

TRONOX INC  
Form 10-Q  
August 07, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2007**

**Commission file number 1-32669**

**TRONOX INCORPORATED**

*(Exact Name of Registrant as Specified in its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**20-2868245**

*(I.R.S. Employer  
Identification Number)*

**One Leadership Square, Suite 300  
211 N. Robinson Ave, Oklahoma City, Oklahoma 73102**  
*(Address of principal executive offices)*

**Registrant's telephone number, including area code:  
(405) 775-5000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of "accelerated filer" in Rule 12b-2 under the Exchange Act). (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 31, 2007, 18,539,722 shares of the company's Class A common stock and 22,889,431 shares of the company's Class B common stock were outstanding.

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**Tronox Incorporated**

**Form 10-Q**

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****TRONOX INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In millions, except per share data)  
(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Net sales</b>	\$ 366.5	\$ 375.9	\$ 705.6	\$ 714.7
Cost of goods sold	337.1	342.7	638.4	618.7
<b>Gross margin</b>	29.4	33.2	67.2	96.0
Selling, general and administrative expenses	29.4	27.7	65.0	66.0
Provision for environmental remediation and restoration, net of reimbursements	1.5		1.7	(20.5)
	(1.5)	5.5	0.5	50.5
Interest and debt expense	(12.4)	(12.3)	(24.7)	(24.3)
Other income, net	0.7	5.3	2.4	9.7
<b>Income (loss) from continuing operations before income taxes</b>	(13.2)	(1.5)	(21.8)	35.9
Income tax provision	(6.8)	(4.2)	(7.2)	(18.0)
<b>Income (loss) from continuing operations</b>	(20.0)	(5.7)	(29.0)	17.9
Loss from discontinued operations, net of income tax benefit of \$0.8, \$5.1, \$1.0 and \$6.9, respectively	(1.2)	(8.7)	(1.6)	(11.7)
<b>Net income (loss)</b>	\$ (21.2)	\$ (14.4)	\$ (30.6)	\$ 6.2
<b>Income (loss) per common share:</b>				
Basic				
Continuing operations	\$ (0.49)	\$ (0.14)	\$ (0.71)	\$ 0.44
Discontinued operations	(0.03)	(0.22)	(0.04)	(0.29)
Net income (loss)	\$ (0.52)	\$ (0.36)	\$ (0.75)	\$ 0.15
Diluted				
Continuing operations	\$ (0.49)	\$ (0.14)	\$ (0.71)	\$ 0.44
Discontinued operations	(0.03)	(0.22)	(0.04)	(0.29)

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Net income (loss)	\$ (0.52)	\$ (0.36)	\$ (0.75)	\$ 0.15
<b>Dividends declared per common share</b>	\$	\$	\$ 0.05	\$ 0.05
<b>Weighted average shares outstanding:</b>				
Basic	40.7	40.4	40.7	40.4
Diluted	40.7	40.4	40.7	40.9

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

Table of Contents**TRONOX INCORPORATED****CONDENSED CONSOLIDATED BALANCE SHEETS**(In millions, except share data)  
(Unaudited)

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 39.7	\$ 76.6
Accounts receivable, net	344.0	325.6
Inventories, net	334.8	319.2
Prepaid and other assets	19.2	15.2
Income tax receivable	4.4	13.9
Deferred income taxes	35.0	43.6
<b>Total current assets</b>	<b>777.1</b>	<b>794.1</b>
<b>Property, plant and equipment, net</b>	<b>852.9</b>	<b>864.6</b>
<b>Goodwill</b>	<b>11.7</b>	<b>11.5</b>
<b>Other long-term assets</b>	<b>144.6</b>	<b>153.2</b>
<b>Total assets</b>	<b>\$ 1,786.3</b>	<b>\$ 1,823.4</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 186.8	\$ 183.6
Accrued liabilities	219.2	212.0
Long-term debt due within one year	3.6	14.7
Income taxes payable	3.7	1.6
<b>Total current liabilities</b>	<b>413.3</b>	<b>411.9</b>
<b>Long-term liabilities:</b>		
Deferred income taxes	10.1	33.6
Environmental remediation and/or restoration	107.2	128.6
Long-term debt	533.9	534.1
Other long-term liabilities	312.0	277.9
<b>Total long-term liabilities</b>	<b>963.2</b>	<b>974.2</b>
<b>Commitments and contingencies (Notes 12 and 13)</b>		
<b>Stockholders equity</b>		
Class A common stock, par value \$0.01 100,000,000 shares authorized, 18,732,369 and 18,388,202 shares, respectively, issued and outstanding	0.2	0.2
	0.2	0.2

