<u>(99.3)</u>	<u>(12.5)</u>	<u>(7.9)</u>	<u>—</u>
Sub-total of liabilities(3)	(108.8)	(96.3)	(8.5)	(22.7)
Accumulated other comprehensive loss (pretax)	<u>188.8</u>	<u>176.7</u>	<u>(67.4)</u>	<u>(68.0)</u>
Total	<u><u>\$ 80.0</u></u>	<u><u>\$ 80.4</u></u>	<u><u>\$(75.9)</u></u>	<u><u>\$(90.7)</u></u>

(1) The Company expects 2011 contributions to be approximately \$4.1 million for the Netherlands plan and \$2.8 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. Because the nonqualified pension plan was terminated, amounts payable in 2011 represent the settlement of the entire liability, which will be settled under the terms of

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the Plan. The net obligation for this plan is reflected in “Liabilities subject to compromise” on the December 31, 2010 and 2009 Consolidated Balance Sheets.

- (2) Excludes the grantor trust assets of \$1.0 million at December 31, 2010 and 2009 associated with the nonqualified U.S. plan sponsored by the Company. The Grantor trust was liquidated in 2011 with the remaining funds reverting to the Company.
- (3) ASC 715 requires that the plan sponsor carry the funded status of all plans on its balance sheet.
- (4) During Chapter 11 proceedings, pension obligations of the Debtors were classified as “Liabilities subject to compromise” on the Consolidated Balance Sheet. 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 to current or long-term liabilities, as appropriate, at the Confirmation Date.

At December 31, 2010, the Company’s U.S. qualified retirement plan was in an underfunded status of \$88.2 million. As a result, the Company has a projected minimum funding requirement of \$2.8 million for 2010, which will be payable in 2011.

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

	December 31, 2010(1)	December 31, 2009(1)
	(Millions of dollars)	
Accumulated benefit obligation	\$9.5	\$9.7
Projected benefit obligation	9.5	9.7

- (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 and 2009.

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.

	At December 31, 2010		At December 31, 2009	
	U.S. Qualified Plan	The Netherlands Retirement Plan	U.S. Qualified Plan	The Netherlands Retirement Plan
	(Millions of dollars)		(Millions of dollars)	
Accumulated benefit obligation	\$ 375.9	\$ 84.2	\$ 378.4	\$ 83.1
Projected benefit obligation	(376.3)	(94.9)	(379.4)	(93.2)
Market value of plan assets	<u>288.1</u>	<u>83.8</u>	<u>305.3</u>	<u>80.7</u>
Funded status — (under)/over funded	<u>\$ (88.2)</u>	<u>\$(11.1)</u>	<u>\$ (74.1)</u>	<u>\$(12.5)</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 2016 through 2020:

	2011	2012	2013	2014	2015	2016- 2020
	(Millions of dollars)					
Retirement Plans(1)	\$34.4	\$29.9	\$30.3	\$30.1	\$30.3	\$151.0
Postretirement Healthcare Plan	0.6	0.6	0.6	0.6	0.6	3.4

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(1) Includes benefit payments expected to be paid from the U.S. qualified retirement plan of \$31.6 million, \$27.0 million, \$27.2 million, \$26.9 million and \$26.8 million in each year, 2011 through 2015, respectively, and \$131.0 million in the aggregate for the period 2016 through 2020.

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 2010, 2009, and 2008:

	<u>Retirement Plans</u>			<u>Postretirement Healthcare Plan</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(Millions of dollars)			(Millions of dollars)		
Net periodic cost —						
Service cost	\$ 2.5	\$ 3.7	\$ 8.4	\$ 0.2	\$ 0.3	\$ 0.5
Interest cost	24.8	25.7	29.8	0.4	1.3	2.4
Expected return on plan assets	(30.0)	(28.7)	(36.6)	—	—	—
Curtailment/special termination/settlement loss(1)	—	10.0	26.1	—	—	0.1
Net amortization — Prior service cost (credit) . . .	0.1	1.3	2.7	(13.8)	(12.5)	(11.4)
Net amortization — Actuarial (gain) loss	<u>3.8</u>	<u>4.7</u>	<u>2.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.5</u>
Sub-total net periodic cost (income)	\$ 1.2	\$ 16.7	\$ 32.5	\$(13.0)	\$(10.7)	\$ (7.9)

(1) The special termination benefits are associated with the work force reduction programs discussed in Note 12.

The following table shows the pretax amounts that are expected to be reclassified from “Accumulated other comprehensive income (loss)” to retirement expense during 2011:

	<u>Retirement Plans</u>	<u>Postretirement Healthcare Plan</u>
	(Millions of dollars)	
Unrecognized actuarial loss	\$6.0	\$ 0.3
Unrecognized prior service cost (credit)	0.1	(13.4)

As discussed in Note 25, accumulated other comprehensive income (loss) was eliminated under the application of fresh-start accounting on the Effective Date.

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

	<u>2010</u>		<u>2009</u>		<u>2008</u>	
	<u>United States</u>	<u>International</u>	<u>United States</u>	<u>International</u>	<u>United States</u>	<u>International</u>
Discount rate	5.50%	5.25%	6.25%	6.00%	6.25%	5.50%
Expected return on plan assets	7.50%	5.75%	7.50%	5.50%	7.50%	5.50%
Rate of compensation increases	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%

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

	2010		2009		2008	
	United States	International	United States	International	United States	International
Discount rate	5.00%	5.00%	5.50%	5.25%	6.25%	6.00%
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 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 its foreign plans, the Company based the discount rate assumption on local corporate bond index rates.

At December 31, 2010 the assumed health care cost trend rates used to measure the expected cost of benefits covered by the postretirement healthcare plan was 9% in 2011, gradually declining to 5% in 2017 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, 2010 by \$0.8 million, while the aggregate of the service and interest cost components of the 2010 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, 2010 by \$0.8 million and decrease the aggregate of the service and interest cost components of the net periodic postretirement cost for 2010 by \$0.1 million.

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

	2010		2009	
	Actual	Target	Actual	Target
United States				
Equity securities	45%	40%	45%	40%
Debt securities	53	60	51	60
Cash and cash equivalents	<u>2</u>	<u>—</u>	<u>4</u>	<u>—</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Netherlands				
Equity securities	35%	25%	32%	25%
Debt securities	54	58	58	58
Real estate	9	10	7	10
Cash and cash equivalents	<u>2</u>	<u>7</u>	<u>3</u>	<u>7</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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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, each with one equal 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.

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

	U.S. Pension			Total
	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)	
	(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.

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	Non-U.S. Pension			Total
	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)	
	(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

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The fair values of pension investments as of December 31, 2009 are summarized below:

	U.S. Pension			Total
	Fair Value Measurement at December 31, 2009, Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(Millions of dollars)			
Asset category:				
Equity securities — U.S.	\$115.4(1)	\$ —	\$22.4(3)	\$137.8
Debt securities				
Corporate	—	11.4(6)	—	11.4
U.S. Mutual Funds	82.2(2)	—	—	82.2
Government	18.4(5)	0.4(6)	—	18.8
Asset-backed	—	0.5(6)	—	0.5
Mortgages	—	31.9(6)	—	31.9
International Commingled Fixed Income Funds	—	11.7(7)	—	11.7
Cash & cash equivalents				
Commingled Cash Equivalents Fund	—	11.0(4)	—	11.0
Total at fair value	<u>\$216.0(1)</u>	<u>\$66.9</u>	<u>\$22.4</u>	<u>\$305.3</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 U.S. equity securities, fair value is based on the valuation provided by the fund manager, and therefore deemed Level 3 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 international commingled fixed income funds, fair value is based on observable inputs of comparable market transactions, which are Level 2 inputs.

