Tronox Ltd
Form 10-Q
November 03, 2016

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

Form 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from __________ to

1-35573
(Commission file number)

TRONOX LIMITED
(ACN 153 348 111)
(Exact Name of Registrant as Specified in its Charter)

Western Australia, Australia (State or Other Jurisdiction of Incorporation or Organization)	98-1026700 (I.R.S. Employer Identification Number)
263 Tresser Boulevard, Suite 1100 Stamford, Connecticut 06901	Lot 22, Mason Road, Kwinana Beach, WA, 6167 Australia

Registrant's telephone number, including area code: (203) 705-3800

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 requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

As of October 28, 2016, the Registrant had 65,149,970 Class A ordinary shares and 51,154,280 Class B ordinary shares outstanding.

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Item 1. Financial Statements (Unaudited)

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TRONOX LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Millions of U.S. dollars, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	$533	$575	$1,545	$1,577
Cost of goods sold	453	536	1,388	1,479
Gross profit	80	39	157	98
Selling, general and administrative expenses	(54)	(55)	(151)	(171)
Restructuring expense	(1)	(5)	(2)	(7)
Income (loss) from operations	25	(21)	4	(80)
Interest and debt expense, net	(46)	(45)	(138)	(131)
Gain on extinguishment of debt	—	—	4	—
Other income (expense), net	(14)	23	(23)	22
Loss before income taxes	(35)	(43)	(153)	(189)
Income tax provision	(7)	(11)	(29)	(29)
Net loss	(42)	(54)	(182)	(218)
Net income (loss) attributable to noncontrolling interest	(2)	6	(1)	10
Net loss attributable to Tronox Limited	$(40)	$(60)	$(181)	$(228)
Loss per share, basic and diluted	$(0.35)	$(0.52)	$(1.56)	$(1.97)
Weighted average shares outstanding, basic and diluted (in thousands)	116,219	115,642	116,108	115,529

See accompanying notes to unaudited condensed consolidated financial statements.

TRONOX LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)
(Millions of U.S. dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	$ (42)	$ (54)	$ (182)	$ (218)
Other comprehensive income (loss):				
Foreign currency translation adjustments	69	(135)	122	(187)
Pension and postretirement plans:				
Actuarial losses, (no tax impact; See Note 3)	(21)	—	(21)	—
Amortization of unrealized losses, net of taxes of less than $1 million in each of the three and nine months ended September 30, 2016 and 2015	(1)	1	—	3
Unrealized gains (losses) on derivative financial instruments, (no tax impact; See Note 3)	(1)	—	1	—
Other comprehensive income (loss)	46	(134)	102	(184)
Total comprehensive income (loss)	4	(188)	(80)	(402)
Comprehensive income (loss) attributable to noncontrolling interest:				
Net income (loss)	(2)	6	(1)	10
Foreign currency translation adjustments	18	(35)	31	(49)
Comprehensive income (loss) attributable to noncontrolling interest	16	(29)	30	(39)
Comprehensive loss attributable to Tronox Limited	$ (12)	$ (159)	$ (110)	$ (363)

See accompanying notes to unaudited condensed consolidated financial statements.

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TRONOX LIMITED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Millions of U.S. dollars, except share and per share data)

	September 30, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 202	$ 229
Restricted cash	3	5
Accounts receivable, net of allowance for doubtful accounts	394	391
Inventories, net	558	630
Prepaid and other assets	45	46
Total current assets	1,202	1,301
Noncurrent Assets		
Property, plant and equipment, net	1,850	1,843
Mineral leaseholds, net	1,617	1,604
Intangible assets, net	226	244
Inventories, net	6	12
Other long-term assets	24	23
Total assets	$ 4,925	$ 5,027
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$ 162	$ 159
Accrued liabilities	148	180
Short-term debt	150	150
Long-term debt due within one year	16	16
Income taxes payable	57	43
Total current liabilities	533	548
Noncurrent Liabilities		
Long-term debt	2,889	2,910
Pension and postretirement healthcare benefits	151	141
Asset retirement obligations	78	77
Long-term deferred tax liabilities	156	143
Other long-term liabilities	111	98
Total liabilities	3,918	3,917
Contingencies and Commitments		
Shareholders’ Equity		
Tronox Limited Class A ordinary shares, par value $0.01 — 65,982,604 shares issued and 65,149,970 shares outstanding at September 30, 2016 and 65,443,363 shares issued and 64,521,851 shares outstanding at December 31, 2015	1	1
	—	—

Tronox Limited Class B ordinary shares, par value $0.01 — 51,154,280 shares issued and outstanding at September 30, 2016 and December 31, 2015		
Capital in excess of par value	1,518	1,500
(Accumulated deficit) / Retained earnings	(129)	93
Accumulated other comprehensive loss	(525)	(596)
Total Tronox Limited shareholders' equity	865	998
Noncontrolling interest	142	112
Total equity	1,007	1,110
Total liabilities and equity	$ 4,925	$ 5,027

See accompanying notes to unaudited condensed consolidated financial statements.