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Class B common stock, par value \$0.01 100,000,000 shares authorized, 22,889,431 shares issued and outstanding		
Capital in excess of par value	487.4	481.6
Accumulated deficit	(54.8)	(12.8)
Accumulated other comprehensive loss	(21.1)	(31.4)
Treasury stock, at cost 144,135 shares and 33,533 shares, respectively	(2.1)	(0.5)
<b>Total stockholders equity</b>	<b>409.8</b>	<b>437.3</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,786.3</b>	<b>\$ 1,823.4</b>

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

Table of Contents**TRONOX INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In millions)****(Unaudited)**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (30.6)	\$ 6.2
Adjustments to reconcile net cash flows from operating activities		
Depreciation and amortization	55.8	49.3
Deferred income taxes	(0.3)	5.6
Provision for environmental remediation and restoration, net of reimbursements	2.0	(10.3)
Other noncash items affecting net income (loss)	15.9	18.5
Changes in assets and liabilities	(28.7)	(55.9)
Net cash flows from operating activities	14.1	13.4
<b>Cash flows from investing activities</b>		
Capital expenditures	(33.8)	(43.3)
Other investing activities		0.5
Net cash flows from investing activities	(33.8)	(42.8)
<b>Cash flows from financing activities</b>		
Repayment of debt	(12.0)	(1.0)
Debt issuance costs	(0.3)	(2.4)
Stock option exercises	1.4	
Dividends paid	(4.1)	(2.0)
Net cash flows from financing activities	(15.0)	(5.4)
<b>Effects of exchange rate changes on cash and cash equivalents</b>	(2.2)	(8.3)
<b>Net change in cash and cash equivalents</b>	(36.9)	(43.1)
<b>Cash and cash equivalents at beginning of period</b>	76.6	69.0
<b>Cash and cash equivalents at end of period</b>	\$ 39.7	\$ 25.9

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



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**TRONOX INCORPORATED**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. The Company**

Tronox Incorporated (the company), a Delaware Corporation was formed on May 17, 2005, in preparation for the contribution and transfer by Kerr-McGee Corporation (Kerr-McGee) of certain entities, including those comprising substantially all of its chemical business (the Contribution). The company has one reportable segment representing the company's pigment business. The pigment segment primarily produces and markets titanium dioxide pigment (TiO<sub>2</sub>) and has production facilities in the United States, Australia, Germany and The Netherlands. The pigment segment also includes heavy minerals production operated through our joint venture. The heavy minerals production is integrated with our Australian pigment plant, but also has third-party sales of minerals not utilized by the company's pigment operations. Electrolytic and other chemical products (which does not constitute a reportable segment) represents the company's other operations which are comprised of electrolytic manufacturing and marketing operations, all of which are located in the United States. The company has in the past operated or held businesses or properties, or currently holds properties, that do not relate to the current chemical business.

The terms Tronox or the company are used interchangeably in these condensed consolidated financial statements to refer to the consolidated group or to one or more of the companies that are part of the consolidated group.

***Formation***

The Contribution was completed in November 2005, along with the recapitalization of the company, whereby common stock held by Kerr-McGee converted into approximately 22.9 million shares of Class B common stock. An initial public offering (IPO) of Class A common stock was completed on November 28, 2005. Prior to the IPO, Tronox was a wholly owned subsidiary of Kerr-McGee. 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.

