EXECUTION & DISCIPLINE

DRIVE RESULTS
Tenneco Automotive Inc. 2004 Annual Report

FIVE YEARS OF PROGRESS

- Increased Revenues by $953 Million
- Increased Revenue Per Employee from $136,000 to $229,000
- Reduced Debt Net of Cash by $344 Million
- Increased Market Capitalization by $439 Million

CORPORATE PROFILE

Tenneco Automotive is one of the world’s largest designers, manufacturers and marketers of emission control and ride control products and systems for the automotive original equipment market and aftermarket. The company became an independent corporation in 1999, allowing singular focus on strategies to maximize global results.

Tenneco Automotive markets its products principally under the Monroe® and Walker® brand names. Leading manufacturers worldwide use our products in their vehicles, attracted principally by our groundbreaking advanced technologies. We are one of the top suppliers to the automotive aftermarket, offering exceptionally strong brand recognition among consumers and trade personnel.

EXECUTION AND DISCIPLINE

Drive results through detailed planning, follow-through and accountability.

VALUES

- Teamwork: Seamless collaboration
- Integrity: Being honest, fair and never compromising our ethics
- Trust: Relying on and having faith in one another
- Passion and a Sense of Urgency: A consuming desire to win now
- Balance: Promoting a balanced perspective in everything we do
- Accountability: Accepting responsibility for our actions
- Continuous Improvement: Relentless focus on achieving more with less

VISION

PIONEERING GLOBAL IDEAS FOR CLEANER, QUIETER AND SAFER TRANSPORTATION.
Tenneco Automotive

INVESTOR INFORMATION

Tenneco Automotive Inc.
500 North Field Drive
Lake Forest, IL 60045
847.482.5000
Toll Free: 866.839.3259
Media: 704.427.2602
Inquiries: 847.482.5042

The company makes no representations as to the completeness or accuracy of the information contained in this document. Additional information on Tenneco Automotive may be found in its annual report on Form 10-K for the year ended December 31, 2004.

Dividends

The company expects that for the foreseeable future it will follow a policy of retaining earnings in order to finance the continued development and expansion of its business. The company does not currently anticipate paying dividends on its common stock. Additional information on the company’s dividend policy and restrictions on the payment of dividends can be found in the company’s Annual Report on Form 10-K for the year ended December 31, 2004.

Awards and Recognitions

Tenneco Automotive was awarded the "Tenneco Automotive Powertrain and Emission Technology of the Year Award" by the New York Motor Press Club. Tenneco Automotive was also named a "Worldwide Supplier to the Year" by DaimlerChrysler AG. Tenneco Automotive was named "Supplier of the Year" by Toyota Motor Co., G.M., Chrysler, and MB. Tenneco Automotive, Tenneco Automotive Europe and Tenneco Automotive Argentina were named "Supplier of the Year" by PSA Peugeot Citroen.

Tenneco Automotive
2004 Annual Report

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**TEN**

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**STOCK PRICE DATA**

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**Diversification of Adjusted Operating Income and Earnings Per Share**

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**Reconciliation of Adjusted Operating Income and Earnings Per Share**

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**Tenneco Automotive 2004 Annual Report**
Tenneco Automotive

### Original Equipment

<table>
<thead>
<tr>
<th>Operations</th>
<th>2004 Sales</th>
<th>Markets Served</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.287 million</td>
<td></td>
<td>Passenger cars, light trucks, Commercial vehicles, Performance application, Retained</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Competitor</th>
<th>Key Advantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenneco Automotive</td>
<td>Remarkable Risk Solution</td>
</tr>
<tr>
<td>Gillette</td>
<td>Advanced technologies</td>
</tr>
<tr>
<td>Bluestone</td>
<td>Strategic focus</td>
</tr>
<tr>
<td>Magneti Marelli</td>
<td>Product/process quality</td>
</tr>
<tr>
<td>Goerlich's Exhaust Systems</td>
<td>Total program</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top Tier Customers</th>
<th>Top Tier Platforms 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenneco Automotive</td>
<td>Tenneco Automotive.com</td>
</tr>
<tr>
<td>GM</td>
<td>Fleet Order Talk</td>
</tr>
<tr>
<td>Ford</td>
<td>Ford Lincoln Motor Co.</td>
</tr>
<tr>
<td>DaimlerChrysler</td>
<td>DaimlerChrysler.com</td>
</tr>
<tr>
<td>Volkswagen</td>
<td>Volkswagen.com</td>
</tr>
</tbody>
</table>

### Emission & Ride Control

**Ride Control**: $2,287 million

- **630 million**: Control systems
- **63/37**: Ride control
- **63/37**: Suspension bushings
- **63/37**: Engine/body mounts
- **63/37**: Engine mounts
- **63/37**: Shocks
- **63/37**: Tubing
- **63/37**: Piping