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TRONOX LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Millions of U.S. dollars)

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cash Flows from Operating Activities:		
Net loss	$ (182)	$ (218)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	175	222
Deferred income taxes	(4)	(4)
Share-based compensation expense	19	17
Amortization of deferred debt issuance costs and discount on debt	8	8
Pension and postretirement healthcare benefit expense	4	4
Gain on extinguishment of debt	(4)	—
Other noncash items affecting net loss	10	(4)
Contributions to employee pension and postretirement plans	(20)	(16)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	1	(36)
(Increase) decrease in inventories	98	90
(Increase) decrease in prepaid and other assets	(5)	4
Increase (decrease) in accounts payable and accrued liabilities	(28)	(35)
Increase (decrease) in taxes payable	28	12
Other, net	23	1
Cash provided by operating activities	123	45
Cash Flows from Investing Activities:		
Capital expenditures	(87)	(141)
Proceeds from sale of assets	1	—
Acquisition of business	—	(1,653)
Cash used in investing activities	(86)	(1,794)
Cash Flows from Financing Activities:		
Repayments of debt	(27)	(13)
Proceeds from debt	—	750
Debt issuance costs	—	(15)
Dividends paid	(40)	(88)
Proceeds from the exercise of warrants and options	—	3
Cash provided by (used in) financing activities	(67)	637
Effects of exchange rate changes on cash and cash equivalents	3	(19)
Net decrease in cash and cash equivalents	(27)	(1,131)
Cash and cash equivalents at beginning of period	229	1,276

Cash and cash equivalents at end of period	$ 202	$ 145

See accompanying notes to unaudited condensed consolidated financial statements.

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TRONOX LIMITED
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
(Unaudited)
(Millions of U.S. dollars)

	Tronox Limited Class A Ordinary Shares	Tronox Limited Class B Ordinary Shares	Capital in Excess of par Value	Accumulated Deficit/ Retained Earnings	Accumulated Other Comprehensive Loss	Total Tronox Limited Shareholders Equity	Non-controlling Interest	Total Equity
Balance at January 1, 2016	$ 1	$ —	$1,500	$ 93	$ (596)	$ 998	$ 112	$1,110
Net loss	—	—	—	(181)	—	(181)	(1)	(182)
Other comprehensive income	—	—	—	—	71	71	31	102
Share-based compensation	—	—	19	—	—	19	—	19
Class A and Class B share dividends	—	—	—	(41)	—	(41)	—	(41)
Shares cancelled	—	—	(1)	—	—	(1)	—	(1)
Balance at September 30, 2016	$ 1	$ —	$1,518	$ (129)	$ (525)	$ 865	$ 142	$1,007

See accompanying notes to unaudited condensed consolidated financial statements.

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TRONOX LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Millions of U.S. dollars, except share, per share and metric tons data or unless otherwise noted)

1. The Company

Tronox Limited and its subsidiaries (collectively referred to as “Tronox,” “we,” “us,” or “our”) is a public limited company registered under the laws of the State of Western Australia. We are a global leader in the production and marketing of titanium bearing mineral sands and titanium dioxide (“TiO_2”) pigment, and the world’s largest producer of natural soda ash. Titanium feedstock is primarily used to manufacture TiO_2. Zircon, a hard, glossy mineral, is used for the manufacture of ceramics, refractories, TV screen glass, and a range of other industrial and chemical products. Pig iron is a metal material used in the steel and metal casting industries to create wrought iron, cast iron, and steel. Our TiO_2 products are critical components of everyday applications such as paint and other coatings, plastics, paper, and other uses and our related mineral sands product streams include titanium feedstock, zircon, and pig iron. Our soda ash products are used by customers in the glass, detergent, and chemicals manufacturing industries.

We have global operations in North America, Europe, South Africa, and the Asia-Pacific region. Within our TiO_2 segment, we operate three pigment production facilities at the following locations: Hamilton, Mississippi; Botlek, The Netherlands; and Kwinana, Western Australia, and we operate three separate mining operations: KwaZulu-Natal (“KZN”) Sands and Namakwa Sands both located in South Africa, and Cooljarloo located in Western Australia.

On April 1, 2015 (the “Alkali Transaction Date”), we completed the acquisition of 100% of the Alkali Chemicals business (“Alkali”) from FMC Corporation (“FMC”) for an aggregate purchase price of $1.65 billion in cash (the “Alkali Transaction”). See Note 19 for additional information regarding the Alkali Transaction.

As a result of the Alkali Transaction, we produce natural soda ash from a mineral called trona, which we mine at two facilities we own near Green River, Wyoming. Our Wyoming facilities process the trona ore into chemically pure soda ash and specialty sodium products such as sodium bicarbonate (baking soda). We sell soda ash directly to customers in the United States (“U.S.”), Canada and Europe and to the American Natural Soda Ash Corporation (“ANSAC”), a non-profit foreign sales association in which we and two other U.S. soda ash producers are members, for resale to customers elsewhere around the world. We use a portion of our soda ash at Green River to produce specialty sodium products such as sodium bicarbonate and sodium sesquicarbonate that have uses in food, animal feed, pharmaceutical, and medical applications.

In June 2012, Tronox Limited issued Class B ordinary shares (“Class B Shares”) to Exxaro Resources Limited (“Exxaro”) and one of its subsidiaries in consideration for 74% of Exxaro’s South African mineral sands business, and the existing business of Tronox Incorporated was combined with the mineral sands business in an integrated series of transactions whereby Tronox Limited became the parent company (the “Exxaro Transaction”). Exxaro has agreed not to acquire any voting shares of Tronox Limited if, following such acquisition, Exxaro will have a voting interest in Tronox Limited of 50% or more unless Exxaro brings any proposal to make such an acquisition to the Board of Directors of Tronox Limited on a confidential basis. In the event an agreement regarding the proposal is not reached, Exxaro is permitted to make a takeover offer for all the shares of Tronox Limited not held by affiliates of Exxaro, subject to certain non-waivable conditions. At both September 30, 2016 and December 31, 2015, Exxaro held approximately 44% of the voting securities of Tronox Limited. See Note 20 for additional information regarding Exxaro transactions.

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited, and have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission regarding interim financial reporting.

Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) for complete financial statements, and should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015. The Condensed Consolidated Balance Sheet as of December 31, 2015 was derived from our audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP.