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Non-U.S. Pension				
Fair Value Measurement at December 31, 2009, Using:				
Asset category:	<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>	<u>Total</u>
	(Millions of dollars)			
Equity securities — Non-U.S.	\$—	\$27.6(1)	\$—	\$27.6
Debt securities				
Pooled Funds	—	47.4(2)	—	47.4
Real Estate Pooled Fund	<u>—</u>	<u>5.7(3)</u>	<u>—</u>	<u>5.7</u>
Total at fair value	\$—	\$80.7	\$—	\$80.7

- (1) For equity securities in the form of fund units that are redeemable at the measurement date, the unit value is deemed as Level 2 inputs.
- (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 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, 2009:

	U.S. Level 3 Assets	
	International Comingled Funds US Equity	Total
	(Millions of dollars)	
Balance at December 31, 2008	\$20.4	\$20.4
Realized gain	1.2	1.2
Net unrealized gain	3.4	3.4
Purchases, sales, issuances, and settlements (net)	<u>(2.6)</u>	<u>(2.6)</u>
Balance at December 31, 2009	<u>\$22.4</u>	<u>\$22.4</u>

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 were paid. In 2006, eligible employees who elected to participate could contribute and receive a 100% Company matching contribution of up to 6% of the employees’ compensation (as defined in the SIP). 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. Compensation expense associated with the Company’s matching contribution was \$1.2 million, nil and \$1.4 million for the years ended December 31, 2010, 2009 and 2008, respectively. Effective January 1, 2011, the Board approved a discretionary Company non-matching contribution of 6% of pay. This new discretionary Company non-matching

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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%.

17. Employee Stock-Based Compensation

Upon emergence from bankruptcy, all 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. A total of 6,060,000 shares of the Company’s Class A common stock were authorized to be issued under the LTIP. A maximum of 3,000,000 shares were authorized for issuance in connection with awards of restricted stock, performance awards, and stock options to employees, and 250,000 shares of restricted stock and stock options to non-employee directors. The LTIP also included certain limitations on the size of awards to an individual employee and to non-employee directors as a group. Subject to these limits, a committee of the Board administering the LTIP (“Committee”) determined the size and types of awards to be issued.

The maximum period for exercise of an option granted under the LTIP may not be more than ten years from the date the grant is authorized by the Committee and the exercise price may not be less than the fair market value of the Class A common stock on the date the option is granted. The Committee determined the nature and extent of the restrictions on grants of restricted stock, the duration of such restrictions and any circumstances under which restricted shares would be forfeited.

Stock-based awards granted by the Company to its employees and non-employee directors generally had the following terms:

	<u>Contractual Life (Years)</u>	<u>Vesting Period (Years)</u>	<u>Vesting Terms</u>	<u>Cash- or Stock- Settled</u>	<u>Vesting and Other Conditions</u>
Stock options	10	3	Graded(1)	Stock	Employee service
Restricted stock-based awards(2)	Not applicable	3	Cliff(3)	Stock	Employee service
Performance Shares(4)	Not applicable	3	Cliff(3)	Cash	Employee service
Performance Units(4)	3	3	Cliff(3)	Cash	Employee service and achievement of specified stockholder return targets

(1) Awards vest equally at the end of each service year over the vesting period. Employees terminating their employment due to retirement become fully vested in their award upon retirement.

(2) Restricted stock-based awards include restricted stock, restricted stock units and stock opportunity grants, all of which are valued and accounted for in a similar manner. Restricted stock units and stock opportunity grants do not result in certificates being issued until service has been rendered. As such, holders of these awards do not have the right to receive dividends and do not have the right to vote their shares until the restrictions lapse.

(3) Awards vest at the end of the three-year service period. Employees terminating their employment due to retirement become fully vested in their award upon retirement.

(4) Performance shares are valued by reference to the closing Class A common stock price at each measurement date. Performance units are valued using the Monte Carlo simulation and provide an employee with a potential cash payment at the end of a three-year performance cycle based on the Company’s total shareholder return (shareholder return assuming dividend reinvestment) relative to selected peer companies.

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Compensation Expense — The following summarizes total stock-based compensation expense recognized in income from continuing operations in 2010, 2009 and 2008. Stock-based compensation expense is based on the fair value of the awards.

	2010	2009	2008
	(Millions of dollars)		
Stock options	\$0.2	\$ 0.4	\$ 0.4
Restricted stock-based awards	0.3	(0.2)	0.5
Performance awards	<u>—</u>	<u>—</u>	<u>(0.4)</u>
Total stock-based compensation expense	0.5	0.2	0.5
Income tax benefit(1)	<u>—</u>	<u>—</u>	<u>—</u>
Total stock-based compensation expense,	<u><u>\$0.5</u></u>	<u><u>\$ 0.2</u></u>	<u><u>\$ 0.5</u></u>

(1) A valuation allowance on certain deferred tax assets of the U.S. consolidated group was recognized in the year ending December 31, 2007. During 2008 through 2010, the valuation allowance was adjusted for activity during each year. For this reason, any tax benefit associated with compensation expense had a corresponding offset to the valuation allowance, yielding no overall income tax benefit.

As of December 31, 2010, there was less than \$0.1 million of total unrecognized compensation cost related to unvested restricted stock and stock options. The cost was recognized in January 2011.

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

	Number of Options	Price(1)	Contractual Life (Years)(1)	Intrinsic Value (Millions)(2)
Options outstanding at December 31, 2009.	1,162,464	\$ 9.56	6.32	\$(11.1)
Options awarded	—			
Options exercised	—			
Options forfeited	<u>(10,056)</u>	11.69		
Options outstanding at December 31, 2010.	<u>1,152,408</u>	\$ 9.54	5.31	\$(11.0)
Options exercisable at December 31, 2010	852,431	\$11.85	4.56	\$(10.1)
Outstanding options expected to vest	<u>1,152,408</u>	\$ 9.54	5.31	\$(11.0)

(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, 2010, and the options' exercise price.

The Company granted 585,039 stock options in 2008, at a weighted average exercise price of \$4.00 per share. No options were exercised during 2008. The Company did not grant stock options during 2009 and 2010.

Valuation and Cost Attribution Methods. Options' fair value is determined on the date of grant using the Black-Scholes-Merton option-pricing model and is recognized in earnings (net of expected forfeitures) on a straight-line basis over the employee service period necessary to earn the awards, which is generally the vesting period. However, compensation cost associated with employees whose retention of the options is not contingent on providing future service is recognized immediately upon grant.

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The fair values of the Tronox options granted in 2008 were estimated as of the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	<u>2008(1)</u>
Risk-free interest rate	3.5%
Expected dividend yield	2.7%
Expected volatility	36.0%
Expected term (years)	6.2
Per-unit fair value of options granted	\$2.31

(1) Represents assumptions utilized for the award granted during January 2008 of approximately 260,000 options. The Company had two additional ad-hoc grants during 2008 with the largest award for 225,000 options granted in July 2008. The per unit fair value of that award was \$0.60 with assumptions for that award being substantially similar to those of the January 2008 award except for the dividend yield assumption which was nil subsequent to the Company's announced suspension of dividends for the year.

Risk-Free Interest Rate — The risk-free rate assumption represents an interpolated rate based on average yields on U.S. Treasury securities at a constant, fixed maturity, based on actively traded marketable securities.

Dividend Yield — The dividend yield assumption was developed using the assumed annual dividend rate of \$0.20 per share.

Expected Volatility — In setting the volatility assumption, the Company considered peer company historical volatilities over the expected term of the options, as well as calculated volatility of the Company's Class A common stock from the first day of trading in 2005, as appropriate, to develop a blended volatility assumption. For the 2008 valuation, the peer company group included the following companies: Cabot Corporation, Cytec Industries Inc., E.I. du Pont de Nemours and Co., Ferro Corporation, Georgia Gulf Corporation, Lyondell Chemical Co., Minerals Technologies Inc., NL Industries Inc., OM Group Inc., PolyOne Corporation, Rohm and Haas Co. and The Valspar Corporation.

Expected Term — Due to the short trading history of the Company's common stock, an alternative simplified method for determining expected term was used. The expected term represents a weighted average of the expected terms of three groups of plan participants: 1) participants eligible to retire at the measurement date, 2) participants eligible to retire approximately one year after the measurement date and 3) participants not eligible to retire one year after the measurement date.