**Emission**: 800 million

- **2,000**: Exhaust systems
- **2,000**: Exhaust heat exchangers
- **2,000**: Diesel particulate filter systems
- **2,000**: Mufflers and resonators
- **2,000**: Fabricated manifolds

### Diverse Customer Base

<table>
<thead>
<tr>
<th>2004 Sales</th>
<th>2004 EBIT</th>
<th>2004 EPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004 Sales</td>
<td>$2,287 million</td>
<td>$365 million</td>
</tr>
<tr>
<td>2004 EBIT</td>
<td>$931 million</td>
<td></td>
</tr>
<tr>
<td>2004 EPS</td>
<td>5.63</td>
<td></td>
</tr>
</tbody>
</table>

**Stockholders**

For stockholders services such as exchange of certificates, issuance of certificates, lost certificates, change of address, share name and address changes, write, call or email the company's transfer agent.

**Investor Relations**

- Tenneco Automotive Inc., 505 North Field Street, Lake Forest, Illinois 60045
- 847-482-1000
- Web Site: www.tenneco-automotive.com
- Corporate Information

**For stockholders services such as exchange of certificates, issuance of certificates, lost certificates, change of address, share name and address changes, write, call or email the company's transfer agent.**

**Diversification**

- Tenneco Automotive's common stock is listed on the New York Stock Exchange (ticker symbol: TNNMX). TDK is traded primarily on the New York Stock Exchange and also on the following exchanges: Chicago, Pacific and London.

**Earnings Measures**


<table>
<thead>
<tr>
<th>Adjustments (Non-GAAP measures)</th>
<th>Reconciliation of Adjusted Operating Income and Earnings Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost related to acquisitions</td>
<td><strong>$7.32</strong></td>
</tr>
<tr>
<td>Direct labor cost savings</td>
<td><strong>$2,287 million</strong></td>
</tr>
<tr>
<td>Sales volume and mix</td>
<td><strong>200 million</strong></td>
</tr>
<tr>
<td>Gain on sales of discontinued</td>
<td><strong>80 million</strong></td>
</tr>
</tbody>
</table>

**Company Profitability**

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FINANCIAL HIGHLIGHTS

Execution and Discipline has driven notable progress in Tenneco Automotive’s business since we emerged as a separately traded public company five years ago. The table below summarizes our reported results, which include the costs of achieving this improvement — namely restructuring, refinancing and similar charges. Adjusting for these items, our operational improvements were even greater. You can read more information about the charges in Management’s Discussion and Analysis found in our Form 10-K included in this Annual Report.

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$4,213</td>
<td>$3,766</td>
<td>$3,459</td>
<td>$3,364</td>
<td>$3,528</td>
<td>$3,260</td>
</tr>
<tr>
<td>Earnings before interest and taxes</td>
<td>$ 171</td>
<td>$176</td>
<td>$169</td>
<td>$92</td>
<td>$120</td>
<td>$148</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>$ 177</td>
<td>$163</td>
<td>$144</td>
<td>$153</td>
<td>$151</td>
<td>$144</td>
</tr>
<tr>
<td>EBITDA*</td>
<td>$ 348</td>
<td>$339</td>
<td>$313</td>
<td>$245</td>
<td>$271</td>
<td>$292</td>
</tr>
<tr>
<td>Net income (loss) before discontinued operations and changes in accounting principles</td>
<td>$ 13</td>
<td>$ 27</td>
<td>$ 31</td>
<td>$(130)</td>
<td>$(42)</td>
<td>$(81)</td>
</tr>
<tr>
<td>Earnings (loss) per share before discontinued operations and changes in accounting principles</td>
<td>$0.31</td>
<td>$0.65</td>
<td>$0.74</td>
<td>$(3.43)</td>
<td>$(1.20)</td>
<td>$(2.42)</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>$ 130</td>
<td>$130</td>
<td>$138</td>
<td>$127</td>
<td>$146</td>
<td>$154</td>
</tr>
<tr>
<td>Average diluted shares outstanding</td>
<td>44,180,460</td>
<td>41,767,959</td>
<td>41,667,815</td>
<td>38,001,248</td>
<td>34,906,825</td>
<td>33,656,063</td>
</tr>
<tr>
<td>Total debt</td>
<td>$1,420</td>
<td>$1,430</td>
<td>$1,445</td>
<td>$1,515</td>
<td>$1,527</td>
<td>$1,634</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 214</td>
<td>$145</td>
<td>$54</td>
<td>$53</td>
<td>$35</td>
<td>$84</td>
</tr>
<tr>
<td>Debt net of cash balances</td>
<td>$1,206</td>
<td>$1,285</td>
<td>$1,391</td>
<td>$1,462</td>
<td>$1,492</td>
<td>$1,550</td>
</tr>
</tbody>
</table>