In management’s opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, considered necessary for a fair statement. Our unaudited condensed consolidated financial statements include the accounts of all majority-owned subsidiary companies. All intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the manner and presentation in the current period.

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

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Recently Adopted Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2015-16, Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”). ASU 2015-16 simplifies the accounting for measurement-period adjustments by eliminating the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. We adopted ASU 2015-16 during the first quarter of 2016. Its adoption did not have an impact on our unaudited condensed consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15, Interest – Imputation of Interest (“ASU 2015-15”) and in April 2015, the FASB issued ASU 2015-03, Interest— Imputation of Interest (“ASU 2015-03”). ASU 2015-15 and ASU 2015-03 change and simplify the presentation of debt issuance costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-15 stated that it would also be acceptable to present debt issuance costs related to a line of credit arrangement as a direct deduction from the carrying amount of debt. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in these ASUs. We adopted these standards retroactively during the first quarter of 2016. The adoption of ASU 2015-03 resulted in decreases to long-term debt and other long term assets as of December 31, 2015 of $45 million. The adoption of ASU 2015-15 did not have an impact on our unaudited condensed consolidated financial statements. As of September 30, 2016, debt issuance costs of $38 million are presented as a decrease to long-term debt and $4 million are presented as other long-term assets.

In February 2015, the FASB issued ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis (“ASU 2015-02”). ASU 2015-02 changes the consolidation evaluation for entities that are required to evaluate whether they should consolidate certain legal entities. The standard permits the use of a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption, or a reporting entity may also apply the amendments retrospectively. We adopted ASU 2015-02 during the first quarter of 2016. The adoption of ASU 2015-02 did not an impact on our unaudited condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (“ASU 2016-16”), which reduces the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. Historically, recognition of the income tax consequence was not recognized until the asset was sold to an outside party. This amendment should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. ASU 2016-16 is effective for annual periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted for all entities as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. We have not yet determined the impact, if any, that ASU 2016-16 will have on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”) which provides guidance intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years with early adoption permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. We have not yet determined the impact, if any, that ASU 2016-15 will have on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which requires that entities use a current expected credit loss model which is a new impairment model based on expected losses rather than incurred losses. Under this model, an entity would recognize an impairment allowance equal to its current estimate of all contractual cash flows that the entity does not expect to collect from financial assets measured at amortized cost. The entity's estimate would consider relevant information about past events, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019 with early adoption permitted for annual reporting periods beginning after December 15, 2018. We do not expect the adoption of ASU 2016-13 to have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which amends Accounting Standards Codification ("ASC") Topic 718, Compensation – Stock Compensation. ASU 2016-09, simplifies various aspects related to how share-based payments are accounted for and presented in the financial statements including income taxes and forfeitures of awards. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption is permitted in any interim or annual period, with any adjustments reflected as of the beginning of the fiscal year of adoption. We have not yet determined the impact, if any, that ASU 2016-09 will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships ("ASU 2016-05"), which clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument in an existing hedging relationship would not, in and of itself, be considered a termination of the derivative instrument or a change in a critical term of the hedging relationship. As long as all other hedge accounting criteria in ASC 815, Derivatives and Hedging ("ASC 815") are met, a hedging relationship in which the hedging derivative instrument is novated would not be discontinued or require redesignation. This clarification applies to both cash flow and fair value hedging relationships. The standard is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. We do not expect the adoption of ASU 2016-05 to have a material impact on our consolidated financial statements.

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In February 2016, the FASB issued ASU 2016-02, Leases (“ASU 2016-02”) which includes a lessee accounting model that recognizes two types of leases - finance leases and operating leases. The standard requires that a lessee recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or an operating lease. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. We are evaluating the impact that ASU 2016-02 will have on our consolidated financial statements and will update our accounting policies accordingly.

In July 2015, as part of its simplification initiative, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory (“ASU 2015-11”). ASU 2015-11 simplifies the subsequent measurement of inventory by requiring entities to remeasure inventory at the lower of cost and net realizable value, which is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU does not apply to inventory measured using the last-in, first-out or the retail inventory method. We are required to adopt this standard in the first quarter of 2017. This standard is required to be applied prospectively with earlier application permitted as of the beginning of an interim or annual period. The adoption of ASU 2015-11 is not expected to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) which states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for interim and annual periods beginning after December 15, 2017, and may be applied either retrospectively or on a modified retrospective basis. Subsequent to the issuance of the May 2014 guidance, several clarifications and updates have been issued on this topic, the most recent of which was issued in May 2016. We are evaluating the impact, if any, that ASU 2014-09, and any amendments thereto, will have on our consolidated financial statements and will update our accounting policies accordingly.

2. Restructuring Expense

In 2015, as part of our commitment to reduce operating costs and working capital, we commenced a global restructuring of our TiO_2 segment, (the “Global TiO_2 Restructure”), which we expect to complete during the fourth quarter of 2016. A portion of this initiative involves a reduction in our global TiO_2 workforce by approximately 500 employees and outside contractor positions. The restructuring seeks to streamline the operations of our TiO_2 segment in order to create a more commercially and operationally efficient business segment. This action resulted in a charge, consisting of employee severance and associated costs, of $14 million, which was recorded in “Restructuring expense” in the Consolidated Statements of Operations for the year ended December 31, 2015 of which $2 million was paid during 2015. During the three months ended September 30, 2016, we recorded an additional charge related to our TiO_2 segment, consisting of employee severance costs of $1 million, which was recorded in “Restructuring expense” in the unaudited Condensed Consolidated Statements of Operations. During the nine months ended September 30, 2016, we recorded an additional charge related to our TiO_2 segment, consisting of employee severance costs of $2 million, which was recorded in “Restructuring expense” in the unaudited Condensed Consolidated Statements of Operations. During the three and nine months ended September 30, 2016, we made cash payments of $2 million and $13 million respectively. We expect to pay the remaining $1 million over the next three months.