Restricted Stock Awards and Stock Opportunity Grants — The following table summarizes information about restricted stock, restricted stock units and stock opportunity grant activity during 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	<u>148,053</u>	<u>\$ 4.92</u>
Outstanding awards expected to vest	<u>148,053</u>	<u>\$ 4.92</u>

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

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The Company granted 335,566 shares of restricted stock in 2008, at a weighted average grant date fair value of \$6.35 per share. The aggregate intrinsic value of restricted stock vested during 2008 was approximately \$2.3 million based on the stock price at the time of vesting. The Company did not grant restricted stock during 2009 and 2010.

Under the LTIP, the Company automatically withheld a portion of the vesting shares to cover the withholding taxes due upon vesting. As a result of forfeited and withheld restricted stock, the Company acquired approximately 3,700, 61,500 and 348,100 shares of treasury stock during 2010, 2009 and 2008, respectively.

Valuation and cost attribution method. Grant date fair value of restricted stock, restricted stock units and stock opportunity grants is determined by reference to market quotes for the Company's Class A common stock. Compensation cost is recognized in earnings (net of expected forfeitures) on a straight-line basis over the employee service period necessary to earn the awards, which is generally the vesting period. However, compensation cost associated with employees whose retention of stock awards is not contingent on providing future service is recognized immediately upon grant.

Performance Awards — The following table summarizes information about performance share and performance unit activity during 2010:

	<u>Number of Units</u>	<u>Fair Value(1)</u>
Balance at December 31, 2009	2,911,114	\$—
Awards forfeited	(116,204)	\$—
Awards earned	<u>(105,760)</u>	<u>\$—</u>
Balance at December 31, 2010	<u>2,689,150</u>	<u>\$—</u>
Outstanding awards expected to vest	<u>2,689,150</u>	<u>\$—</u>

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

Valuation and cost attribution method. Measurement-date fair value of performance shares is determined by reference to market quotes for the Company's Class A common stock. As a result of the Company's stock price decline throughout 2008 and since filing for bankruptcy, the awards were determined to have no value at December 31, 2010 and 2009.

18. Income Taxes

Taxation of a company with operations in several foreign countries involves many complex variables. Because of these complexities, the comparisons between the U.S. 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>2010</u>	<u>2009</u>	<u>2008</u>
<u>(Millions of dollars)</u>			
United States	\$(10.0)	\$(15.2)	\$ (97.1)
International	<u>16.6</u>	<u>(15.0)</u>	<u>(50.2)</u>
Total	<u>\$ 6.6</u>	<u>\$(30.2)</u>	<u>\$(147.3)</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(Millions of dollars)		
U.S. Federal:			
Current	\$ —	\$ —	\$ 1.4
Deferred	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>1.4</u>
International:			
Current	(6.8)	—	(1.1)
Deferred	<u>5.1</u>	<u>1.9</u>	<u>1.9</u>
	<u>(1.7)</u>	<u>1.9</u>	<u>0.8</u>
State:			
Current	(0.3)	(0.4)	(0.4)
Deferred	<u>—</u>	<u>—</u>	<u>—</u>
	<u>(0.3)</u>	<u>(0.4)</u>	<u>(0.4)</u>
Total benefit/(provision) from continuing operations	<u><u>\$(2.0)</u></u>	<u><u>\$ 1.5</u></u>	<u><u>\$ 1.8</u></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.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
U.S. statutory tax rate	35.0%	35.0%	35.0%
Increases (decreases) resulting from:			
Taxation of foreign operations	91.2	(3.0)	(4.5)
State income taxes	(15.2)	14.2	1.5
Capitalized professional fees	207.1	(19.6)	—
Foreign interest disallowance	61.0	(2.9)	(1.2)
Prior year accruals	23.3	(6.4)	(0.5)
Change in uncertain tax positions	54.2	0.2	(0.4)
Valuation allowances	(427.0)	(157.7)	(30.8)
Equity deconsolidation of subsidiary	—	149.7	—
Other , net	<u>0.7</u>	<u>(4.5)</u>	<u>2.1</u>
Effective tax rate	<u><u>30.3%</u></u>	<u><u>5.0%</u></u>	<u><u>1.2%</u></u>

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Net deferred tax assets (liabilities) at December 31, 2010 and 2009 were comprised of the following:

	<u>2010</u>	<u>2009</u>
	<u>(Millions of dollars)</u>	
Deferred tax assets:		
Net operating loss and other carryforwards	\$ 76.3	\$ 92.2
Property, plant and equipment	14.8	15.9
Reserves for environmental remediation and restoration	164.7	177.4
Obligations for pension and other employee benefits	49.1	49.7
Investments	32.2	34.2
State and local tax	0.8	0.8
Other long-term assets	8.4	8.6
Inventory	6.0	4.6
Interest	2.9	2.2
Other accrued liabilities	18.5	18.4
Litigation	3.7	3.7
Other	<u>12.1</u>	<u>7.1</u>
Total deferred tax assets	389.5	414.8
Valuation allowance associated with deferred tax assets	<u>(346.0)</u>	<u>(370.9)</u>
Net deferred tax assets	<u>\$ 43.5</u>	<u>\$ 43.9</u>
Deferred tax liabilities —		
Property, plant and equipment	\$ (21.4)	\$ (28.9)
Inventory	(1.0)	—
Prepaid expenses	(0.7)	(0.8)
Uncertain tax positions	(3.9)	—
Other	<u>(2.8)</u>	<u>(7.2)</u>
Total deferred tax liabilities	<u>(29.8)</u>	<u>(36.9)</u>
Net deferred tax asset	<u>\$ 13.7</u>	<u>\$ 7.0</u>
Balance sheet classifications:		
Deferred tax assets — current	\$ 4.3	\$ 3.0
Deferred tax assets — long-term	9.4	4.0
Deferred tax liability — current	—	—
Deferred tax liability — long-term	<u>—</u>	<u>—</u>
Net deferred tax asset	<u>\$ 13.7</u>	<u>\$ 7.0</u>

During the years ended December 31, 2010 and December 31, 2009, the total change to the valuation allowance was a decrease of \$24.9 million and an increase of \$20.8 million, respectively.

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The deferred tax assets generated by tax loss carryforwards of the Company have been fully offset by valuation allowances. The expiration of these carryforwards as of December 31, 2010, is as follows:

	<u>Tax Loss Carryforwards</u> (Millions of dollars)
Year of Expiration:	
2011	\$ 34.6
2012	0.3
2013	22.5
2014	53.2
2015	56.0
Thereafter	<u>382.4</u>
Total tax losses	<u>\$549.0</u>

Undistributed earnings of certain foreign subsidiaries totaled \$56.1 million at December 31, 2010. At December 31, 2010, no provision for deferred U.S. income taxes had been made for these earnings because they were considered to be indefinitely reinvested outside the U.S. 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 U.S.

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 during the year ended December 31, 2010, 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 December 31, 2010, 2009, and 2008 is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(Millions of dollars)		
Balance at January 1	\$ 7.9	\$ 40.4	\$53.1
Additions for tax positions related to the current year	3.5	—	1.8
Reductions for tax positions related to prior years	—	(32.5)	(1.7)
Unrealized foreign exchange gains (losses)	1.6	0.5	(4.5)
Decrease due to settlements	—	—	(8.3)
Decrease due to lapse of applicable statute of limitations	<u>—</u>	<u>(0.5)</u>	<u>—</u>
Balance at December 31	<u>\$13.0</u>	<u>\$ 7.9</u>	<u>\$40.4</u>

Included in the balance at December 31, 2010, were tax positions of \$0.8 million 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 or December 31, 2008. The net benefit associated with approximately \$12.2 million of the December 31, 2010 reserve for unrecognized tax benefits, if recognized, would affect the effective income tax rate.