*EBITDA represents income from continuing operations before cumulative effect of changes in accounting principles, interest expense, income taxes, minority interest and depreciation and amortization. EBITDA is not a calculation based upon generally accepted accounting principles. The amounts included in the EBITDA calculation, however, are derived from amounts included in the historical statements of income data. In addition, EBITDA should not be considered as an alternative to net income or operating income as an indicator of our performance, or as an alternative to operating cash flows as a measure of liquidity. We have reported EBITDA because we believe EBITDA is a measure commonly reported and widely used by investors and other interested parties as an indicator of a company’s performance. We believe EBITDA assists investors in comparing a company’s performance on a consistent basis without regard to depreciation and amortization, which can vary significantly depending upon many factors. However, the EBITDA measure presented in this document may not always be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

† See 2004 Form 10-K Item 6 for reconciliation to GAAP reporting measure.
TO OUR SHAREHOLDERS

Over the last five years, we’ve made tremendous headway in improving our financial position and enhancing operating results, and 2004 was no exception. Our team of more than 18,000 employees has steadily transformed this company from a struggling, highly leveraged and newly independent operation to a profitable, high-tech auto supplier with leading market share positions in every region of the world and in each of our product lines.

Enhanced Shareholder Value
Since becoming a stand-alone company, we’ve pursued the same goals of debt reduction and market expansion, relying on stringent cost management, capitalizing on natural growth drivers and leveraging alliances and joint ventures to get us there. Staying the course has continued to yield improving results. Even in 2004, against a difficult industry backdrop, we remained disciplined in the execution of these strategies and ultimately delivered outstanding results. Let me put some numbers to my enthusiasm.

• Revenues increased 12% in 2004 to $4.2 billion—our highest ever.
• Operating income adjusted for certain items increased 21% over 2003, representing three years of consecutive improvements since becoming a stand-alone company.
• Adjusted earnings were our best ever at $1.18 per share, which is 115% higher than the previous year.
• Capital spending was unchanged from 2003 at $130 million despite the impact of the higher Euro and the fact that in 2004 we more than doubled the number of product or platform launches implemented.
• And debt less cash balances ended the year at a historically low $1.206 billion, down 6% from 2003.

I’ve cited adjusted numbers so that you can see how our base operations are performing. Of course, an explanation of these adjustments, including restructuring and other items, can be found in the Management’s Discussion and Analysis of the attached Form 10-K. Additionally, a reconciliation of the results is detailed on the inside back cover of this report.
In 2004, our liquidity benefited from the successful refinancing of our most-expensive 11 5/8% bonds for new 8 5/8% bonds due 2014. As a result, we will generate pre-tax interest expense savings of about $15 million annually.

The market’s view of our strong operating performance and this favorable refinancing transaction was reflected in a 171% increase in the market capitalization of our stock last year. This led to two Automotive News Shareholder Value Awards, which recognized Tenneco for delivering the highest shareholder return among automotive suppliers for 2004 and over the latest three-year period.

Shareholders also benefited from our long-standing commitment to corporate governance best practices including independence, transparency and accountability. We will continue to incorporate the same high standards and integrity in every aspect of our business.

The Foundation of Our Success
As I think about the exciting opportunities ahead for Tenneco, I realize that we wouldn’t be in a position to take advantage of many of them were it not for the significant amount of change that’s taken place over several tough years.
Strategic Framework

On this front, our strategic plan has two primary objectives. First, we’re targeting growth markets where we can take advantage of external trends.

Examples include:

- emerging automotive regions like China and Eastern Europe;
- legislation-driven regulations for emissions and consumer safety concerns — each offer greater prospects for technology-driven companies;
- frequently replaced service parts, like brakes and filters, in the aftermarket; and
- new and existing customers with positive growth trajectories, like the Japanese and Korean automakers.

Second, we’re focused on further diversifying our revenue stream through entry into counter-cyclical adjacent markets like commercial and specialty vehicles.

Diversity of platforms, geography, customers, markets and product lines has been the key to our revenues outperforming global market production rates in each of the last eight quarters. Continuing to diversify our business will better insulate us during challenging automotive cycles.

Our priority is to grow organically. We’ve come a long way in improving our financial position and have no intention of stepping backwards. Where value can be added through acquisitions, we’ll be opportunistic. However, our criteria are stringent. Any acquisition must be accretive and credit neutral. That was the case with our early-2005 $10 million acquisition that brought us all of the exhaust business for Harley-Davidson motorcycles. This profitable business generated 2004 revenues of $38 million and supports our diversification strategy while leveraging our technology strength. Any future acquisitions must offer a low-risk way to grow revenues by enhancing our technical capability in areas like electronics and software for ride control, and air-flow management or fuel management for emission control.

For 2005, our goal is to continue to pursue opportunities that will make Tenneco a stronger company going forward, building on the considerable progress achieved over the last five years. Our improved performance is a sign that we’re on the right track.