As part of our cost improvement initiative, in November 2015 we ceased production at our sodium chlorate plant in Hamilton, Mississippi, (the “Sodium Chlorate Plant Restructure”) resulting in a reduction in our workforce of approximately 50 employees. This action resulted in a charge, consisting primarily of employee severance costs, of $4 million, which was recorded in “Restructuring expense” in the Consolidated Statements of Operations for the year ended

December 31, 2015 of which $1 million was paid during 2015. During the three months and nine months ended September 30, 2016, we made cash payments of $1 million and $3 million, respectively.

The cumulative amount incurred to date relating to the Global TiO2 Restructure and the Sodium Chlorate Plant Restructure is $16 million and $4 million, respectively.

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A summary of the changes in the liability established for all restructuring included in accrued liabilities is as follows:

	2016	2015
Balance, January 1	$ 15	$ 4
Additional provision, net	2	7
Cash payments	(16)	(4)
Balance, September 30	$ 1	$ 7

Restructuring expense by segment for the three and nine months ended September 30, 2016 and 2015 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
TiO_2 segment	$ 1	$ 5	$ 2	$ 7

3. Income Taxes

Our operations are conducted through our various subsidiaries in a number of countries throughout the world. We have provided for income taxes based upon the tax laws and rates in the countries in which operations are conducted and income is earned.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Income tax provision	$ (7)	$ (11)	$ (29)	$ (29)
Loss before income taxes	$ (35)	$ (43)	$ (153)	$ (189)
Effective tax rate	(20)%	(26)%	(19)%	(15)%

The effective tax rate for the three and nine months ended September 30, 2016 and 2015 differs from the Australian statutory rate of 30% primarily due to valuation allowances, income in foreign jurisdictions taxed at rates lower than 30%, and withholding tax accruals on interest income.

The statutory tax rates on income earned in South Africa (28% for limited liability companies), The Netherlands (25% for corporations), and the United Kingdom (20% for corporations and limited liability companies and not applicable for certain limited liability partners) are lower than the Australian statutory rate of 30%. The statutory tax rate, applied against losses in the United States (35% for corporations), is higher than the Australian statutory rate of 30%.

As a result of the Alkali Transaction, we expect to offset a portion of our previously existing U.S. tax attributes with income generated by the Alkali entities. This expectation, however, does not change our overall judgement regarding the utilization of existing deferred tax assets.

We continue to maintain full valuation allowances related to the total net deferred tax assets in Australia, The Netherlands and the U.S., excluding the Alkali separate company states, as we cannot objectively assert that these deferred tax assets are more likely than not to be realized. Excluding the Alkali separate company states, future provisions for income taxes will include no income tax benefits with respect to losses incurred and income tax expense only to the extent of current state tax payments until the valuation allowances are eliminated. Additionally, we have valuation allowances against specific tax assets in South Africa.

These conclusions were reached by the application of ASC 740, Income Taxes, which require all available positive and negative evidence be weighted to determine whether a valuation allowance should be recorded. The more significant evidential matter in Australia, The Netherlands and the U.S., relates to recent book losses and the lack of sufficient projected taxable income. The more significant evidential matter for South Africa relates to assets that cannot be depleted or depreciated for tax purposes.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (“ASU 2015-17”), “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.” The standard requires that deferred tax assets and liabilities be classified as noncurrent on the balance sheet rather than being separated into current and noncurrent. ASU 2015-17 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted and the standard may be applied either retrospectively or on a prospective basis to all deferred tax assets and liabilities. We early adopted ASU 2015-17 during the fourth quarter of 2015 on a prospective basis. The adoption did not have a material effect on our consolidated financial statements.

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Anadarko Litigation

On January 23, 2015, Anadarko Petroleum Corp. ("Anadarko") paid $5.2 billion, including approximately $65 million of accrued interest, pursuant to the terms of a settlement agreement with Tronox Incorporated. We did not receive any portion of the settlement amount. Instead, 88% of the $5.2 billion went to trusts and other governmental entities for the remediation of polluted sites by Kerr-McGee Corporation ("Kerr-McGee"). The remaining 12% was distributed to a tort trust to compensate individuals injured as a result of Kerr-McGee's environmental failures.

We received a private letter ruling from the U.S. Internal Revenue Service confirming that the trusts that held the claims against Anadarko are grantor trusts of Tronox Incorporated solely for federal income tax purposes. As a result, we believe we are entitled to tax deductions equal to the amount spent by the trusts to remediate environmental matters and to compensate the injured individuals. These deductions will accrue over the life of the trusts as the $5.2 billion is spent. We believe that these expenditures and the accompanying tax deductions may continue for several years. At September 30, 2016, approximately $2.7 billion of the trust expenditures from the litigation proceeds have been incurred.

4. Loss Per Share

The computation of basic and diluted loss per share for the periods indicated is as follows:

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Numerator – Basic and Diluted:				
Net loss	$(42)	$(54)	$(182)	$(218)
Less: Net income (loss) attributable to noncontrolling interest	(2)	6	(1)	10
Undistributed net loss	(40)	(60)	(181)	(228)
Percentage allocated to ordinary shares (1)	100%	100%	100%	100%
Loss available to ordinary shares	$(40)	$(60)	$(181)	$(228)
Denominator – Basic and Diluted:				
Weighted-average ordinary shares (in thousands)	116,219	115,642	116,108	115,529
Loss per Ordinary Share (2):				
Basic and diluted loss per ordinary share	$(0.35)	$(0.52)	$(1.56)	$(1.97)

(1) Our participating securities do not have a contractual obligation to share in losses; therefore, when we have a net loss, none of the loss is allocated to participating securities. Consequently, for the three and nine months ended September 30, 2016 and 2015, the two-class method did not have an effect on our loss per ordinary share calculation, and as such, dividends paid during the year did not impact this calculation.