Following the IPO, approximately 43.3% of the total outstanding common stock of Tronox 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 have identical rights, except that holders of Class A common stock are entitled to one vote per share, while holders of Class B common stock are 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.

**2. Basis of Presentation and Accounting Policies**

These statements should be read in conjunction with the audited consolidated and combined financial statements and the related notes which are included in the company's Annual Report on Form 10-K for the year ended December 31, 2006. The interim condensed consolidated financial information furnished herein is unaudited. The information reflects all adjustments (which include only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods included in the report.

The following prior-year amounts have been reclassified to conform with the current-year presentation. Where applicable, changes to line item amounts in the company's Condensed Consolidated Statements of Operations are disclosed. These changes had no impact on income from continuing operations or net income.

Sales rebates, previously presented with accounts payable, are now presented with accrued liabilities in the company's Condensed Consolidated Balance Sheets.

Vendor commissions, previously a reduction of net sales, have been reclassified as selling, general and administrative expenses. The increase in net sales and selling, general and administrative expenses for the three and six-month periods ending June 30, 2006, were \$1.1 million and \$1.9 million, respectively.

Reimbursements for out-of-pocket selling expenses previously accounted for as a reduction of selling, general and administrative expenses have been reclassified as net sales. The increase in net sales and selling, general and administrative expenses for the three and six-month periods ending June 30, 2006, were \$2.0 million and \$3.8 million, respectively.

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**TRONOX INCORPORATED**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Railcar expenses previously accounted for as selling, general and administrative expenses have been reclassified as cost of goods sold. The increase in cost of goods sold and corresponding decrease in selling, general and administrative expenses for both the three and six-month periods ending June 30, 2006, was \$0.8 million.

In connection with the company's adoption of the transition provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*, the 2006 financial statements included in the company's Annual Report on Form 10-K contained a misstatement in the presentation of other comprehensive income (loss). The unrecognized prior service cost and actuarial loss totaling \$95.5 million recorded in the company's Consolidated Balance Sheet as of December 31, 2006, should have been presented only as an adjustment to the balance of accumulated other comprehensive loss as of December 31, 2006, and not as part of comprehensive income (loss) for the period then ended. The presentation in the company's Consolidated and Combined Statement of Comprehensive Income (Loss) and Business/Stockholders' Equity for the year ended December 31, 2006, and in the related Notes to Consolidated and Combined Financial Statements will be revised in the company's Annual Report on Form 10-K for the year ending December 31, 2007, to reflect comprehensive income of \$28.5 million for the year ended December 31, 2006, versus comprehensive loss of \$67.0 million previously reported.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*, (FIN 48). The company adopted FIN 48 as of January 1, 2007. FIN 48 clarifies the application of SFAS No. 109 by defining criteria that an uncertain tax position must meet in order to be recognized in an enterprise's financial statements. FIN 48 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The guidance required application through recognition of a cumulative effect adjustment to opening retained earnings in the period of adoption, with no charge to current earnings for prior periods. The results for prior periods have not been restated. As a result of the adoption of FIN 48, the company recognized a \$9.3 million charge to the January 1, 2007, balance of retained earnings. The total amount of unrecognized tax positions at January 1, 2007, was \$60.7 million.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The company is reviewing SFAS No. 157 to determine the impact on its financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - including an Amendment of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities*. The company is currently assessing whether or not the provisions of SFAS No. 159 will be implemented and what the financial statement impact would be, if any. If the company chooses to implement SFAS No. 159, the effective date would be January 1, 2008.