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As a result of statute lapses, it is reasonably possible that the Company's gross unrecognized tax benefits for foreign exchange and transfer pricing positions may decrease within the next twelve months by an amount up to \$9.4 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 years ended December 31, 2010, 2009, and 2008, the Company recognized approximately \$1.6 million, \$1.7 million and \$2.7 million, respectively, in gross interest and penalties in the Consolidated Statement of Operations. At December 31, 2010, the Company had approximately \$9.9 million accrued for the gross payment of interest and penalties. The equivalent amounts at December 31, 2009 and 2008 were \$7.5 million and \$11.6 million, respectively. At December 31, 2010, the noncurrent liability section of the Consolidated Balance Sheet reflected \$19.1 million as the reserve for uncertain tax positions. This account balance included the \$9.9 million of interest and penalties, 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 IRS is currently conducting an examination of the 2008 tax year. The U.S. returns are now closed for years prior to 2008, with the exception of issues for which the Kerr-McGee Corporation refund claim is being pursued in the U.S. Court of Federal Claims. The Netherlands returns are closed through 2005. Only the years 2002 and 2004 have closed with respect to Australia. The Switzerland returns are closed through 2006. 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.

19. Discontinued Operations

Tronox Pigments GmbH, 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 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 the insolvent German subsidiaries qualify as a discontinued operation. Accordingly, all amounts associated with these operations have been included in "Discontinued Operations" on the Consolidated Statements of Operations.

The gain from discontinued operations also includes changes in estimated reimbursements of environmental remediation and restoration costs as more fully discussed in Note 20.

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The following table presents pretax income (loss) from discontinued operations by type of cost and total after-tax loss from discontinued operations for the years ended December 31, 2010, 2009 and 2008.

	<u>Environmental Provisions(1)</u>	<u>Litigation Provisions, Legal and Other Costs(1)</u>	<u>Income (Loss) from Operations(2)</u>	<u>Impairments(3)</u>	<u>Total</u>
	(Millions of dollars)				
<i>Year ended December 31, 2010:</i>					
Total pretax gain (loss)	\$ 2.2	\$(1.1)	\$ 0.1	\$ —	\$ 1.2
Tax benefit (provision)					<u>—</u>
Total after tax gain (loss).					<u>\$ 1.2</u>
<i>Year ended December 31, 2009:</i>					
Total pretax gain (loss)	\$ 2.5	\$(2.2)	\$ (9.8)	\$ —	\$ (9.5)
Tax benefit (provision)					<u>(0.3)</u>
Total after tax gain (loss).					<u>\$ (9.8)</u>
<i>Year ended December 31, 2008:</i>					
Total pretax gain (loss)	\$(36.8)	\$(6.0)	\$(32.3)	\$(120.1)	\$(195.2)
Tax benefit (provision)					<u>5.8</u>
Total after tax gain (loss).					<u>\$(189.4)</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 gain (losses) from operations related to its German operations.
- (3) The Company's impairments related to its German operations include goodwill impairment of \$13.5 million and long-lived asset impairments of \$106.6 million.

20. Contingencies

Contingencies Related to Ongoing Businesses of Tronox

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 \$0.8 million and \$0.4 million at December 31, 2010 and 2009, respectively, of which \$0.6 million at December 31, 2010 and \$0.3 million at December 31, 2009 were classified in "Other Non-current Liabilities" on the Consolidated Balance Sheets.

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The following table summarizes the contingency reserve balances, provisions, payments and settlements for 2010, 2009 and 2008, as well as balances, accruals and receipts of reimbursements of environmental costs from other parties.

	<u>Reserves for Environmental Remediation(1)</u> (Millions of dollars)
Balance at December 31, 2007	\$ 1.1
Provisions/Accruals	0.1
Payments	(0.7)
Settlements	<u>—</u>
Balance at December 31, 2008	\$ 0.5
Provisions/Accruals	—
Payments	(0.1)
Settlements	<u>—</u>
Balance at December 31, 2009	\$ 0.4
Provisions/Accruals	0.4
Payments	—
Settlements	<u>—</u>
Balance at December 31, 2010	<u>\$ 0.8</u>

(1) Provisions for environmental remediation and restoration in 2010, 2009 and 2008 include \$0.4 million, nil and \$0.1 million, respectively, related to the Company’s Oklahoma Tech Center. These charges are reflected in the Consolidated Statements of Operations as “Provision for environmental remediation and restoration, net of reimbursements.”

Management believes, after consultation with its internal legal counsel, that the Company is currently reserved adequately for the probable and reasonably estimable costs of known environmental matters and other contingencies. However, additions to the reserves may be required as additional information is obtained that enables the Company to better estimate its liabilities. At this time, however, the Company cannot reasonably estimate a range of future additions to the reserves for any individual site or for all sites collectively. Reserves for environmental sites are based, among other factors, on assumptions regarding the volumes of contaminated soils and groundwater involved, as well as associated excavation, transportation and disposal costs.

Although actual costs may differ from current estimates reflected in the reserve balances, the amount of any further revisions in remediation costs cannot be reasonably estimated at this time.

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 and 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

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materials have been contained, disposed of or released. Some of these sites have been designated Superfund sites by the U.S. 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 2, 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. The KM Legacy Liabilities are described in more detail below. As discussed in Note 1 and Note 2, 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 fiscal 2010, 2009, and 2008.

	<u>Legacy Tort Liabilities(1)</u>	<u>Legacy Environmental Liabilities(1)</u>	<u>Reimbursements Receivables(5)</u>
	(Millions of dollars)		
Balance at December 31, 2007.....	\$ 9.5	\$491.0	\$ 67.5
Provisions/Accruals	6.5	125.7	16.1
Transfers	—	0.2	—
Payments.....	(1.2)	(37.3)	(19.1)
Settlements	<u>—</u>	<u>—</u>	<u>—</u>
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(4).....	9.0	16.7	—
Payments.....	(0.6)	(25.5)	(12.9)
Settlements	<u>—</u>	<u>—</u>	<u>—</u>
Balance at December 31, 2009.....	\$18.6	\$499.7	\$ 54.2
Provisions/Accruals(3)	(0.3)	—	31.6
Transfers	—	—	(36.4)
Payments.....	(0.4)	(77.5)	(12.7)
Settlements	<u>—</u>	<u>—</u>	<u>—</u>
Balance at December 31, 2010.....	<u>\$17.9</u>	<u>\$422.2</u>	<u>\$ 36.7</u>

(1) Reflected in “Liabilities subject to compromise” on the Consolidated Balance Sheets at December 31, 2010 and 2009.

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- (2) Provision for the Legacy Tort Liabilities and the Legacy Environmental Liabilities in 2009 represent the Settlement adjustment recorded in 2009 (see Note 2).
- (3) The 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, as discussed in Note 20.
- (4) 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 Sheet.
- (5) Reimbursement Receivables for environmental remediation and restoration in 2010, 2009 and 2008 include \$36.7 million, \$54.2 million and \$64.5 million, respectively, related to insurance proceeds, as well as reimbursements from the U.S. Department of Energy (the “DOE”) and Anadarko under the MSA. In 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 2, 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.

The Company has 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. At December 31, 2010, the Company recorded a receivable for these probable insurance recoveries of \$33.1 million, which was recorded in “Accounts Receivable” on the Consolidated Balance Sheets. At December 31, 2009, the Company recorded a receivable for such probable insurance recoveries of \$9.4 million, of which \$8.8 million was recorded in “Accounts Receivables” and \$0.6 was recorded in “Other Long-Term Assets” on the Consolidated Balance Sheets. Although the Henderson, Nevada liability for environmental remediation will be transferred to the trust upon emergence, the Company will retain the insurance receivable after emergence as this receivable is based upon reimbursable funds expended prior to emergence.

The locations that are significant to the Legacy Environmental Liabilities are described below, however, pursuant to the Plan, the Company has no ongoing liability for such locations after the Effective Date.

Henderson, Nevada

In 1998, Kerr-McGee decided to exit the ammonium perchlorate business and shut down the associated production facilities in Henderson, Nevada that produced ammonium perchlorate and other related products which were used primarily in federal government defense and space programs. Perchlorate that may have originated, at least in part, from the Henderson facility has been detected in nearby Lake Mead and the Colorado River, which contribute to municipal water supplies in Arizona, Southern California and Southern Nevada.