But for all the progress that we’ve made, we’re really just getting started. We have a distinctive mix of leading brands, growing channels and strong positions around the world. We will continue to focus on areas of high potential, relying on our global workforce of talented, experienced and motivated people to lead us through Execution and Discipline.

Mark P. Frissora
Chairman, Chief Executive Officer and President
April 2005
>> EXECUTION & DISCIPLINE

Tenneco Automotive has created a culture based on Execution and Discipline, encouraging behaviors and practices that drive value creation. This culture is rooted in its people, processes and strategies.

In the following pages, several of Tenneco’s senior leaders talk about the energy, initiative and commitment that have enabled the company to make sustained progress through Execution and Discipline.
How have North American operations changed in the last five years?

**Brent Bauer, Senior Vice President and General Manager, North America Original Equipment Emission Control:** We have much better process disciplines. We have put in place things like Business Operating Systems, where each area of the business regularly tracks the vital few metrics they need to drive progress. Today, we employ Lean Manufacturing and Six Sigma methods to identify opportunities to take waste out of the system and to increase quality and speed. Processes like these have really become ingrained in the business. Additionally, the savings we’re getting by sourcing components from low-cost countries and working with suppliers on cost reductions are making us more competitive and more profitable.

How are the new environmental mandates impacting your business?

**Brent:** That’s right. That discipline and accountability is part of what’s driven our strong performance over the last five years. Additionally, we have outstanding technical resources and engineering expertise, which gives us a competitive edge. And we’re seeing tremendous leverage today as revenues grow and we continue to reduce fixed costs.

**Neal Yanos, Senior Vice President and General Manager, North America Ride Control and Aftermarket:** Our focus has been very strategic. We don’t expend a lot of resources where the likelihood of profitability is low. In terms of culture, our people have the attitude that it’s their company, and they’re running it to win. We hold ourselves accountable for the targets we set and expect to achieve them. That’s different from having lots of good ideas, but no accountability for the execution of those ideas.
“Tenneco is efficient. We provide services and products with fewer people and resources than most other big suppliers. And still, our OE revenues continue to outperform market production rates.”

Neal Yanos

pollution-control regulations in place for that segment too. In 2004, we leveraged the diesel technology developed for our European operations to win three new light-duty diesel platforms in North America for the 2007 model year. They’re the largest platforms we’ve ever won — and we won them because we had a better technical solution than our competitors.

**Business with the Japanese automakers in North America is another targeted growth area for Tenneco. What are you doing to improve your position with these original equipment manufacturers (OEMs)?**

**Brent:** The Japanese automakers are rapidly gaining share in North America, and we certainly want to be a part of their growth. As a result of a long-term focus on building relationships with these customers, we’ve been successfully winning new business. In 2004, Japanese OEM business represented 19% of our total North American original equipment (OE) revenues. That’s up from 16% a year earlier. By delivering the highest levels of quality, responsiveness and execution, we expect these relationships to continue to expand. For example, our award-winning launch of the Lexus RX330 played a big part in winning the Toyota Tundra truck platform in 2004, which is scheduled to be a high-volume platform that’s launching in 2006.

**Why is the aftermarket a good business to be in, and what are your plans for growth?**

**Neal:** The aftermarket’s a great business for us. We employ a premium product strategy, which drives better margins; and, we have strong brand equity with Monroe and Walker. Additionally, we’ve been improving profitability as we capitalize on favorable manufacturing synergies across our product lines. We’re also benefiting from a stronger top line as sales to existing customers expand, the exhaust market stabilizes, and we add new customers like Pep Boys for ride control products, and Wal-Mart and Target for our niche DuPont-branded car-care line. In addition to our leading market shares, our sales force, customer support areas, and engineering and marketing savvy give us a clear competitive advantage that we can leverage by bringing new, non-core products through our distribution channel.

---

**Execution & Discipline**

**Pep Boys Case History**

Success is the product of many years of hard work. That was the case with the North American Aftermarket team, who pursued Pep Boys for two years, convincing them of the value of the Monroe, Rancho and DNX lines of shocks, struts and exhaust products. Ultimately, we signed a long-term contract to supply Pep Boys stores across the United States and Puerto Rico. Persistence, hard work and customer focus paid off.

**North American Revenues Outperform Market Production**

<table>
<thead>
<tr>
<th>% change</th>
<th>01</th>
<th>02</th>
<th>03</th>
<th>04</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>4%</td>
<td>3%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>0%</td>
<td>1%</td>
<td>-1%</td>
<td>-2%</td>
<td></td>
</tr>
</tbody>
</table>

- **2004 Tenneco North American OE Revenues**
- **2004 North American Light Vehicle Production**
“Emission regulations dictate the kind of product solutions that customers are looking for. Based on our expertise and capabilities, in 2004 we won all of the domestic OEMs’ light-duty diesel business—our largest platforms ever.”