**3. Statement of Operations Data**

The components of other income, net are as follows:

		<b>Three Months Ended</b>		<b>Six Months</b>	
		<b>June 30,</b>		<b>Ended</b>	
		<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
		<b>(In millions)</b>			
Net foreign currency transaction gain (loss)		\$ (1.2)	\$ 3.8	\$ (1.5)	\$ 8.1
Equity in net earnings of equity method investees		1.3	4.7	2.0	4.7
		Financial Services and Markets Act			
Provision for litigation settlements		"FSMA" 2000;			
"HBOS"	HBOS plc;				
"HBOS ADRs"	the American Depositary Receipts of HBOS, each representing one HBOS Share;				
"HBOS Articles"	the articles of association of HBOS in force from time to time;				
"HBOS Board"	the board of directors of HBOS as at the date of this announcement;				
"HBOS Deposit Agreement"	the deposit agreement, dated 18 October 2006, between HBOS plc, The Bank of New York, as depositary, and the owners and holders of HBOS ADRs issued thereunder (as amended or restated);				
"HBOS Extraordinary General Meeting"	the extraordinary general meeting of HBOS Shareholders (and any adjournment thereof) to be convened in connection with the Acquisition;				
"HBOS Group"	HBOS and its subsidiary undertakings;				
"HBOS Share Option Schemes"	HBOS plc Sharesave Plan 2001 (including the Unapproved Schedule and Irish Schedule); HBOS plc				

	International Sharesave Plan 2001; HBOS plc Inland Revenue Approved Employee Share Option Plan 2002 (including the Unapproved Plan, Share Appreciation Rights Schedule, Australian Plan and Irish Schedule); HBOS plc Share Incentive Plan; HBOS plc International Free Shares Plan; HBOS plc Australian Free Shares Plan; HBOS plc Long Term Executive Bonus Plan; HBOS plc Annual Bonus Plan; HBOS plc Approved Profit Sharing Scheme; ICC Bank Approved Profit Sharing Scheme; and Insight Investment Management Limited Share Option Plan;
"HBOS Shareholders"	the registered holders of HBOS Shares and such term shall include holders of HBOS ADRs, as the case may be, and "HBOS Shareholder" means any of such holders;
"HBOS Shares"	the ordinary shares of 25 pence each in the capital of HBOS (including Shares underlying HBOS ADRs) and "HBOS Share" means any one of them;
"Hearing Record Time"	6.00 p.m. on the Business Day immediately preceding the Second Hearing Date;
"Interim Results"	means the unaudited interim financial results of HBOS for the six month period ending 30 June 2008;
"Listing Rules"	

"Lloyds TSB"	the Listing Rules of the UK Listing Authority;
"Lloyds TSB ADRs"	Lloyds TSB Group plc; the American Depositary Receipts of Lloyds TSB, each representing four Lloyds TSB Shares;
"Lloyds TSB Deposit Agreement"	the deposit agreement, dated 27 November 2001, between Lloyds TSB Group plc, The Bank of New York, as depositary, and the owners and holders of HBOS ADRs issued thereunder (as amended or restated);
"Lloyds TSB Extraordinary General Meeting"	the general meeting of Lloyds TSB Shareholders to be convened in connection with the Acquisition;
"Lloyds TSB Group"	Lloyds TSB and its subsidiary undertakings;
"Lloyds TSB Shares"	the existing shares of 25 pence each in the capital of Lloyds TSB (including shares underlying Lloyds TSB ADRs) and "Lloyds TSB Share" means any one of them;
"Lloyds TSB Shareholder Circular"	the notice convening the Lloyds TSB Extraordinary General Meeting and the information and documentation to be made available to Lloyds TSB Shareholders at the time such notice is published;
"Lloyds TSB Shareholders"	holders of Lloyds TSB Shares and "Lloyds TSB Shareholder" means any one of them;
"London Stock Exchange"	London Stock Exchange plc or its successor;
"Meetings"	the Court Meeting and the HBOS Extraordinary General Meeting;
"Merrill Lynch"	Merrill Lynch International;