Kerr-McGee and the Company entered into consent orders with the Nevada Division of Environmental Protection (the “NDEP”) that required the Company to implement both interim and long-term remedial measures to capture and remove perchlorate from groundwater, capture and treat the groundwater and close a certain impoundment related to the past production of ammonium perchlorate, including treatment and disposal of solution and sediment contained in the impoundment. In addition, NDEP also required the Company to conduct an Environmental Conditions Assessment (“ECA”) to test for various potential contaminants at the site which resulted in additional remediation obligations. In 2010, work on the ECA remediation obligations commenced and was

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substantially completed by the time the Company exited bankruptcy at a cost of approximately \$41.7 million. Remediation related to perchlorate in the groundwater is ongoing.

Litigation — In 2000, The Company initiated litigation against the U.S. seeking contribution for its Henderson response costs. The suit was based on the fact that the government owned the plant in the early years of its operation, exercised significant control over production at the plant and the sale of products produced at the plant, even while not the owner, and was the largest consumer of products produced at the plant. Before trial, the parties agreed to a settlement of the claims against the U.S. The settlement was memorialized in a consent decree approved by the court on January 13, 2006 and the U.S. paid the Company \$20.5 million in contribution for past costs. In addition, commencing January 1, 2011, the U.S. is obligated to pay 21% of the remaining response costs at Henderson, if any, related to perchlorate.

Insurance Reimbursement — In 2001, Kerr-McGee purchased a 10-year, \$100.0 million environmental cost cap insurance policy for groundwater and other remediation at Henderson. The insurance policy provides coverage after a self-insured retention of approximately \$62.3 million is exhausted and covers only those costs incurred to achieve a cleanup level specified in the policy. As of December 31, 2010, the Company had received \$64.6 million of cost reimbursement under the insurance policy and received additional reimbursements of \$33.1 million in 2011, for which a receivable was established in the financial statements for that amount.

Pursuant to the Plan, the Company has no ongoing responsibilities for the Legacy Environmental Liabilities at this location after the Effective Date.

West Chicago, Illinois

In 1973, Kerr-McGee closed a facility in West Chicago, Illinois, that processed thorium ores for the federal government and commercial purposes. Historical operations resulted in low-level radioactive contamination at the facility and in surrounding areas. The original processing facility is regulated by the State of Illinois (the “State”), and four vicinity areas are designated as Superfund sites on the National Priorities List (the “NPL”).

Closed Facility — Pursuant to agreements reached in 1994 and 1997 among the Company, the City of West Chicago and the State regarding the decommissioning of the closed West Chicago facility, the Company has substantially completed the excavation of contaminated soils and has shipped those soils to a licensed disposal facility. Groundwater remediation is expected to continue for several more years. Groundwater monitoring is expected to be ongoing.

Vicinity Areas — The EPA has listed four areas in the vicinity of the closed West Chicago facility on the NPL and designated the Company as a potential responsible party (“PRP”) in these four areas. The Company received letters of completion from the EPA for Reed-Kepler Park and the Upland Sewage Treatment Plant. Remedial work was substantially complete for the residential areas. The Company was completing cleanup of one property under an approved EPA work plan. The EPA is in the process of verifying the work done on the remaining residential properties.

Work was continuing at the other NPL site known as Kress Creek. The work involved removal of low level insoluble thorium residues principally in streambanks and streambed sediments. The Company reached an agreement with the appropriate federal, state agencies and local communities and the cleanup work was expected to be completed in 2011 and required excavation of contaminated soils and stream sediments and shipment of excavated materials to a licensed disposal facility. Restoration of affected areas will continue into 2012. Monitoring of the restored areas will continue for three years after restoration is complete.

Grand Pier Litigation — In 2000, the EPA discovered radioactive materials at the R.M. Chin & Associates property, known as the Grand Pier Development, as excavation was beginning for a major commercial and residential project. The EPA directed Kerr-McGee, property owner River East, and Grand Pier Development to

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characterize and remove the radioactive materials. This work was completed in 2001. Subsequently, Grand Pier experienced financial difficulty and its lender foreclosed on the property in 2003. In 2005, Grand Pier filed a lawsuit in the U.S. District Court, Northern District of Illinois, seeking damages, including economic losses, which was ultimately settled for approximately \$2.0 million in November 2010.

Government Reimbursement — Pursuant to Title X, the DOE was obligated to reimburse the Company for certain decommissioning and cleanup costs incurred in connection with the West Chicago sites in recognition of the fact that about 55% of the facility's production was dedicated to U.S. government contracts. The amount authorized for reimbursement under Title X is \$365.0 million, plus inflation adjustments. That amount is expected to cover the government's full share of West Chicago cleanup costs. Through December 31, 2010, the Company had been reimbursed approximately \$340.5 million under Title X.

As of December 31, 2010, the government's share of costs incurred by the Company but not yet reimbursed by the DOE totaled approximately \$3.6 million, which is reflected on the Consolidated Balance Sheet in "Accounts Receivable". The Company received \$25.0 million during 2010 and \$2.6 million during January 2011 from the government which was immediately segregated from Company funds and held in escrow as per the terms of the Settlement. The funds were being held in escrow to specifically fund remediation expenditures, which amounted to \$23.0 million through January 2011. The remaining balance of the escrow account of \$4.6 million was transferred to the environmental trust on the Effective Date of the Plan. All future reimbursements, including those related to the \$3.6 million receivable on the Company's books at December 31, 2010, will be made directly to the environmental trust.

Pursuant to the Plan, the Company has no ongoing liabilities for these locations after the Effective Date.

Ambrosia Lake, New Mexico

From the late 1950s until 1988, Kerr-McGee operated a uranium mining and milling operation at Ambrosia Lake near Grants, New Mexico, pursuant to a license issued by the Atomic Energy Commission (the "AEC"), now the Nuclear Regulatory Commission (the "NRC"). When the operation was sold, the Company retained responsibility as part of the sales agreement for certain environmental conditions existing at the site, including mill tailings, selected ponds and groundwater contamination related to the mill tailings and unlined ponds. Since 1989, the current owner of the site, Rio Algom Mining LLC ("Rio Algom"), has been decommissioning the site pursuant to the license issued by the NRC. Mill tailings, certain impacted surface soils and selected pond sediments have been consolidated in an onsite containment unit. Under terms of the sales agreement, which included provisions capping the liability of Rio Algom, the Company became obligated to solely fund the remediation for the items described above when total expenditures exceeded \$30.0 million. A decommissioning plan for the remaining impacted soil was submitted by Rio Algom to the NRC and was approved in July 2006.

Litigation — On January 18, 2006, Rio Algom filed suit against the Company in the U.S. District Court for the District of New Mexico. The suit seeks a determination regarding responsibility for certain labor-related and environmental remediation costs. Although Rio Algom did not seek a specific amount in its complaint, they asserted that future groundwater remediation costs, for which it believes the Company had responsibility, could be as much as \$128.0 million.

The litigation was stayed and subsequently dismissed as a result of the bankruptcy filing. Pursuant to the Plan, the Company has no ongoing liabilities for this location after the Effective Date.

Crescent, Oklahoma

Beginning in 1965, Cimarron Corporation ("Cimarron") operated a facility near Crescent, Oklahoma, at which it produced uranium and mixed oxide nuclear fuels pursuant to licenses issued by the AEC (now the NRC). Operations at the facility ceased in 1975 and buildings and soils were decommissioned in accordance with the NRC

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licenses. In limited areas of the site, groundwater is contaminated with radionuclides. Cimarron submitted to the NRC and the Oklahoma Department of Environmental Quality (the “ODEQ”) a draft remediation work plan addressing the groundwater contamination, including a proposed remediation technology, which was under review by the NRC and ODEQ.

Pursuant to the Plan, the Company has no ongoing liabilities for this location after the Effective Date.

New Jersey Wood-Treatment Site

A former subsidiary of Kerr-McGee was named in 1999 as a PRP under CERCLA at a former wood-treatment site in New Jersey at which the EPA conducted the cleanup. On April 15, 2005, the Company received a letter from the EPA asserting it was liable under CERCLA as a former owner or operator of the site and demanding reimbursement of costs expended by the EPA at the site. The letter made demand for payment of past costs in the amount of approximately \$179.0 million, plus interest. The EPA informed the Company that, as of December 5, 2006, project costs were approximately \$244.0 million, and that it would consider resolving the matter for \$239.0 million.