Brent Bauer

Execution & Discipline
Cambridge Case History

For Toyota, the first launch of a Lexus made in North America was vitally important. Our Lexus team of emission-control engineers in Canada worked side by side and used extensive benchmarking with Japanese counterparts to find ways to reduce costs, improve performance and reach quality levels that exceeded Toyota’s world-class standards. For that, Toyota bestowed its prestigious Excellence Level Award on our team in Cambridge.

How has the rising cost of steel affected your business?

Neal: In ride control, we use a lot of carbon steel for our shocks and struts so the substantially higher costs could really impact our margins. But our global supply chain team has done a great job working with steel suppliers to secure capacity and negotiate the best prices based on our global purchasing power. And we’re working with all of our customers to get price recovery. We’re also continuing our focus on cost reduction.

Brent: On the exhaust side, we’re going to feel some pressure this year. However, we’re also negotiating for customer price recovery, and our supply chain team has been very strategic, focusing on materials substitution, low-cost country sourcing and optimizing the sale of our global scrap volumes.

What is the North American operation doing to help improve margins over time?

Brent: We have a pretty good track record of improving gross margin in North America. The formula is simple. Having differentiated technology allows us to capture a better return. Moreover, the leverage we get from adding higher-margin revenues on top of our efforts to continuously lower our fixed costs is significant. Over the long-term, we think there’s a lot of opportunity, especially as we expand the implementation of Lean Manufacturing throughout our plants.

North American auto production is expected to be flat this year. Will you continue to outperform the market?

Neal: It’s all about the diversity of our platforms and the markets we serve, and the strength of the new platforms that we’re launching. Today, we’re favorably positioned on a large number of the top-selling vehicles. It’s been an advantage.

Brent: The diversity of our customer base is another advantage. Having Toyota, Honda and Nissan among our top six customers in North America is really paying off.
How have you transformed European operations in recent years?

**Hari Nair, Executive Vice President, Managing Director, Europe and South America:** Over the past five years, we’ve adjusted to changes in the marketplace by modifying our profile in terms of manufacturing capacity and location, customer mix and market share. This was the result of careful planning and determined execution, and leaves us well positioned to benefit from market opportunities.

**Ulrich Mehlmann, Vice President and General Manager, Europe Original Equipment Emission Control:** Also, we’ve made our operations more process-oriented, improving efficiency and reducing our costs. Equally important, our innovative technologies are driving new business growth in emission control as well as our expanded presence in the luxury segment.

**Josep Fornos, Vice President and General Manager, Europe Original Equipment Ride Control:** The European OE ride control business has benefited from a renewed focus. Based on the incremental new contracts we’ve won, we should move closer to the #1 position in the European market this year.

**Hari:** Besides operational improvements, we’ve completely transformed the culture of the organization. The concept of Execution and Discipline is embedded in the way our people work. It’s about making people accountable. Employees must feel that they can contribute to the best of their abilities. Recognition and celebration of success are key to this.

The improvement in the OE operation has been significant. How much opportunity is left?

**Ulrich:** Quite a bit. On the top line, our technological leadership in developing diesel products that provide a cost-effective means for meeting stricter emission standards results in greater customer satisfaction. That means more opportunity for Tenneco. In addition, we are looking at adjacent markets, like commercial trucks and specialty vehicles, to generate increased revenues. Our focus is more pointed than simple revenue generation. We are driving for profitable growth.
“Customers recognize us as a contributor to their success and not merely a commodity supplier. We can manage the entire development spectrum. Advanced engineering and technology is what sets us apart.”

Hari Nair

**Execution & Discipline**

**Valencia Case History**

Execution and Discipline was critical to meeting the simultaneous challenges of serving new customers, handling multiple launches and executing a plant redesign at our emission-control facility in Valencia, Spain in 2004. Launching four new platforms—each for a different customer—while moving 80% of the equipment to improve workflow was accomplished successfully without the need for additional resources and without disrupting any production for existing customers.

**Josep:** I agree. Our advanced Computerized Electronic Suspension product provides vehicle handling and safety improvements that customers are willing to pay for. At the same time, we are reducing costs by increasing purchases from low-cost countries, outsourcing non-core processes, further reducing inventories and standardizing more of our products and processes.

**Hari:** The improving South American economy and our efficient operations there also present opportunities for growth. Additionally, we’ll continue to look at ways to fine-tune our manufacturing footprint to take advantage of market growth and lower costs in Eastern Europe.

**What percent of manufacturing is in Eastern Europe?**

**Hari:** Approximately 22% of our European OE ride control manufacturing capacity is in the east today versus a low single-digit percentage just a few years ago. We are continuing to migrate our emission control capacity to Eastern Europe as well.

**Josep:** We have been aggressive in developing opportunities in Eastern Europe. In 2004, we launched the high-volume Ford Focus, a compelling example of our “Go East” strategy. We would never have won this ride control business without our capacity in Poland and the Czech Republic.