"Morgan Stanley"	Morgan Stanley & Co. Limited;
"New Lloyds TSB ADRs"	the Lloyds TSB ADRs proposed to be issued pursuant to the Acquisition;
"New Lloyds TSB Shares"	the Lloyds TSB Shares proposed to be issued (or delivered in full or in part from treasury stock) and credited as fully paid pursuant to the Acquisition;
"NYSE"	The New York Stock Exchange, Inc.;
"Offer"	should Lloyds TSB elect to make the Acquisition by way of a contractual offer, the recommended offer to be made by Lloyds TSB for HBOS, on the terms and subject to the conditions set out in this announcement and to be set out in the formal offer document and where the context admits, any subsequent revision, variation, extension or renewal of such offer;
"offer period"	has the meaning given to it in the City Code;
"Office of Fair Trading" or "OFT"	the UK Office of Fair Trading;
"Official List"	means the official list of the UK Listing Authority;
"Panel"	the Panel on Takeovers and Mergers;
"Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001/3755) including any modification thereof or any regulations in substitution therefore made under section 207 of the Companies Act and for the time being in force;
"Regulatory Information Service"	

"Relevant Regulator"	<p>any of the services authorised from time to time by the Financial Services Authority for the purposes of disseminating regulatory announcements; in respect of HBOS or any member of the Wider HBOS Group, each and any regulatory authority to the supervision and/or authorisation of which it is subject whether statutory, self-regulatory or otherwise, including, without limitation, the FSA, any settlement system, stock exchange or listing authority;</p>
"Scheme" or "Scheme of Arrangement"	<p>the proposed scheme of arrangement under sections 895 to 899 of the Companies Act between HBOS and the holders of the Scheme Shares, with or subject to any modification thereof or in addition thereto or condition agreed by HBOS and Lloyds TSB and which the Court may think fit to approve or impose;</p>
"Scheme Document"	<p>the document to be posted to HBOS Shareholders and others containing, inter alia, the Scheme and the notice of the Meetings;</p>
"Scheme Shareholders"	<p>the holders of Scheme Shares;</p>
"Scheme Shares"	<p>HBOS Shares:</p> <ul style="list-style-type: none"> <li>• in issue on the date of this announcement;</li> </ul> <p>(if any) issued after the date of this announcement</p>



and prior to the Voting Record Time;

(if any) issued on or after the Voting Record Time and at or prior to the Hearing Record Time either on terms that the original or any subsequent holder thereof shall be bound by the Scheme or, in the case of any such shares issued prior to the adoption of the amendment to the HBOS Articles to be adopted at the HBOS Extraordinary General Meeting, in respect of which the holder thereof shall have agreed in writing to be bound by the Scheme;

"SEC"

United States Securities and Exchange Commission;

"Securities Act"

the United States Securities Act of 1933, as amended;

"Second Court Hearing"

the hearing by the Court of the petition to confirm the reduction of capital provided for by the Scheme under section 137 of the Companies Act 1985 (as amended or re-enacted);

"Third Party"

a government, governmental, quasi-governmental, supranational, statutory, regulatory or investigative body, trade agency, court, association, institution or any other body or person in any jurisdiction;

"UK Listing Authority"

the Financial Services Authority in its capacity as the competent authority for listing under Part VI of the Financial Services

"United Kingdom" or "UK"	and Markets Act 2000; the United Kingdom of Great Britain and Northern Ireland and its dependent territories;
"United States" or "US"	the United States of America (including the states of the United States and the District of Columbia), its possessions and territories and all areas subject to its jurisdiction;
"Voting Record Time"	the time fixed by the Court and HBOS for determining the entitlement to vote, respectively, at the Court Meeting and the HBOS Extraordinary General Meeting as set out in the notices thereof;
"Wider HBOS Group"	the HBOS Group and associated undertakings and any other body corporate, partnership, joint venture or person in which the HBOS Group and such undertakings (aggregating their interests) have an interest of more than 20 per cent. of the voting or equity capital or the equivalent;
"Wider Lloyds TSB Group"	the Lloyds TSB Group and associated undertakings and any other body corporate, partnership, joint venture or person in which the Lloyds TSB Group and such undertakings (aggregating their interests) have an interest of more than 20 per cent. of the voting or equity capital or the equivalent.

For the purposes of this announcement, "subsidiary", "subsidiary undertaking", "undertaking" and "associated undertaking" have the meanings given by the Companies Act.

### Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LLOYDS TSB GROUP plc  
(Registrant)

By: M D Oliver

Name: M D Oliver

Title: Director of Investor

Relations

Date: September 18, 2008