Following the conclusion of mediation discussions, the EPA and the DOJ filed a complaint in the U.S. District Court, District of New Jersey, on August 28, 2008. The EPA did not name other PRPs or Anadarko in the lawsuit. The Company intended to vigorously defend against the EPA’s claims.

On June 25, 2007, the New Jersey Department of Environmental Protection (“NJDEP”) and the Administrator of the New Jersey Spill Compensation Fund sued the Company and unnamed others in Superior Court, Law Division, Somerset County, New Jersey. The plaintiffs allege defendants are responsible for releases from the Federal Creosote Superfund Site that damaged the state’s groundwater and seek natural resource damages and reimbursement of costs that the state expended at the site and other similar relief. The Company filed an answer in the matter and NJDEP agreed to dismiss the state court action and re-filled its case in the United States District Court, District of New Jersey. The two cases were consolidated.

The litigation was stayed and subsequently dismissed as a result of the bankruptcy filing. Pursuant to the Plan, the Company has no ongoing liabilities for this location after the Effective Date.

Sauget, Illinois

From 1927 to 1969, Kerr-McGee operated a wood-treatment plant on a 60-acre site in the Village of Sauget (formerly known as Monsanto) in St. Clair County, Illinois. Operations on the property resulted in the contamination of soil, sediment, surface water and groundwater at the site with creosote and other substances used in wood treating. Final pond closure was completed in 2008. Impacted soils remaining at the site are required to be transported to an approved landfill.

Pursuant to the Plan, the Company has no ongoing liabilities for this location after the Effective Date.

Cleveland, Oklahoma

Triple S Refining Corporation (“Triple S”), formerly known as Kerr-McGee Refining Corporation, owned and operated a petroleum refinery near Cleveland, Oklahoma, until the facility was closed in 1972. In 1992, Triple S entered into a consent order with the Oklahoma Department of Health (later, the ODEQ), which addressed the remediation of air, soil, surface water and groundwater contaminated by hydrocarbons and other refinery related materials. Facility dismantling and several interim remedial measures were completed. In 2006, the ODEQ approved the remedial design for soil and waste remediation, which included construction of an on-site disposal cell. Triple S completed a reassessment of the expected soil volumes that will require placement in the previously

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approved disposal cell. This reassessment was required due to additional findings of asbestos impacted material. Duration of remedial activities currently cannot be estimated.

Pursuant to the Plan, the Company has no ongoing liabilities for this location after the Effective Date.

Cushing, Oklahoma

In 1972, Triple S closed a petroleum refinery it had operated near Cushing, Oklahoma. Prior to closing the refinery, Triple S also had produced uranium and thorium fuel and metal at the site pursuant to licenses issued by the AEC. In 1990, Triple S entered into a consent agreement with the State of Oklahoma to investigate the site and take appropriate remedial actions related to petroleum refining and uranium and thorium residuals. Investigation and remediation of hydrocarbon contamination is being performed under the oversight of the ODEQ.

Pursuant to the Plan, the Company has no ongoing liabilities for this location after the Effective Date.

Jacksonville, Florida

In 1970, Kerr-McGee purchased a facility in Jacksonville, Florida, that manufactured and processed fertilizers, pesticides and herbicides and then closed the facility in 1978 and, in 1988, all structures were removed. A feasibility study was submitted to the EPA in October 2006, which recommended site soil remediation and excavation, site capping and limited groundwater remediation. A sediment analysis plan was prepared at the EPA's request and sampling of most of the river sediments was completed in the first quarter of 2008.

The EPA published the proposed plan for remediation of the site, held a public meeting and is evaluating comments on the proposed plan and issued a Record of Decision ("ROD"). The EPA's proposed alternative for remediation of the site adds a bulkhead structure to contain any impacted sediments in the river and includes a perimeter slurry wall. In 2009, the site was listed on the NPL. The State and EPA continue to review the proposed plan and ROD.

Pursuant to the Plan, the Company has no ongoing liabilities for this location after the Effective Date.

Riley Pass, South Dakota

The site consists of a series of natural bluffs where Kerr-McGee conducted mining for uranium in the early to mid 1960s which are mostly contained on properties owned by the federal government and managed by the U.S. Forest Service. The Company prepared a work plan to assess the site soils, conduct vegetation studies, evaluate archeological sites, and to generate a preliminary pre-design report. This work plan and subsequent submittals were approved by the U.S. Forest Service. Data collected as part of the approved work plans identified areas where soils exceed a cleanup threshold, and will require the material to be excavated and placed into engineered disposal cells. It was anticipated that final design plans for the cells and the procedures for excavating and transporting the material to the cells would be proposed to the U.S. Forest Service in 2009.

In the fourth quarter of 2008, the Company notified the U.S. Forest Service of its inability to complete the scheduled work due to the refusal of one of its subcontractors to perform. The U.S. Forest Service notified the Company of its intent to seek stipulated penalties. During the pendency of the bankruptcy, the U.S. Forrestr Service hired a contractor to begin the scheduled work.

Pursuant to the Plan, the Company has no ongoing liabilities for this location after the Effective Date.

Other Sites

In addition to the sites described above, the Company was responsible for environmental costs related to certain other sites. These sites relate primarily to wood treating, chemical production, landfills, mining, and oil and

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gas refining, distribution and marketing. Although actual costs may differ from current estimates, the amount of any revisions in remediation costs could not be reasonably estimated.

Pursuant to the Plan, the Company has no ongoing liabilities for these sites after the Effective Date.

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 the New Jersey wood-treatment site, as described above, 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.

Legacy Tort Liabilities

Birmingham, Alabama

Until 1995, Triple S operated a petroleum terminal in Birmingham, Alabama. In late 2005, a local church, which is located on property adjacent to the site, demanded payment for damages of approximately \$25.0 million. The church has moved to dismiss a lawsuit by the Company, which sought injunctive relief, and has also filed a countersuit in the circuit court for Jefferson County, Alabama, against the Company and third parties seeking property damages, injunctive relief and costs. Recent testing identified a Jefferson County sewer line as a source of contamination on plaintiff's property. During the pendency of the bankruptcy, the church dismissed its action against the Company and is now pursuing claims against other third parties.

The litigation was stayed and subsequently dismissed as a result of the bankruptcy filing. Pursuant to the Plan, the Company has no ongoing liabilities for this matter after the Effective Date.

Forest Products Litigation

The Company was defending a number of lawsuits related to three former wood-treatment plants in Columbus, Mississippi; Avoca, Pennsylvania; and Texarkana, Texas. All of these lawsuits sought recoveries under a variety of common law and statutory legal theories for personal injuries and/or property damages allegedly caused by exposure to and/or release of chemicals used in the wood-treatment process, primarily creosote.

At Columbus, Mississippi, on October 3, 2007, the judge entered an order dismissing the consolidated litigation without prejudice, limiting future litigation to individual cases that were not settled through mediation. The first mediation hearing for two plaintiffs was conducted on August 26, 2008, and resulted in settlements with

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both plaintiffs. The second hearing, for eleven plaintiffs who claim brain cancer, was conducted on October 7, 2008, and resulted in settlements with five plaintiffs. The amount of mediation settlements totaled less than \$0.1 million.

At Avoca, Pennsylvania, 35 state court lawsuits were filed in 2005 by over 3,000 plaintiffs. The plaintiffs classified their claims into various alleged disease categories. In September 2005, the judge ordered that discovery and the first trial focus on plaintiffs who alleged pre-cancerous skin lesions. The first trial was scheduled for August 2007, but in May 2007 the parties agreed on arbitration as an alternative to this litigation. The judge approved arbitration and placed the lawsuits on an inactive docket. The first arbitration, to address plaintiffs who claim pre-cancerous skin lesions, was conducted from October 1-10, 2007, resulted in nine individual awards which together totaled \$0.2 million. The second arbitration hearing for plaintiffs claiming skin cancer was conducted August 5-7, 2008 and resulted in eight individual awards totaling \$1.0 million.