(2) Loss per ordinary share amounts were calculated from exact, not rounded income (loss) and share information.

In computing diluted loss per share under the two-class method, we considered potentially dilutive shares. Anti-dilutive shares not recognized in the diluted earnings per share calculation were as follows:

September 30, 2016		September 30, 2015	
Shares	Average Exercise Price	Shares	Average Exercise Price

Options	1,997,437	21.20	2,245,145	$	21.13
Series A Warrants	1,440,652	8.51	1,306,665	$	10.35
Series B Warrants	1,953,250	9.37	1,769,035	$	11.42
Restricted share units	5,566,589	7.18	1,505,081	$	23.04

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5. Accounts Receivable, Net of Allowance for Doubtful Accounts

Accounts receivable, net of allowance for doubtful accounts, consisted of the following:

	September 30, 2016	December 31, 2015
Trade receivables	$ 377	$ 367
Other	19	25
Subtotal	396	392
Allowance for doubtful accounts	(2)	(1)
Accounts receivable, net of allowance for doubtful accounts	$ 394	$ 391

Bad debt expense was less than $1 million for each of the three months ended September 30, 2016 and 2015, respectively, and $1 million and less than $1 million for the nine months ended September 30, 2016 and 2015, respectively, and was recorded in "Selling, general and administrative expenses" in the unaudited Condensed Consolidated Statements of Operations.

6. Inventories, Net

Inventories, net consisted of the following:

	September 30 2016	December 31, 2015
Raw materials	$ 223	$ 248
Work-in-process	43	43
Finished goods, net	194	245
Materials and supplies, net (1)	104	106
Total	564	642
Less: Inventories, net – non-current	(6)	(12)
Inventories, net – current	$ 558	$ 630

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(1) Consists of processing chemicals, maintenance supplies, and spare parts, which will be consumed directly and indirectly in the production of our products.

Finished goods include inventory on consignment of $28 million and $30 million at September 30, 2016 and December 31, 2015, respectively. At September 30, 2016 and December 31, 2015, inventory obsolescence reserves were $19 and $18 million, respectively. At September 30, 2016 and December 31, 2015, reserves for lower of cost or market were $35 million and $63 million, respectively.

7. Property, Plant and Equipment, Net

Property, plant and equipment, net of accumulated depreciation, consisted of the following:

	September 30, 2016	December 31, 2015

Land and land improvements	$ 157	$ 143
Buildings	304	189
Machinery and equipment	1,885	1,765
Construction-in-progress	153	261
Other	49	44
Subtotal	2,548	2,402
Less accumulated depreciation and amortization	(698)	(559)
Property, plant and equipment, net [1]	$ 1,850	$ 1,843

[1] Substantially all of these assets are pledged as collateral for our debt. See Note 11.

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Depreciation expense related to property, plant and equipment during the three months ended September 30, 2016 and 2015 was $44 million and $53 million, respectively, of which $43 million and $52 million, respectively, was recorded in "Cost of goods sold" in the unaudited Condensed Consolidated Statements of Operations and $1 million each, was recorded in "Selling, general and administrative expenses" in the unaudited Condensed Consolidated Statements of Operations. Depreciation expense related to property, plant and equipment during the nine months ended September 30, 2016 and 2015 was $126 million and $138 million, respectively, of which $123 million and $135 million, respectively, was recorded in "Cost of goods sold" in the unaudited Condensed Consolidated Statements of Operations and $3 million each, was recorded in "Selling, general and administrative expenses" in the unaudited Condensed Consolidated Statements of Operations. In April 2016, we officially commissioned our Fairbreeze mine in KZN and began depreciating related assets in service.

8. Mineral Leaseholds, Net

Mineral leaseholds, net of accumulated depletion, consisted of the following:

	September 30, 2016	December 31, 2015
Mineral leaseholds	$ 1,996	$ 1,948
Less accumulated depletion	(379)	(344)
Mineral leaseholds, net	$ 1,617	$ 1,604

Depletion expense related to mineral leaseholds during the three months ended September 30, 2016 and 2015 was $10 million and $22 million, respectively, and during the nine months ended September 30, 2016 and 2015 was $30 million and $64 million, respectively, which was recorded in "Cost of goods sold" in the unaudited Condensed Consolidated Statements of Operations.

9. Intangible Assets, Net

Intangible assets, net of accumulated amortization, consisted of the following:

	September 30, 2016			December 31, 2015		
	Gross Cost	Accumulated Amortization	Net Carrying Amount	Gross Cost	Accumulated Amortization	Net Carrying Amount
Customer relationships	$294	$ (113)	$ 181	$294	$ (98)	$ 196
TiO_2 technology	32	(9)	23	32	(8)	24
Internal-use software	38	(16)	22	37	(13)	24
Other	9	(9)	—	9	(9)	—
Intangible assets, net	$373	$ (147)	$ 226	$372	$ (128)	$ 244

Amortization expense related to intangible assets during the three months ended September 30, 2016 and 2015 was $6 million and $7 million, respectively, of which less than $1 million each was recorded in "Cost of goods sold" in the unaudited Condensed Consolidated Statements of Operations and $6 million and $7 million was recorded in "Selling, general and administrative expenses" in the unaudited Condensed Consolidated Statements of Operations. Amortization expense related to intangible assets during the nine months ended September 30, 2016 and 2015 was $19 million and $20 million, respectively, of which $1 million each was recorded in "Cost of goods sold" in the unaudited Condensed Consolidated Statements of Operations and $18 million and $19 million, respectively, was recorded in "Selling, general and administrative expenses" in the unaudited Condensed Consolidated Statements of Operations. Estimated future amortization expense related to intangible assets is $6 million for the remainder of 2016,

$25 million for each of the years from 2017 through 2020 and $120 million thereafter.