**Ulrich:** Moreover, we now have full engineering and design capabilities for exhaust systems in Eastern Europe. We believe this differentiates us from most automotive suppliers. And, while Western European automotive production is expected to be flat this year, we see positive projections in the east and are well positioned to capitalize on that expansion. For example, we are building relationships in Russia with our exhaust contract for the Lada Riva, manufactured by AvtoVAZ, and we’ll begin supplying exhaust parts for GM’s Opel Astra in Poland this year.

**What was your most important launch in 2004?**

**Hari:** We had 37 well-executed OE product or platform launches in Europe last year and all of them were important. These successes helped increase our OE ride control market share in Europe from the #4 position as recently as 2001 to challenging the leading competitor for the top position in 2005. At the same time, we maintained our #1 position* in the European OE emission control business.

**Ulrich:** We also made great strides in increasing customer satisfaction last year by implementing detailed plans for meeting and exceeding expectations. As a result, we had a number of successful launches including the BMW 1-Series, which represents our move into the higher-volume small-vehicle segment, and Porsche’s Boxster and 911, which demonstrate our continuing relationship with this prestigious nameplate.

*Market share data in this annual report is based on 2004 estimated revenues and are compiled from our knowledge of our relative position in the market and industry sources. These data are prepared in accordance with what Tenneco believes to be standard industry practice.
What will drive future revenue growth?

**Josep:** New ride control technologies that address comfort and safety such as CES, our electronic shock, and Kinetic, our anti-roll system offering improved vehicle stability. Also, leveraging our North American relationships with the Japanese automakers and developing new relationships with Korean OEMs as both have expanded their European market shares.

**Ulrich:** Stricter environmental requirements will also drive growth. We anticipate increased value for emission-control content in both the passenger car and commercial vehicle markets.

What have you done to improve European aftermarket results?

**Hari:** We have been making steady improvements, including signing roughly $20 million in incremental business in 2004 with customers like Van Heck & Co., a major wholesale distributor in the Netherlands. In addition, we adjusted our product mix by eliminating weak-selling parts. And new products being rolled out in 2005, like high-performance brakes and filters under our DNX brand, will help to offset the shrinking exhaust segment that resulted from the introduction of longer-lasting stainless steel by the OEMs. We’ve also streamlined manufacturing operations to reduce costs, including integrating aftermarket and OE production to more efficiently utilize capacity.

Why are European operating margins lower than North America’s?

**Hari:** Complexity. The total number of countries we serve exceeds 90. That means doing business with multiple legal entities, currencies and languages, and producing a greater number of models and engine variants to meet consumer preferences, which vary by region. But more than anything else, Western European labor costs are significantly higher, in part resulting from a more stringent regulatory environment.

**Ulrich:** But we are making progress as revenues increase and ongoing restructuring initiatives bear fruit. New OE programs that we’ve launched in lower-cost Eastern Europe are helping continue this progress.

How does Tenneco stack up against the competition? What differentiates you?

**Josep:** A combination of things that add up to best-in-class customer service and superior quality. And these are not my words. The most frequent feedback from our customers is that we flex where others don’t — whether it be in operations, design, engineering or logistics, and when a customer faces an issue, our reaction speed is second to none.

**Ulrich:** We place the highest importance on providing solutions that are tailored to individual customers.

**Hari:** By providing solutions and delivering on our promises, we are building credibility, trust and a win-win partnership with our customers.
China is expected to become the world’s second largest automotive market in terms of sales in three years. Are China’s steps to slow its booming economy likely to persist and what does that mean for Tenneco’s growth?

Tim Donovan, Executive Vice President and General Counsel & Managing Director, Asia Pacific:

There is concern that the Chinese government might try to further limit economic growth this year. As a result, we expect to deliver a modest increase in volume in 2005 as that economy sorts itself out. Beyond that, I really do believe China’s growth is going to be a stair-step versus a straight-line trajectory. Regardless, we continue to believe that the opportunity is substantial, given its population size and relatively low level of vehicle ownership. Over the long-term, China could become Tenneco’s largest market.

So what will it take to make that happen?

Tim: Two important catalysts will be greater efficiency in our OE joint-venture operations and the effective use of capacity in low-cost countries for the production of export products and components. As quality improves, the most likely candidates to handle the export volume will be India and China. Today, virtually all of our production in China is for use in the Chinese market.

Another area driving growth will be the stricter emission standards. Beijing is restricting emissions now in anticipation of the 2008 Olympic Games. Shanghai is planning to do the same.

Finally, we are positioning ourselves for the expected consolidation of about 120 automakers in China today to less than 10 that are likely to survive over the long haul as global players. Our leading market share in emission control gives us a competitive advantage as this trend plays out.

What are your plans for Thailand and India?