At Texarkana, Texas, the six plaintiffs and the insurer in *Jeans v. Tronox* reached a settlement in 2008 and the Company's insurance company has paid the settlement amounts and legal fees.

The lawsuits were stayed and subsequently dismissed as a result of the bankruptcy filing. Pursuant to the Plan, the Company has no ongoing liabilities for these matters after the Effective Date.

Savannah Plant

Since 2003 the Company was in negotiations with the State of Georgia and the EPA regarding numerous alleged environmental violations at the Savannah, GA facility. On December 19, 2008, the DOJ filed a complaint in the Southern District of Georgia alleging violations at the Savannah facility including violations of the Clean Air Act ("CAA"), Resource Conservation and Recovery Act ("RCRA"), CERCLA, and the Clean Water Act.

The litigation was stayed and subsequently dismissed as a result of the bankruptcy filing. Pursuant to the Plan, the Company has no ongoing liabilities for this location after the Effective Date.

21. Commitments

Lease and Purchase Obligations

The Company has various commitments under noncancelable operating lease agreements, principally for railcars, office space and production equipment. The aggregate minimum annual rentals under all operating leases at December 31, 2010, are shown in the table below. Total rental expense related to operating leases was \$14.6 million in 2010, \$11.9 million in 2009, and \$10.6 million in 2008.

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.

<u>Type of Obligation</u>	<u>Payments Due by Year</u>						<u>Total</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>After 2015</u>	
	(Millions of dollars)						
Operating leases	\$ 17.7	\$ 14.0	\$ 9.9	\$ 9.9	\$ 9.8	\$ 85.2	\$146.5
Purchase obligations:							
Ore contracts(1)	163.6	67.6	32.3	32.3	—	—	295.8
Other purchase obligations	64.8	49.3	43.3	20.9	9.1	41.4	228.8
Total	<u>\$246.1</u>	<u>\$130.9</u>	<u>\$85.5</u>	<u>\$63.1</u>	<u>\$18.9</u>	<u>\$126.6</u>	<u>\$671.1</u>

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(1) Approximately 43% of current annual usage acquired from one supplier.

Letters of Credit and Other

At December 31, 2010, the Company had outstanding letters of credit in the amount of approximately \$78.2 million that were cash collateralized and shown on the Consolidated Balance Sheets in “Prepaid and other assets”. These letters of credit have been granted by financial institutions to support the Company’s environmental clean-up costs and miscellaneous operational requirements in international locations. Of the \$78.2 million, \$50.6 million was related to environmental remediation sites, of which \$45.0 million was transferred at the Effective Date and \$5.6 will be transferred to the environmental remediation trusts after the Effective Date.

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.

22. Comprehensive Loss

Comprehensive loss for the years ended December 31, 2010, 2009 and 2008 consisted of the following:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(Millions of dollars)		
Net Income (Loss)	\$ 5.8	\$(38.5)	\$(334.9)
Foreign currency translation adjustments	(10.0)	36.8	(3.3)
Unrealized gain (loss) on cash flow hedges, net of taxes of nil, nil and nil	—	—	1.7
Reclassification of realized (gain) loss on cash flow hedges to net income (loss), net of taxes of nil, \$0.3 and \$0.8	—	0.4	(1.3)
Activity related to the Company’s retirement and postretirement plans:			
Actuarial loss during the period, net of taxes of nil, nil and nil	(18.7)	(11.3)	(105.5)
Amortization of actuarial gain, net of taxes of nil, nil and nil	3.1	4.3	2.3
Prior service credit during the period, net of taxes of nil, nil and nil	12.1	—	21.4
Amortization of prior service cost, net of taxes of nil, nil, and nil	(14.0)	(3.9)	(8.6)
Termination of nonqualified benefits restoration plan, net of taxes of nil, nil and nil(1)	4.4	—	—
Deconsolidation of Germany pension plan, net of taxes of nil, nil and nil(2)	—	(0.3)	—
Settlement losses, net of taxes of nil, nil and nil(3)	—	—	20.0
Total comprehensive loss	<u>\$(17.3)</u>	<u>\$(12.5)</u>	<u>\$(408.2)</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 19.
- (3) Settlement losses were recorded as a result of lump sum payments to retirees out of the U.S. qualified and non-qualified plans as discussed in Note 16.

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Components of accumulated other comprehensive income at December 31, 2010 and 2009, net of applicable tax effects, were as follows:

	<u>2010</u>	<u>2009</u>
	(Millions of dollars)	
Foreign currency translation adjustments	\$ 121.7	\$ 131.8
Unrecognized actuarial loss	(178.4)	(166.1)
Unrecognized prior service credit	65.5	66.2
Total	<u>\$ 8.8</u>	<u>\$ 31.9</u>

23. Reporting by Business Segment and Geographic Locations

The Company has one reportable segment representing the Company’s pigment business. The pigment segment primarily produces and markets TiO₂, and has production facilities in the U.S., Australia, and the Netherlands. The pigment segment also includes heavy minerals production operated through the Company’s 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 Company’s pigment operations. The Company’s Other Activities are comprised of electrolytic manufacturing and marketing operations and Corporate and Other. Corporate and Other is comprised of corporate activities and sites that have been transferred to the trust upon emergence from bankruptcy. Although the Company’s Electrolytic and other chemical products business line and Corporate and Other activities do not constitute reportable segments under ASC 280, Segment Reporting, (“ASC 280”) they are disclosed separately as management believes that providing this information is useful to the readers of the financial statements. 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).

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	<u>Pigment Segment</u>	<u>Other Activities</u>		<u>Total</u>
		<u>Electrolytic</u>	<u>Corporate and Other</u>	
(Millions of dollars)				
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)
Gain on liquidation of subsidiary				5.3
Other income (expense)				(13.6)
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(1)	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
For the year Ended December 31, 2008				
Net Sales	\$1,067.5	\$120.9	\$ 57.4	\$1,245.8
Income (Loss) from operations(2)	(10.0)	3.9	(77.8)	(83.9)
Interest and debt expense				(53.9)
Other income (expense)				(9.5)
Income (Loss) from Continuing Operations before Income Taxes				\$ (147.3)
Total Assets	\$ 780.7	\$106.1	\$157.7	\$1,044.5
Depreciation, Depletion and Amortization	61.2	8.3	6.2	75.7
Capital Expenditures	28.5	4.5	1.3	34.3

(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.

(2) Pigment segment income (loss) from operations in 2008 segment includes \$1.3 million of severance and special termination benefits associated with the Company's work force restructuring and \$24.9 million related to the

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impairment of long-lived assets. Electrolytic income (loss) from operations in 2008 includes \$0.8 million of severance and special termination benefits associated with the Company's work force restructuring. Corporate and Other income (loss) from operations in 2008 includes \$7.6 million of severance and special termination benefits associated with the Company's work force restructuring and \$0.1 million related to the impairment of long-lived assets.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net Sales(1)			
U.S. operations	\$ 692.8	\$ 619.8	\$ 823.3
International operations			
The Netherlands	209.0	175.4	185.4
Australia	<u>315.8</u>	<u>274.9</u>	<u>237.1</u>
Total	<u>\$1,217.6</u>	<u>\$1,070.1</u>	<u>\$1,245.8</u>
Net Property, Plant and Equipment			
U.S. operations	\$ 164.9	\$ 180.8	\$ 212.0
International operations			
The Netherlands	45.6	35.1	35.0
Australia	<u>105.0</u>	<u>97.7</u>	<u>100.3</u>
Total	<u>\$ 315.5</u>	<u>\$ 313.6</u>	<u>\$ 347.3</u>

(1) Based on country of production.

24. Related Party Transactions

Tronox conducts transactions with Basic Management, Inc. and its subsidiaries ("BMI") in support of the Company's Henderson, Nevada facility. The Company had an approximate 30% ownership in BMI. The Company paid \$0.5 million, \$0.6 million and \$0.7 million, respectively, in 2010, 2009 and 2008 for these services.