10. Accrued Liabilities

Accrued liabilities consisted of the following:

	September 30, 2016	December 31, 2015
Employee-related costs and benefits	$ 80	$ 69
Restructuring costs	1	15
Interest	10	35
Sales rebates	24	28
Taxes other than income taxes	10	11
Other	23	22
Accrued liabilities	$ 148	$ 180

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11. Debt

Short-term debt

Our short-term debt consisted of a UBS Revolver, defined below, and was $150 million at both September 30, 2016 and December 31, 2015. The average effective interest rates of our UBS Revolver were 4.4% and 4.1% during the three and nine months ended September 30, 2016, respectively, and 4.3% and 3.4% during the three and nine months ended September 30, 2015, respectively.

UBS Revolver

We have a global senior secured asset-based syndicated revolving credit facility with UBS AG ("UBS") with an original maturity date of June 18, 2017 (the "UBS Revolver"). Through March 31, 2015, the UBS Revolver provided us with a committed source of capital with a principal borrowing amount of up to $300 million, subject to a borrowing base. Balances due under the UBS Revolver are carried at contracted amounts, which approximate fair value based on the short term nature of the borrowing and the variable interest rate.

On April 1, 2015, in connection with the Alkali Transaction, we entered into an amended and restated asset-based revolving syndicated facility agreement with UBS, which provides for up to $500 million of revolving credit lines, with a $85 million sublimit for letters of credit with a new maturity that is the earlier of the date which is five years after the closing date and the date which is three months prior to the maturity of the Term Loan Agreement; provided that in no event shall the Revolving Maturity be earlier than June 18, 2017. Availability of revolving credit loans and letters of credit are subject to a borrowing base. Borrowings bear interest at our option, at either a base rate or an adjusted London Interbank Offered Rate ("LIBOR") as the greatest of (a) the Administrative Agent's prime rate, (b) the Federal funds effective rate plus 0.50% and (c) the adjusted LIBOR for a one-month period plus 1.00%. The applicable margin ranges from 0.50% to 1.00% for borrowings at the base rate and from 1.50% to 2.00% for borrowings at the adjusted LIBOR, in each case, based on the average daily borrowing availability.

On April 1, 2015, we borrowed $150 million against the UBS Revolver, which was outstanding at both September 30, 2016 and December 31, 2015. During the three and nine months ended September 30, 2016, we had no drawdowns or repayments on the UBS Revolver. During both the three and nine months ended September 30, 2015, we had $150 million of drawdowns and no repayments on the UBS Revolver. We incurred $2 million of deferred debt issuance costs related to the UBS Revolver, which were capitalized and included in "Other long-term assets" in the unaudited condensed consolidated balance sheet at September 30, 2015. At September 30, 2016 and December 31, 2015, our amount available to borrow was $173 million and $217 million, respectively.

ABSA Revolving Credit Facility

We have a R1.3 billion (approximately $95 million at September 30, 2016) revolving credit facility with ABSA Bank Limited ("ABSA") acting through its ABSA Capital Division with a maturity date of June 14, 2017 (the "ABSA Revolver"). The ABSA Revolver bears interest at (i) the base rate (defined as one month Johannesburg Interbank Agreed Rate, which is the mid-market rate for deposits in South African Rand for a period equal to the relevant period which appears on the Reuters Screen SAFEY Page alongside the caption YLD) as of 11h00 Johannesburg time on the first day of the applicable period, plus (ii) the margin, which is 3.9%.

During the three and nine months ended September 30, 2016 and 2015, we had no drawdowns or repayments on the ABSA Revolver. At both September 30, 2016 and December 31, 2015, there were no outstanding borrowings on the ABSA Revolver.

Long-term debt, net of an unamortized discount and debt issuance costs, consisted of the following:

	Original Principal	Annual Interest Rate	Maturity Date	September 30, 2016	December 31, 2015
Term Loan, net of unamortized discount (1)	$ 1,500	Variable	3/19/2020	$ 1,444	$ 1,454
Senior Notes due 2020	$ 900	6.375 %	8/15/2020	896	900
Senior Notes due 2022	$ 600	7.50 %	3/15/2022	584	600
Co-generation Unit Financing Arrangement	$ 16	6.5 %	2/1/2016	—	1
Lease financing				19	16
Total borrowings				2,943	2,971
Less: Long-term debt due within one year				(16)	(16)
Debt issuance costs				(38)	(45)
Long-term debt				$ 2,889	$ 2,910

(1) Average effective interest rate of 4.9% each during the three and nine months ended September 30, 2016, respectively, and 4.7% and 4.6% during the three and nine months ended September 30, 2015, respectively.

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At September 30, 2016, the scheduled maturities of our long-term debt were as follows:

	Total Borrowings
2016	$ 4
2017	16
2018	16
2019	16
2020	2,298
Thereafter	598
Total	2,948
Remaining accretion associated with the Term Loan	(5)
Total borrowings	$ 2,943

Term Loan

On March 19, 2013, we, along with our wholly owned subsidiary, Tronox Pigments (Netherlands) B.V., and certain of our subsidiaries named as guarantors, entered into a Second Amended and Restated Credit and Guaranty Agreement (the “Second Agreement”) with Goldman Sachs Bank USA, as administrative agent and collateral agent, and Goldman Sachs Bank USA, UBS Securities LLC, Credit Suisse Securities (USA) LLC and RBC Capital Markets, as joint lead arrangers, joint bookrunners and co-syndication agents. Pursuant to the Second Agreement, we obtained a $1.5 billion senior secured term loan (the “Term Loan”). The Term Loan was issued net of an original issue discount. At September 30, 2016 and December 31, 2015, the unamortized discount was $5 million and $6 million, respectively. During the three months ended September 30, 2016 and 2015, we made principal repayments of $4 million each, and during the nine months ended September 30, 2016 and 2015, we made principal repayments of $11 million each.

