

## 2008 Automotive News Green Car Conference

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### Remarks by Gregg Sherrill

Chairman and CEO, TENNECO INC.

AUTOMOTIVE NEWS GREEN CONFERENCE

Good morning. Thank you for the introduction and thank you Automotive News for pulling together this Green Conference, the focus of which is clearly at the forefront of our thinking at Tenneco and at the heart of both opportunities and challenges for our industry.

Let me begin with just a few words about Tenneco and the supplier industry. As most of you know, suppliers are this country's single largest manufacturing industry, employing close to 800,000 people in the U.S. And in fact, suppliers produce about two-thirds of the content on today's vehicles, as well as most of the replacement parts.

Within that industry, Tenneco is a \$6.2 billion dollar manufacturer and one of the world's largest suppliers of emission control and ride control products for both the OE market and the aftermarket. For those of you who don't know us well, you may be more familiar with some of our brands like Monroe, Walker and Gillet.

Our largest global business is our emissions control business. We design, develop and manufacture emission control technologies for just about every vehicle segment in every region of the world. We are emissions control experts from the simplest to the most complex systems.

When I was asked earlier this year to talk about how it's not only possible to go green but to be profitable doing so, that was an easy task. At Tenneco, and particularly within our fast-growing emission control business, virtually every dollar we invest and earn directly results in cleaner air and a healthier environment.

Now, I don't need to remind this audience that we're facing the toughest automotive environment any of us has ever seen. I think perhaps what has been most remarkable is how quickly the market deteriorated since the beginning of the year and particularly in the last several months. And, what started here in our housing and banking industries has now spread to other regions of the world so we're all feeling the effects from tight credit, sinking consumer confidence, record low vehicles sales and dropping production volumes.

Clearly, today's challenge is managing this near-term environment while at the same time, making sure we're investing in the future. For Tenneco, that means preparing for significant growth, thanks in large part to the "Green" movement. The growth began last

year when we grew our revenues by \$1.2 billion and will accelerate again beginning in 2010.

In this regard, it's no stretch to say that emissions control is absolutely central to any plan to make the air we breathe cleaner – in short, emissions control, as a concept and practice, is the greenest of the green. And at this moment in our political, social, cultural and economic history, green is everyone's favorite color.

I also want to emphasize that this isn't just a passing trend. In the past, we've seen environmental concerns come and go, usually in tune with changing economic or external conditions. And it's natural that environmental zeal will be somewhat tempered in times of economic distress. But this is different – bigger, more encompassing, something that seems certain to shape the lives and thoughts of generations to come.

In my opinion, we're witnessing the development of a strong and pervasive new global ethic, an ethic that has been growing steadily for several decades now. As someone once observed, every age is inspired by what may be called its inevitable idea – the ethos of the century. That ethos – the ethic for this new century – is environmentalism. Clean air and the effects of emissions on health and climate change are components of this ethic. And one of the central roles for our industry is to provide the technology necessary to mitigate the effects of vehicle emissions.

Society is now demanding clean air and that will only intensify. And we are adapting to meet that demand. We do so because in the larger sense, it's the right thing to do. And we do so from a business point of view because it sells vehicles. For Tenneco, our leadership in emission control technology throughout the world provides us with a unique opportunity to make visible and significant contributions to the quality of life.

International policy makers reinforced this view in a survey commissioned by Tenneco last year. Throughout the world, these policy makers say, the impact of CO<sub>2</sub> emissions on global warming and climate change is a central issue. Europeans believe implementation of already approved regulations will accelerate, and both European and U.S. policy makers agree that governments, consumers, advocacy groups and manufacturers will continue to shape and drive change on air quality issues.

Internal combustion engines will always produce by-products, and emission requirements will always need our technology.

This puts Tenneco not only on the cutting edge of technology and innovation in our business, but also on the cutting edge of what is perhaps one of the overriding social and political issues of our time – the environment. This movement has also brought the automotive industry to an inflection point. Despite current economic and market headwinds, our customers are driving the industry towards cleaner, more fuel efficient vehicles with affordable price points.

OEMs globally are pursuing a variety of alternative power train solutions. Whether it's the manufacturers who are bringing hybrids to the market or those aggressively bringing diesels to North America. And, we're seeing the development of electric vehicles like the GM Volt and other advances in electric lithium battery technology as well as hydrogen fuel-cell technology.