Tim: Thailand presents an opportunity for us to manufacture cost-effective emission components for export throughout the region. In India, we are upgrading our ride control facility to make products for global export.
In Asia there are seven joint ventures—five in China and one each in Thailand and India. Are there plans to open more?

**Tim:** In China we’re in pretty good shape right now with the 2004 addition of a new JV to service Ford and the recent partnership with Eberspächer for BMW exhaust business. We currently have four exhaust JVs and one ride control JV in China. Why only one shock plant? Shocks are relatively cost-effective to ship, so having multiple facilities, each in proximity to the customer, is not as important as it is for exhaust facilities. Of course, we’re always open to new opportunities to expand our business in the Asia Pacific region.

What is the outlook for growth in the aftermarket business?

**Tim:** It’s a very fragmented market right now in China. There’s no clear distribution system for aftermarket like there is in the United States. We’re currently launching a very detailed plan to leverage our strong Monroe brand in China with a goal of capturing a 30% share of the aftermarket by 2009.

What differentiates you from the competition in Asia?

**Tim:** Primarily the quality of our management teams in the region—hiring local people that have intimate knowledge of the markets, as well as the legal, commercial and regulatory environment. We supplement this local orientation by drawing on our global manufacturing, supply chain and technological resources. Additionally, our leading-edge technology gives us a competitive advantage.

What are your top priorities for 2005?

**Tim:** Expanding and upgrading our ride-control operations, further diversifying our customer base through new business, improving processes, and executing flawless launches.

What does Tenneco’s culture of Execution and Discipline mean to you?

**Tim:** It means differentiating ourselves from the competition by getting the basics right. Best-in-class suppliers like Tenneco know that being more process driven allows more opportunities for growth. We strive to be disciplined in the execution of our programs and processes—and that should give us an advantage.

“We became the #1 exhaust supplier in China last year and continue to grow with that market, diversifying our customer base through new business.”

*Tim Donovan*
With new, global emission regulations for medium- and heavy-duty trucks, our broad technology portfolio and extensive experience gives us a strategic advantage.

Lois Boyd

>> COMMERCIAL VEHICLE

Tenneco formed its Commercial Vehicle business unit in 2004. Why this heightened emphasis now?

Lois Boyd, Vice President and General Manager, Commercial Vehicle Systems and Global Program Management: We’ve always participated in this segment with ride control and elastomer, or rubber-to-metal, products, but had no real presence in the exhaust market and not in a global fashion. Although the emission-control market worldwide was less than $200 million in 2003, future opportunities are enormous. We estimate the size of the market could reach $2.2 billion by 2010 as more stringent environmental regulations require more sophisticated technology, driving up the value of vehicle content. We formed a business unit to take advantage of this growth, capitalizing on our global synergies, as well as our reputation in the light-truck exhaust market.

What hurdles do you face?

Lois: Since we’re relatively new to the commercial vehicle exhaust market, raising our visibility with the truck makers is our biggest challenge. We spent a lot of time this year linking the brands they know — Gillet, Walker, Monroe, Clevite — to Tenneco Automotive. We’re fortunate to already have good customer relationships on the ride-control side that we can leverage, and that many of the traditional muffler suppliers in this market don’t have emission technologies to support the OEMs in addressing the new environmental mandates. We believe that our experience, products and capabilities give us an edge.

Have you been successful in winning any new business yet?

Lois: We are the exhaust supplier to DaimlerChrysler on their heavy-duty Actros truck in Europe, which launched in January 2005 and addresses the Euro 4/Euro 5 environmental regulations. We’ve also been awarded business by one of North America’s largest commercial vehicle producers to supply exhaust systems that meet EPA 2007 standards. And currently, we’re quoting on 2007 launches with some specialty market customers and on platforms that must meet Euro 5 standards, beginning in 2008, and more stringent EPA standards for 2010.

What are specialty markets?

Lois: Specialty markets include vehicles like snowmobiles, recreational vehicles, golf carts, and motorcycles. There are about 30 million motorcycles produced globally each year. We currently have BMW business in Europe, and recently acquired the exclusive Harley-Davidson exhaust business in North America. Specialty markets are niche opportunities with big potential.
“Computerized electronic suspension is an exciting new technology that enhances vehicle stability and control. We expect our share of the electronic-shock market in Europe to triple by 2007.”

Tim Jackson

TECHNOLOGY

Tenneco is known for developing and commercializing innovative technologies. What design and engineering capabilities are unique to the company?

Tim Jackson, Senior Vice President, Global Manufacturing and Engineering: Tenneco has always been a leader in emission technology, from the mid-1970s with development of catalytic converters to being an industry-leading supplier of diesel particulate filter (DPF) technology today. Just one vehicle without a diesel particulate filter emits the same amount of pollution as 10,000 vehicles properly equipped with diesel particulate filters.