On April 23, 2014, we, along with our wholly owned subsidiary, Tronox Pigments (Netherlands) B.V., and certain of our subsidiaries named as guarantors, entered into a Third Amendment to the Credit and Guaranty Agreement (the “Third Agreement”) with the lender parties thereto and Goldman Sachs Bank USA, as administrative agent, which amends the Second Agreement. The Third Agreement provides for the re-pricing of the Term Loan by replacing the existing definition of “Applicable Margin” with a grid pricing matrix dependent upon our public corporate family rating as determined by Moody’s and Standard & Poor’s (with the interest rate under the Third Agreement remaining subject to Eurodollar Rate and Base Rate floors, as defined in the Third Agreement). Pursuant to the Third Agreement, based upon our current public corporate family rating by Moody’s and Standard & Poor’s, the current interest rate per annum is 350 basis points plus LIBOR (subject to a LIBOR floor of 1% per annum) compared to 350 basis points plus LIBOR (subject to a LIBOR floor of 1% per annum) in the Second Agreement. The Third Agreement also amended certain provisions of the Second Agreement to permit us and certain of our subsidiaries to obtain new cash flow revolving credit facilities in place of our existing asset based revolving credit facility. The maturity date under the Second Agreement and all other material terms of the Second Agreement remain the same under the Third Agreement. Debt issuance cost related to the Term Loan of $18 million was recorded as a direct reduction to the carrying value of the long-term debt as described below.

Senior Notes due 2020

On August 20, 2012, our wholly owned subsidiary, Tronox Finance LLC (“Tronox Finance”), completed a private placement offering of $900 million aggregate principal amount of senior notes at par value (the “Senior Notes due 2020”). The Senior Notes due 2020 bear interest semiannually at a rate equal to 6.375%, and are fully and unconditionally guaranteed on a senior, unsecured basis by us and certain of our subsidiaries. The Senior Notes due 2020 were initially offered to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”), and outside the United States to non-U.S. persons pursuant to Regulation S under the

Securities Act. Debt issuance costs related to the Senior Notes Due 2020 of $10 million were recorded as a direct reduction to the carrying value of the long-term debt as described below.

On September 17, 2013, Tronox Finance issued $900 million in aggregate principal amount of registered 6.375% Senior Notes due 2020 in exchange for its then existing $900 million in aggregate principal amount of its 6.375% Senior Notes due 2020. The Senior Notes due 2020 are guaranteed by Tronox and certain of its subsidiaries. See Note 22. There were no repayments during the three months ended September 30, 2016 and 2015. During the nine months ended September 30, 2016, we repurchased $4 million of face value of notes at a price of 77% of par, resulting in a net gain of approximately $1 million which was included in "Gain on extinguishment of debt" in the unaudited Condensed Consolidated Statements of Operations.

Senior Notes due 2022

On March 6, 2015, Evolution Escrow Issuer LLC ("Evolution"), a special purpose limited liability company organized under the laws of Delaware, was formed. Evolution was wholly owned by Stichting Evolution Escrow, a Dutch foundation not affiliated with the Company.

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On March 19, 2015, Evolution closed an offering of $600 million aggregate principal amount of its 7.50% Senior Notes due 2022 (the "Senior Notes due 2022"). The Senior Notes due 2022 were offered and sold by Evolution in reliance on an exemption pursuant to Rule 144A and Regulation S under the Securities Act. The Senior Notes due 2022 were issued under an Indenture, dated as of March 19, 2015 (the "Indenture"), between Evolution and Wilmington Trust, National Association (the "Trustee").

On April 1, 2015, in connection with the Alkali Transaction, Evolution merged with and into Tronox Finance. Tronox Finance assumed the obligations of Evolution under the Indenture and the Senior Notes due 2022, and the proceeds from the offering were released to us to partially pay the purchase price for the Alkali Transaction. We and certain of our subsidiaries entered into a supplemental indenture (the "First Supplemental Indenture"), by and among us, Tronox Finance, the guarantors party thereto, and the Trustee, pursuant to which we and such subsidiaries became guarantors of the Senior Notes due 2022 under the Indenture. The Senior Notes due 2022 have not been registered under the Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. There were no repayments during the three months ended September 30, 2016 and 2015. During the nine months ended September 30, 2016, we repurchased $16 million of face value of notes at a weighted average price of 76% of par, resulting in a net gain of approximately $3 million which was included in "Gain on extinguishment of debt" in the unaudited Condensed Consolidated Statements of Operations. Debt issuance costs related to the Senior Notes due 2022 of $10 million were recorded as a direct reduction of the carrying value of the long term-debt as described below.

The Indenture and the Senior Notes due 2022 provide, among other things, that the Senior Notes due 2022 are senior unsecured obligations of Tronox Finance. Interest is payable on March 15 and September 15 of each year beginning on September 15, 2015 until their maturity date of March 15, 2022. The terms of the Indenture, among other things, limit, in certain circumstances, the ability of us to: incur certain additional indebtedness and issue preferred stock; make certain dividends, distributions, investments and other restricted payments; sell certain assets; incur liens; agree to any restrictions on the ability of certain subsidiaries to make payments to the Company; consolidate or merge with or into, or sell substantially all of our assets to, another person; enter into transactions with affiliates; and enter into new lines of business.