There are many who see salvation in hydrogen fuel-cell vehicles, and that may well be the ultimate solution. And considering the increasingly unstable geopolitical conditions that characterize many of the oil producing regions of the world today; the growing demand for oil in India and China that could eventually equal the total production of Saudi Arabia; and just the fact that oil supplies are finite, there is little doubt that one day alternative energy sources will play a much larger role.

But for the foreseeable future, given the fuels we have to work with today, there should be a coherent set of mid-term solutions to our problems, both environmental and economic.

It will, of course, ultimately take a suite of solutions to address vehicle emissions reductions; and among the hybrids, alternative fuels, batteries and fuel cells, there is no single answer. For our part, with an eye always on the future, we continue to respond to our customers' needs by developing highly engineered emissions control systems that support gasoline, direct injection gasoline, flex-fuel, hybrids and diesel applications.

Today, diesel is a good example of how the regulatory environment is driving technology development and how emissions control solutions must be developed specific to vehicle segments as well as geographic regions. Earlier emissions control regulations focused on gasoline powered vehicles, whereas today, we are in a 7-year regulatory period where governments around the world are focusing on cleaning up diesel.

Tenneco commercialized some of the first diesel particulate filter technology for the light vehicle market in Europe in 2000 for early adopters—OEMs that incorporated the technology without being mandated to do so. With this marketplace tested experience, we grew our share in Europe to help OEMs meet stricter requirements. We also quickly transferred this knowledge to North America and successfully captured a huge diesel powertrain prize: the 2007 three-quarter ton pickup platforms for Chrysler, Ford and GM—a clean sweep of highly profitable business new to Tenneco.

As our diesel expertise evolved, we looked at the regulatory timeline facing the industry and developed technology roadmaps to introduce the right solutions in the right markets at the right times. These technology roadmaps helped us identify product and capability gaps that needed to be filled. But most importantly, we quickly saw opportunities we would have otherwise missed—opportunities to leverage our know-how into new

adjacent markets.

Perhaps the biggest was the commercial vehicle market, where we accurately predicted that its current emissions supply partners would not have the resources, technologies or expertise to address what will be the most active regulatory environment over the next several years. By leveraging our already developed innovations for European diesel applications and light trucks, and working aggressively with new customers in markets around the world, we have exceeded our own expectations. About 50% of our OE revenue growth between 2007 and 2012 will be with on- and off-road commercial vehicle OEMs such as Caterpillar. And, we're looking at other opportunities as well in new markets like locomotive, marine and stationary engines.

China, the largest commercial vehicle producer in the world, represents one of the biggest opportunities for Tenneco, given its new emissions regulations that phase in beginning in 2010. We have already won a number of commercial vehicle contracts for our latest Selective Catalytic Reduction technology and are well positioned to generate additional new business in this rapidly growing market. Also, with this technology, fuel economy improvements of 5 to 7 percent can be achieved, thereby further reducing CO2 greenhouse gas emissions.

We are proud of our presence in China – not just because of the great commercial opportunities it offers, but also because it affords us the chance to help China avoid some of the mistakes the West made in its drive to modernize – especially environmental mistakes.

The environmental problems facing China today are the by-products of rapid industrialization, not unlike the problems we created in this country in the late 19th and early 20th centuries. But today, unlike a century ago, there are solutions. And those solutions come from the development and application of cutting-edge technology.

According to China's stated auto policy, one primary objective is to find technological solutions to automotive related pollution problems. Given our advanced technology, this is an area in which we are uniquely qualified to help automakers in China produce more environmentally friendly vehicles.

In part, these problems and others like them may represent the flip side of this extraordinarily complex and interrelated concept we call globalism.

Over the longer term, a report issued by the International Energy Agency predicts that oil consumption will decline slightly in the U.S. and other developed countries as consumers increasingly drive more fuel efficient vehicles.

But that small decline in oil demand will be dwarfed by an estimated increase in demand of 3.7 percent in developing countries. And by 2013, the report says, oil demand in

developing countries will account for nearly half of world demand. “China,” says the report, “will account for almost a third of the world’s annual demand increase in the 2008-2013 period.”