Tronox conducts transactions with Exxaro, 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 provides administrative services and product research and development activities which were reimbursed by Exxaro. The Company made total net payments of \$106.7 million, \$112.0 million and \$101.6 million, respectively, in 2010, 2009 and 2008 for these transactions.

25. Subsequent Events

Tronox has evaluated subsequent events through October 19, 2011, the date the financial statements were available to be issued.

Fresh-Start Accounting

As discussed in Note 1, the Company applied fresh-start accounting pursuant to ASC 852 as of February 1, 2011. ASC 852 provides for, among other things, a determination of the value to be assigned to the assets of the reorganized company as of the Fresh-Start Reporting Date. As of February 1, 2011, Tronox estimated that its enterprise value range was between \$975.0 million and \$1,150.0 million, as established in the Plan. Management used \$1,150.0 million, which was considered to be the best estimate of the value.

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Under fresh-start accounting, the 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. 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.

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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 February 1, 2011.

Condensed Consolidated Balance Sheet as of February 1, 2011

	Predecessor January 31, 2011	Reorganization Adjustments	Fresh-Start Adjustments	Successor February 1, 2011
	(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	143.7 l	440.2
Intangible Assets, Net	—	—	377.1 m	377.1
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>

Reorganization Adjustments

- 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 the Wells Revolver, receipt of

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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	<u>2.2</u>
	<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	<u>(0.5)</u>
	<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	<u>(2.2)</u>
	<u>\$(88.7)</u>

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- 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, slightly offset by the recognition of \$2.4 million in deferred financing fees related to the drawing on 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 reorganization plan.
- i. *Short-term debt* — The change in the short-term debt balance represents the \$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 at February 1, 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 long-term debt, are considered to be Level 3 inputs, 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 include 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.
- m. *Intangible assets, net* — The change in intangible assets is due to the recognition of \$377.1 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;

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- Discount rates of 20% based on Tronox's weighted average cost of capital ("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 recorded the fair value of lease tenements of \$42.0 million using a form of the income approach referred to as the multi-period economic income method. Significant assumptions used in the calculation include:
 - Discount rates of 19.1% based on Tronox's WACC, adjusted for risks inherent to lease tenements; and
 - Remaining useful life of 16 years, amortized on a unit of production basis.
 - The company also recognized the fair value of other intangibles of \$0.7 million. Other intangibles consist 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 related to the DIP financing facilities, which converted to the Exit Facility in February 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. 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 February 1, 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.

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- 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.

Related activities at Emergence

Exit Financing

The Company obtained exit financing of \$550.0 million, as previously described in Note 11, including an Exit Facility of \$425.0 million, fully drawn, and the Wells Revolver of \$125.0 million, of which \$25.0 million was drawn on the Effective Date. Deferred financing fees of \$2.4 million related to the Wells Revolver have been included in other long-term assets. Net cash raised from the exit financing was used to repay the Final DIP Facility, as well as to partially fund the environmental response trusts and the torts claim trust.

New Common Stock

Pursuant to the Plan, the Company authorized 100 million shares of New Common Stock and 25 million shares of New Preferred Stock, and issued 14,974,447 New Common shares to: (i) class 3 — general unsecured creditors; ii) pursuant to the Rights Offering and iii) as consideration to the backstop parties of the Rights Offering.

Rights Offering

The Rights Offering consisted of an offering of New Common Stock for \$185.0 million in cash, which was open to all eligible holders of claims (the “Eligible Holders”), largely class 3 — general unsecured creditors. On the Effective Date, Eligible Holders were given “Rights” to purchase shares of New Common Stock on a pro rata basis, based on a 17.6% discount to the Plan total enterprise value of Tronox of \$1,062.5 million, in exchange for an aggregate of up to 45.5% of the New Common Stock issued on the Effective Date, subject to dilution by shares issued in connection with a management equity plan and exercise of the Series A Warrants and the Series B Warrants, if any.

Backstop parties, certain holders of the Company’s prepetition Senior Unsecured Notes, agreed to backstop the Rights Offering for consideration of 8% of the \$185.0 million equity commitment, payable in the form of additional equity (approximately 3.6% of the New Common Stock issued on the Effective Date, subject to dilution by shares issued in connection with the management equity plan and any exercise of the Series A Warrants and the Series B Warrants).

New Warrants

On the Effective Date, Series A Warrants were issued to acquire, in the aggregate, 544,041 shares of New Common Stock with an expiration date of the seventh anniversary of the Effective Date, and an exercise price of \$62.13 per share. Series B Warrants were also issued on the Effective Date to acquire, in the aggregate, 672,175 shares of New Common Stock, with an expiration date of the seventh anniversary of the Effective Date, and an exercise price of \$68.56 per share.

The Series A and B Warrants and the shares of New Common Stock issued upon exercise thereof will be subject to dilution by any shares of New Common Stock issued after the Effective Date, including upon exercise of the Series B Warrants (in the case of Series A Warrants calculations) and shares issued under the management equity agreement.

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Management Equity Incentive Plan

On the Effective Date, the Company adopted the management equity incentive plan (the “MEIP”), which is intended to further its growth and profitability by increasing incentives and encouraging share ownership on the part of its employees and Board members. The MEIP 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 such other forms 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. On the Effective Date, 219,250 shares of restricted stock were granted to employees that vest quarterly over a three-year period. In addition, 46,138 shares of restricted stock were also granted to members of the Board, which vest over varying periods depending upon the specific terms of each individual grant.

Income Taxes

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 Company’s date of emergence, 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 has not recognize any CODI and was able to retain all of its U.S. tax attributes. In addition, the Company expected to receive a tax deduction for the premium paid to the creditors of approximately \$1.1 billion, resulting in a potential federal tax benefit of \$385.0 million. This deduction will increase the Company’s net operating loss (“NOL”) in the U.S. The U.S. deferred tax asset will be offset by a valuation allowance in accordance with FASB ASC 740 after considering all available positive and negative evidence. 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 income tax liabilities.

Tiwest Joint Venture Financing

In March 2011, the Tiwest Joint Venture, acquired a steam and electricity gas fired co-generation plant, adjacent to Kwinana Facility, through a five year finance lease 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 as of March 31, 2011, in order to finance its share of the asset purchase. Under the finance lease arrangement, monthly payments are required and interest accrues on the remaining balance owed at the rate of 6.5% per annum.

Tiwest Joint Venture TiO₂ Plant Expansion

The expansion of the Tiwest Joint Venture TiO₂ plant in Western Australia was completed and commissioned at the end of the second quarter of 2010. While Tronox was in bankruptcy, Exxaro funded the majority of the expansion. In May 2011, Tronox provided notice to Exxaro that it will buy into its 50% share of the Tiwest expansion as of June 30, 2011 for \$79.1 million. The expansion increased TiO₂ production capacity at the plant in Western Australia from 110,000 to 150,000 metric tonnes per annum.

RTI Hamilton Settlement

The outstanding legal disputes between Tronox 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

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compromise and settlement of disputed claims in complete accord and satisfaction thereof. RTI Hamilton paid Tronox the sum of \$10.6 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.

Exxaro Acquisition

In September 2011, the Company entered into a definitive agreement with Exxaro to acquire 74% of its South African mineral sands operations, including its Namakwa and KZN Sands mines, separation and slag furnaces, along with the remaining 50% of the Tiwest Joint Venture in Western Australia. The Company believes that the combination of Exxaro's world-class mineral sands operations, along with its leading proprietary chloride process technology will establish Tronox as the leading, highly efficient vertically integrated pigment company.

The acquisition will significantly expand the Company to over 3,500 employees at 16 facilities on four continents. As part of the transaction, Exxaro will retain a significant ownership stake in Tronox, which the Company views as one of the benefits of this transaction. With a substantial investment in the business, Exxaro will continue to be a valuable global partner, as the Company will continue to rely on Exxaro for their mining expertise, technology and government affairs support. In addition, the Company will be assuming a number of Exxaro Mineral Sands key management personnel to head up Tronox's worldwide mineral sands operations from its office in South Africa.

Registration Rights Agreement

The Registration Rights Agreement included a clause that required the Company to file a registration statement with the SEC on or before 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.