Liquidity and Capital Resources

As of September 30, 2016, we had $173 million available under the $500 million UBS Revolver, $95 million available under the ABSA Revolver and $202 million in cash and cash equivalents. In the next twelve months, we expect that our operations and available borrowings under our revolving credit agreements will provide sufficient cash to fund our operating expenses, capital expenditures, interest payments, debt repayments, and dividends.

Lease Financing

We have capital lease obligations in South Africa, which are payable through 2031 at a weighted average interest rate of approximately 14%. At both September 30, 2016 and December 31, 2015, such obligations had a net book value of assets recorded under capital leases aggregating $14 million. During each of the three and nine months ended September 30, 2016 and 2015, we made principal payments of less than $1 million.

Bridge Facility

In connection with the Alkali Transaction, we entered into a $600 million senior unsecured bridge facility (the "Bridge Facility"). The Bridge Facility was not utilized and terminated with the completion of the Alkali Transaction. During the nine months ended September 30, 2015, we incurred $8 million of financing fees related to the Bridge Facility, which were included in "Interest and debt expense, net" in the unaudited Condensed Consolidated Statements of Operations.

Fair Value

Our debt is recorded at historical amounts. At September 30, 2016 and December 31, 2015, the fair value of the Term Loan was $1.4 billion and $1.3 billion, respectively. At September 30, 2016 and December 31, 2015, the fair value of the Senior Notes due 2020 was $841 million and $520 million, respectively. At September 30, 2016 and December 31, 2015, the fair value of the Senior Notes due 2022 was $537 million and $347 million, respectively. We determined the fair value of the Term Loan, the Senior Notes due 2020 and the Senior Notes due 2022 using quoted market prices. The fair value hierarchy for the Term Loan, the Senior Notes due 2020 and the Senior Notes due 2022 is a Level 1 input. Balances outstanding under our UBS Revolver are carried at contracted amounts, which approximate fair value based on the short term nature of the borrowing and the variable interest rate. The fair value hierarchy for our UBS Revolver is a Level 2 input.

Debt Covenants

At September 30, 2016, we had financial covenants in the UBS Revolver, the ABSA Revolver and the Term Loan; however, only the ABSA Revolver had a financial maintenance covenant that applies to local operations and only when the ABSA Revolver is drawn upon. The Term Loan and the UBS Revolver are subject to an intercreditor agreement pursuant to which the lenders’ respective rights and interests in the security are set forth. We were in compliance with all our financial covenants as of and for the three and nine months ended September 30, 2016.

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Interest and Debt Expense, Net

Interest and debt expense, net in the unaudited Condensed Consolidated Statements of Operations consisted of the following:

	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Interest on debt	$ 43	$ 43	$ 130	$ 117
Amortization of deferred debt issuance costs and discounts on debt	3	3	8	8
Bridge Facility	—	—	—	8
Other	—	1	2	3
Capitalized interest	—	(2)	(2)	(5)
Total interest and debt expense, net	$ 46	$ 45	$ 138	$ 131

In connection with obtaining debt, we incurred debt issuance costs, which are being amortized through the respective maturity dates using the effective interest method. At both September 30, 2016 and December 31, 2015, we had deferred debt issuance costs of $4 million related to the UBS Revolver and ABSA Revolver which are recorded in "Other long-term assets" in the unaudited Condensed Consolidated Balance Sheets and $38 million and $45 million, respectively, as a direct reduction of the carrying value of the long-term debt.

12. Asset Retirement Obligations

Asset retirement obligations consist primarily of rehabilitation and restoration costs, landfill capping costs, decommissioning costs, and closure and post-closure costs. Activity related to asset retirement obligations was as follows:

	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Balance, January 1,	$ 78	$ 88	$ 81	$ 90
Additions	—	1	1	2
Accretion expense	1	1	4	4
Remeasurement/translation	3	(7)	5	(12)
Changes in estimates, including cost and timing of cash flows	—	(1)	(9)	—
Settlements/payments	—	—	—	(2)
Balance, September 30,	$ 82	$ 82	$ 82	$ 82

Asset retirement obligations were classified as follows:

	September 30, 2016	September 30, 2015
Current portion included in "Accrued liabilities"	$ 4	$ 6
Noncurrent portion included in "Asset retirement obligations"	78	76
Asset retirement obligations	$ 82	$ 82

During the nine months ended September 30, 2016, we amended our lease agreement for our TiO_2 pigment facility in Botlek, The Netherlands, which included an option to extend the lease term for an additional 25 years. This amendment increased the estimated useful life used in determining the asset retirement obligation and consequently, we recognized a $10 million reduction to this liability.

Environmental Rehabilitation Trust

In accordance with applicable regulations, we have established an environmental rehabilitation trust for the prospecting and mining operations in South Africa, which receives, holds, and invests funds for the rehabilitation or management of asset retirement obligations. The trustees of the fund are appointed by us, and consist of sufficiently qualified employees capable of fulfilling their fiduciary duties. At September 30, 2016 and December 31, 2015, the environmental rehabilitation trust assets were $13 million and $12 million, respectively, which were recorded in “Other long-term assets” in the unaudited Condensed Consolidated Balance Sheets.

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13. Derivative Instruments

We manufacture and market our products in a number of countries throughout the world and, as a result, are exposed to changes in foreign currency exchange rates, particularly in South Africa, Australia, and The Netherlands. Costs in South Africa and Australia are primarily incurred in local currencies, while the majority of revenues are in U.S. dollars. In Europe, the majority of revenues and costs are in the local currency. This leaves us exposed to movements in the South African Rand and the Australian dollar versus the U.S. dollar.

Our businesses rely on natural gas as one of the main fuel sources in our production process. Natural gas prices have historically been