The report foresees only relatively modest oil production increases over the same period, with an annual growth of less than one million barrels a day. The report also predicts that increasing demand in tight markets will keep prices high.

Meanwhile, American consumers – and consumers throughout the world -- are taking their concerns directly to the industry, asking for – and paying for – a variety of alternatively fueled vehicles and conventionally fueled vehicles with significantly better mileage.

The potential here is unprecedented. Environmentalism is driving consumer demand. And in the end, meeting that demand is just good business – good business for us, and good business for our nation.

As one commentator says, “It is entirely possible that a decade from now, we will realize that this was a pivotal moment in the auto industry’s history.”

If that’s true – and from this perspective it seems highly likely -- then this time around, there’s no turning back. The industry is responding as if high fuel costs are here to stay, and as one Detroit executive puts it, “I would bet my house that the old buying habits won’t return.”

In short, we have entered the age of more fuel efficient vehicles. Just consider the fact that vehicles with four cylinder engines represented less than 30 percent of the 2004 light vehicle sales in the U.S. but more than 45 percent in the first half of 2008.

As the New York Times recently put it, “What Congress didn’t or couldn’t do; the free market is now doing in the form of higher gasoline prices.” That is, driving people to buy more fuel-efficient cars.

“This too shall pass,” one of my industry colleagues is quoted as saying recently. And perhaps it will. Cycles, after all, are a fact of life. And we’ve seen our share. But perhaps at this moment in history that won’t be the case. And perhaps our businesses, our industry, our families, our country – and yes, our environment and the air we all breathe – will be better for it.

So, back to my earlier point, at the heart of Tenneco’s projected growth is the global demand for higher content fuel efficient emission control systems. This demand is surging as nations throughout the world implement stricter clean-air regulations.

These rules, scheduled to take effect in China, Europe, the U.S. and elsewhere on a

regular basis, create windows of opportunity for us – literally, by the year. That will be the case well into the future. This growth includes not only opportunities in adjacent markets like the commercial vehicle segment but also light vehicle content growth, as these new regulations require additional and more sophisticated components.

We are very focused on the regulations themselves. The windows of opportunity can't be missed, and our customers cannot risk failure through non-compliance. As I've already mentioned, our technology pipeline mirrors what will be needed both on a regional basis as well as by vehicle segment. And, especially given today's environment, our engineering and capex spending is very focused on specific customer needs.

As proof of these growth drivers, we already announced and reconfirmed in our recent third quarter financial results that Tenneco expects to achieve a projected compounded annual OE revenue growth rate of 11% to 13% between 2007 and 2012, largely driven by our emission control business.

Finally, let me close with a few general observations about our industry and the times in which we operate.

I realize, of course, that there is at present deep concern about the economic condition of our nation, and much of this concern centers on the automotive industry and its ability to adapt to the new realities of the marketplace.

However, it has been said that our artists and writers are the social antennae of our society. If so, our engineers and scientists are its industrial and technological architects. Our society – this great industrial civilization – has prospered as no other nation on earth because of the science and technology that has given it structure.

That continues to be the case today. Show us a dream, and we can make it reality. Show us a need or a problem, and we can meet it or solve it. That is true of all those environmental problems that are under such intense discussion in our nation and throughout the world today.

This is not to minimize the nature or magnitude of the technical problems that lie ahead, especially in this area of the new environmental ethic, where physical science, business, economics, ideology and politics all intersect.

But given our abilities, ingenuity and technology, we are uniquely qualified to take the lead in the years immediately ahead. The history of our industry is the story of automakers and their suppliers working together to provide safe, clean, and economical transportation.

In the process, we have helped to give people everywhere an unprecedented measure

of mobility. And by providing that mobility, we have helped to give the world an unprecedented measure of human freedom. That is, in my opinion, one of our industry's greatest achievements.

And all of us at Tenneco take pride in being part of the industry that makes that freedom and mobility possible, and will continue to make it possible as we travel through the challenging years ahead.

Thank you

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**CONTACT:**

Tenneco Automotive, Media Relations

Jane Ostrander

(1) 847 482 5607

[jostrander@tenneco.com](mailto:jostrander@tenneco.com)