The market potential for DPF is significant. In Europe, 44% of light-vehicle registrations are diesel, yet only a small percentage are voluntarily fitted with DPF technology. The new European emission standards of 2008 should increase that number rapidly. In North America, diesel accounts for just over 1% of the market today, but could reach 6%-8% of total units produced by the end of this decade.

What’s new in ride control?

Tim: Electronic shocks, which offer both superior ride and handling. We’re also taking advantage of opportunities to use our elastomers expertise with some of our exhaust and ride-control components, like we did with the exhaust hangers for the new Ford F-150. Additionally, we’re developing fluid-filled elastomers that act as a damper to minimize noise, vibration and harshness. All are leading-edge, high-margin products.

What products do you have to improve fuel efficiency?

Tim: One of our most exciting products is the Semi Active Muffler (SAM). SAM provides a cost-effective means of satisfying the need to provide acoustic silencing at low engine speeds, while minimizing back pressure at high RPMs — automatically.

Also, we’ve developed a new close-coupled manifold fabrication technology that is lighter in weight and produces cleaner emissions, more horsepower and greater torque.

What about hybrids and other alternative vehicles?

Tim: We’re working with Ford to develop an exhaust system for a diesel/electric hybrid demonstration vehicle. This concept vehicle is the first diesel equipped with an aftertreatment system capable of meeting California’s SULEV requirements — the world’s toughest! These are exciting times for automotive technology and Tenneco is leading the way.
BOARD OF DIRECTORS

Left to right:

David B. Price, Jr.1,2
Chairman, Chief Executive Officer and President
Birdet Price, LLC

Jane L. Warner2
President, Plexus Systems

Timothy R. Donovan
Executive Vice President and General Counsel & Managing Director, Asia Pacific
Tenneco Automotive Inc.

Mark P. Frissora
Chairman, Chief Executive Officer and President
Tenneco Automotive Inc.

Frank E. Macher1
Retired Chairman and Chief Executive Officer
Federal-Mogul Corporation

Dennis G. Severance3
Accenture Professor of Business & Information Technology, Stephen M. Ross School of Business
University of Michigan

M. Kathryn Eickhoff1,2
President and Chief Executive Officer
Eickhoff Economics, Inc.

Paul T. Stecko1,2
Chairman and Chief Executive Officer
Packaging Corporation of America

Roger B. Porter1,2
IBM Professor of Business and Government
Harvard University

Charles W. Cramb1
Senior Vice President and Chief Financial Officer
The Gillette Company

1 Audit Committee
2 Compensation/Nominating/Governance Committee
3 Three-Year Independent Director Evaluation Committee

Orange numbers indicate the committee chair.

OFFICERS

Mark P. Frissora
Chairman, Chief Executive Officer and President

Timothy E. Jackson
Senior Vice President, Global Manufacturing and Engineering

Paul Schultz
Senior Vice President, Global Supply Chain Management

Brent J. Bauer
Senior Vice President and General Manager, North America

Neal A. Yanos
Senior Vice President and General Manager, North America Ride Control and Aftermarket

Lois Boyd
Vice President and General Manager, Commercial Vehicle Systems and Global Program Management

Josep Fornos
Vice President and General Manager, Europe Original Equipment

Ulrich Mehmann
Vice President and General Manager, Europe Original Equipment

Herman Weltens
Vice President, Global Engineering and Technology, Emission Control

Theo Bonneu
Vice President, Finance, Europe

H. William Haser
Vice President and Chief Information Officer

John E. Kunz
Vice President and Treasurer

Paul D. Novas
Vice President, Finance and Administration, Europe

James A. Perkins
Vice President and Controller

James K. Spangler
Vice President, Global Communications

J. Jeffrey Zimmerman
Vice President, Law
Ride Control Balance

Emission Control/
Original Equipment/
Control

■ $2,287 million
■ $931 million
630 million
■ $4,213 $3,766
63/37 63/37
76/24 75/25

■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■■###
EXECUTION & DISCIPLINE

Drive Results

Tenneco Automotive Inc. 2004 Annual Report

FIVE YEARS OF PROGRESS

- Increased Revenues by $953 Million
- Increased Revenue Per Employee from $136,000 to $229,000
- Reduced Debt Net of Cash by $344 Million
- Increased Market Capitalization by $439 Million

22%
68%
29%
145%

EXECUTION & DISCIPLINE

Drive Results

Tenneco Automotive Inc. 2004 Annual Report

VALUES

- Teamwork: Seamless collaboration
- Integrity: Being honest, fair and never compromising our ethics
- Trust: Relying on and having faith in one another
- Passion and a Sense of Urgency: A consuming desire to win now
- Balance: Promoting a balanced perspective in everything we do
- Accountability: Accepting responsibility for our actions
- Continuous Improvement: Relentless focus on achieving more with less
- Execution and Discipline: Execution and discipline drive results through detailed planning, follow-through and accountability.

VISION

Pioneering global ideas for cleaner, quieter and safer transportation.